ANNUAL REPORT
2023

novobanco

ABBREVIATIONS AND ACRONYMS

ECB	European Central Bank
EBD	Executive Board of Directors
GSB	General and Supervisory Board
DGCOMP	Directorate-General | Competition
ESG	Environment, Sustainability and Governance
CCA	Contingent Capital Agreement
YTD	Year-to-date – change since the start of the year
YoY	Year-on-Year – change on a year earlier
NII	Net Interest Income
RGICSF	Regime Geral das Instituições de Crédito e Sociedades Financeiras *Legal Framework of Credit Institutions and Financial Companies*
LCR	Liquidity Coverage Ratio
€	euro
€mn	million euro
€bn	billion euro
bps	basis points
pp	percentage points

Novo Banco, S.A.

Head Office: Av. da Liberdade, n. 195
1250-142 Lisbon - Portugal

Commercial and Tax identification number: 513 204 016

Share Capital of € 6 567 843 862,91, composed of 11.130.841.957 nominative dematerialised shares with no nominal value

CONTENT

This document is the PDF/printed version of the Annual Report 2023 of Novo Banco S.A..
This version has been prepared for ease of use and does not contain ESEF information as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815).
The official ESEF reporting package is available on our website at www.novobanco.pt/grupo-novobanco > Investidores and CMVM website.

In case of discrepancies between this version and the official ESEF package, the latter prevails.

Byron Haynes
Chairman of the General and Supervisory Board

Message from the Chairman of the General and Supervisory Board

Dear Stakeholders,

Novobanco delivered strong results with record net income of €743mn and annual capital generation of ~500bps for the full year 2023, reflecting the continued growth of our banking businesses and confirming the sustainability and resilience of our capital accretive business model.

Novobanco´s business model reflects its "Strategic Program", anchored on four pillars: "Customer-Centric Bank," "Simple and Efficient Operations," "Developing People and Culture" and "Delivering Sustainable Performance," geared towards better enabling the bank "to serve the needs and expectations of our customers." During the year, the bank consistently executed its "Strategic Program" outperforming and exceeding its 2023 guidance targets and goals, including increased sustainable profitability, in a context that continued to prove challenging.

Throughout the year the bank was vigilant and cautious with respect to managing the many different aspects of risk. Specifically: the challenging macro-economic environment with the increased risk of recession, high inflationary pressures, rising and high interest rates, rising unemployment levels and the cost-of-living crisis; the contagion effects of increased financial market volatility impact from the continuing Russian / Ukraine conflict, the Israel / Hamas conflict or by the collapse of Silicon Valley Bank triggering other bank failures in the United States and as well as the fall of Credit Suisse in Switzerland; heightened levels of operational risk, (cyber-attacks and outsourcing); and increased focus on emerging risks like climate and environmental risk.

Year 2023 financial results reflect an increase in commercial banking income (+57%), stable net loans and new client acquisition growth of >45%, particularly in our Retail and Corporate SME commercial businesses. Novobanco has continued to make significant investment (increased IT investment totaling €58mn) in support of our commercial businesses and our people (3.3% increase in Group employee training hours), while maintaining cost discipline despite the on-going inflationary pressure.

Improved profitability was accompanied by continued strengthening of the asset quality of the balance sheet as demonstrated through the enhanced credit metrics and the completion of the de-risking of legacy assets and non-core assets. Risk costs for the year of 48bps are lower than target. Year-end 2023, net NPL ratio reduced to 0.7%, in line with peers, with strong NPL coverage ratios being maintained. In addition, despite challenging conditions in the real estate market across Europe, novobanco further reduced its real estate exposure by €154mn (stock representing 1.1% of total assets) with a positive net income and capital gain.

The sustainability and resilience of our capital accretive business model is confirmed with significantly strengthened 2023 capital ratios with all regulatory and guidance requirements (Supervisory Review and Evaluation Process Compliance, "SREP") being exceeded. This improvement in the capital position of the bank has been recognized by the Supervisor with the SREP Pillar 2 requirement ("P2R") for novobanco in 2024 being reduced to 2.85%. During the year novobanco was subject to the 2023 EU-wide stress test conducted by the European Central Bank ("ECB") applied to the balance sheet year-end 2022. This provided input into the SREP decision and had no negative impact on novobanco´s capital requirements. The overall year-end 2023 SREP decision and score have improved reflecting the substantial progress that the bank has made during the year, highlighting particularly the improvements made with respect to the Business Model and Capital Adequacy.

The bank increased its deposit annual market share to 9.7% (+0.4pp), maintained stable funding and liquidity position and strengthened liquidity ratios throughout the year. Novobanco repaid €5.4bln TLTRO III during the year with a remaining small outstanding year-end balance and is now a net lender to the ECB. The year-end binding and linear (non-binding) MREL targets were exceeded. Novobanco´s long-term deposit ratio is investment grade rated, Baa2, by Moody´s Investors Service.

Recognizing the bank's positive trajectory, both Moody's and Fitch, have upgraded the bank's rating. Moody´s Investors Service upgraded novobanco's Baseline Credit Assessment ("BCA") rating to Ba1 with a positive outlook reflecting the "ongoing improvements in the bank´s creditworthiness resulting from enhanced asset risk and capital levels and the significant improvement in recurrent profitability". In February 2024, and ahead of our stated goals, the bank achieved an investment grade rating, with Fitch assigning a 'BBB-' LT rating to novobanco's senior preferred debt.

2023 was also marked by the launching and execution of key initiatives to support the workstreams "Employee Value Proposition", "Talent Development" and "Culture & Values" that underpin the "Developing People and Culture" Strategic Program pillar. Good progress is being made in continuing to build and empower a diverse workforce and to deliver on our commitments to diversity, equity, and inclusion, which is expected to develop on an accelerated basis going forward.

ESG matters have remained a regular topic on the General and Supervisory Board ("GSB") agenda in 2023. We further integrated ESG goals in our performance appraisal frameworks across all levels of the organization and reinforced our commitment to contribute to accelerate the Portuguese economy's transition to a low-carbon future by reducing our environmental impact, managing our climate-related risks, mobilizing capital and, most importantly, working alongside our clients and partners in this energy transition, supporting companies of all sizes and sectors with financial solutions that fit their needs, including lending or specialized services.

In 2023 novobanco surpassed its 2024 green financing targets as well as its scope 1 and 2 GHG emissions' reduction targets, more than one year ahead of the commitments.

During the year, GSB appointed a new member to the Executive Board of Directors ("EBD"), Benjamin Dickgiesser (CFO), in the mandate term 2022 to 2025. Following this appointment, EBD organization roles and responsibilities were reassessed and realigned with effect from October 2023. Two new members of the GSB, Monika Wildner and Evgeniy Kazarez, were also appointed during the year in the mandate term 2021 to 2024. The GSB now comprises ten members (including seven independent members) as of year-end 2023.

Throughout year 2023, the GSB and its respective committees supervised and supported the EBD in the monitoring and execution of the bank's strategic goals and financial targets as set out and agreed in the medium-term plan.

For year 2024, realistic strategic goals and financial targets have been set and agreed as part of the updated medium-term plan focusing on continued execution of our Strategic Program, while at the same time being cautious and vigilant in managing risk through this on-going challenging economic and geo-political context.

On behalf of the GSB, I would like to thank all our stakeholders, particularly our customers, for their continued support, trust, and loyalty to novobanco.

Finally, the GSB and I would especially like to thank all the EBD members and the employees of novobanco for their hard work, dedication and commitment that has allowed the bank to exceed its goals and targets and to better serve the needs and expectations of our customers.

Byron Haynes
Chairman of the General
and Supervisory Board

Mark Bourke,
CEO

CEO Talk with Mark Bourke

Mark Bourke, Chairman of Executive Board of Directors, gives an interview highlighting 2023 achievements and the prospects for the future of novobanco.

1 In 2023, novobanco established a strong track record in execution and delivery, further consolidating its profitability. How would you characterise 2023?

In 2023 we've consolidated our position as a strong, profitable and independent Portuguese bank.

In a context that continued to be marked by a challenging macro backdrop and geo-political instability, **we delivered increased profitability, very strong capital generation, twice outperforming guidance, and ultimately achieved investment grade rating.**

The interest rate environment has impacted us as it did to the entire industry, but the impressive results achieved would not have been possible if we hadn't remained focused and disciplined on executing and delivering against our strategy program and putting the customer at the centre of everything we do.

On the Corporate segment, novobanco continued to strengthen its commitment to Portuguese companies, to which we provide a set of solutions for investment and working capital needs, with significant growth, in 2023, in short-term loans, especially through factoring and confirming. This underpinned the continued growth of the corporate customer base, with high levels of penetration, with 55% of Portuguese SMEs and 70% of large companies being novobanco customers.

On the Retail segment, we continued to build out our omnichannel customer service structure, reshaping our geographic footprint, changing the digital experience and deepening long-term relationships with clients. Currently, more than 265 branches operate under the new distribution model which offers advanced transaction management solutions and value adding client interaction processes.

2 As you said, novobanco delivered an impressive set of results in 2023. What are the key achievements worth highlighting?

2023 was a year full of remarkable achievements, not only in terms of our financial performance, but also in terms of external recognition, with novobanco being upgraded by 7 notches in 2 years by Moody's, and being awarded investment grade by Fitch, in addition to being awarded Bank of the Year[1] in Portugal by the Financial Times.

In terms of our financial performance, it is worth to highlight:

- The Commercial Banking Income of €1,439mn (+57% YoY), solid Net Interest Income performance, underpinned by the favorable interest rate environment and a prudent and targeted management of interest rates on assets and cost of financing;
- A Commercial Cost to Income ratio of 33% (2022: 49%), beating guidance of ~35%;
- A Cost of Risk of 48bps (including management overlays), consistent with 2023 guidance of ~50bps;
- The strong capital generation, with FL CET1 ratio increasing by ~500bps YoY to 18.2%, beating the already upward revised capital generation guidance of >400bps.

Whilst we have strengthened our profitability and kept the cost of risk under control, we have managed to grow our market share, in an environment marked by a decreasing credit demand and strong competition for clients' savings. The bank has increased its footprint in the Portuguese market with global market share at 9.8% (Nov/23; +0.2pp YTD). Net Customers loans stood at €24.5bn (stable YTD), with €3.5bn YTD origination partially offset by increased amortization and supported by new client acquisition. Customer deposits totalled €28.1bn, with novobanco's deposit market share growing to 9.7% in Nov/23 (Dec/22: 9.3%).

Novobanco consistent performance allowed the bank to outperform 2023 financial targets, and enhanced our ability to remain focused on our customers and well positioned to meet their financial needs, supported by a rock-solid balance sheet.

3 You mentioned that you have been focused on executing and delivering on the strategic program. Apart from being a customer-centric domestic bank, what are the key drivers of the bank's strategy?

I would start by emphasizing the "customer-centric domestic bank". Novobanco, besides having the client at the centre of its mission and strategy, is a pure Portuguese player, committed to support Portuguese families and companies throughout their lifetime.

The customer-centric bank is one of the four pillars of our strategic program. **At each moment, novobanco seeks to exceed the expectations of its customers and partners, through a distinctive value proposition that relies on an omnichannel approach as the key lever of proximity and experience.** The daily routine of our teams is focused on responding in an exemplary manner to the needs of our customers, with an improved customer experience through an omnichannel delivery model on the retail side and a sectorial approach for SMEs.

To effectively achieve these objectives, novobanco has been investing in a global transformation. The most visible facets of this reinvention are, on the one hand, the branch network, where novobanco has combined technology, proximity to the customer and openness to the community, and, on the other, our digital channel, which has been a determining factor for the accelerated transformation of the bank.

The second pillar is "Simple and efficient operations", under which we accelerate novobanco's transformation

(1) In Nov/23, novobanco was awarded as "Bank of the Year in Portugal" by The Banker, a publication within the Financial Times Group.

into an organisation that provides customers with a lean and straight through process which allows to attain increased operating efficiency.

In this area, novobanco has focused on reengineering the most critical processes for customers, with a view to simplifying them and thus provide an experience that stands out in the sector, both through its simplicity and through the consistent improvement of service levels, in particular in loan granting processes, which are the most decisive for companies and families.

To this end, novobanco is implementing a far-reaching transformation programme of its IT and data governance functions (focused not only on the infrastructure, platforms and tools that support the bank's operation, but also on the timely availability of data to support process improvement), optimisation of the models that support decision-making and, above all, the delivery of regulatory commitments and requirements to which the banking sector is subject.

A third pillar is "Developing people and culture". **The strategic objectives of novobanco contain a high level of ambition, based on perfect alignment and total clarity within the organisation about the role and contribution of each employee to achieving them.** This third pillar of novobanco's strategy is, therefore, the most critical dimension.

Novobanco's strategy seeks to (i) attract, train and retain through a compelling value proposition for its employees, (ii) the development of talent, and (iii) the promotion of the organisational culture and values.

And finally, the fourth pillar of novobanco's strategy - "Delivering sustainable performance" - is driven by **the achievement of a financial performance that is characterised by its sustainability, by the robustness and quality of our balance sheet, by adequate solvency levels and efficient and effective capital allocation and management of risk.**

It is within this framework that our programme for embedding ESG (Environmental, Social and Governance) into our business and organisation is set, which includes (i) implementing the ESG operating model and training the organisation, (ii) adapting the offer of products and services, and (iii) transforming investment and risk management policies.

The optimised management of the bank's capital and its various funding sources and the improvement of the risk management processes associated with its activity are vital to the sustainability of novobanco's performance. To achieve this goal, novobanco's strategic plan is executed through different operational programmes ensuring the quality of credit decisions, namely by driving their automation, improving pricing models and the measurement of risk-adjusted profitability.

Our performance clearly demonstrates the increased confidence of both our customers and the financial markets in novobanco, the alignment of our team and, naturally, the consistency of the strategic path outlined.

4 On the "Developing people and culture" pillar, could you please share more insight on the initiatives novobanco is pursuing?

Delivering on our strategy requires having the whole organization aligned towards our vision and having the best talent, which means retaining and attracting the right people, whose performance drives our collective success as a bank. It also means **fostering a positive and inclusive culture and a leadership that nurtures talent and empower its teams to succeed.**

In 2023, we launched and executed several key initiatives of our "Developing People and Culture" strategic pillar, advancing our Talent, Leadership and Mission & Values workstreams.

In the talent stream, we have been working on how we focus on the experience of working at novobanco and how we recognise those who contribute to the bank's success, with a renewed value proposition for employees.

On the Leadership front, we have launched development programmes for our leaders so that they act as role models and foster the right environment for people to succeed, with the ultimate goal of us all being able to better serve our customers.

With regard to Mission & Values, **we have been working on engaging and activating the whole novobanco organisation around our Mission, which has our clients at the center, symbolizing how everything we do is in service of delivering exceptional service that builds and sustains long-lasting relationships.**

5 And on the integration of ESG in the bank's day-to-day activities, how is it progressing and what are the main challenges?

Sustainability and the management of ESG risks and opportunities is a strategic priority for novobanco, and in 2023 we consolidated our goal of being a ESG "leader" in the Portuguese financial services by continuing to deliver significant progress.

Sustainable finance has a pivotal role to play in achieving national and European climate goals and, for novobanco, **enabling our customers to lower their carbon footprint is a priority that can only be achieved through major investment in energy transition and climate action.**

Having invested 369M€ in green financing in 2023, novobanco surpassed its 2024 green financing targets more than one year ahead of the commitment. We've renewed and reinforced our commitment with a target of €2bn in green investments for the next 3 years. This reflects **our focus on giving customers more choice and making their transition journey easier. Going forward we will continue to contribute to accelerate the pace of the required transition – identifying new ways of doing business and ensuring speed to market in supporting our customers with products and services.**

In our own operations, we have surpassed the Scope 1 and 2 GHG emissions' reduction targets set for 2024 and remain confident we will meet our 50% reduction target before the committed date of 2030.

I was particularly pleased with the success of our ESG literacy initiatives, aimed at supporting Portuguese SMEs understand, discuss, and share experiences, best practices and challenges surrounding their sustainability journeys.

A positive social impact in the communities we serve **is also a key concern in the way we do business, both through our people agenda and through our client and community programs, promoting social well-being initiatives and financial and digital literacy programs.**

6 To conclude, would you like to leave a final message to novobanco stakeholders?

The remarkable achievements of the past year were made possible by the collective commitment of novobanco's stakeholders. **Each milestone reached, every challenge overcome and all the progress made stand as a testament of the dedication of our people, the confidence of our customers and the engagement of all the governing bodies of the bank.** Therefore, I would like to take this opportunity to thank all our stakeholders, and particularly to everyone working in our bank, for their continued support, dedication to, and confidence in novobanco.

As we embark on another year, I want to reaffirm our dedication to earning and preserving the trust of all our stakeholders. Their ongoing support inspires us to strive for even greater achievements in the future.

Mark Bourke,
CEO

€3.5bn

loans origination

€28.1bn

deposits

€25.5bn

gross loan book

MANAGEMENT REPORT

1 WHO WE ARE

1.1 novobanco

Novo Banco, S.A. (novobanco or "bank"), together with its subsidiaries and affiliates, which form the Novo Banco Group (group or novobanco Group), conducts its main activity in the Portuguese banking sector, in the corporate and retail segments, as well as in asset management. It also has interests in companies working in venture capital, real estate and leasing.

Novobanco is the 4th largest bank operating in the national market, with 1.6 million customers, assets of 43.5 billion euros and a 9.8% market share.

Operating through an omnichannel relationship model, novobanco offers a complete and convenient banking experience to its customers, including secure digital channels, complemented by the recent and innovative proximity distribution model, with more than 290 branches and 20 corporate centres covering the entire national territory.

With one of the most robust capital ratios, the bank has been strengthening its market share in customer deposits and resources, which stand at more than 34.9 billion euros, while guaranteeing the financing of the national economy, with support for families and companies, in more than 25.5 billion euros of credit granted.

With the aim of contributing towards the sustainable development of the Portuguese economy, families and businesses throughout all stages of life, novobanco draws on the professional experience of 4 209 professionals and strategic partners.

Mission

To be the trusted bank, supporting families and companies, throughout their lifetime.

Values

We put our **Clients First**

We put ourselves in our clients' shoes to engage and support their needs, wants, dreams and desires, and we invest in our people so they can deliver excellence.

We embrace **Ethics & Inclusion**

We act ethically at all times and do the right thing. We always respect one another and encourage people to be their true selves.

We act with **Trust & Transparency**

We are open and honest with one another - giving clear sight of decisions, the reasons for decisions, when we succeed, and when we fail.

We strive for **Simplicity** every day

We seek simplicity to bring clarity and efficiency to complex situations.

We **Collaborate** with each other

We work together seamlessly for shared success and take pride in our team work.

The Mission and Values guide and underpin everything novobanco does. It enables novobanco to build long-term value, invest in growth, focus on delivering a social dividend with a positive contribution to society and drive sustainable yields for shareholders.

A team of committed professionals...

4209
employees of novobanco Group

19
years average seniority

169k
training hours (+3.3%)

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

1.6 million
clients

>45%
of new clients vs 2022

66.6%
of active digital clients (+5pp)

and to turning difficulties into great opportunities...

€25.5bn
Loans granted

€3.5bn
Loans origination

€28.1bn
Deposits

to give back to community.

€476k
in donations and patronage

103
works of art lent to 40 museums across the country

€369mn
of green investment originated in 2023

Novobanco's resilience lays the foundations for a new stage of commercial transformation and solid financial performance.

Novobanco's successful recovery & restructuring journey

novobanco continues to grow, exceeds expectations and strengthens its position as a trusted bank, committed to supporting families and businesses throughout their lives.

RESTRUCTURE

2017-2020

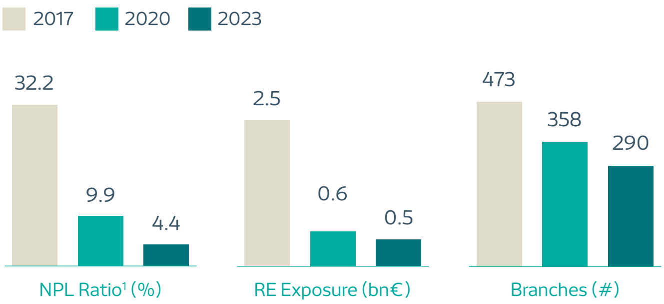
Sale of Novo Banco to Lone Star (2017)

Deep operational and balance sheet restructuring

Exit from all international operations

Completion of balance sheet clean-up

Deep Balance Sheet Restructuring



TRANSFORM

2021-2022

Return to profitability with 8 profitable quarters

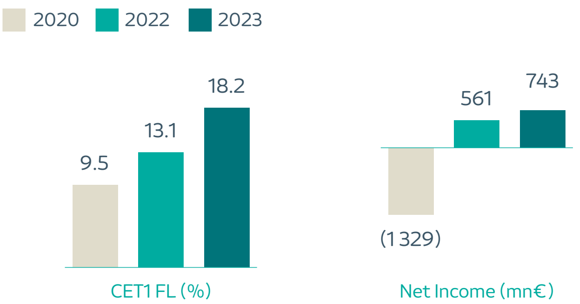
Targeted growth in core business

Significant investment in transformation

Normalised cost of risk <50 bps achieved

Strengthening capital position: CET1 FL 13.1%

Reached Comfortable CET1 & Profitability



RE-LAUNCH

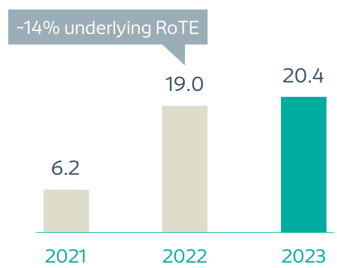
2023 and beyond

Substantial top-line growth

Outstanding capital generation (~500bps) in 2023

Best in class levels of efficiency and profitability

Significant RoTE[2] Improvement
(%)



(1) NPL ratio defined as the ratio between total non-performing loans and gross customer loans;
(2) Tangible equity based on period average, excludes CCA calls accounted as a receivable but not yet received, and excluded in Capital ratios.

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's 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

INVESTMENT SOLUTIONS

Medium and long-term credit solutions.

Leasing and renting.

Guaranteed credit line with EIB/EIF and BPF, with competitive conditions.

EU Funds financing solution.

SHORT-TERM SOLUTIONS

Factoring and Confirming.

Current account and overdrafts.

IFAP credit lines.

EU Funds short-term credit line to anticipate incentives.

SECTOR-SPECIFIC EXPERTISE

Specialized sectoral teams, providing tailored solutions that meet the specific needs of each Client and sector.

Specialized teams in EU Funds (RRP and PT2030), factoring, confirming, leasing and trade finance.

EXPORTS AND IMPORTS

Documentary credit and remittances.

External financing.

International factoring.

Forfaiting.

PAYMENTS AND CASH MANAGEMENT

Collection: direct debits; POS, digital payments gateway.

Payments and transfers.

NB Express Cash to simplify cash management.

EMPLOYEE BENEFITS

Meal cards and credit cards.

Car solutions, with leasing and renting tailored to Customers.

Accidents at work and multi-risk insurance.

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

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 & Casuality.

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.

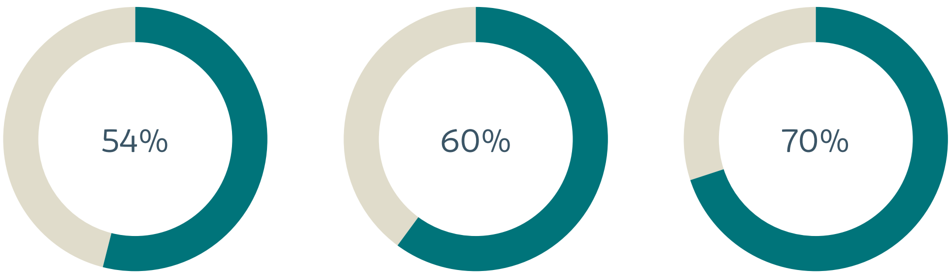
POS lending partnership "Heypay".

Highlights: Main offerings of products and services.

CORPORATE

c. 1.6 MILLION CLIENTS

Corporate segments includes SME's and large corporates, supported by Large Corporate business centers and 20 business centres

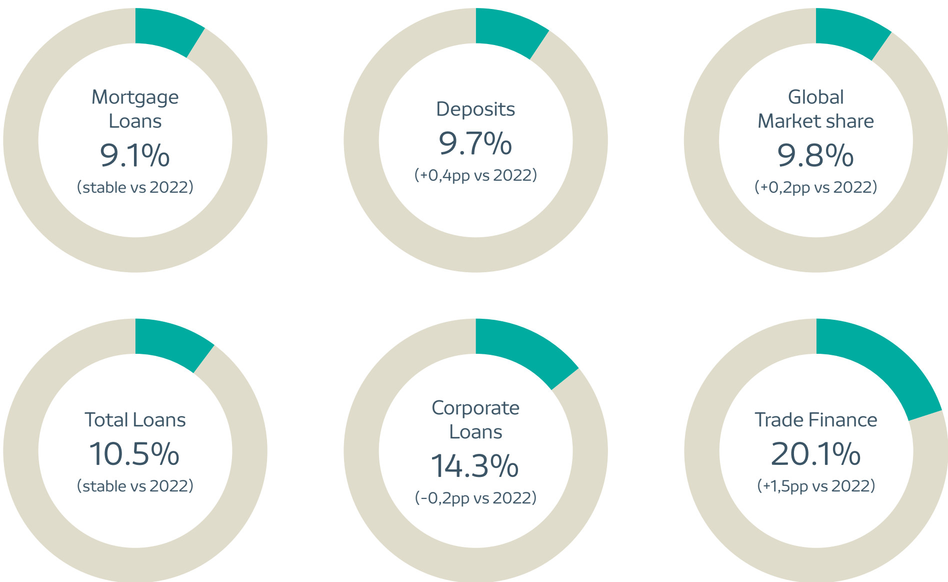


Loans to corporates

of exporting SMEs in Portugal are novobanco's clients

of large corporates are novobanco's clients

MARKET SHARES



Data as of November 2023; Sources: novobanco with data from Portuguese Central Bank, APS, APFIPP.

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

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 (30.0%), which was joined by the Bensaude Group (10.0%) and thirteen other Santa Casa da Misericórdia units from all the Azores islands (2.47%).

The regional operations of novobanco dos Açores align with the Group's culture and mission of being the trusted bank that supports Azorean families and companies throughout their lives. Its strategy is based on decisive competitive advantages, such as economic and financial strength, combined with a culture of client service for the benefit of the population of the Azores, supported by an extensive experience in the local market and a strong tradition of close relationship with customers.

The first phase of the physical network renovation project was completed in 2023, and the second phase began with the reopening of six branches, including the head office, and a novobanco dos Açores space.

This new business model, allows novobanco dos Açores to assert itself as a more contemporary and functional bank, focused on the customer, fundamentally changing the dynamics of banking in the region.

The revamping of the branch network will continue in 2024, covering the remaining branches, with a total investment of around €5M. Making a decisive commitment in the dematerialization of processes, with implementation already in the last month of the year, to better meet the needs of the Azorean community, and in offering the services and products of novobanco dos Açores, through an interconnection of all channels and, from any channel, with total convenience.

Novobanco dos Açores maintains the important strategic objective of becoming a reference entity and partner in ESG in the Azores, thus contributing to the promotion of sustainable investment practices and the acceleration of the transition process to a carbon-neutral economy. To this end, novobanco dos Açores, in line with the novobanco Group, is developing a sustainability strategy with a special focus and priority given to the integration of climate risk into the business and risk management model.

For detailed information on novobanco dos Açores, please visit: www.novobancodosacores.pt

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 and stands 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. Whether on the App or the website clients can, among others: open an account by video call or Digital Mobile Key, access information on the entire offer and use the different support tools, monitor market indicators and manage their portfolio - buy and sell, monitor returns -, perform multiple operations and fulfil general duties, such as updating personal data.

For detailed information on the activity of Banco Best, please visit: www.bancobest.pt

GNB Gestão de Ativos
GRUPO novobanco

GNB Gestão de Ativos is one of the country's most experienced management companies, and the quality of the management of its products and services has been recognised over the years at both national and international levels. GNB Gestão de Ativos offers financial products and services, including several types of funds - mutual funds, real estate funds and pension funds - as well as discretionary and portfolio management services. As of December 2023, GNB Gestão de Ativos had €7.7 billion in assets under management in Portugal and Luxembourg.

For detailed information on the activities of GNB Gestão de Ativos, please visit: www.gnbga.pt

1.1.2 Main Events

2023

JANUARY 10

Conclusion of Project Crow - Restructuring Funds

Novo Banco, S.A. informs that the conclusion of Project Crow is expected to have a positive impact of 2.9 million euro in 2022 income before tax.

FEBRUARY 1

New Chief Financial Officer

Novo Banco, S.A. informs that the General and Supervisory Board approved today, subject to Fit & Proper, Benjamin Dickgiesser as a new member of the Executive Board of Directors for the current mandate term until 2025, becoming the next Chief Financial Officer ("CFO").

FEBRUARY 13

DG Comp notification

Novo Banco, SA announces the notification by Directorate General for Competition ("DG Comp"), to the Minister of Finance, of the successful completion of novobanco's Restructuring Period.

FEBRUARY 24

Governing Bodies

Novo Banco, S.A. informs that Benjamin Dickgiesser has resigned as member of the General and Supervisory Board.

MARCH 9

2022 Results and Group activity

Novobanco announces Net income of €560.8mn. Strong strategic focus delivering a sustainable growth of business with increased revenues and capital generation.

MARCH 22

Share capital increase

Novo Banco, SA informs that, following the General Shareholders Meeting held today, it was decided to increase its share capital arising from the conversion of the conversion rights relating to 2018 and 2019 fiscal years. The conversion rights were issued under the special regime applicable to deferred tax assets approved by Law No. 61/2014, of 26 August, as amended.

MARCH 22

Governing Bodies

Novo Banco, S.A. informs the market and the public in general that, subject to the approval of the competent regulatory authorities (fit and proper), the General Shareholders' Meeting approved today the appointment of Evgeniy Kazarez as a member of the General and Supervisory Board for the current mandate term (2021-2024).

MARCH 29

DBRS rating upgrade

Novo Banco, SA informs that DBRS Ratings GmbH ("DBRS Morningstar") upgraded novobanco's Long-Term Issuer ratings to BB (low) from B (high). The Trend on all ratings remains at Stable.

APRIL 19

Multi-notch rating upgrade by Moody's

Novo Banco, SA informs that Moody's Investors Service ("Moody's") upgraded novobanco's senior unsecured debt and senior unsecured medium-term note (MTN) programme by 3 notches from B3 to Ba3. The outlook on the long-term deposit and senior unsecured debt ratings remains positive.

APRIL 28

1Q 2023 results and Group activity

Novobanco announces Net income of €148.4mn (1Q22: €142.7mn; +4% YoY), with the continued execution of its strategy delivering sustainable growth of the business, increased revenues and capital generation.

MAY 24

Issuance of subordinated debt

Novo Banco, SA informs that it has today launched a 10.5NC5.5 Tier 2 bond in the amount of € 500 million, with maturity on 1 December 2033 and an early redemption option by the bank at the end of 5 years. The notes were subscribed at 100% price and have an annual interest rate of 9.875% in the first 5 years, and 5 years mid-swaps plus a margin thereafter.

MAY 31

Results of the Tier 2 tender offer

Novo Banco, SA informs that it has today launched a 10.5NC5.5 Tier 2 bond in the amount of € 500 million, with maturity on 1 December 2033 and an early redemption option by the bank at the end of 5 years. The notes were subscribed at 100% price and have an annual interest rate of 9.875% in the first 5 years, and 5 years mid-swaps plus a margin thereafter.

JUNE 1

Early redemption option of its Tier 2

Novo Banco, SA informs that it has today launched a 10.5NC5.5 Tier 2 bond in the amount of € 500 million, with maturity on 1 December 2033 and an early redemption option by the bank at the end of 5 years. The notes were subscribed at 100% price and have an annual interest rate of 9.875% in the first 5 years, and 5 years mid-swaps plus a margin thereafter.

JUNE 19

Early redemption option of its Senior Preferred Notes due 2024

Novo Banco, SA informs that, following the authorization received from the Single Resolution Board, it has taken the decision to exercise the early redemption option of its €300,000,000 3.500% Fixed/Floating Rate Callable Senior Preferred Notes due 2024 (ISIN: PTNOBIOM0014).

JUNE 22

Notification by Banco de Portugal of its MREL requirements

Novo Banco, S.A. informs 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.

JUNE 27

Governing Bodies

Novo Banco, S.A. informs that Monika Wildner has joined the current mandate of the General and Supervisory Board of novobanco, as an independent member.

JULY 28

1H 2023 Results and Group activity

Novobanco announces Net income of €373.2mn (1Q23: €148.4mn; 2Q23: €224.8mn), demonstrating growth momentum of both business and revenues, as well as strong capital generation.

JULY 30

2023 EU-Wide Stress Test Results

Novo Banco, S.A. informs that it was subject to the 2023 EU-wide stress test conducted by the European Central Bank (ECB). The bank notes the announcements made by the ECB on the EU-wide stress test and the outcomes of this exercise.

OCTOBER 1

Governing Bodies

Novo Banco, S.A. informs that Benjamin Dickgiesser has joined the Executive Board of Directors of novobanco for the current mandate 2022-2025 as Chief Financial Officer.

NOVEMBER 7

Governing Bodies

Novo Banco, S.A. informs that Evgeniy Kazarez has joined the General Supervisory Board of novobanco for the current mandate 2021-2024.

NOVEMBER 17

Banco de Portugal release on residential real estate capital buffer

Novo Banco S.A. informs that it has been notified by the Bank of Portugal regarding the decision to implement a sectoral systemic risk reserve. The implementation of this reserve aims to increase the resilience of institutions to the materialisation of potential systemic risk in the residential real estate market in Portugal.

NOVEMBER 22

Multi-notch rating upgrade by Moody's

Novo Banco, SA informs that Moody's upgraded novobanco's long-term deposit and senior unsecured debt ratings by 2 notches, to Baa2 from Ba1 and to Ba1 from Ba3, respectively. The outlook on the long-term deposit and senior unsecured debt ratings remains positive.

NOVEMBER 22

Upgrade of Covered Bonds to Aaa by Moody's

Novo Banco, SA informs that Moody's upgraded the rating of novobanco's Mortgage Covered Bonds by 2 notches to Aaa, from Aa2.

NOVEMBER 22

9M 2023 Results and Group activity

Novobanco announces a Net income of €638.5mn (1Q23: €148.4mn; 2Q23: €224.8mn; 3Q23: €265.3mn), backed by a solid domestic and simple business model, delivering increased profitability from top line performance, together with contained costs as a result of efficiency measures implemented in recent years.

NOVEMBER 30

Bank of Portugal announcement on Other Systemically Important Institutions

Novo Banco, S.A. informs s that it has been notified by the Bank of Portugal of its decision to identify the bank as Other Systemically Important Institution ("O-SII"), previously only at LSF Nani level.

DECEMBER 4

Minimum own funds requirements for 2024

Novo Banco, S.A. informs that it has been notified by the European Central Bank of its minimum prudential requirements applicable in 2024. The requirements to be observed are based on the results of the Supervisory Review and Evaluation Process ("SREP"), and calculated relative to the Total Risk Weighted Assets ("RWA").

DECEMBER 13

Multi-notch rating upgrade by DBRS Morningstar

Novo Banco, S.A. informs that DBRS Morningstar upgraded novobanco's Long-Term Deposits and Long-Term Issuer Ratings by 2 notches, to BBB (low) from BB, and to BB (high) from BB (low), respectively. The bank's Intrinsic Assessment has also been upgraded to BB (high), with the trend on all credit ratings remaining Stable.

DECEMBER 14

Governing Bodies

Novo Banco, S.A. informs that Donald Quintin has ceased today his duties as a member of the General and Supervisory Board.

1.1.3 Awards & Recognitions

NOVOBANCO IS "BANK OF THE YEAR - PORTUGAL 2023", BY THE BANKER (FINANCIAL TIMES)

Novobanco was awarded as "Bank of the Year in Portugal" by The Banker, a renowned publication within the Financial Times Group. This is a recognition of novobanco's unwavering dedication to its customers, consistently anticipating their needs and providing innovative, efficient, and transparent banking products and services, based on high ethical standards and integrity.

NOVOBANCO'S SYNTHETIC SECURITIZATION HAS BEEN AWARDED "TRANSACTION OF THE YEAR" BY SCI

Novobanco pioneered Portugal's first balance sheet synthetic securitisation referencing corporate exposures executed on an unfunded basis – a groundbreaking transaction, recognized by SCI SRT awards. This operation marked our return to the synthetic securitization markets after an extended absence.

NOVOBANCO AWARDED AS RETAIL INNOVATION LEADER IN PORTUGAL, BY THE INTERNATIONAL BANKER MAGAZINE

Novobanco is recognised by The International Banker magazine as the best bank in Portugal in the Retail Innovation category. This award distinguishes novobanco's commitment to providing its customers with an experience of excellence in the sector, investing in a comprehensive transformation strategy that encompasses the branch network and digital presence.

INSTITUTIONAL CAMPAIGN "NOW IS OUR TIME." WINS "SILVER" CATEGORY AT THE EFFICACY AWARDS

Novobanco is the winner of the "Silver Award" in the "Financial Services and Insurance" category of the 2023 Efficacy Awards, with the institutional case study/advertisement "Now is our time". The campaign marked a new phase for novobanco, signaling the end of the bank's restructuring period, presenting itself as an institution with sustainable profitability, no strings attached, free to operate in the Portuguese market.

NOVOBANCO ELECTED FOR THE FIFTH YEAR RUNNING BEST TRADE FINANCE PROVIDER IN PORTUGAL

Novobanco has once again been voted the best bank for Trade Finance in Portugal by the international magazine "Global Finance". Based on a number of benchmarks, such as transaction volume, customer service and innovation, the editors of this prestigious magazine, as well as sector analysts, company managers and IT specialists, selected the best service providers in the area of Trade Finance in more than 100 countries and regions around the world.

NOVOBANCO ELECTED BEST DISTRIBUTOR PORTUGAL AT THE SRP EUROPE AWARDS 2023

Novobanco has once again been awarded the "Best Distributor, Portugal" prize by SRP (Structured Retail Products), part of the Delinian Group Company, thus seeing both the solidity and consistency of its Structured Products offer and the work that has been carried out in this area over the last few years recognised on an international level.

NOVOBANCO ELECTED "BEST ENGAGEMENT AND COMMUNICATION" AT THE WELLBEING AWARDS 2023

Novobanco was recognized in the first edition of the Wellbeing Awards, an initiative of Workwell, a pioneering company in the development of corporate wellbeing programmes, and AGIS, the Association for Healthcare Innovation and Management, is officially supported by Aon, a personal services company in risk, retirement, health and people.

NOVOBANCO SHORTLISTED FOR THE FINOVATE AWARDS 2023

Novobanco was once again shortlisted for the final stage of the Finovate Awards 2023, the fintech industry innovation awards, in the "Best Data Management Solution" category, with a solution that allows its customers to update their data conveniently and independently, choosing the channel that suits them best.

NOVOBANCO RECEIVES AN HONORABLE MENTION IN THE CATEGORY "BEST USER/CUSTOMER EXPERIENCE INITIATIVE", AT THE BANKING TECH AWARDS

Novobanco received an honorable mention in the 2023 edition of the BANKING TECH AWARDS, in the category of "Best User/Customer Experience Initiative". This was the fourth time that novobanco was named a finalist in these awards.

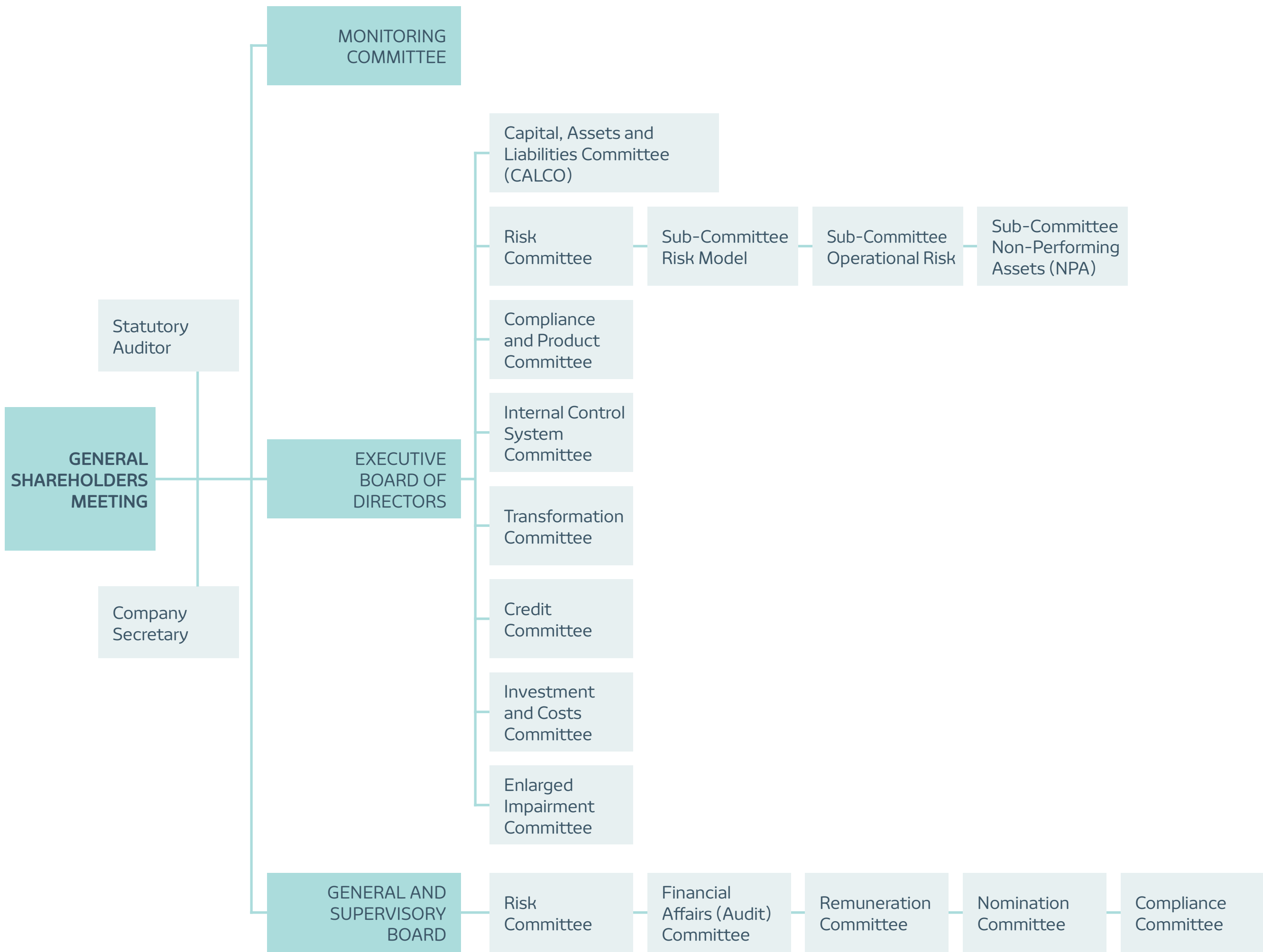
All awards are the sole responsibility of the awarding organisations.

1.2 Organization

1.2.1 Governance Model

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

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



The GSB is responsible for regularly monitoring, advising, and supervising the bank's management and the group entities, as well as for supervising EBD activities with regard to compliance with the relevant regulatory requirements. The GSB meets on a monthly basis, and its Chairman maintains regular communication and dialogue with the CEO. GSB's activity 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 and its Committees' responsibilities and powers are attributed by general law, the Articles of Association and its internal regulations, including the supervision of all matters related to risk management, compliance and internal audit, as well as approval on relevant matters for novobanco.

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.

Further information is provided in the Corporate Governance Report, chapters 5.2.3) General Supervisory Board and 5.2.4) Executive Board of Directors.

1.2.2 Corporate Bodies

On 31 December 2023, the composition of the Group's corporate and statutory bodies was as follows:

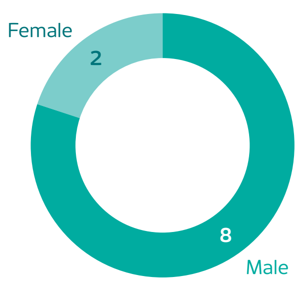
BOARD OF THE GENERAL MEETING	Chairman: Fernando Augusto de Sousa Ferreira Pinto Vice-Chairwoman: Magdalena Ivanova Ilieva Secretary: Mário Nuno de Almeida Martins Adegas
MONITORING COMMITTEE	Chairman: José Bracinha Vieira Member: Carlos Miguel de Paula Martins Roballo Member: Pedro Miguel Marques e Pereira
Statutory Auditor	Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("CMVM") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("OROC") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number 1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896.
Company Secretary	Mário Nuno de Almeida Martins Adegas Ana Rita Amaral Tabuada Fidalgo (Alternate Secretary)

GENERAL AND SUPERVISORY BOARD (GSB)

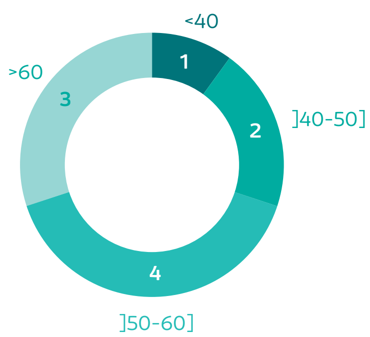
Chairman (C)	Vice-Chairman	Member	Name	M/F	Independent	Date of 1st appointment	Expiry date	GSB Committees: Financial Affairs	Risk	Compliance	Nomination	Remuneration
•			Byron James Macbean Haynes	M	•	18-10-2017	31-12-2024	•	•			C
	•		Karl-Gerhard Eick	M	•	18-10-2017	31-12-2024	C	•			•
		•	Kambiz Nourbakhsh	M		18-10-2017	31-12-2024	•	•			
		•	Mark Andrew Coker	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	•	29-04-2021	31-12-2024		C			
		•	Monika Wildner	F	•	21-06-2023	31-12-2024			•		
		•	Evgeniy Kazarez	M		07-11-2023	31-12-2024		•			•

The Board is composed by 10 members, 7 of which are independent, showing diversity in several dimensions[1]:

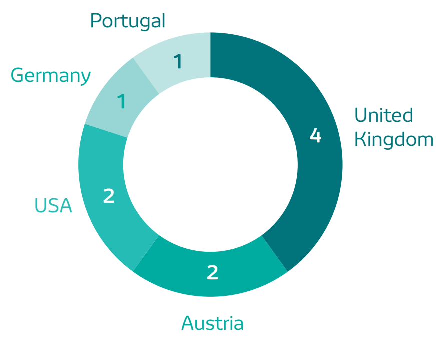
Gender



Age



Nationality

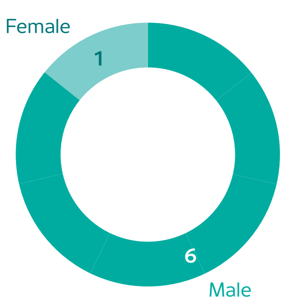


EXECUTIVE BOARD OF DIRECTORS (EBD)

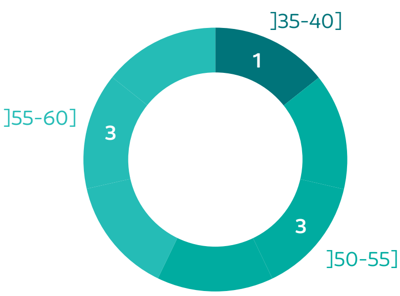
A Board currently composed by 7 members diverse in several dimensions, including age[2] and nationality:

	Name	Function		M/F	Date of 1st appointment	Appointment expiry date
	Mark Bourke	*Chief Executive Officer*	Appointed as CEO of novobanco in 2022, after holding the position of CFO for 3 years. 20+ years of experience as senior executive in financial institutions, namely as CEO in IFG Group and as CFO in AIB.	M	04-03-2019	31-12-2025
	Benjamin Dickgiesser	*Chief Financial Officer*	Appointed as CFO of novobanco in 2023; Previously member of novobanco's GSB since 2017. +15 years of experience in financial markets, worked in FIG IBD at Citigroup and at Lone Star (MD for Hudson Advisors Portugal) with non-executive board roles at novobanco and IKB Deutsche Industriebank.	M	01-10-2023	31-12-2025
	Luís Ribeiro	*Chief Commercial Officer (Retalho)*	Appointed as CCOR in 2018. 25+ years of experience in the commercial area with novobanco, having previously assumed leadership for SMEs.	M	18-09-2018	31-12-2025
	Andrés Baltar	*Chief Commercial Officer (Empresas)*	Appointed as CCOC in 2020. 20+ years of experience in Corporate Banking at Barclays (was Head of Corporate Banking in Europe) and novobanco.	M	01-12-2020	31-12-2025
	Luísa Soares Da Silva	*Chief Legal, Compliance & Sustainability Officer*	Appointed as CLCO in 2017. Prior to joining novobanco, Luisa accumulated 25+ years of experience in Law, especially in the areas of banking and finance, insurance, compliance, and capital markets.	F	18-10-2017	31-12-2025
	Carlos Brandão	*Chief Risk Officer*	Appointed as CRO in 2022. Solid experience in risk management, both within and outside novobanco, as he was Risk Director in Santander Totta and Barclays.	M	25-08-2022	31-12-2025
	Rui Fontes	*Chief Credit Officer*	Appointed as CCO in 2022. Deep institutional knowledge of novobanco[2] and 20+ years of experience in risk management.	M	18-10-2017	31-12-2025

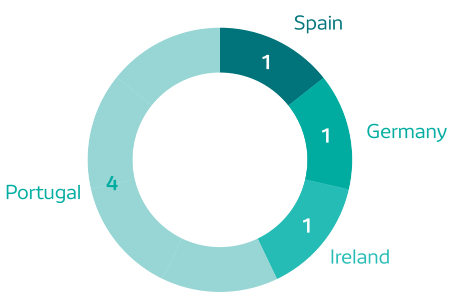
Gender



Age



Nationality



(1) (2) As of 31 December 2023

Novobanco has a Selection and Assessment Policy for Management and Supervisory Bodies and Key Function Holders, the purpose of which is to ensure that the members of these Bodies and Key Function Holders are suitable, at all times, to carry out their duties and, therefore, meet the necessary suitability requirements, as set out in the Policy and in the applicable legal and regulatory framework.

With regard to the collective assessment of the Management and Supervisory Bodies ("Bodies" or "Corporate Bodies"), as collegiate bodies it is important to assess and ensure that their composition meets diversity criteria, namely in terms of the qualifications and professional backgrounds, gender, age and geographical origin of their members. This diversity - considered here in its various dimensions - and its practical application will be ensured by the strategy defined by novobanco and the implementation of the measures defined for this purpose, thus guaranteeing that regulatory requirements and expectations in this area are met. The primary objective is to ensure a diversity of perspectives and experiences that fosters the sharing of opinions and their independence, allowing for sound and balanced decision-making by the members of these corporate bodies and the gradual increase of the under-represented gender in the corporate bodies concerned.

This Policy is complemented by the Succession Planning Policy, which incorporates the principles of diversity in the development of succession plans, and by the Non-Discrimination and Gender Equality Policy.

The above policies can be consulted on novobanco's institutional website at www.novobanco.pt

With regard to gender diversity in the composition of the General and Supervisory Board and the Executive Board of Diretors, and in compliance with the relevant legal requirements, the Selection and Assessment Policy for Management and Supervisory Bodies and Key Function Holders has set a target of at least 20% of the under-represented gender at the next renewal of the mandate of these bodies.

At the date of this report, the target has been reached with regard to the composition of the Supervisory Board in the current term of office (10 members, 2 of whom are women) and will be exceeded if the new female member of the General and Supervisory Board, whose fit and proper process has been submitted in 2023 and whose appointment will be the subject of a resolution at the next General Meeting, receives authorisation from the competent authorities to take up her duties.

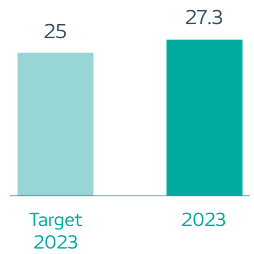
With regard to the composition of the Executive Board of Directors, this target has not yet been achieved. However, with reference to 2022, globally we note that the overall gender diversity at GSB and EBD level has positively increased from 12.5% to 17.6% and will exceed the 20% target when the fit & proper authorization is granted, and upon the appointment to GSB of the new member of female gender, which demonstrates novobanco's strong commitment to achieving the targets it has set in this area.

Considering the objective defined in the Policy, and to make gender diversity an increasingly fundamental element of the bank's culture, the Gender Equality Plan was approved by novobanco in March 2023, establishing a set of measures and indicators that reflect: (i) senior management's commitment to apply diversity and equality criteria at the level of novobanco and the Group, (ii) the definition of management indicators ("KPIs") to regularly assess the alignment with the defined strategy, (iii) the implementation of processes for recruiting new employees and setting and reviewing salary conditions that take into account diversity criteria and promote equal pay; (iv) career development and promotion plans that foster gender diversity across the Bank. Moreover, novobanco has incorporated into its governance model, especially at the level of the Nomination Committee, processes for monitoring compliance with the Gender Equality Plan and the individual measures set out therein.

With the firm resolve of achieving the representation objectives set out in the Policy, the following indicators have also been defined:

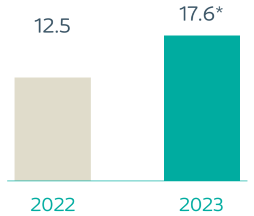
- at senior management level (Board of Directors and Coordinating Managers) novobanco exceeded the 25% target set in the Gender Equality Plan for 2023, having reached 27.3% of women in these positions.
- positive evolution in gender pay gap - equal pay indicators (equal pay for equal work), from 5.7% to 5.3% in 2023, surpassing the 5.4% target set in the Gender Equality Plan.
- positive evolution in the unadjusted pay gap indicators (men's salaries vs. women's salaries), from 18.3% to 17.7% in 2023, surpassing the 17.8% target set in the Gender Equality Plan.
- in addition, the percentage of women in management positions has increased from 36.6% to 39.1% year-on-year, which reflects novobanco's global efforts to strengthen women's leadership.[1]

Women in senior management: EBD and Coordinating Managers
(%)



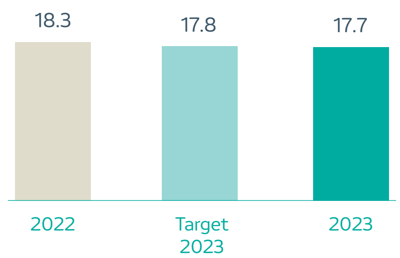
Equal pay indicator
(%)

Overall gender diversity: GSB + EBD
(%)



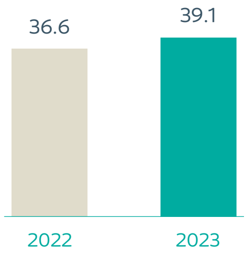
* Will overcome 20% with the new member of GSB.

Undajusted pay gap indicator
(%)



(1) These indicators relate to novobanco and do not include data from other Group companies.

Women in management positions
(%)



The Gender Equality Plan also includes a set of initiatives, defined and adapted in accordance with the Strategic Plan in the People and Culture Pillar, which contribute to the continuous improvement of the above indicators.

The achievement of the Gender Equality Plan's objectives ensures that the conditions are in place to meet or exceed the target set in the policy at GSB level, and to achieve it at EBD level in the next mandate. With regard to the targets and indicators defined in the Gender Equality Plan, these have been met or exceeded at the novobanco level, with the novobanco Group's figures being close to those of the bank.

The issue of gender equality, equal opportunities and inclusion remains a strategic priority on the novobanco Group's agenda, and the bank has developed a specific plan to reduce inequalities. This plan is being implemented with the firm intention of consolidating the foundations for long-term sustainability, with measures that promote inclusion and equality and a priority focus on decision-making and management positions.

Employees

Novobanco's Employees were a fundamental pillar in the restructuring process of novobanco. Novobanco's decision-making processes seek to follow the best fair-process practices focusing not only on results but also on sustainability and involving the employees in the process of seeking results. The bank thus endeavours to be aware of the needs and difficulties experienced by employees throughout their life cycle and to meet their expectations, to contribute to their full development and allow them to fully unlock their potential and maintain high levels of motivation.

4209
employees
(+119 vs 2022)

46
average age
(stable vs 2022)

19
average seniority
(stable vs 2022)

54% Female/
46% Male
(stable vs 2022)

Further information is provided in the Management Report – 2.2) Strategic Pillars – Develop People and Culture and in the Sustainability Report – 3.4) Our Employees.

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2 OUR STRATEGY

2.1 Business & Regulatory Environment

2.1.1 Macroeconomic Environment

The global economy and financial markets faced several headwinds in 2023, namely: (i) the ongoing war in Ukraine; (ii) early in the year, the collapse of medium-sized regional American banks as a result of their excessive exposure to interest rate risk, breeding fears of financial instability; (iii) persistently high inflation during most of the year, particularly in services and food; (iv) the sharp increase in benchmark interest rates by the major central banks, making financing conditions more restrictive; and (vi) a new war between Israel and Hamas, fuelling tensions in the Middle East and triggering concerns about the potential spread of the conflict throughout the region. At the same time, the cooling of global demand for goods and the deceleration in international trade flows led to a contraction in manufacturing activity across the main economic areas.

Notwithstanding these adverse factors, activity turned out to be better than expected, with the global economy growing by 3,1% in 2023, after expanding by 3.5% in 2022. In the major economies, consumers benefited from excess savings accumulated during the pandemic, low unemployment and fiscal support for income and expenditure. The services sector, in particular, benefited from the resilience of private consumption. In the US, GDP rose 2.5% in the full year (2.1% in 2022), driven by the favourable performance of household consumption and non-residential investment. The Euro Area, which was relatively more penalised by the contraction in manufacturing, the cooling of international trade in goods and the impact of rising interest rates, saw annual GDP growth fall from 3.4% in 2022 to 0.5% in 2023 - albeit above initial expectations of a stagnation. Quarter-on-quarter, activity dipped by 0.1% in the 3rd quarter and posted 0% growth in the 4th quarter. In China, GDP expanded by 5.2% in 2023 (+3% in 2022), buoyed by the removal of most Covid-19 restrictions and selective monetary and fiscal policy stimuli. However, the Chinese economy's performance remained constrained by problems in the real estate sector and a still cautious stance on the part of consumers.

Unemployment rates remained low in the US (up from 3.4% to 3.7% of the labour force) as well as in the Euro

Area (down from 6.7% to 6.4%). Many companies continued to report labour shortages and difficulties in filling vacancies. In this context, wages continued to rise in both nominal and real terms, albeit slightly decelerating compared to the previous year (nominal YoY increases of 5.2% in the US, in December, and 4.7% in the Eurozone, in the third quarter).

The relatively good performance of the global economy in 2023 was further shored up by the steep drop in energy prices, lowering production costs for companies and bolstering household purchasing power. Despite rising briefly above USD 95/barrel in the 3rd quarter, mainly due to the expectation of further production cuts by OPEC+, the price of oil (Brent) fell by 17% in average annual terms, closing the year at 77$/barrel. In Europe, the price of natural gas slumped by 68.8% in average annual terms, closing the year at €32.4 MW/h.

In this context, year-on-year inflation fell from 6.5% to 3.4% in the US and from 9.2% to 2.9% in the Euro Area. Besides the fall in energy prices, this trend was also driven by the gradual normalisation of supply chains, the cooling of consumer demand for goods and companies' lower pricing power. Core inflation proved resilient in the first part of the year, mainly sustained by the services component, but eventually receded more noticeably in the last quarter.

In the Euro Area, prices excluding energy and food slowed from 5.2% to 3.4% YoY. In the US, core inflation fell from 5.7% to 3.9% YoY.

The persistence of inflation until 3Q23, and in particular of core inflation, led the major central banks to reaffirm the need to raise policy rates to levels deemed "sufficiently restrictive". The US Federal Reserve raised the fed funds target rate in four 25 bps moves, to 5.25%-5.5%, and then halted the cycle of hikes in July. The ECB raised its key interest rates by a cumulative total of 200 bps, with the last move taking place in September, thus bringing the main refinancing rate to 4.5% and the deposit facility rate to 4%. In July 2023, the Euro Area monetary authority wrapped up its asset purchases under the Asset Purchase Programme and reiterated its commitment to gradually scale back asset purchases under the PEPP during 2024.

In this context, the 3-month Euribor rose from 2.162% in January to an annual peak of 4.002% in November, after which it fell back to 3.909% by the end of the year. The 12-month Euribor rose from 3.316% at the beginning of January to an annual high of 4.228% at the end of September, before falling to 3.513% at the end of the year. The Euribor's fall in the final months of 2023 was the reaction to the ECB's signalling of the end of the monetary policy tightening cycle after the September meeting, also reflecting the market's expectation of further cuts in key rates in 2024, due to lower inflation and signs of slower activity or stagnation in the Euro Area. In the US, falling inflation and expectations of subdued growth led the Federal Reserve's monetary policy committee to project cumulative cuts of 75 basis points in its key interest rate in 2024. However, with the market anticipating a more substantial monetary policy easing, yields on government bonds experienced sharp declines in the latter part of the year. After rising from 3.875% to very close to 5% in October, the yield on the 10-year Treasury slid back to 3.879% at the end of the year. Albeit with fluctuations, the 10-year Bund yield rose from 2.571% to an annual high of close to 3% in October, after which it mirrored the Treasury's trend and fell back to 2.024% at the end of the year.

The resilience of economic activity, lower inflation in the context of a soft landing and the anticipation of lower interest rates bolstered the stock market and contributed to keeping credit spreads in check. In the US, the S&P 500 and Nasdaq stock indices surged by 24.2% and 43.4%, respectively, with the technology sector experiencing additional gains fuelled by favourable expectations regarding advancements in artificial intelligence. In Europe, the Euro Stoxx and DAX were up by 12.7% and 20.3%. The euro rose by 3.3% against the dollar, to €/$ 1.1064.

Portuguese Economy

In Portugal, GDP rose 2.3% in 2023, slowing down from 6.8% in 2022, but surpassing initial expectations as well as the Eurozone average. Economic activity was particularly strong at the start of the year, growing by 1.5% QoQ and 2.5% YoY in 1Q23. This performance benefited from the resilience of private consumption and, even more, by the strong contribution of net external demand, notably the vigour of services exports, and in particular those associated with tourism. A cooling trend in economic activity followed, reflecting less favourable base effects, the impact of rising interest rates on domestic demand and the slowdown in external demand. GDP recorded quarterly changes of 0.1% in 2Q23 and -0.2% in 3Q23, respectively, or 2.6% and 1.9% YoY. Growth increased again in 4Q23, to 0.8% QoQ and 2.2% YoY.

In 2023 private consumption grew by 1% in real terms, after expanding by 5.6% in 2022. The main negative contributions to consumption came from fuel and non-food items (including durable goods), although spending on services also slowed down in the second half of the year. The slowdown in private consumption partly reflected less favourable base effects (growth in 2022 had been magnified by the 2021 pandemic restrictions). In addition, household spending in 2023 was constrained by continued price increases and the rise in interest rates.

The average annual inflation rate fell from 7.8% to 4.3% in 2023, which is still relatively high. On a year-on-year basis, price growth slowed from 8.4% to 1.4% between January and December (averaging 6.1% in the first half and 2.6% in the second half of the year). This mainly reflected the fall in energy prices (annual average of -9% in 2023, after 23.7% in 2022) and the application of zero VAT to some basic goods, which contributed to the slowdown in unprocessed food prices, from 12.2% to 9.5%.

The implicit interest rate in mortgage loan contracts under the general regime rose from 1.885% to 4.583% between December 2022 and December 2023, causing the corresponding average monthly instalment to increase from €304 to €414 (or from €536 to €651 for contracts signed in the previous 3 months, in this case falling slightly towards the end of the year).

On the other hand, household consumption found support in a relatively favourable labour market, in the use of excess savings accumulated during the pandemic and in fiscal support measures. The average annual rate of unemployment showed modest growth, rising from 6.1% to 6.5% of the labour force, with unemployment only increasing towards the end of the year. The strong performance of the services sector (especially tourism) contributed to the resilience of the labour market. The percentage of companies reporting labour shortages as a constraint on activity remained high in construction and increased in services and manufacturing. In this context, wages remained under upward pressure, contributing to nominal growth in household disposable income of 6.2%, down from a record 8.2% in 2022.

The household savings rate fell from 6.5% to 5.8% of disposable income between the 4th quarter of 2022 and the 2nd quarter of 2023, then recovered in the second half of the year to 6.6%, on the back of a more cautious consumer behaviour. As elsewhere in the Euro Area, the pursuit of higher returns amid a climate of rising interest rates caused bank deposits in Portugal to shrink at the start of the year, as investors favoured alternative savings instruments, particularly saving certificates (*certificados de aforro*). This movement slowed down considerably in the second half of the year.

Except for the transport equipment component, which benefited from the strong performance of tourism, investment in fixed assets experienced subdued growth. This was due to the tightening of financing conditions for businesses and households, to a more uncertain outlook, and to the still low execution rate of the Recovery and Resilience Plan's funds. Overall, capital expenditure growth retreated from 3% to 0.9% in real terms. Weaker private sector investment intentions resulted in YoY falls in the flow of new mortgage loans and loans to non-financial corporations. Non-performing loan ratios remained contained in all segments, reflecting the context of low unemployment and of rising disposable income for both companies and households, as well as the macroprudential measures in force since 2018. In the 3rd quarter of 2023, the NPL ratio stood at 2.9% of total loans, down from 3.6% a year earlier.

The real estate sector maintained a robust pace of activity in 2023, although showing some signs of deceleration. After increasing by 8.7% in the first two quarters of the year, house prices rose by 7.6% YoY in the 3rd quarter, with QoQ growth slowing from 3.1% to 1.8%. The number of transactions rose by 1.9% in the quarter, but fell by 18.9% YoY, in this case mainly due to the contribution of the domestic segment.

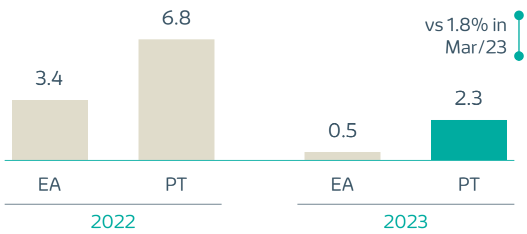
Reflecting the expansion of economic activity and the observation of surpluses in both public and external accounts, most rating agencies upgraded Portugal's sovereign rating in 2023. DBRS raised its rating in July, from A(low) to A; Fitch upgraded its rating in September, from BBB+ to A-; and Moody's raised it in November, from Baa2 to A3, even if, in the same month, the Portuguese Prime Minister formally handed in his resignation to the President of the Republic, leading to the fall of the government and the scheduling of early elections for March 2024. S&P maintained its rating at BBB+, but improved the outlook from stable to positive. The spread of the Portuguese 10-year Treasury Bond yield to the German benchmark narrowed from 102 bps to 63 bps in the full year.

Outlook for 2024

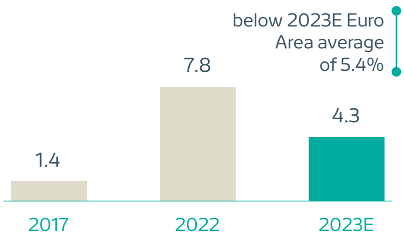
2024 should see a slight slowdown in global activity, with GDP growth receding to around 1.5% in the US and remaining below 1% in the Euro Area. Contributing to this soft-landing scenario are the lagged impacts of restrictive monetary policies and the shrinking of household excess savings. These factors should be mitigated by the fall in inflation and key interest rates, as well as by the increase in investment related to energy and digital transition programmes. The unemployment rate is expected to rise only moderately in the US and the Eurozone. Inflation should continue to fall in 2024, approaching the 2% target by the end of the year. In this context, the major central banks are anticipated to initiate a new cycle of policy interest rate cuts starting from the end of the second quarter. Cumulative cuts of 100-125 basis points in the case of the US Federal Reserve and around 75-100 basis points in the case of the ECB are anticipated. The main downside risks include the potential for inflation to persist at higher levels than anticipated, requiring the continuation of restrictive monetary policies and exacerbating the adverse impacts on demand and unemployment. The year 2024 will also be marked by various (geo)political events and risks, with possible impacts on the economy. These include the US presidential elections and, critically, the continuation of the war in Ukraine and the risk of the Israel-Hamas war escalating into a wider conflict in the Middle East, with adverse impacts on supply chains and the price of commodities. The main upside risks for the global economy include the possibility of faster than expected falls in inflation and key interest rates, as well as an early end to the conflicts in Ukraine and the Middle East.

In Portugal, annual GDP growth is expected to retreat to just over 1%, still higher than the Euro Area average. The lagged effects of the ECB's restrictive monetary policy and a slight rise in unemployment, with an impact on private consumption, should contribute to this slowdown. Exports of services are also expected to subside. The decline in GDP growth should be mitigated by lower inflation, by the impact of fiscal support measures (e.g., pension increases), by a recovery in exports of goods following the decline in 2023, and by the increase in investment, especially in public projects, linked with the faster pace of execution of the Recovery and Resilience Plan (RRP) funds. Average annual inflation is projected to fall in 2024 to around 2.3%, while the unemployment rate should rise to around 7.2% of the labour force (annual average), mainly due to the slowdown in services activity. Companies' efforts to retain employees may help alleviate this impact. In the real estate market, there should be a moderation in transaction volumes and a deceleration in prices, in line with the more subdued demand. Supply constraints are likely to remain a relevant factor, preventing a sharp correction in prices. The persistence of surpluses in the external and public accounts should contribute to a benign assessment of the sovereign rating. The main risks include the continuation of resilient inflation and restrictive financial conditions beyond expectations, the possibility of a global recession, a climate of instability and uncertainty following the March elections, delays in the execution of the RRP and a higher-than-expected increase in unemployment.

Annual GDP growth[1]
(%)



Inflation
(%)



2.1.2 Regulatory Environment

Amidst a challenging socio-economic context, 2023 was marked by a series of regulatory initiatives at European level aimed at strengthening the resilience of the banking sector, reinforcing the commitment to climate transition, and pursuing digital transformation and technological evolution.

These included the publication of the final proposals to amend the Capital Requirements Directive and the Capital Requirements Regulation (CRD VI and CRR III), with a view to increasing the comparability of banks' capital ratios. Of particular note is the introduction of a limitation on the use of internal models (output floor), as well as the increase in credit risk calculation weights.

Reference should also be made to the EU Reform of the bank crisis management and deposit insurance framework ("CMDI"), which aims to strengthen depositor protection (by extending the application of the legal regime to public entities) in situations of crisis or financial instability.

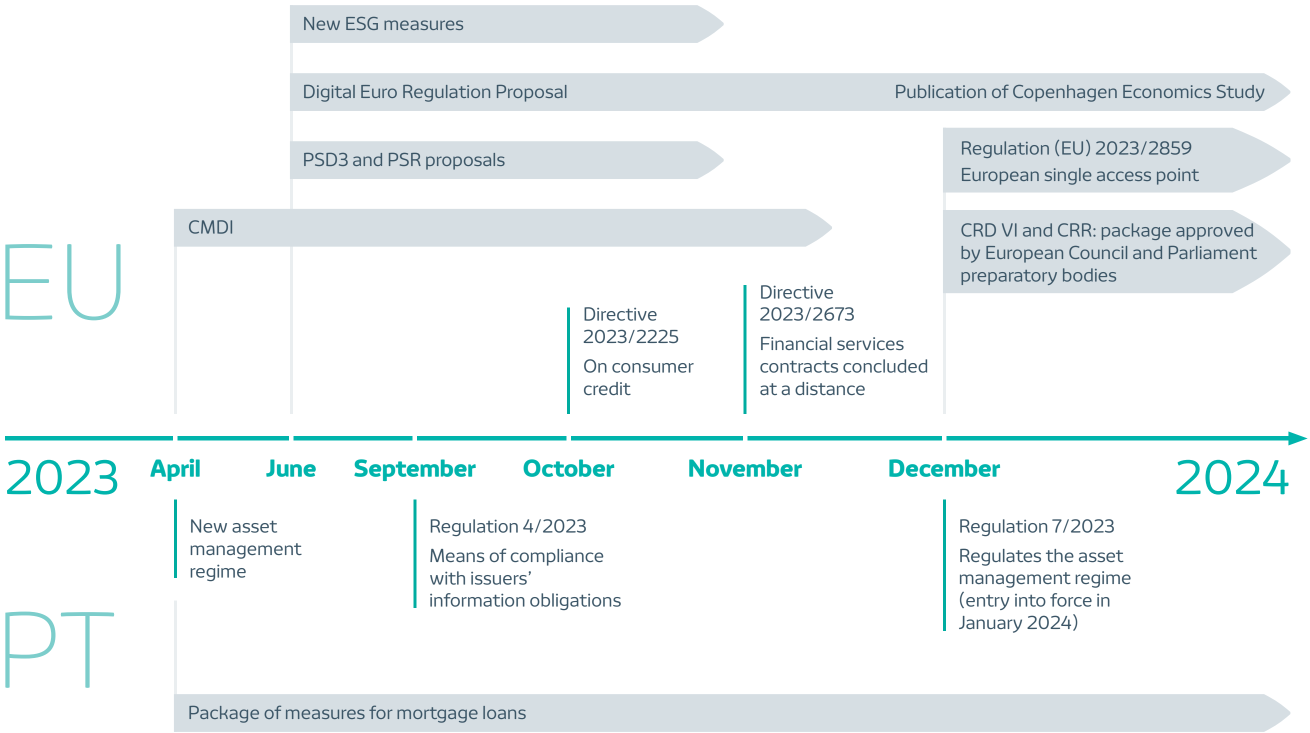
Of the various developments in the field of ESG, we highlight the EC proposal for measures in the area of sustainable and transition finance, which, by broadening the scope of the taxonomy, will allow a wider range of investments to be considered sustainable. In addition, the creation of a single European access point to publicly available information relevant to financial services, capital markets and sustainability, will contribute to better informed investment decisions.

In terms of digital transformation, there have been developments on the digital euro and a proposal for a regulation is already on the table. The conclusions of the Copenhagen Economics study on the effects of the digital euro on financial stability and the need for the ECB to ensure measures to mitigate its negative impact on the banking sector were also published.

Finally, a note on the developments under PSD3 and the publication of the PSR proposal in June 2023, to which most of the PSD2 will be transferred.

2024 should see the start of a phase of in-depth analysis of the two new Directives on consumer credit and financial services agreements concluded at a distance ((EU) 2023/2225 and (EU) 2023/2673, respectively), which member states must transpose and publish by 2025.

(1) Source: Bank of Portugal; 2023E PT expectaction from BdP as of Dec/23; European average – ECB (Dec/23).



In Portugal

In 2023, significant initiatives were implemented to assist Portuguese families in mitigating the impact of rising interest rates on permanent home loan agreements. These measures aimed to alleviate financial burdens by securing fixed loan instalments for a two-year period, increasing temporary interest subsidies, subject to specific criteria, and imposing restrictions on commissions charged by financial institutions (Laws 56/2023 and 24/2023, Decree Law 91/2023 and 20-B/2023 and BdP Instruction 24/2023).

In terms of interactions promoted by the CMVM, Regulation 4/2023 regulates the formats and means to be used by securities issuers to fulfil information disclosure duties. In addition, Regulation 7/2023, which will come into force in January 2024, regulates the new Asset Management Regime, published in April 2023.

2.2 Strategic Pillars

Following the launch of its new brand and the presentation of its new strategic plan ("Fazer Futuro") in 2021, novobanco has been implementing various initiatives and programmes that support it and, above all, contribute to the fulfilment of its main objectives. The results achieved, both in the financial statements and in the significant strengthening of the bank's solvency reflect this fulfilment, despite the challenges of the macroeconomic context. In 2023, novobanco continued to grow consistently and exceed expectations, reinforcing its position as a solid and independent domestic bank, while maintaining its commitment to supporting families and businesses throughout their lifetime.

This performance clearly demonstrates the increased confidence of both customers and the financial markets in novobanco, the alignment of its team and, naturally, the consistency of the strategic path outlined.

Novobanco's strategy is focused on each of its customers, providing them a simple and efficient experience, supported by a qualified and close team, thus contributing to an organisation with robust and sustainable results.

novobanco's strategic plan is structured around four pillars:

STRATEGY PILLARS

1 CUSTOMER-CENTRIC BANK

Reflecting evolving customer expectations through distinctive value propositions.

Leveraging digital and omnichannel approach as drivers of service and proximity.

2 SIMPLE AND EFFICIENT OPERATIONS

Simplifying the banking experience, through superior usage of technology and data.

Improving internal processes to upgrade productivity and efficiency.

3 DEVELOPING PEOPLE AND CULTURE

Attracting and developing a team of skilled and fulfilled professionals that actively live the bank's values.

Developing a dynamic collaborative culture in an environment adapted to the new ways of working.

4 DEVELOPING SUSTAINABLE PERFORMANCE

Delivering sustainable returns through disciplined risk, capital and funding management.

Strengthening the integration of ESG across business to support sustainable growth and key stakeholders.

SDG ALIGNMENT

This strategy is designed to maximise the social impact of novobanco's activities. In this regard, the strategic pillars align with the Sustainable Development Goals (SDGs), prioritised following the last materiality assessment.

CUSTOMER-CENTRIC BANK

Novobanco's daily routine is focused on responding in an exemplary manner to the needs of its customers, both individuals and companies, and this purpose is reflected in the first pillar of its strategy. At each moment, novobanco seeks to exceed the expectations of its customers and partners, through a distinctive value proposition that relies on digital and on the omnichannel approach as key levers of proximity and experience.

SERVING CUSTOMERS WITH A FULL SPECTRUM OF CHANNELS WITH COMPLEMENTARY ROLES

OMNICHANNEL

FACE TO FACE — HUMAN REMOTE — DIGITAL

Branches & Corporate Centers

ROLE
Smaller network of multi-format and modular branches; Promote retail and commercial collaboration via shared spaces.

Contact Hub

ROLE
Simple servicing, client remote support to self-served channels and inside sales/redirection to other channels.

PoS

ROLE
Collect payments and expand functionalities to enable value-added services.

Partners

ROLE
Network of partners to promote and expand client acquisition capabilities.

Remote RM & Mobile AC

ROLE
Increase remote servicing to mass to industrialize relationship and to affluent to steer to lower cost-to-serve channels.

A/VTMs

ROLE
Increase speed, convenience & cost-effectiveness in cash & equivalent transactions at the branch.

Phygital Solutions

ROLE
Enhancing the customer experience through contract formalization solutions and information sharing, in both face-to-face and remote scenarios, cementing the relationship of transparency and closeness with customers and the bank's omnichannel strategy.

Web and Mobile

ROLE
Speed and convenience for simple servicing and sales, capture traffic and cross-fertilize other channels.

NEW CHANNELS, SERVICES AND A PERSONALISED CUSTOMER EXPERIENCE ALLOWED A RAPID RISE IN DIGITAL...

2020

DIGITAL ACCOUNT OPENING-VIDEOCALL

Launch of the video call account opening solution.

ONLINE CREDIT FOR BUSINESS

1st integrated and 100% digital credit solution for business.

HOMEBUYING

From simulation to deed.

Simple, quick & more transparent.

Ecologically sustainable.

APP SMARTER

Adaptable, customizable, inclusive & predictive (based on data science).

FINANCIAL AGGREGATOR

Business Financial advisor.

Analytic & predictive.

INVESTMENT FUNDS

Subscription of third-party funds through digital channels extended.

Morningstar app solution made available to customers.

2021

LIFE INSURANCE

Simulation and subscription of life insurance on digital channels is made available.

NEW WEBSITE

More customization, SEO and new features.

Launch of online store for non-financial products.

CLIENT INFORMATION UPDATE

Client information update via CMD.

PHYGITAL

Available across the retail network, with -40% operations coverage, saving +13 tons of paper in 2021.

NOVOBANCO ONLINE CORPORATE

A new online service to simplify and support the day-to-day financial management of companies.

2022

PERSONAL LOANS

New subscription solution on digital channels with simulation comparison feature.

HOMEBUYING

API for credit intermediaries: reduced instalment offer.

INSURANCE

New simulation feature for home insurance with option to save simulations.

E2E subscription Home insurance.

PHYGITAL

Increased product depth.

New remote signing solutions.

INVESTMENT SOLUTIONS

New online Investor Profile Questionnaire.

Increased off balance offer on digital Channels.

CREDIT CARDS

New online request.

Increased limit request.

Pin by SMS.

DIGITAL CHANNELS

App: New wallet features, savings widgets and budgeting, recurring ops.

Online Empresas: new dashboards and functionalities (factoring, confirming).

CLIENT INFORMATION UPDATE

ID card photo upload on digital channels.

2023

PERSONAL LOANS

Improved underwriting process.

INVESTMENTS

Extension of the offer available online.

Improvements to the Investor Profile Questionnaire (QPI).

Online opening of the Financial Investment Contract, integrated in the investment fund subscription process (CIF).

NON-LIFE INSURANCE OFFER

Simulation of Car and Health Insurance in digital channels, with subscription through the call centre or branches.

ONLINE OPENING ACCOUNT

Improvements in the process.

NOVOBANCO APP

New app for corporate clients.

Google Pay / Apple Pay.

Enhanced security in online shopping payments with 3D Secure.

New authentication model for push notification even more fluid.

NOVOBANCO ONLINE CORPORATE

Improvements and new features in the confirming dashboard.

Factoring and Confirming Reports.

Participation Management with simplified membership (consultation only).

PHYGITAL

Increased product depth.

Extension to the corporate segment.

Enlargement to novobanco Açores.

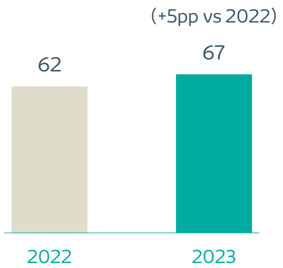
...UNLOCKING CURRENT AND FUTURE POTENTIAL:

Digital Sales

INSURANCE	CREDIT CARDS	PERSONAL LOANS
+107% YoY	+122% YoY	+27% YoY
8% of segment sales	5% of segment sales	20% of segment sales
+3pp YoY	+1pp YoY	+5pp YoY

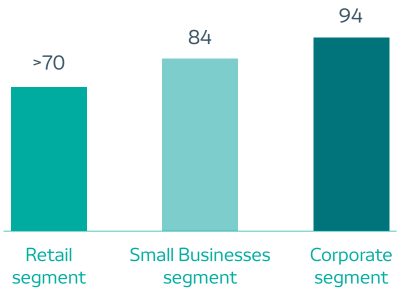
Digitally active clients

(%)



Self-service transactions

(%)



In the Corporate segment, novobanco's in-depth knowledge of the Portuguese business sector allows it to develop specialised approaches, which offer each sector of the economy, and in particular those that are key for national economic growth, a set of products and services suited to their challenges and needs, both for the domestic activity of companies and to support the internationalisation of the national economy. Alongside this vertical vision of the main sectors of our economy, novobanco is also at the forefront when it comes to promoting the business sector's access to the main programmes aiming to revitalise the European economy.

This in-depth knowledge of the market, of its opportunities, but also of its expectations and challenges, positions novobanco as the natural financial partner for large, medium and small national companies.

In 2023, novobanco also set emission reduction targets by 2030, aligned with the goals of the Paris Agreement, in the most relevant segments of its credit portfolio, as described in the Sustainability Report.

With this in mind, novobanco aims to be the banking partner of choice for its clients when it comes to adapting to climate change. In the corporate segment, this means the provision of financing solutions and access to specialist partners to help our customers plan and finance the investment requirements of the transition challenge. To this end, novobanco has established a green financing policy with ambitious medium-term targets (over €2 bn in the next 3 years).

In the Retail segment, which serves families and small businesses, novobanco develops value propositions and solutions centred on these customers' needs at the most decisive moments of their professional or personal journeys, whether in consumer credit, mortgages, management of savings or means of payment, with a view to accelerating the growth of the customer base that has novobanco as its main financial partner.

The bank launched specific products to meet the changing demands of the energy transition, such as green mortgages, personal loans for the installation of renewable energy solutions at home and special loan conditions for electric and hybrid vehicles.

As part of its strategic plan, novobanco has been implementing an approach based on a principle of increasing the omnichannel approach, thus providing customers with a consistent and integrated experience through its multiple channels.

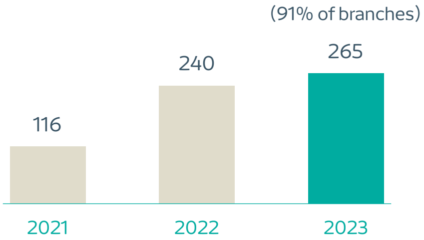
To effectively achieve these objectives, novobanco has been investing on a global transformation. The most visible faces of this reinvention are, on the one hand, the branch network, where novobanco has developed an innovative concept in the market that combines technology, proximity to the customer and openness to the community, and, *on the other*, digital, which has been a determining factor for the accelerated transformation of novobanco.

Finally, novobanco aims to maximise its positive impact on society - promoting a social responsibility agenda, acting on issues such as financial inclusion, financial literacy, the dissemination of ESG knowledge, sponsoring research into sustainability and driving multiple inclusion initiatives in the most fragile segments of the Portuguese society.

More information on products with an ESG impact is available in the Sustainability Report - 3.3) Our Customers.

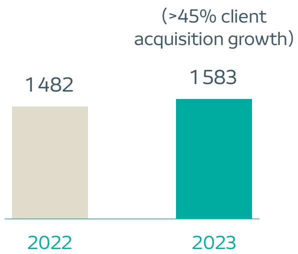
New Distribution Network

(# branches)



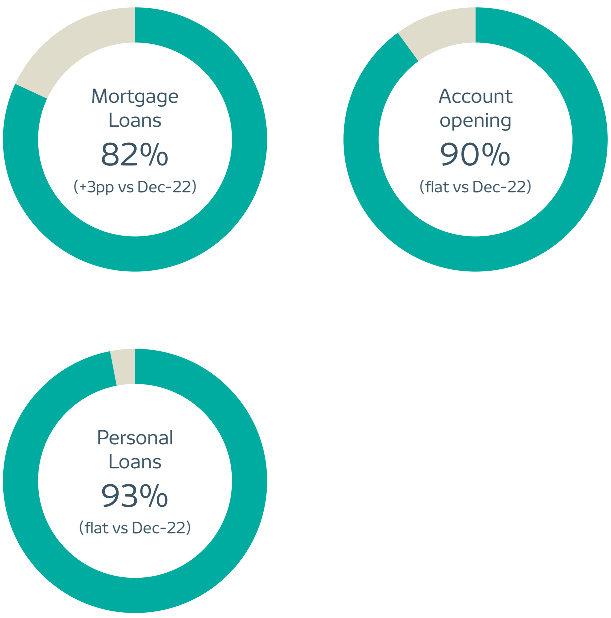
Evolution of number of clients

(# in thousands)



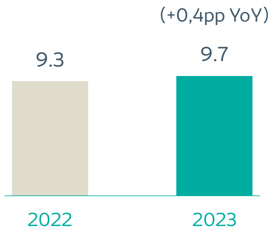
Client satisfaction

(Nov-23)



Deposits Market share

(%; Nov-23)



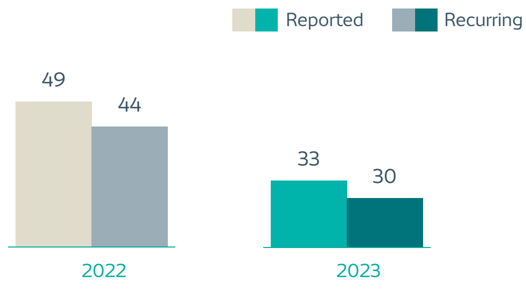
SIMPLE AND EFFICIENT

To address the market of today, with its very exacting clients and the challenges posed by new players, which spur the sector to evolve its operating model, the second pillar of novobanco's strategy is to accelerate its transformation into an organisation that provides customers with a lean and straightforward experience, for which it is necessary to attain increasing levels of operating efficiency.

In this area, novobanco has focused on reengineering the most critical processes for customers, with a view to simplifying them and thus provide an experience that stands out in the sector, both through its simplicity and through the consistent improvement of service levels, in particular in loan granting processes, which are the most decisive for companies and families.

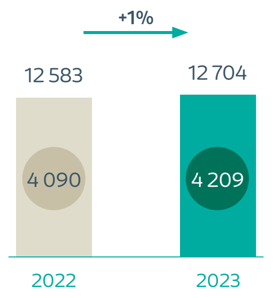
To this end, novobanco is implementing a far-reaching transformation programme of its IT and data governance functions (focused not only on the evolution of the infrastructure, platforms and tools that support the bank's operation, but also on the timely availability of relevant information to support process improvement), the scrupulous reformulation of the bank's operating model, the permanent optimisation of the models that support decision-making and, naturally, the regulatory commitments and requirements to which the banking sector is subject.

Cost to Income Ratio[1]
(%)



Average Business Volume per Employee[2]
(€k)

Employees[3]
(#)



To increase efficiency and improve its environmental footprint, the bank has set ambitious targets to reduce its own greenhouse gas emissions (-28% by 2024 compared to 2021), to reduce the consumption of resources and to reduce, recycle and recover waste (-30% by 2024 compared to 2021 for paper consumption). Novobanco is keen to ensure that its sustainability standards are met throughout its supply chain and has established guidelines and a monitoring framework to ensure compliance by its suppliers.

PEOPLE AND CULTURE

The strategic objectives of novobanco contain a high level of ambition, based on perfect alignment and total clarity within the organisation about the role and contribution of each employee to achieving them. This third pillar of novobanco's strategy is, therefore, a critical dimension and requires a high level of dedication from the bank's management.

In this domain, novobanco's strategy seeks to ensure a clear distinctiveness (i) in the value proposition for its employees, (ii) in the development of internal talent and (iii) in the promotion of the organisational culture and values. With these dimensions in mind, novobanco seeks to assert itself as an organisation characterised by:

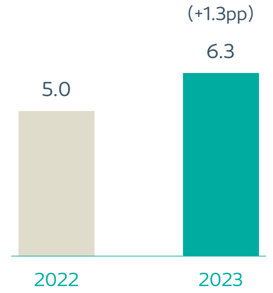
- A strong capacity to attract, develop and retain the best talent in the sector;
- A culture that values diversity and champions equity, including gender equality, and relies on the diversified profiles and paths of its people;

(1) Defined as Operating Cost divided by Commercial Banking Income; Commercial Banking Income being equal to Net Interest Margin plus Fees and Commissions;
(2) Considers average stock of Net Customer Loans and Deposits, divided by average number employees in the period;
(3) End of period data.

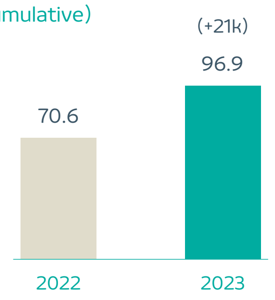
- A daily routine supported on working methods aligned with the best international trends, both in terms of participation and collaboration practices and in terms of the working environment;
- The promotion of innovation and the generation of ideas by the organisation itself, for the benefit of customers and the national economy;
- The experiencing of values and of an organisational culture that translates and permanently reinforces these characteristics;
- A workplace that fosters and promotes employee well-being and health, building a strong sense of employee engagement;
- A culture of continued self-improvement and expertise, by promoting employee training programs in key topics, including sustainability.

The experience of values and an organisational culture that translates and permanently reinforces these characteristics.

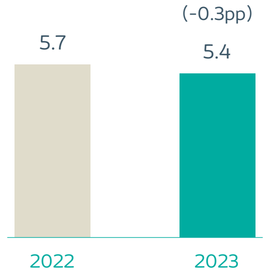
Staff Turnover
(%)



ESG training hours
(thousands; cumulative)



Gender Pay Gap[1]
(%)



(1) Equal Pay indicator (equal pay for equal work). At novobanco stand-alone level this KPI stands at 5,3%.

More information is available in the Management Report – 1.2.2 Organizational Structure, and in the Sustainability Report – 3.4) Our Employees.

SUSTAINABLE PERFORMANCE

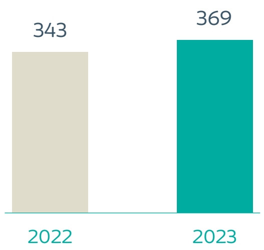
The fourth pillar of novobanco's strategy is driven by the bank's resolve that its financial performance be characterised by its sustainability, by the robustness and quality of its balance sheet and by adequate solvency levels.

This provides the framework into which the entire programme for integrating ESG (Environmental, Social and Governance) issues into the organisation is set, which includes (i) implementing the ESG operating model and training the organisation, (ii) adapting the offer of products and services, (iii) transforming investment and risk management policies, among other dimensions. novobanco considers ESG as an opportunity for the financial sector to contribute to the important transition objectives of the world economy, which justifies the importance it dedicates to this dimension.

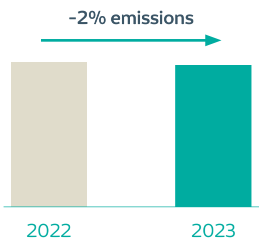
The optimised management of the bank's capital and its various funding sources and the improvement of the risk management processes associated with its activity are also materially relevant for the sustainability of novobanco's performance. To achieve this goal, novobanco's strategic plan is deployed through different programmes aimed at strengthening the quality of credit decisions, namely by driving their automation, improving pricing models and the measurement of profitability adjusted to risk and capital consumption (economic and regulatory), increasing the sophistication of the warning systems that monitor the life of credit operations and continuously improving internal models.

The combination of these dimensions gives novobanco the confidence that its ambitious medium-term objectives will continue to be met, thus allowing it to assert itself as a clear reference in the European financial sector, in terms of franchise and consistent growth, based on a robust financial profile that delivers high and sustainable levels of profitability.

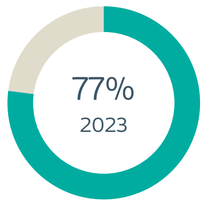
Green investment
(€mn)



CO_2 Emissions
(scope 1 e 2)

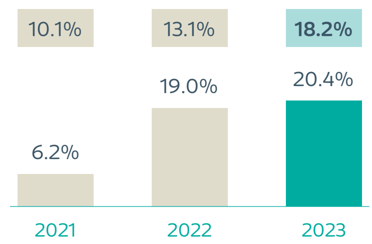


Eletricity from green certification:



TARGETS EXCEEDED AND ACHIEVING INVESTMENT GRADE RATING EARLIER THAN EXPECTED

	2023 Guidance[1]	2023 Achievements
Net Interest Margin	> 2.5%[2]	**2.75%**
Cost to Income	~ 35%	**33.3%**
Cost of Risk	~ 50 pb	**48 pb**
NPL Ratio[3]	< 4.5%	**4.4%** (w/ 84% coverage)
Profit Before Tax[4]	€700mn	**€754mn**
Capital Generation	> 400 pb	**+500 bp** (CET1: 18,2%)



Rating Actions

Moody's (December 2023)	Fitch (February 2024)
Ba1 *(Positive Outlook)* **Senior Unsecured Debt**	**BBB-** *(Stable Outlook)* **Senior Debt**
+7 notches in 2 years	Investment Grade

(1) Considers upward revision of 2023 guidance presented with 1H23 and 9M23 accounts;
(2) Considers average Deposits Facility Rate of 3.3% vs previous 2.7%;
(3) NPL actual calculated as non-performing loans by gross customer loans;
(4) PBT deducted by Special Tax on Banks.

2.3 Risk Management

Main Risks and Uncertainties in 2024

In 2023, novobanco delivered positive financial results. These results reflect the adoption of a prudent strategy in the conduct of its business, taking into account the difficult macroeconomic environment, particularly in terms of rising interest rates and financial market volatility, as a result of armed conflicts in Eastern Europe and the Middle East and the collapse of banking institutions in Europe and the United States, as well as the challenges associated with digital transformation, with the consequent increase of operational risk.
In 2024, the activity of novobanco and the banking sector in general will be affected by a combination of different risks and uncertainties, of which the following stand out:

i. Legal and regulatory risks

The dynamic regulatory environment of the financial sector in its various areas is quite a challenging task for institutions to comply with new legal and regulatory requirements in a timely manner and to adapt their internal procedures accordingly. In this context, the following points deserve special attention due to their growing importance:

- The integration of environmental, social and governance (ESG) objectives/criteria into business operations and the related disclosure requirements: taking into account the current context of integration of ESG factors into the prudential and behavioural rules applicable to banking activities and the aim of institutions to achieve their sustainable finance objectives, namely by complying with highly complex disclosure requirements, as well as the ongoing impasse over the approval by the European Union of the Directive on Corporate Due Diligence in Sustainability Matters - which, if not adopted, will mean the loss of a fundamental pillar of the European Union's ESG/sustainability plan, which is anchored on the Taxonomy-CSRD-CSDDD triangle - institutions have continued to navigate a landscape marked by uncertainty regarding the speed of transition process towards a sustainable economy, and therefore the rules they must follow. It is therefore anticipated that the regulatory agenda of supervisors will remain particularly intense in this area, which will require an effort on the part of institutions to assess their resilience to different scenarios of climate change and energy transition, to take the necessary measures to mitigate any risks that may be identified in this context, and to reposition their strategies to promote ESG objectives.

- The reinforcement of the legal and regulatory framework for the prevention, detection and combat of financial crime, namely through the AML package, which includes the European Union's ongoing review of Directive 2015/849, the regulatory requirements for due diligence, the implementation of robust transactional analysis models, Decree-Law no. 109/2021, among others, the application of restrictive measures resulting from sanctions and embargoes, with the consequent impact on the Bank's internal processes. On the other hand, the new European AML/CFT Supervisory Authority (AMLA) will require close monitoring;

- The Bank's capital requirements (SREP), the various On-Site Inspections (OSIs) conducted by the European Central Bank (ECB), the stress tests on Liquidity Risk, the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), as well as those anticipated in the area of cybersecurity, and the various guidelines of the European Banking Authority (EBA) and the ECB on these matters.

ii. Digital Transformation Risks

Technological innovation and digitalisation initiatives have become a priority for the banking sector, both for the benefits they bring to customer service (customer experience) and for the benefits they bring to internal efficiency processes.

While the benefits of digitalisation are undeniable, it also poses significant risks to banks, such as an increase in cyber-attacks (boosted, for example, by current geopolitical tensions), the inappropriate collection of personal data and fraud perpetrated through digital channels. As a result, banks will have to maintain operational resilience plans that allow them to anticipate these situations as far as possible, which in turn means constantly monitoring technological developments with the aim of increasing protection capabilities and mitigating cybersecurity risks.

In addition, 2023 saw a fast rise in the commercialisation of products based on artificial intelligence, and this trend is expected to continue in 2024. Although it is extremely difficult to predict all of its implications, this could lead to significant opportunities for efficiency gains and more sophisticated marketing strategies.

It is thus expected that in 2024 this digital transformation risk will not only persist, but that it may even be exacerbated given the many technological development initiatives underway. Of particular relevance is the new European legislative framework - the Digital Operational Resilience Act (DORA) - which aims to help strengthen the digital operational resilience of entities operating in the financial sector by requiring them to develop and maintain robust ICT to prevent and mitigate cyber threats in the financial sector that seek to exploit vulnerabilities in computer systems. This framework will be applicable in 2025 and will be complemented by the existing EBA guidelines (EBA/GL/2019/04), which will certainly be updated and will require institutions to make additional efforts in 2024 to adapt their internal processes and procedures.

iii. Outsourcing Risks

Linked to the technological innovation processes mentioned in the previous point, we should also highlight the growing importance of outsourcing services or functions to third parties, which is expected to continue throughout 2024 and which will naturally pose challenges for institutions, particularly in terms of compliance with legal and regulatory frameworks, reporting obligations, monitoring and assessing the risk of outsourced services/functions, and adapting to the expectations already conveyed by the European Central Bank in its supervisory activity plan for 2024-2026.

iv. Geopolitical and market risks

- At a global level, there are still concerns that the geopolitical fragmentation caused by the current conflicts in the Middle East and Eastern Europe could have an even more negative impact on trade, technology and people flows, leading to market uncertainty and volatility;
- The national macroeconomic situation and the impact of the outcome of the Portuguese parliamentary elections in March 2024;

- Delays in the implementation of the Recovery and Resilience Plan and the resulting impact on the economy;
- Uncertainty about the impact of persistently high interest rates and inflation on monetary policy in the Eurozone, potentially exacerbating the risk of higher-than-expected unemployment and generating instability in the commercial real estate sector;
- The potential impact on the global economy of the presidential election in the United States of America;
- The credit risk arising from the increase in financing costs and the deterioration of the macroeconomic situation are factors that could lead to the materialisation of this risk for both companies and individuals.

v. Other Risks

- The Non-Performing Assets (NPAs) portfolio and the implementation of the NPA plan, particularly as regards real estate owned (REO);
- Reputational, legal and compliance risks, especially when leading to litigation, either arising from the Group's current activity or from legacy issues;
- Risks arising from the activities of novobanco and the Group's entities;
- Broadly, the increase in regulatory reporting requirements, resulting in greater demands in terms of data collection, data quality verification and the safeguarding of data under personal data protection legislation.
- The remaining factors linked to the various types of risk described in this chapter.

In short, the risks anticipated for 2024 will be significant, given the context of uncertainty resulting from the increase of geopolitical tensions, a slowdown in economic activity and the prospect of interest rates remaining at higher levels, to which novobanco is obviously not immune.

novobanco develops its Risk Management function with the ultimate objective of internalising a risk culture and pre-empting the materialisation of risks across all levels of the organisation.

Risk Management Framework

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

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

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

1. **GOVERNANCE**
   Risk management and control committees;
   Definition of Policies and roles and responsibilities.
2. **RISK APPETITE STATEMENT**
   Definition of the level of risk that the Group is willing to take on.
3. **RISK CULTURE**
   Risk culture embedded at the verious levels of the organisation making all employees accountable for risk management and control.
4. **RISK CATEGORIES**
   Shared holistic vision of the Credit, Market, Liquidity and Operational Risk classes as well as of emerging risks.
5. **RISK TOOLS**
   Stress testing, limits policy, model validation, quantification and evaluation methodologies.
6. **3 LINES OF DEFENCE**
   The pillar for effective and seamless risk management at the various levels of the Group.

The Risk Culture at novobanco Group

Risk is inherent to the banking business. As such, the novobanco Group is naturally exposed to the various classes of risk arising from external and internal factors, namely from the nature of the markets in which it operates and the activities it develops.

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

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

- Universality, through application across novobanco Group;
- Integrality of the risk culture, through a holistic and preemptive approach to risk. A holistic vision encompasses all phases of risk management - identification, assessment, monitoring and control - as well as all kinds of financial risks - credit, liquidity and market, capital - and non-financial risks, including ESG Risk.
- Independence from the Group's other units, and in particular risk-taking units. Following the 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 risk.

A strong risk culture in the organisation is an essential factor for effective control of the various exposures to risk. This culture is reflected in the involvement and performance of all employees in the organisation, through their diligent, proactive and consistent compliance with the regulations, code of conduct, values, and risk appetite defined for all activities, businesses, segments and risk exposures. To this end, the timely identification of risk sources as well as risk-based mitigation and control actions are fundamental. A continuous effort in training, awareness raising, and communication is equally important to allow seamless adjustment to any arising situations.

3 LINES OF DEFENCE PRINCIPLE	1st line of defence	2nd line of defence	3rd line of defence
NOVO BANCO GROUP	Business Areas	Global Risk Department Compliance Department	Internal Audit Department
FUNCTION	Maximise return	Control	• Independent review; • Ensures adequacy of policies and processes; • Ensures correct implementation of policies and processes.
LIMITATION	Takes risk according to Risk Appetite	Does not take risk	
MISSION	• Accurate and timely identification of risks; • Make sure that risk remains within defined limits; • Measure, monitor, report.		

Risk Management Function

The risk management function is organised in such a way as to allow effective management of the risks considered relevant and material by the 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.

The management of risks is considered vital for novobanco Group

Risk Management, as a vital function 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.

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.

The Head of novobanco Group's Risk Management Function is the Head of the GRD, who reports to the Chief Risk Officer, a member of the Executive Board of Directors. To ensure the most effective articulation with the Risk Management Department, a local Head of the Risk Function was appointed in each relevant entity of the novobanco Group, who ensures continuous monitoring of the financial and non-financial risks to which these entities are exposed. 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:

CONTINUOUS MONITORING OF RISK EXPOSURES

Monitoring of risk exposure in a accordance with the Governance in force.

IDENTIFICATION OF MATERIAL RISKS

Annual risks identification process at Group level and of each materially relevant subsidiary.

ROLES AND RESPONSIBILITIES IN RISK MANAGEMENT

Risk Policies defining the roles and responsibilities of each stakeholder in risk management, in compliance of the 3 lines of defence principle.

DEFINITION OF RISK APPETITE STATEMENTS

A Risk Appetite statement and respective limits to be complied with by the organisation are defined for each material risk.

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

The definition of Risk Appetite statements for the Group's relevant exposures and their monitoring through risk limits are fundamental aspects of risk management and control. By linking them to the main strategic metrics, the risk limits are divided into three levels (according to their materiality), and subject to a specific escalation process, namely for the metrics with the highest materiality, that involves timely communication to the General and Supervisory Board and reporting to the Executive Board of Directors, as a guarantor of effective supervision of risk appetite monitoring.

The General and Supervisory Board monitors and ensures the effectiveness of the management conducted by the risk function, its action plan and budget, as well as its reports and relations with external auditors and supervisory authorities. It also monitors the current and future global risk appetite, the risk strategy in place, and the effectiveness of novobanco Group's risk management system and internal control system. Moreover, it is responsible for giving prior consent to the Executive Board of Directors' proposals on various matters, namely the definition of the Risk Appetite Framework, the Risk Appetite Statements and the corresponding limits. The Executive Board of Directors is responsible for approving the Risk Framework, the Risk Policies and the related methodologies and procedures for identifying, assessing, monitoring and controlling risks.

The identification and assessment of the risks to which the Group is exposed must take into account the established business strategy and planning. Strategic planning, capital adequacy and resolution exercises are therefore carried out with the active participation of the Risk Management Function.

Robust and efficient risk management is also the result of prospective analysis and ongoing monitoring of risk exposures, creating a specific risk tolerance framework that allows the 1st Line of Defence to perform its activities as risk-taker and relevant participant in risk management.

The Risk Appetite Statement (RAS) and Risk Appetite Limits (RAL) defined and approved by the General and Supervisory Board and the Executive Board of Directors cover financial and non-financial risks, the various business lines and regulatory limits. The definition of these limits is the responsibility of the Risk Management Function, which liaises with the other relevant stakeholders in the management and control of specific risk exposures. The Market Discipline Report provides further details on RAS and RAL.

Risk appetite is monitored by the Risk Committee of the Executive Board of Directors and General and Supervisory Board. Risk management and control is also supported by various specialised committees. Detailed information on the committees that support the Risk Management Framework is described in section 5.2. Corporate Bodies: Composition and Functioning.

	MANAGEMENT	RISK APPETITE	FOCUS IN 2024
Liquidity	Determine the size of the liquidity pool available at any given time and plan for stable sources of funding over the medium and long term.	• Solid liquidity position; • Funding of medium- and long-term assets through stable liabilities; • Withstanding liquidity stresses for a minimum period of 12 months; • Compliance at all times with the limits imposed by the legislation in force.	• Maintaining and evolving the risk monitoring and management processes, ensuring the timely detection of shifts in the risk profile and the Bank's alignment with the established risk appetite; • Developing and maintaining internal models and stress testing exercises (Stresstesting Framework) that allow liquidity risk to be measured and controlled: • To be continuously updated on the regulatory framework.
Credit	• Use of internal risk identification, assessment and quantification system; • Internal processes for rating and scoring allocation by type of portfolio; • Definition of Risk Appetite by portfolio; • Credit powers that force the escalation of riskier operations; • Ongoing monitoring in specialised fora.	• Risk appetite with stable origination criteria.	• Contribution to strengthen the Bank's operational capacity to manage credit exposures in a context of persistently high interest rates, high inflation, instability in the energy and commodity markets, and disruptions in the distribution chains. Focus on the early identification of financial deterioration indicators and definition of strategies for timely intervention with viable debtors requiring support measures to maintain their debt service capabilities; • Reinforcement of remote service models and creation and development of automated credit assessment and decision tools; • Strengthening the continuous monitoring processes of the various credit portfolios and reinforcing the EWS framework with the inclusion of new indicators.
Market and IRRBB	GRD expert team centralises the management and control of the group's market and interest rate and credit spread risk on the banking book (IRRBB/CSRBB), in line with the regulations and risk good practices.	• Monitoring of net interest income, market investments and balance sheet interest rate risk through predefined risk appetite rules.	• Processes for ongoing monitoring of market and IRRBB/CSRBB risks within the boundaries of the established risk appetite, allowing to assess the impact of changes in market factors, such as volatility and interest rates; • Development and maintenance of internal models and stress testing exercises (stresstesting framework) to measure and control market and IRRBB/CSRBB risks, as well as calculation of economic capital within the ICAAP exercise, calculation of market shock impacts within the EBA Stresstesting exercise and regulatory capital reporting (alternative standard approach), within the Fundamental Review of the Trading Book (FRTB); • Keeping updated at all times with regard to the regulatory framework, and in particular the new EBA guidelines on IRRBB/CSRBB.

	MANAGEMENT	RISK APPETITE	FOCUS IN 2024
Non Financial	• Definition of Non-Financial Risk Management and Control Framework and Specific Policies; • Compliance function and Information Security Office with a relevant role in the definition of other specific risk policies.	• The risk appetite encompasses the various categories of risk and reflects the infeasibility of eliminating it from a cost-benefit perspective; • Risk appetite aligned with novobanco Group's high ethical and conduct standards, which implies zero tolerance for inadequate conduct.	• Reinforcement of compliance with the risk appetite defined for the whole Group; • Reinforcement of a culture of risk, particularly in the first line of defence, to ensure the alignment of actions and decisions with the risk strategy and appetite across the various levels of the organisation, promoting a more robust control of risk; • Continuous strengthening of the Fraud Risk framework in light of the increased sophistication of fraud typologies, in particular cyber and technology risk, by enhancing fraud events prevention mechanisms; • Updating of the identification and assessment methodologies for-non financial risks, to include ESG risk; • Keeping continuously updated on the regulatory framework.
ESG	Undertaken through the joint approach of specialised teams from the GRD and GESC, which define the guidelines to be followed for any new business and for monitoring existing positions, in order to measure and mitigate novobanco Group's exposure, in particular to transition and physical risks. In addition, it is supported by methodologies to assess and monitor the risk factors, which, consistently with the applicable regulations, permit to monitor the evolution of the risk profile of balance sheet positions.	• Application of exclusion policies and minimum safeguards, namely for activities with higher ESG (environmental, social and governance) risk; • 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 evolution of the main ESG risks on the balance sheet; • Creation of a KRI dashboard integrated into novobanco Group's Risk Appetite.	• Application of the criteria established by the EU Taxonomy Climate Policy Relevant Sectors (CPRS) and greenhouse gas emitting sectors to characterise the Bank's portfolios; • Mapping of the physical risk of properties owned by novobanco or given as loan collateral; • Increased integration between ESG risk methodologies and business planning and execution, namely regarding the implementation of risk classification methodologies (Scorings / Ratings & Taxonomy) and respective guidance on credit risk decision and monitoring; • Maintaining and improving ESC scorings and ratings.

More information in chapter 3.2) ESG Risks of the Sustainability Report

3 OUR PERFORMANCE

3.1 Highlights

CONSISTENT STRATEGY DELIVERING INCREASED PROFITABILITY

- **Net income of €743.1mn (2022: €560.8mn)**, reflecting a solid domestic business model aligned with our customers' expectations and the efficiency measures implemented in recent years.
- **In 2023, NIM reached 2.75% (2022: 1.47%), above 2023 guidance (> 2.5%). NII totalled €1,142.6mn (2022: €625.5mn)**, as a result of the favorable interest rate environment, and of the prudent management of interest rates on assets and the cost of financing.
- **Fees totaled €296.1mn**, increasing 0.9% YoY (2022: €293.3mn), with the impact from regulatory changes that reduced commissions charged on certain products, partially offsetting the overall strong underlying trend.
- **Commercial Cost to Income ratio of 33%** (2022: 49%), beating guidance of ~35%. The ratio reflects the Commercial Banking Income performance (+56.6%) versus Operating Costs (+6.9%), which were driven by continued investment in the business and inflationary pressures.
- **Cost of risk was 48bps** (2022: 44bps), for credit and corporate securities (including management overlays), consistent with 2023 guidance of ~50bps.

CONTINUED STRONG CAPITAL GENERATION

- **FL CET1 ratio increased by ~500bps YoY to 18.2%,** beating the already revised capital generation guidance of >400bps. **Total Capital ratio increased by ~560bps to 21.0%** (+165bps QoQ), which also benefited from the net increase of the Tier 2 by €100mn, following the issuance of the new €500mn 10.5NC5.5 Tier 2.
- **Strong capital generation** with tangible shareholder's equity increasing €894mn to €4,126mn (+27.7% YoY).

A RESILIENT BUSINESS MODEL WITH MARKET SHARE MOMENTUM

- **Net Customers loans at €24.5bn (stable YTD), with €3.5bn YTD origination** partially offset by increased amortization and supported by new client acquisition. The bank has increased its footprint in the Portuguese market with **global market share at 9.8% (Nov/23; +0.2pp YTD).**
- **Non-performing loans (NPL) present a reduction of 17.7% YoY to €1,133mn. Net NPL ratio stood at 0.7% (Dec/22: 1.3%) and the NPL ratio at 4.4%** (Dec/22:

5.4%; in-line with guidance of <4.5%), with a coverage level of 84.3% (Dec/22: 77.5%).

- **Total customer funds of €34.9bn (Dec/22: €34.8bn; flat YoY), with customer deposits at €28.1bn.** This performance is reflected in the **growth of novobanco deposit market share to 9.7%** in Nov/23 (Dec/22: 9.3%). Loan to Deposits ratio is 81.2% (Dec/22: 83.3%). As of Dec/23, novobanco had a net ECB funding position of -€4.2bn, post the reimbursement of €5.4bn from TLTRO III, and a Liquidity buffer of €13.6bn as of Dec/23 (-€0.1bn YTD). Liquidity Coverage Ratio (LCR) stood at 163% (vs. 210% in 2022) and Net Stable Funding Ratio increased to 118% (vs. 113% in 2022).

A REMARKABLE TURNAROUND, ACHIEVING AN INVESTMENT GRADE RATING

In Feb/24, Fitch assigned a 'BBB-' LT rating to novobanco's senior preferred debt. The Investment Grade rating reflects i) the turnaround of the bank's business model; ii) a significant improvement in asset quality; iii) levels of profitability that compare favorably to peers; iv) significantly improvement of capital buffers in 2023; and v) stable funding, along with adequate liquidity.

In Nov/23, and for the third consecutive time, novobanco has received a multi-notch rating upgrade from Moody's, achieving a remarkable 5-notch rating increase within a 7-month period, moving senior unsecured debt rating to Ba1 from B3, while maintaining a "Positive Outlook".

Main Highlights	31-Dec-23	31-Dec-22
Activity (€mn)		
Net Assets	43 501	45 995
Customer Loans (gross)	25 489	25 617
Customer Deposits	28 140	28 412
Equity	4 422	3 512
Solvency		
Common EquityTier I / Risk Weighted Assets	18.2%	13.1%
Tier I / Risk Weighted Assets	18.2%	13.1%
Total Capital / Risk Weighted Assets	21.0%	15.4%
Leverage Ratio	7.9%	5.8%
Liquidity (€mn)		
European Central Bank Funding (3)	-4 246	385
Eligible Assets for Repo Operations (ECB and others), net of haircut	14 217	16 917
(Total Credit - Credit Provision) / Customer Deposits (2)	81%	83%
Liquidity Coverage Ratio (LCR)	163%	210%
Net Stable Funding Ratio (NSFR)	118%	113%
Asset Quality		
Overdue Loans > 90 days / Customer Loans (gross)	1.3%	1.2%
Non-Performing Loans (NPL) / Customer Loans	4.4%	5.4%
Credit Provision / Overdue Loans > 90 days	282.4%	336.0%
Credit Provision / Customer Loans (gross)	3.7%	4.2%
Cost of Risk (basis points) (1)	48	44
Profitability		
Net Income for the Period (mn€)	743.1	560.8
Income before Taxes and Non-controlling interests / Average Net Assets (2)	1.7%	1.2%
Banking Income / Average Net Assets (2)	3.3%	2.5%
Income before Taxes and Non-controlling interests / Average Equity (2)	21.2%	17.8%
Return on Tangible Equity (RoTE)	20.4%	19.0%
Efficiency		
Operating Costs / Banking Income (2)	33.2%	39.8%
Operating Costs / Commercial Banking Income	33.3%	48.8%
Staff Costs / Banking Income (2)	17.5%	20.7%
Employees (No.)	**4 209**	**4 090**
Branch Network (No.)	**290**	**292**

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

3.2 Novo Banco Group (Consolidated)

3.2.1 Results

In 2023, novobanco Group presents a result of €743.1mn (+€182.2mn YoY). This reflects the improvement in banking income (+€315.9mn; +28.0%) and operating costs (+€30.8mn; +6.9%; +6.2% excluding items of exceptional nature) and a level of provisioning in-line with expectations.

Income Statement (mn€)	31-Dec-23	31-Dec-22	Change	
			absolute	%
Net Interest Income	1 142.6	625.5	517.1	82.7%
+ Fees and Commissions	296.1	293.3	2.8	0.9%
= Commercial Banking Income	**1 438.7**	**918.8**	**519.9**	**56.6%**
+ Capital Markets Results	14.7	24.0	-9.2	-38.5%
+ Other Operating Results	-11.2	183.6	-194.7	...
= Banking Income	**1 442.3**	**1 126.3**	**315.9**	**28.0%**
- Operating Costs	479.2	448.4	30.8	6.9%
= Net Operating Income	**963.1**	**678.0**	**285.1**	**42.1%**
- Net Impairments and Provisions	**173.8**	**111.2**	**62.6**	**56.3%**
Credit	109.4	34.5	74.9	...
Securities	32.6	67.6	-35.1	-51.8%
Other Assets and Contingencies	31.9	9.0	22.8	...
= Income before Taxes	**789.3**	**566.8**	**222.5**	**39.3%**
- Corporate Income Tax	5.8	-53.3	59.1	...
- Special Tax on Banks	35.3	34.1	1.1	3.4%
= Income after Taxes	**748.2**	**585.9**	**162.3**	**27.7%**
- Non-Controlling Interests	5.1	25.1	-20.0	-79.6%
= Net Income for the period	**743.1**	**560.8**	**182.2**	**32.5%**

NET INTEREST INCOME

Net Interest Income was €1,142.6mn (+€517.1mn YoY), as a result, on the one hand, of the favorable interest rate environment and, on the other, of the prudent management of interest rates on assets and the cost of financing.

The rate on assets increased by 237bps, from 1.79% in 2022 to 4.16%, driven mainly by loans to customers rate which increased to 4.70% (+239bps YoY). The average balance of interest earning assets was €41.0bn (vs €41.9bn in Dec/22).

The average balance of customer deposits increased to €29.0bn, with a remuneration rate of 0.82% (2022: 0.17%), and the balance of money market funding was €7.3bn, with a rate of 3.23% (2022: -0.09%).

The favourable progression of assets interest rates (4.16%; 2022: 1.79%), more than offset the increase in liabilities interest rates (1.40%; 2022: 0.31%), with the financial margin increasing to 2.75% in the year (vs 2022: 1.47%).

Net Interest Income (NII) and Net Interest Margin (NIM) (mn€)	2023			2022		
	Average Balance	Average Rate	Income / Costs	Average Balance	Average Rate	Income / Costs
Interest Earning Assets	41 046	4.16%	1 731.8	41 914	1.79%	761.3
Customer Loans	25 571	4.70%	1 219.8	25 424	2.31%	595.4
Mortgage Loans	10 033	3.85%	391.2	9 836	1.36%	135.9
Consumer Loans and Others	1 486	7.00%	105.5	1 430	5.96%	86.4
Corporate Lending	14 052	5.08%	723.1	14 158	2.60%	373.2
Money Market Placements	4 536	3.12%	143.3	6 308	0.20%	12.7
Securities and Other Assets	10 938	3.32%	368.7	10 181	1.48%	153.3
Interest Earning Assets And Other	**41 046**	**4.16%**	**1 731.8**	**41 914**	**1.79%**	**761.3**
Interest Bearing Liabilities	37 649	1.53%	582.4	40 230	0.32%	131.2
Customer Deposits	28 982	0.82%	242.0	28 322	0.17%	48.5
Money Market Funding	7 265	3.23%	238.2	10 455	-0.09%	-10.0
Other Liabilities	1 402	7.19%	102.2	1 452	6.30%	92.7
Other Non-Interest Bearing Liabilities	3 397	-	0.0	1 684	-	-
Interest Bearing Liabilities And Other	**41 046**	**1.40%**	**582.4**	**41 914**	**0.31%**	**131.2**
NIM / NII (without stage 3 impairment adjustment)		**2.76%**	**1 149.4**		**1.48%**	**630.1**
Stage 3 impairment			-6.8			-4.7
NIM / NII		**2.75%**	**1 142.6**		**1.47%**	**625.5**

FEES AND COMMISSIONS

Fees and commissions were €296.1mn (stable YoY), with fees' overall strong underlying trend partially offset by impact from regulatory changes in commissions on loans. Payments Management increased by 9.6% YoY (+€12.2mn), from higher volume of transactions, increased clients base, new pricing implemented for customer accounts and POS usage.

Fees and Commissions (mn€)	31-Dec-23	31-Dec-22	Change	
			absolute	%
Payments Management	139.4	127.2	12.2	9.6%
Commissions on Loans, Guarantees and Similar	77.8	86.6	-8.8	-10.2%
Asset Management and Bancassurance	62.4	66.1	-3.7	-5.6%
Advising, Servicing and Other	16.6	13.5	3.1	22.8%
Fees and Commissions Total	**296.1**	**293.3**	**2.8**	**0.9%**

CAPITAL MARKETS AND OTHER OPERATING RESULTS

The results of capital markets were positive at €14.7mm, including a net loss of €12mn from losses on the sale of part of the securities portfolio, offset by one-off gains on forex and hedging. The fair value reserves of the securities portfolio increased by €37.9mn during 2023.

Other operating results totalled -€11.2mn (-€194.7mn YoY), which included in 2022 a gain of €148.6mn from the sale of real estate assets (headquarters building and portfolio of logistics properties). Other operating results in 2023 include the extraordinary cost of irrevocable commitment payment of Deposit Guarantee Fund (€56.1mn), the annual contribution to the Single Resolution Fund (€15.0mn) and to the National Resolution Fund (€7.1mn), gains from credit recovery (€30.3mn) and real estate disposal (€35.6mn).

OPERATING COSTS

Operating costs increased 6.9% YoY (+€30.8mn), reflecting the continued strategic investment in digital transformation, optimization and simplification of the organization and, on the other hand, the effects of inflation. Staff costs were €252.7mn (+€19.0mn; +8.1%), general administrative expenses totalled €182.9mn (+€20.7mn; +12.8%) and depreciation rose to €43.6mn (-€8.9mn; -17.0%).

Excluding items of exceptional nature, costs totalled €430.8mn, representing an increase of 6.2% compared to the same period last year.

Commercial Cost to Income stood at 33.3% (2022: 48.8%), equivalent to 29.9% excluding items of exceptional nature (2022: 44.1%).

Operating Costs (mn€)	31-Dec-23	31-Dec-22	Change	
			absolute	%
Staff Costs	252.7	233.7	19.0	8.1%
General and Administrative Costs	182.9	162.2	20.7	12.8%
Depreciation	43.6	52.5	- 8.9	-17.0%
Operating Costs Total	**479.2**	**448.4**	**30.8**	**6.9%**

As of 31 December 2023, novobanco Group had 4,209 employees (Dec/22: 4,090; +119 YTD) and the number of branches at 290 (Dec/22: 292), of which more than 265 already aligned with the new distribution model and 236 equipped with VTM (Virtual Teller Machine).

NET IMPAIRMENTS AND PROVISIONS

In 2023, novobanco Group recorded net impairments and provisions amounting to €173.8mn, showing an increase compared to previous year (+€62.6mn; +56.3%).

The cost of risk was 48bps for loans impairments and corporate bonds (2022: 44bps), consistent with 2023 guidance, despite management overlays built-in.

Net Impairments and Provisions (mn€)	31-Dec-23	31-Dec-22	Change	
			absolute	%
Customer Loans	109.4	34.5	74.9	...
Securities	32.6	67.6	-35.1	-51.8%
Other Assets and Contingencies	31.9	9.0	22.8	...
Net Impairments and Provisions Total	**173.8**	**111.2**	**62.6**	**56.3%**

3.2.2 Balance Sheet and Activity

CUSTOMER LOANS

As a Portuguese universal bank, novobanco mission is to be the trusted bank, which supports families and companies throughout their lives, through a robust and disciplined loan granting policy. This support has been across all sectors and all companies, with a special focus on exporting SMEs and companies that incorporate innovation in their products, services or production systems, increasingly following a sustainability guideline (ESG).

Customer Loans (mn€)	31-Dec-23	31-Dec-22	YTD Change	
			absolute	%
Loans to corporate customers	**13 819**	**14 244**	**- 425**	**-3.0%**
Loans to Individuals	**11 669**	**11 373**	**296**	**2.6%**
Residential Mortgage	10 058	9 978	80	0.8%
Other Loans	1 611	1 395	216	15.5%
Customer Loans (gross)	**25 489**	**25 617**	**- 129**	**-0.5%**
Customer Loans Provisions	955	1 066	- 112	-10.5%
Customer Loans (net)	**24 534**	**24 551**	**- 17**	**-0.1%**

Loans to customers (gross) totaled €25.5bn (-0.5% YTD), of which corporate customers represented 54% (Dec/22: 56%), Residential Mortgage 40% (Dec/22: 39%) and other loans to individuals 6%. In 2023, loan origination totaled €3.5bn (2022: €3.9bn), of which 48% corporate, 40% mortgage and 12% consumer and others.

The asset quality indicators of December 2023, and comparison with previous year, are presented below:

Asset Quality and Coverage Ratios (mn€)	31-Dec-23	31-Dec-22	YtD Change	
			absolute	%
Overdue Loans > 90 days	338	317	21	6.5%
Non-Performing Loans (NPL)	1 133	1 376	- 244	-17.7%
Overdue Loans > 90 days / Customer Loans (gross)	1.3%	1.2%	0.1 p.p.	
Non-Performing Loans (NPL) Ratio[1]	**4.4%**	**5.4%**	**-0.9 p.p.**	
Credit provisions / Customer Loans	3.7%	4.2%	-0.4 p.p.	
Coverage of Overdue Loans > 90 days	282.4%	336.0%	-53.6 p.p.	
Coverage of Non-Performing Loans[1]	**84.3%**	**77.5%**	**6.8 p.p.**	
Net Non-Performing Loans[1]	**0.7%**	**1.3%**	**-0.5 p.p.**	

(1) Excludes Deposits and Loans and advances to Banks.

Non-performing loans (NPL) present a reduction of 17.7% YoY to €1,133mn. Net NPL ratio stood at 0.7% (Dec/22: 1.3%) and the NPL ratio at 4.4% (Dec/22: 5.4%), with a coverage level of 84.3%.

As of December 2023, novobanco exposure to Real Estate decreased 15% to €460.1mn, representing 1.1% of novobanco total assets. The YoY decrease reflects the disposals throughout the year, with gains (€35.6mn) held in Other Operating Results.

SECURITIES

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €9.3bn as of 31 December 2023, representing 21.4% of assets, of which 85% was accounted at amortised cost with unrealised marked to market losses of €105mn (net of hedges and taxes).

Securities portfolio (mn€)	31-Dec-23	31-Dec-22	YTD Change	
			absolute	relative
Portuguese sovereign debt	851	981	- 130	-13.3%
Other sovereign debt	4 260	5 151	- 891	-17.3%
Bonds	3 850	4 126	- 276	-6.7%
Other	331	387	- 56	-14.5%
Securities portfolio Total (net of impairment)	**9 292**	**10 646**	**-1 353**	**-12.7%**

FUNDING

Total customer funds of €34.9bn (Dec/22: €34.8bn), of which deposits represent 80.7%. As of Dec/23, Customer deposits totalled €28.1bn (Dec/22: €28.4bn), with performance being reflected in the growth of novobanco's deposit market share to 9.7% in Nov/23 (Dec/22: 9.3%).

Total Funds (mn€)	31-Dec-23	31-Dec-22	YTD change	
			absolute	%
Deposits	28 140	28 412	- 272	-1.0%
Other Customer Funds[1]	1 844	866	978	...
Debt Securities	606	1 169	- 563	-48.1%
Subordinated Debt	502	416	86	20,7%
Sub -Total	**31 092**	**30 862**	**230**	**0.7%**
Off-Balance Sheet Funds	3 770	3 933	- 162	-4.1%
Total Funds	**34 862**	**34 795**	**67**	**0.2%**

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

3.3 Business Segments

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, among others.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Retail, which essentially includes the activity of private and small business clients; (2) Corporate, which includes the activity of other companies and institutions; and (3) Support Function. 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.

RETAIL

Corresponds to all the activity developed with private customers and small businesses, along with the fully consolidated operating subsidiaries novobanco Açores, BEST and GNBGA. 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.

CORPORATE

Includes the activities developed 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.

SUPPORT FUNCTIONS

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, including Treasury and Real Estate assets.

	Dec-23								Dec-22			
€ million	Retail	Abs. Change	SMEs and corporate	Abs. Change	Support Functions	Abs. Change	Total	Abs. Change	Retail	SMEs and corporate	Support Functions	Total
Commercial Banking Income	845	395	643	213	-49	-88	**1 439**	520	450	430	39	**919**
Banking Income	847	379	681	232	-86	-295	**1 442**	315	468	449	209	**1126**
Operating Costs	318	32	99	8	62	-9	**479**	31	286	91	71	**448**
Net Operating Income	528	347	582	223	-148	-286	**963**	285	181	358	138	**678**
Net Impairments and Provisions	54	44	90	3	30	16	**174**	63	10	87	14	**111**
Income before Taxes	**474**	**303**	**492**	**220**	**-177**	**-301**	**789**	**222**	**171**	**272**	**124**	**567**
Total Assets	14 614	302	13 942	578	14 945	-3 375	**43 500**	(2 495)	14 312	13 364	18 319	**45 995**
Customer Loans (net)	13 425	260	11 092	(293)	17	16	**24 534**	(17)	13 164	11 385	1	**24 551**
Net Interest margin	3.02%	1.82 p.p	3.89%	1.36 p.p	-0.40%	-0.67 p.p	**2.75%**	1.28 p.p	1.20%	2.53%	0.27%	**1.47%**
Commercial Cost to Income	37.7%	-25.9 p.p	15.4%	-5.7 p.p	-	-	**33.3%**	-15.5 p.p	63.6%	21.1%	-	**48.8%**

In 2022, the results of the Support functions include €148.6mn of gains from the sale of real estate assets and from the sale of headquarters building accounted as Other operating results. In 2023, Support functions include the extraordinary cost of irrevocable commitment payment of Deposit Guarantee Fund (€56.1mn).

RETAIL BANKING

Since 2021, novobanco's Retail segment has carried out a strong adjustment of its customer service structure, reshaping its geographic presence and deeply changing the service experience, in a move to deepen long-term relationships with clients and balancing between the convenience of the digital channels and the importance of face-to-face service to clients. Currently, more than 265 branches operate under the new distribution model and 236 have a VTM (Virtual Teller Machine; +46 vs Dec/22), which offers advanced transaction management solutions and stands out as a tool towards branch efficiency and customer satisfaction.

New clients acquisition continues to evolve positively (more than +45% vs 2022), supported by initiatives such as (i) wage domiciliation; (ii) client loyalty program aimed at strengthening and deepening the commercial relationship; and (iii) cross segment program, which covers around 300,000 employees in more than 25,000 companies, who have a protocol with Novobanco. This programme gives employees of such companies access to preferential conditions for some of the bank's products and services.

As part of the ongoing digital transformation, a Contact Hub, that leverages virtual assistants and AI to efficiently manage remote contacts, has been deployed, enhancing customer experience by responding promptly and routing clients to the right channels. The customer-first approach was also extended to debit and credit cards, with features like card tokenization, the introduction of Google Pay and Apple Pay digital wallets, making global payments convenient, and new app features were deployed. Furthermore, on the sustainability front, commercial initiatives included using 100% recycled and biodegradable PVC cards, as well as recycling expired cards for urban furniture, reducing environmental impact, and offering a broader range of financial products, like the 18.25 account, which ensures zero CO_2 emissions.

As of December, Loans to Customers (net) totalled €13.4bn (+2% YTD; including small business loans), mainly as the result of solid mortgage origination (+€1.4bn; +14% YoY) following the successful strategy of partnerships with Credit Intermediaries, which represent the bank's largest channel of distribution of this product. As of November, novobanco's mortgage market share was 9.1% (flat YTD). In the period, the customer base of the small business increased by 13%, with work accident insurance, multi-risk insurance and service accounts increasing by 28%, 28% and 14%, respectively.

The Net Interest Margin increased to 3.02% (+182 bps YoY), which together with higher volumes and commercial activity resulted in €845mn of Commercial Banking Income (+88% YoY). Operating costs increased by 11% YoY, to €318mn, leading to a Commercial Cost to Income ratio of 37.7% in the period.

All in all, the Retail segment had an Income before Tax of €474mn (2022: €171mn) driven by the commercial performance and a favourable interest rates environment.

CORPORATE BANKING

Positioning as a customer-centric bank offering a distinctive experience, novobanco has two hubs dedicated to large corporate customers (Oporto and Lisbon) and 20 business centres distributed throughout the country, with specialised teams dedicated to the medium-sized companies' segment. On the top of the physical hubs, there is a new online corporate bank aiming to simplify the day-to-day of corporate customers and enhanced functionalities, such a as in short-term loans and treasury management. Strong digital engagement among Corporate Customers, with about 80% actively using digital channels, leading to a 0.8p.p. increase in the satisfaction index for website user experience.

Novobanco continued to strengthen its commitment to Portuguese companies, to which it provided a set of solutions for investment and working capital needs, with significant growth in short-term loans, especially through factoring and confirming, driving annual increases of 8% in cumulative invoicing undertaken and a market share of 11% in factoring. This underpinned the continued growth of the corporate customer base, with high levels of penetration as in the Portuguese SMEs (55%) and large companies (70%), are novobanco customers. The bank thus occupies a leading position in terms of support provided to the Portuguese companies, with market shares of 14.3% in loans (Dec-22: 14.5%) and 13.9% of deposits from Non-financial Companies (+1.7pp YTD), reflecting companies' confidence in novobanco.

Novobanco maintains a strong presence in the exports sector, with a wide range of products and specialised advice for international trade, being about 60% of national exports made by novobanco clients. The know-how in this segment is reflected in a 20.1% market share (+1.5pp YTD) and by being, for the 6th consecutive year, elected the best Trade Finance bank in Portugal by Global Finance.

With regards to Payments Solutions, the simplification and innovation was reflected in a POS (point of sale) market share to 15.9%.

As a result of the commercial strategy in place, as of December 2023, Loans to Customers (net) totalled €11.1bn (-2.6% YoY). Reflecting the interest rates environment, in the period, Net Interest Margin increased to 3.89% (+136bps YoY), which resulted in Commercial Banking Income of €643mn (+50% YoY). Operating costs increased 9% to €99mn. All in all, Income before Tax totalled €492mn (+81% YoY; +€220mn).

DIGITAL TRANSFORMATION

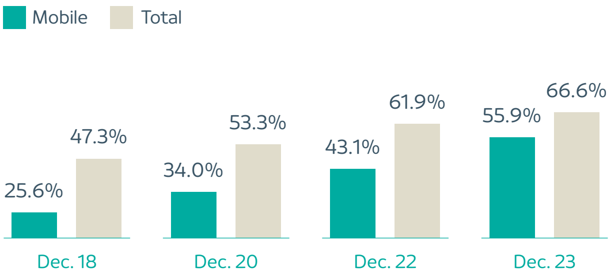
As a customer-centric bank, novobanco pursues the following goals through digital transformation, in both the Corporate and Retail segments:

- to accelerate front-to-back digitisation to improve experience and efficiency in the approach to the customer journeys and the transformation of the operating model, and
- to transform the digital channels to provide a fully omnichannel experience and greater personalisation, leveraging on best-in-class data science.

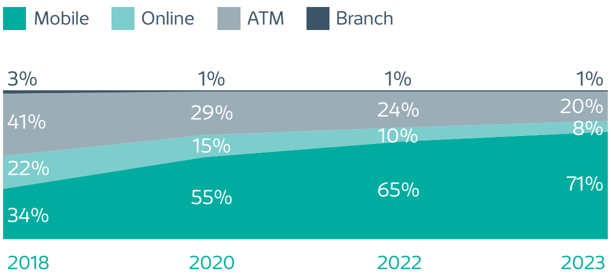
This strategy drove an increase in active digital customers, to 66.6% by Dec/23 (+5pp YoY; the number of digital customers increased by 15% YoY) and annual growth of 25% in the number of active mobile customers (56% of customers are mobile vs 48% in Dec/22).

In 2023, more than 70% of the operations in the individual client's segment were carried out in self-service mode, this figure increased to 84% and 94% in the small businesses and medium-large companies' segments, respectively. In turn, this underpinned an increase in the share of digital sales of Insurance (+107% YTD; 8% of segment sales; +3pp YoY), Credit Cards (+122% YTD; 5% of sales; +1pp YoY) and Personal Loans (+27% YTD; 8% of segment sales; +3pp YoY).

Active digital clients penetration rate



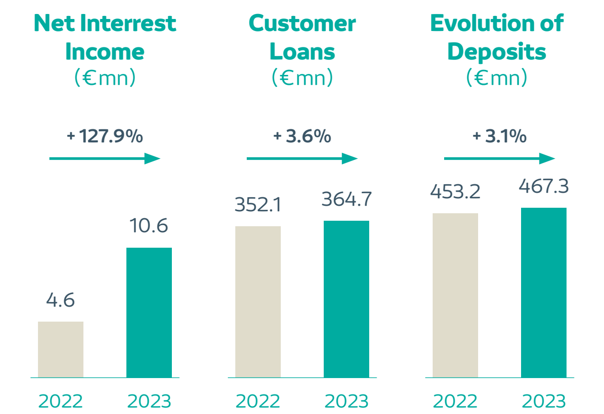
Customer Toutchpoints (Individual Clients)



In the period, 79% of individual clients' contacts with novobanco were made through the digital channels (+4 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 annual interactions (as measured by the number of *logins*) growing by 30%.

NOVOBANCO DOS AÇORES

In 2023, novobanco dos Açores continued its activity, paying special attention to close relationships with its Customers, seeking to support the needs of Azorean society from all walks of life, in order to contribute to its prosperity. As a result of the activity carried out and the proximity maintained to the market, novobanco dos Açores acquired, in 2023, another 1,505 new customers.



The net income of novobanco dos Açores in 2023 registered a positive value of €10.6mn, which represents an increase of 127.9% compared to 2022. The results of novobanco dos Açores' activity show a substantial increase when compared to 2022, mostly explained by the strong growth in net interest income, which reached 2.9% in December 2023 and contributed to a 132.0% increase in the bank's financial result.

In 2023, novobanco dos Açores' assets increased by €28.8mn (+4.5%) to €663mn, as well as customer loans (net) which increased by €12.6mn (+3.6%) to €364.7mn. In December 2023, overdue loans totalled €4.7mn, which translates into a non-performing loan ratio of just 1.2%.

In December 2023, the overall amount of customer deposits amounted to €467.3mn, an increase of 3.1% compared to the same period of the previous year.

BANCO BEST - BANCO ELECTRÓNICO DE SERVIÇO TOTAL, S.A.

In 2023, the increase in the general level of market interest rates allowed for a more profitable management of Best's available liquidity, resulting in an increase in net interest income of +217% compared to the previous year. This strong increase was reflected in an increase in banking product of +67%, which combined with the reduction in operating costs due to an active policy of controlling operating costs (-3% compared to the previous year), allowed the strong increase in pre-tax income to €10.4mn.

The ratio of non-performing loans to loans granted is a very favourable figure of 0.3%, justified by a prudent risk policy based on the granting of credit collateralised by financial assets.

Banco Best closed 2023 with a positive net result of €7.6mn (+€5.9mn vs 2022).

The digital marketing strategy to attract customers in the different channels resulted in the capture of more than 5,600 customers, a growth 16% higher than in 2022 and with 41% of accounts being opened by videoconference or Digital Mobile Key.

The internal survey carried out on Customer satisfaction in 2023 revealed that 90% of respondents are satisfied or very satisfied with Best and a consumer association elected, for the second consecutive year, Banco Best as the best bank to invest in.

DIGITAL CHANNELS (APP AND WEBSITE)

App – English version: important improvement in the experience of foreign customers.

App – traveler's area: where Customers find a series of features to help them plan and manage their trips.

App – shopping cart: through which Customers enjoy a shopping experience similar to an online store. This feature, along with the integration of QR Codes on the website to buy in the app, constitute an unprecedented e-Commerce offer in the Portuguese market.

App – new homepage: highlighting the platform's key tools, offering greater visibility, facilitating access, maintaining personalization and allowing each user to adjust the entry according to their individual preferences.

Website – financial therapy: a new approach to financial literacy through a concept explainer, with the aim of fostering and boosting knowledge on investment topics and instruments.

OFFER

Launch of a global offer of new **savings accounts**, as well as the reinforcement of the existing offer, and a **new PPR with Gamalife**, a solution with guaranteed capital and remuneration

Reinforcement of the offer **of protection** insurance with the inclusion of Liberty Seguros - Home, Auto and Personal Accidents, in the alternatives available to optimize the insurance portfolio and with the new **Extra Health Insurance of Victoria Seguros**, which allows to complement the amount of coverage of any health insurance. Best's partnership with the largest national insurance broker – MDS – thus has more than 14 insurers in the offer of insurance to its customers.

Redesign of the investment **advisory** service, in order to make it more focused on high-value Clients, providing them with truly personalized investment solutions, while ensuring an improvement in the efficiency and effectiveness of the service.

New **investment themes** and **strategies** for portfolio diversification: commodities, food & agriculture, and precious metals.

SUSTAINABILITY

In November 2023, digital channels ensured 99.2% of the bank's operations, maintaining the focus on articulating personal contact and digital execution.

Reinforcement of the Margin Plus Account with the offer of funds that follow investment criteria based on sustainability objectives.

Promotion of saving habits through goals, by which it is possible to define something you want to achieve and start saving small amounts monthly.

Promotion of financial literacy through the Financial Therapy project, which provides an explainer of concepts about investment instruments on desktop and mobile.

Dissemination of its product and service activities on social networks, as well as promotion of ESG principles.

GNB GESTÃO DE ATIVOS

The Asset Management Company concluded the merger process of its companies and GNB Fundos Mobiliários incorporated GNB Gestão de Ativos SGPS, GNB Gestão de Patrimónios and GNB Real Estate, and by changing its business model in Luxembourg, which culminated in the closure of its branch in that geography. These changes aimed to simplify decision-making processes, optimize strategic planning and approach different market segments. The incorporating company is now called: GNB – Asset Management, Collective Investment Schemes Management Company, S.A., having maintained its stake in the pension funds management company and expanded the scope of its activities.

In addition, a project was completed whose purpose is to develop an investment process of excellence in relation to the inclusion of sustainability factors and which will result in the expansion of the offer of ESG products.

In terms of activity, the return to a high interest rate environment strongly conditioned the evolution of the asset management segment. In this context, government debt instruments, such as saving certificates and deposits offered by financial institutions, ended up being preferred by investors. GNB Gestão de Ativos took advantage of this context to launch two funds, in March and June, with a maturity of about 3 years, with annual distribution and which were well received by investors.

In 2023, GNB Gestão de Ativos was once again recognized through several awards and distinctions:

- Refinitiv Lipper Fund Awards 2023 distinguished the NB Euro Bond, for the 12th consecutive year, with the award for Best Euro Bond Fund marketed in Europe for 3, 5 and 10 years;
- NB Euro Bond and the Multireforma Capital Garantido Pension Fund were distinguished by the Best Funds Awards of Jornal de Negócios/APFIPP in the categories of Best Other Bond Funds and Best Pension Fund with Risk 3;
- GNB Momentum Sustentável received the award for Best Investment Fund Portugal awarded by Euronext Lisbon.

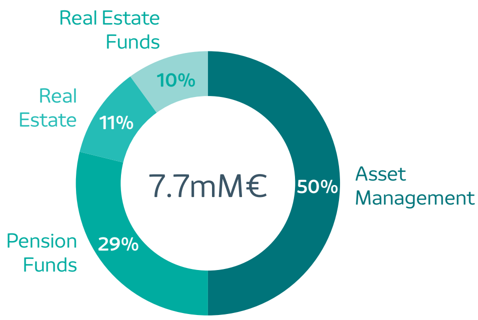
In terms of activity, GNB Gestão de Ativos continues to provide a diversified offer of value-added products and services aimed at the complete satisfaction of the different financial needs of its customers.

In the securities funds segment, the Management Company offers bond funds, including the widely awarded NB Bonds Europe fund (€99mn of assets under management), and NB Eurobond (€150mn of assets under management), equity funds, such as NB Momentum Sustainable (€160mn of assets under management) and mixed funds, which include the NB Conservative, NB Balanced and NB Dynamic profile funds (€69mn of assets under management).

In terms of the offer of retirement solutions, the Multireforma family of open pension funds stands out (4 funds totaling €328mn), 14 closed-end pension funds associated with corporate plans and 2 retirement savings products. The management company also offers a portfolio management service that includes discretionary management to more than 800 clients.

In the Real Estate segment, the firm manages open-ended real estate funds, closed-end real estate funds and real estate portfolios. Total assets under management at the end of 2023 were €7.7bn, which corresponds to a growth of 3.5% in the year (adjusted for the deconsolidation of the Luxembourg funds).

Assets under management
(December 2023)



3.4 Novo Banco Separate

3.4.1 Results

In the 2023 financial year, novobanco posted a positive result of €800.7mn, which compares with the 2022 result of €453.8mn.

Commercial Banking Income amounted to €1,382.6mn (+54.5% compared to Dec/22), mainly supported by the increase in net interest income (+77.1%).

Capital Market Results were positive at €87.8mn, compared to a negative result of €20.2mn in the same period of the previous year.

Operating Costs totalled €453.8mn, an increase compared to the previous year (+7.1%), influenced by inflation and continued investment in simplifying the organisation. Operating income was positive at €977.3mn, and impairments and provisions amounted to €146.8mn.

Income Statement (mn€)	31-Dec-23	31-Dec-22	Change	
			absolute	%
Net Interest Income	1 107.1	625.0	482.1	77.1%
+ Fees and Commissions	275.5	270.0	5.5	2.0%
= Commercial Banking Income	**1 382.6**	**895.0**	**487.6**	**54.5%**
+ Capital Markets Results	87.8	-20.2	108.0	...
+ Other Operating Results	-39.4	61.7	-101.0	...
= Banking Income	**1 431.1**	**936.5**	**494.6**	**52.8%**
- Operating Costs	453.8	423.7	30.1	7.1%
= Net Operating Income	**977.3**	**512.8**	**464.5**	**90.6%**
- Net Impairments and Provisions	**146.8**	**83.9**	**62.8**	**74.9%**
Credit	109.4	36.9	72.6	...
Securities	32.6	66.9	-34.3	-51.2%
Other Assets and Contingencies	4.7	-19.8	24.6	...
= Income before Taxes	**830.5**	**428.9**	**401.6**	**93.6%**
- Corporate Income Tax	-4.7	-58.3	53.7	92.0%
- Special Tax on Banks	34.5	33.4	1.1	3.3%
= Income after Taxes	**800.7**	**453.8**	**346.8**	**76.4%**
= Net Income for the period	**800.7**	**453.8**	**346.8**	**76.4%**

3.4.2 Activity

In 2023, novobanco developed its activity under the same guidelines referred for novobanco Group.

Activity Evolution (mn€)	31-Dec-23	31-Dec-22	Change	
			absolute	%
Assets	**43 146**	**45 464**	**-2 318**	**-5.1%**
Customer Loans (gross)	**23 999**	**24 013**	**- 13**	**-0.1%**
Loans to Individuals	10 350	9 918	432	4.4%
Residential Mortgage	8 836	8 632	204	2.4%
Other Loans	1 513	1 286	227	17.7%
Loans to corporate customers	13 650	14 095	- 445	-3.2%
On Balance Sheet Funds	**30 279**	**29 982**	**296**	**1.0%**
Deposits	27 366	27 570	- 204	-0.7%
Other Customer Funds(1)	1 827	855	972	...
Debt Securities	584	1 141	- 557	-48.8%
Subordinated Debt	502	416	86	20.7%

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

On December 31, 2023, deposits totalled €27.4bn, a decrease of -€0.2bn compared to Dec/22 (€27.6bn). This reduction is mainly due to the transfer to Saving Certificates in the first quarter of 2023, the trend of which was reversed during the second quarter, when there was an increase in customer deposits driven by SME customers and stabilisation of retail deposit outflows.

Loans to customers (gross) totalled €23,999mn (stable compared to Dec/2022) reflecting novobanco's commitment to Portuguese companies and the domestic market, reinforcing treasury support products, provision of support lines with financial guarantee by the Portuguese Development Bank, financing lines with EIF/EIB guarantee to support liquidity and investment of companies, financing lines for specific economic sectors, among others.

Asset Quality and Coverage Ratios (mn€)	31-Dec-23	31-Dec-22	Change	
			absolute	%
Overdue Loans > 90 days	337	326	11	3.3%
Non-Performing Loans (NPL)(1)	1 107	1 356	- 249	-18.3%
Overdue Loans > 90 days / Customer Loans (gross)	1.4%	1.4%	0.0 p.p.	
Non-Performing Loans (NPL) Ratio(1)	**4.6%**	**5.6%**	**1.0 p.p.**	
Credit provisions / Customer Loans	3.9%	4.4%	-0.5 p.p.	
Coverage of Overdue Loans > 90 days	277.7%	324.3%	-46.6 p.p.	
Coverage of Non-Performing Loans(1)	**84.6%**	**78.0%**	**6.5 p.p.**	

(1) Excludes Deposits and Loans and advances to Banks and Customer Loans.

In 2023, non-performing loan inflows remained at low levels, which, together with recovery activity, contributed to the continued decrease in the amount of non-performing loans and, consequently, to the reduction of the NPL ratio to 4.6% (2022: 5.6%). In December, NPL coverage ratio stood at 84.6% (+6.5 p.p. compared to Dec/22).

3.5 Relevant Facts from the Activity and Subsequent Events

Relevant Facts of 2023 are mentioned in chapter 1.1.3 Main Events of the Management Report.

Subsequent events:

FEBRUARY 1, 2024

Novo Banco, S.A. informs of Investment Grade rating by Fitch.

Fitch Ratings Ltd ("Fitch") has assigned novobanco an Investment Grade rating with a Long-Term Issuer Default Rating (IDR) of 'BBB-' with a Stable Outlook. Fitch has also assigned a Viability Rating (VR) of 'bbb-'.

FEBRUARY 21, 2024

Novo Banco, S.A. informs about issuance of European Covered Bonds (Premium)

Novobanco informs that it has launched a premium European Covered Bond ("the notes") in the amount of € 500 million, with maturity on 1 March 2027 (soft bullet). The notes, expected to be rated Aaa by Moodys, have an annual interest rate of 3.25%, equivalent to 3 years mid-swaps plus 45 bps.

FEBRUARY 28, 2024

Novo Banco S.A. informs about issuance of Senior Preferred debt

Novobanco issued a Senior Preferred debt in the amount of €500 million, maturing on 8 March 2028, with an option for early repayment on 8 March 2027.
The notes were subscribed at 99.782% price and have an annual coupon of 4.25% in the first 3 years, resetting to 3-month Euribor plus a margin of 130bps thereafter.
The notes are expected to be rated Ba1 by Moodys and BBB- by Fitch.

4 OUR CAPITAL AND LIQUIDITY

4.1 Capital Ratios

In the period, the CET 1 fully loaded ratio increased by around 500bp compared to December 2022 to 18.2%, while the solvency ratio rose by around 560bp to 21.0% (Dec/22: 13.1% and 15.4% respectively). This performance shows the capital-generating capacity of novobanco's business model and the discipline in capital allocation. The solvency ratio was also influenced by the net increase of €100mn in Tier 2 instruments after the issuance of the new €500mn Subordinated Bond maturing in 2033.

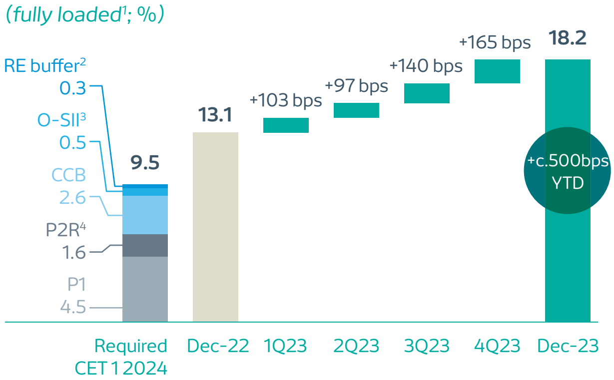
Capital Ratios (CRD IV/CRR) (mn€)		31-Dec-23 (fully loaded)	31-Dec-22 (fully loaded)
Risk Weighted Assets	(A)	20 399	21 233
Own Funds			
Common Equity Tier 1	(B)	3 703	2 787
Tier 1	(C)	3 705	2 789
Total Own Funds	(D)	4 280	3 279
Common Equity Tier 1 Ratio	(B/A)	18.2%	13.1%
Tier 1 Ratio	(C/A)	18.2%	13.1%
Solvency Ratio	(D/A)	21.0%	15.4%
Leverage Ratio		**7.9%**	**5.8%**

The calculation of regulatory capital does not include the amounts unpaid by the Resolution Fund under the Contingent Capital Agreement. Novobanco considers the unpaid amounts in respect. Novobanco considers the amounts not paid by the Resolution Fund for the years 2020 and 2021 under the Contingent Capitalization Agreement (CCA) as due, having triggered the contractual mechanisms at its disposal to ensure their receipt. None of these amounts have yet been paid by the Resolution Fund and, as such, are not considered in the calculation of regulatory capital.

In 2023, in the context of the European Central Bank's approval of the exemption from the obligation to be approved as a financial holding company, novobanco was the entity designated to ensure the Group's compliance with prudential requirements on a consolidated basis under Article 21-A, paragraph 4, of Directive 2013/36/EU and Article 35-D of the RGICSF.

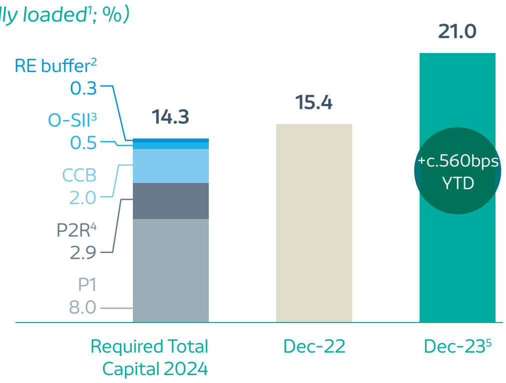
CET 1

(fully loaded[1]; %)



Total Capital

(fully loaded[1]; %)



(1) The inclusion of positive results depends on an authorization from the ECB;
(2) Starting on 1-Oct-24, capital requirements will include a buffer on exposures secured by residential real estate, expected to be ~30bps;
(3) Phased regime for the introduction of a 0.5% O-SII reserve as a percentage of RWAs will start on 1-Jul-24 with 50% of the reserve (0.25% of RWAs), and 100% of the reserve starting on 1st July 2025 (0.50% of RWAs);
(4) P2R in 2024 is 2.85%, which represents a decrease of 15bps;
(5) Total capital ratio also benefited from +€100mn Tier 2 upsize

4.2 Liquidity and Funding

HIGHLIGHTS

- Stable funding structure, relying mainly on customer deposits.
- Wholesale and interbank funding were also important in 2023, allowing the bank to replace TLTRO III funding and maintaining liquidity position (including liquidity ratios and liquidity buffer) above internal risk appetite limits.

LIQUIDITY MANAGEMENT

Novobanco 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, the definition of funding transfer pricing (FTP) framework and establishment of an offer of financial products that results in diversification of the 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 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 early 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 if needed. 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, to the extent possible, undesirable liquidity risks. The structural liquidity of the bank is analysed in detail on 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.

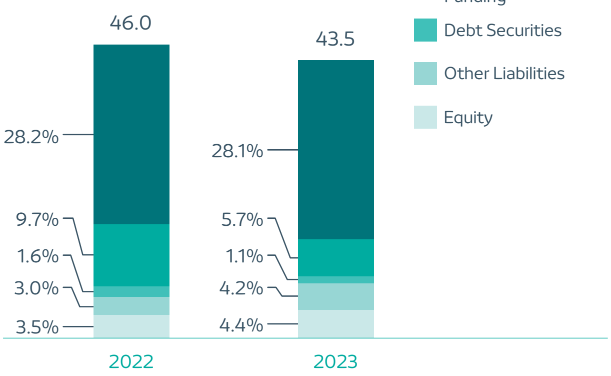
The funding policy of Group novobanco is one of the major components of the bank's liquidity risk management, which stresses the diversification of funding sources by instruments, investors and maturities. Given the commercial nature of the balance sheet, novobanco's strategy has, since its inception, largely relied on boosting customer deposits as its major source of funding, which have proven to be quite stable throughout the years.

Additionally, the bank prepares a monthly liquidity report (for more details see chapter 2.3. Risk Management), considering, not only the effective maturity but also the behavioural maturity of the various products, which allows for evaluation of the structural mismatches by 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 stress 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
(€bn)



FUNDING STRUCTURE AND LIQUIDITY IN 2023

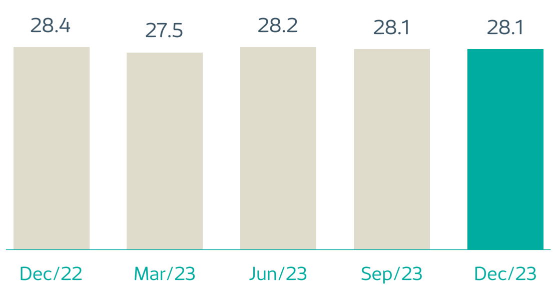
Novobanco's customer deposits at the end of 2023 totalled €28.1bn (€28.4bn bn in 2022), decreasing by €0.3bn YoY. During the year, after a €0.9bn decrease in the first quarter mainly due to higher yielding savings product from the government, customer deposits recovered and remained mostly stable throughout the year.

At the end of 2023, customer deposits remained the bank's main funding source, accounting for 65% of its funding structure (62% at the end of 2022), of which 74% were deposits from the retail segment.

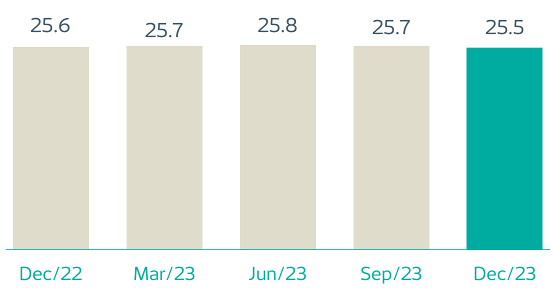
The loan portfolio (gross) decreased by €0.1bn to €25.5bn as of December 2023 (Dec/22: €25.6bn), and the commercial activity, including customer business-related securities, was therefore neutral in terms of liquidity as of year-end 2023.

Still in terms of asset evolution, in 2023, the securities portfolio decreased by €1.4bn, to €9.4bn, resulting mainly from redemptions and sales occurred during the last quarter of the 2023 in the amortised cost treasury portfolio. Nevertheless, novobanco's security portfolio remained substantially (approximately 70%) composed of high-quality liquid assets ("HQLAs"), and among these more than 75% are sovereign debt securities.

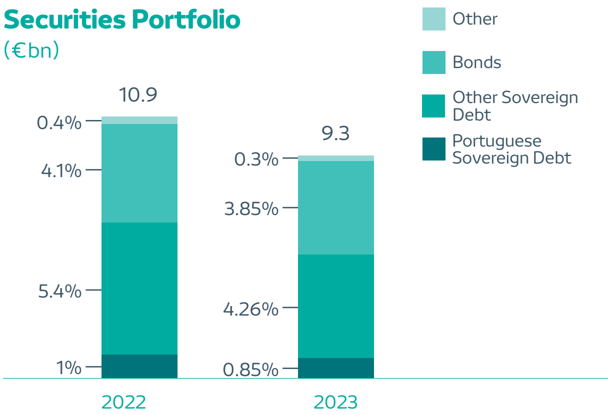
Customer Deposits
(€bn)



Loan Book Evolution (Gross)
(€bn)



Securities Portfolio
(€bn)



Regarding market funding, during the second quarter of 2023 the bank returned to the capital markets issuing a new €500mn Tier 2 bond, with maturity in December 2033 and 6-month par-call option starting on June 2028. The new Tier 2 bond was intended as a replacement of an existing €400mn Tier 2 issued by the Bank back in July 2018, which would start losing regulatory value from 23 July 2023 onwards, the call date. The positive market backdrop allowed novobanco upsize its Tier 2 debt to €500mn and reduce the cost, as the spread of the new bond was 150bps lower that the spread of the existing Tier 2 - a strong evidence of the bank's successful trajectory over the past years. The transaction was accretive in terms of liquidity, capital and MREL.

Additionally, during the second and third quarter of 2023 the bank redeemed €1.0bn of market funding, €700mn through the early redemption on the existing Tier 2 bond (€400mn) and the senior preferred bond due 2024 (€300mn) and €275mn which reach final maturity in September 2023. In December 2023, a senior private placement of €100mn was also extended by 2-years a 5.5%.

Finally, still in terms of market funding, novobanco continued its strategy of replacement of the TLTRO III funding lines, further increasing its repo interbank funding, which by the end of 2023 increased by €2.6bn to €5.2bn (Dec/22: €2.6bn).

Benefitting from the increase in own funds and issuance during the year, Minimum Requirement for own funds and Eligible Liabilities (MREL) as a percentage of Total Risk Exposure Amount (TREA) reached 24.7% as of 31 December 2023 (preliminary figures), above the linear progression of MREL requirements:

MREL REQUIREMENTS:
(BdP notification of June 2023; %)

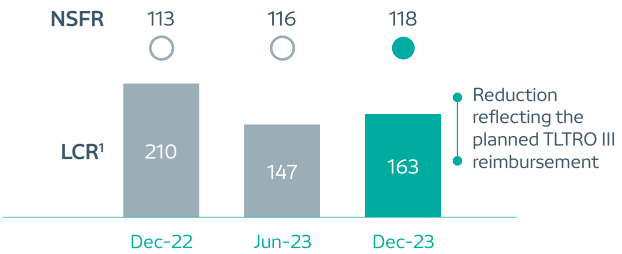
	Jan/22	Jan/26
TREA[1]	14.64%	23.47%
Combined Buffer	2.52%	n.a.[2]
O-SII (LSF Nani)	0.50%	n.a.[2]
Total	**17.66%**	**23.47% + Buffers**
LRE[3]	**5.91%**	**5.91%**

(1) TREA - Total Risk Exposure Amount; Jan-26 requirement as announced on June 2023;
(2) As of Jan-26 applicable requirement;
(3) LRE - Total Leverage Exposure.

On 31 December 2023, gross funding from the ECB amounted to €1.2bn, of which €1bn correspond to the final tranche of TLTRO III which will mature in December 2024, representing a decrease of €5.1bn YoY (Dec/2022: €6.3bn). Also as of 31 December 2023, deposits at the ECB totalled €5.4bn (Dec/22: €5.9bn; -€0.5bn YoY), while net funding from the ECB (funding taken from the ECB minus deposits with the European Central Banks) went from €0.4bn on 31 December 2022 to -€4.2nn in 31 December 2023, turning to a net lending position.

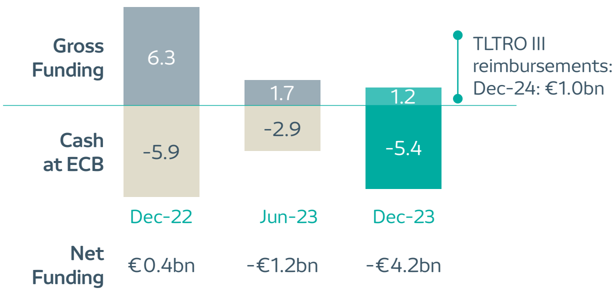
Liquidity Ratios

(%)



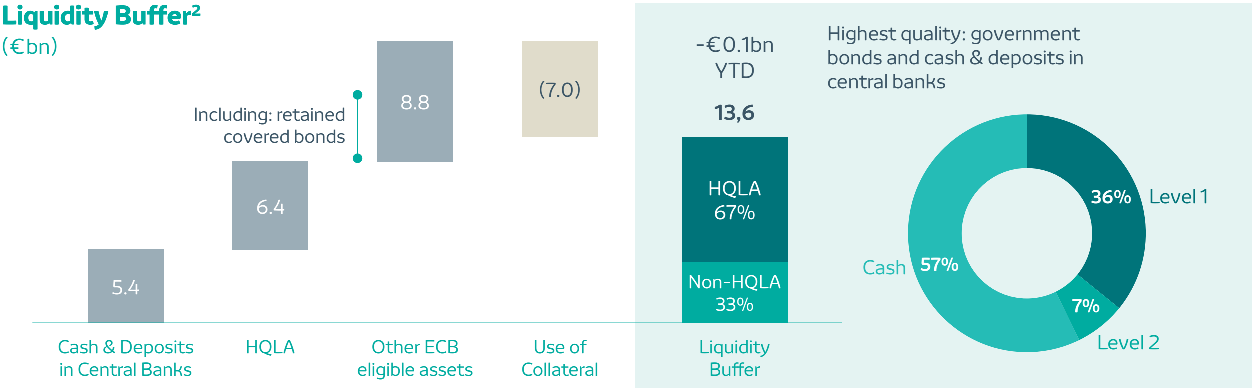
ECB Funding

(€bn)



Liquidity Buffer[2]

(€bn)



(1) LCR stands for Liquidity Coverage Ratio; NSFR stands for Net Stable Funding Ratio;
(2) HQLA ECB eligible includes ECB's valuation haircut; HQLA Non ECB eligible include regulatory valuation haircut.

On 31 December 2023, the eligible assets portfolio available for use as collateral with the European Central Bank stood at €14.2bn, a €2.7bn decrease versus 31 December 2022, mainly due to the reduction of the securities portfolio. The available amount of eligible assets for rediscount with the ECB totalled €7.3bn (net of haircuts), an increase of €0.3bn YoY. In addition to the abovementioned, novobanco has HQLA assets non-eligible with the ECB and deposits at ECB, which makes up to a total liquidity buffer of €13.6bn, mostly composed of high-quality liquid assets.

As a result, in December 2023, novobanco maintained (i) the liquidity ratios above the regulatory levels, with LCR standing at 163% (Dec/22: 210%), and the NSFR at 118% (Dec/22: 113%).

5 CORPORATE GOVERNANCE

5.1 Shareholder Structure

5.1.1 Qualified holdings in novobanco's share capital

The share capital of Novo Banco SA is €6,567,843,862.91 (six billions, five hundred and sixty-seven million, eight hundred and forty-three thousand, eight hundred and sixty-two euros and ninety-one cents) divided into 11,130,841,957 (eleven billion, one hundred and thirty million, eight hundred and forty-one thousand, nine hundred and fifty-six) nominative and dematerialised shares with no nominal value, fully subscribed and paid up.

Qualified holdings in Novo Banco SA's share capital as at the date of this report:

Shareholder	Number of shares	% of share capital
Nani Holdings S.à.r.l [4]	8 348 131 468	75.00%
Resolution Fund	1 451 868 529	13.04%
Directorate General for the Treasury and Finance	1 330 841 960	11.96%

(4) On 19 December 2023, Nani Holdings S.G.P.S., S.A. changed its registered office to the Grand Duchy of Luxembourg as well as its legal form to a Luxembourg limited liability company (société à responsabilité limitée).

5.1.2 Equity holders with special rights

There are no shareholders with special rights.

5.1.3 Restrictions on voting rights

Pursuant to Decision SA.49275 (2017/N) of the European Commission taken in the context of approving the sale of a 75% shareholding in Novo Banco SA under European Union rules on state aid, the shareholder Resolution Fund must refrain from exercising its non-economic rights, such as the right to vote.

5.2 Corporate Bodies: Composition and Functioning

5.2.1 Composition and functioning of the management and supervisory bodies and changes in the Company's Articles of Association

Under the terms of the Company's Articles of Association, the corporate and statutory bodies of novobanco are the General Shareholders Meeting, the General and Supervisory Board (GSB), the Executive Board of Directors (EBD), the Monitoring Committee, the Statutory Auditor, and the Company Secretary. The members of the corporate bodies are elected for four-year term of office, and they may be re-elected once or more than once.

Also, in accordance with the Articles of Association, the members of the Board of the General Meeting, the General and Supervisory Board, and the Monitoring Committee are elected by the General Shareholders Meeting. The General Shareholders Meeting also has the powers to appoint and replace the bank's Statutory Auditor, acting upon a proposal of the General and Supervisory Board, based on a proposal of the Financial Affairs (Audit) Committee. The members of the Executive Board of Directors are appointed by the General and Supervisory Board. The Company Secretary and the Alternate Secretary are appointed by the Executive Board of Directors, upon consultation with the General and Supervisory Board.

5.2.2 Amendments to the Articles of Association

Changes to Novo Banco SA's Articles of Association are the responsibility of the General Shareholders Meeting.

In March 2023, Article 4 (Share Capital and Shares) of Novo Banco SA's Articles of Association was amended as follows:

"The share capital of Novo Banco SA is €6,567,843,862.91 (six billion, five hundred and sixty-seven million, eight hundred and forty-three thousand, eight hundred and sixty-two euros and ninety-one cents) divided into 11,130,841,957 (eleven billion, one hundred and thirty million, eight hundred and forty-one thousand, nine hundred and fifty-six) nominative and dematerialised shares with no nominal value, fully subscribed and paid up"

5.2.3 General and Supervisory Board[5] (CGS)

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

In October 2020, the General Shareholders Meeting of novobanco appointed the General and Supervisory Board for the 2021-2024 four-year period, which, by reference to the date of this Report, is composed of 10 (ten) members, 7 (seven) of whom are independent.

Chairman (C)	Vice-Chairman	Member	Name	M/F	Independent	Date of 1st mandate	End of current mandate
•			Byron James Macbean Haynes	M	•	18-10-2017	31-12-2024
	•		Karl-Gerhard Eick	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
		•	John Ryan Herbert	M	•	18-10-2017	31-12-2024
		•	Robert Alan Sherman	M	•	18-10-2017	31-12-2024
		•	Carla Antunes da Silva	F	•	06-06-2018	31-12-2024
		•	William Henry Newton	M	•	29-04-2021	31-12-2024
		•	Monika Wildner	F	•	21-06-2023	31-12-2024
		•	Evgeniy Kazarez	M		07-11-2023	31-12-2024

The General and Supervisory Board meets monthly, or whenever necessary, and has the functions entrusted by law, the Bank's Articles of Association and its internal regulation, including the ultimate and overall responsibility for supervising the bank and implementing governance systems that ensure effective and prudent management, supervising all matters relating to risk management, compliance and internal audit. Its main function is to regularly advise and supervise the Executive Board of Directors in the management of the bank and the companies of the novobanco Group, particularly regarding compliance with regulatory requirements relating to banking activity.

Additionally, the General and Supervisory Board has specific powers to elect the members of the Executive Board of Directors and responsibilities for approving certain matters established in the Articles of Association, namely with regard to the approval of (i) credit, risk and accounting policies, (ii) business plan, budget and activity plan, (iii) change of registered address, and closure or changes to representation structures abroad, (iv) capital expenditure, debt or refinancing, disposals or acquisitions, creation of liens or granting of loans above certain limits and within certain conditions, (v) practice or omission of any material act related with the Contingent Capital Agreement; and (vi) hiring of employees with annual remuneration above certain thresholds.

The Chairman of the General and Supervisory Board and the Chief Executive Officer maintain regular dialogue and communication between them.

In its activity, the GSB is directly supported by 5 (five) Committees: Financial Affairs (Audit) Committee, Risk Committee, Compliance Committee, Nomination Committee, and Remuneration Committee, which have their own legally established powers and responsibilities and others delegated by the General and Supervisory Board.

These Committees are composed of at least 3 (three) members of the GSB, the majority of whom must be independent, including its Chairman. The members of the Executive Board of Directors that are responsible for the areas covered by the activities of these Committees can participate in their meetings.

(5) Changes occurred during 2023:
- Upon conclusion of the Fit & Proper process by the competent regulatory authorities, Monika Wildner joined the GSB as an independent member on 21 June 2023.
- On 24 February 2023, Benjamin Friedrich Dickgiesser presented his resignation as a member of the GSB and, on 1 October 2023, took up the role of CFO and member of the Executive Board of Directors.
- Evgeniy Kazarez joined the GSB as a non-independent member on 7 November 2023 following the authorisation obtained from the competent regulatory authorities under the Fit & Proper process.
- Donald John Quintin presented his resignation as a member of the GSB on 14 December 2023.
- On 22 December 2023, the Fit & Proper process was submitted for a new independent member to join the GSB for the current term of office, being the performance of functions subject to authorisation from the competent regulatory authorities and approval by novobanco's General Shareholders Meeting

The committees work in close collaboration with each other and coordinate their activities, maintaining a fluid and ongoing dialogue with the GSB, to which they report on their activity and decisions taken.

As at 31 December 2023 the Committees of the GSB had the following composition:

Chairman (C)	Vice-Chairman	Member	Name	Independent	GSB Committees: Financial Affairs	Risk	Compliance	Nomination	Remuneration
•			Byron James Macbean Haynes	•	•	•			C
	•		Karl-Gerhard Eick	•	C	•			•
		•	Kambiz Nourbakhsh		•	•			
		•	Mark Andrew Coker				•	•	
		•	John Ryan Herbert	•			•	C	
		•	Robert Alan Sherman	•			C	•	
		•	Carla Antunes da Silva	•				•	
		•	William Henry Newton	•		C			
		•	Monika Wildner*	•			•		
		•	Evgeniy Kazarez**			•			•

* Member since 21 June 2023;
** Member since 7 November 2023.

In general terms, and among others that may be delegated to them by the GSB, the Committees have the following powers and responsibilities:

Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee advises and supports the GSB in the fulfilment of its responsibilities with regard to overseeing the effectiveness of the bank's internal control, risk management and internal audit systems, monitoring and supervising the financial performance of the bank and other financial entities included in the prudential consolidation perimeter, the accounting policies and reporting processes, and monitoring the statutory auditor's activity. In particular, it has the powers and duties set out in Article 441(1) (f) to (o) by virtue of Article 444(2) of the Portuguese Companies Code.

Risk Committee

The Risk Committee advises and supports the GSB in monitoring the bank's current and future global risk appetite and risk strategy, supervising the implementation by the bank's senior management of the risk prevention model, as well as the effectiveness of the internal control system and risk management system of the bank and the financial companies included its prudential consolidation perimeter.

The Committee also has the powers and duties laid down by law, the applicable regulations and its internal regulation, which include, among others, supervising the implementation of capital and liquidity management strategies, assessing and approving materially relevant lending operations, and monitoring compliance with credit and risk policies.

Compliance Committee

The Compliance Committee advises and supports the GSB, including with regard to the bank's financial subsidiaries, in monitoring the bank's compliance and anti-money laundering and terrorist financing matters, including, but not limited to, compliance by the bank (including its employees and corporate bodies) with legal and regulatory requirements as well as its relevant policies and processes related to those matters, and its policies on business conduct and ethics, conflicts of interest, related-party transactions, market abuse, anti-bribery and anti-corruption, as well as in monitoring compliance risk.

Nomination Committee

The Nomination Committee supports the GSB in overseeing the Executive Board of Directors in its role of ensuring that appointment policies are consistent and well-integrated in the bank and its financial subsidiaries, namely by identifying and recommending candidates to fill positions on the GSB and Executive Board of Directors and key function holder positions, setting objectives for the promotion of the under-represented gender as well as ensuring the means to achieve them, drawing up and monitoring succession plans, reviewing the selection and evaluation policy for members of the Management and Supervisory Bodies and Key Function Holders and monitoring its application, annually assessing the knowledge, skills and experience of each member of the GSB and Executive Board of Directors, among other duties assigned to it under the terms of the law, applicable regulations and its internal regulation.

Remuneration Committee

The Remuneration Committee advises and supports the GSB in defining and establishing appropriate, consistent and well-integrated remuneration structures for the bank, including its financial subsidiaries, in monitoring and implementing remuneration policies, and in defining variable remuneration on the basis of established criteria, taking into account the long-term interests of shareholders, investors and relevant stakeholders.

The company documents and main regulations can be accessed at www.novobanco.pt > novobanco Group >> About novobanco > Governance > Company Documents: https://www.novobanco.pt/english/about-novobanco/governance/company-documents

5.2.4 Executive Board of Directors (EBD)

The Executive Board of Directors (EBD) is the corporate body responsible for managing the bank. Under the terms of the law and the Articles of Association, and respecting the powers of the other corporate bodies, it is responsible for defining the bank's and the Group's general policies and strategic objectives, in compliance with banking standards and good practices. The EBD meets whenever necessary and at least once a week.

The EBD has no powers to resolve on capital increases, or on the issuance of securities convertible into shares or securities granting subscription rights, such decisions being the exclusive responsibility of the General Shareholders Meeting and requiring the prior opinion of the GSB.

The members of the EBD are appointed by the General and Supervisory Board, which is also responsible for appointing the Chief Executive Officer (CEO). As to the composition of the EBD, at the date of this report, its members for the 2022-2025 mandate are the following:

- Mark George Bourke
  Chief Executive Officer ("CEO")[6]
- Benjamin Friedrich Dickgiesser
  Chief Financial Officer ("CFO")
- Luís Miguel Alves Ribeiro
  Chief Commercial Officer (Retail) ("CCOR")
- Andrés Baltar Garcia
  Chief Commercial Officer (Corporate) ("CCOC")
- Luísa Marta Santos Soares da Silva Amaro de Matos
  Chief Legal, Compliance & Sustainability Officer ("CLCSO")
- Carlos Jorge Ferreira Brandão
  Chief Risk Officer ("CRO")
- Rui Miguel Dias Ribeiro Fontes
  Chief Credit Officer ("CCO")

During 2023, the composition of novobanco's Board of Directors changed, with Benjamin Friedrich Dickgiesser taking up office as Chief Financial Officer ("CFO") of novobanco from 1 October 2023.

Committees of the Executive Board of Directors

Under the terms of its internal regulation, the EBD may approve the establishment of Committees to oversee certain specific matters of the bank's activity, define and approve their powers and duties, appoint their members, and establish their rules of procedure.

In this context, the EBD has established Committees to deal with specific matters or areas of activity, with powers delegated by the EBD to take decisions in accordance with the defined rules, and Sub-Committees established under the Committees, with powers delegated by the respective Committee, with participants who may or may not be different from those of the respective Committees, without prejudice to other internal discussion forums of an advisory and/or monitoring nature on specific topics.

As at 31 December 2023 the Committees of the EBD had the following composition:

(6) Mark Bourke acted as interim CFO from 30 December 2023 until 1 October 2023, in addition to his position as CEO.

COMMITTEE	MAIN RESPONSIBILITIES	COMPOSITION
Capital, Assets and Liabilities Committee	Responsible for the definition of balance sheet management policies (capital, pricing, interest rate, liquidity) and for monitoring their impact at novobanco Group level. The Committee also monitors crisis indicators (early warning indicators) with regard to the Recovery Plan, as well as liquidity, proposing mitigation measures, and if necessary, triggering the recovery plan and/or the liquidity contingency plan.	CHAIRMAN **Benjamin Friedrich Dickgiesser (CFO)** MEMBERS: Mark Bourke (CEO), Rui Fontes (CCO), Carlos Brandão (CRO), Andrés Baltar (CCOC), Luís Ribeiro (CCOR)
Risk Committee	Responsible for issuing an opinion on, approving, under delegation of powers from the Executive Board of Directors, and monitoring novobanco Group's policies and risk levels. In this context, it is responsible for monitoring the evolution of novobanco Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to assess all types of risk, namely credit, market, liquidity, IRRBB, non-financial, and ESG.	CHAIRMAN **Carlos Manuel Ferreira Brandão (CRO)** MEMBERS: Mark Bourke (CEO), Benjamin Dickgiesser (CFO), Rui Fontes (CCO), Andrés Baltar (CCOC), Luís Ribeiro (CCOR), Luísa Soares da Silva (CLCSO)
Credit Committee	Responsible for deciding the main credit operations in which the novobanco Group participates, based on the risk policies defined by and implemented in novobanco Group.	CHAIRMAN **Rui Miguel Dias Ribeiro Fontes (CCO)** MEMBERS: Carlos Brandão (CRO), Andrés Baltar (CCOC)
Internal Control System Committee	The Committee monitors all issues related to novobanco Group's Internal Control System, without prejudice to the responsibilities attributed in this regard to the EBD, Risk Committee, Operational Risk Subcommittee and Compliance and Product Committee. This committee is responsible, among others, for the overall monitoring of internal control deficiencies, analysing the control environment quality indicators and proposing improvements, and monitoring Quality Assurance activities.	CHAIRMAN **Carlos Manuel Ferreira Brandão (CRO)** MEMBERS: Mark Bourke (CEO), Benjamin Dickgiesser (CFO), Luísa Soares da Silva (CLCSO)
Compliance and Product Committee	Responsible for the approval, from a compliance perspective, of products and services to be produced and/or distributed by the Bank, issuing an opinion on all of them as part of the product "sign-off" process, as well as monitoring issues relating to compliance control, regulatory control and the promotion of the fulfilment of legal obligations, among others.	CHAIRWOMAN **Luísa Soares da Silva (CLCSO)** MEMBERS: Mark Bourke (CEO), Carlos Brandão (CRO), Andrés Baltar (CCOC), Luís Ribeiro (CCOR)
Transformation Committee	The Transformation Committee is responsible for developing novobanco' strategic objectives for digital transformation, efficiency and simplification of operations.	CHAIRMAN **Mark George Bourke (CEO)** MEMBERS: Benjamin Dickgiesser (CFO), Carlos Brandão (CRO), Andrés Baltar (CCOC), Luís Ribeiro (CCOR), Rui Fontes (CCO), Luísa Soares da Silva (CLCSO)
Investment and Costs Committee	Responsible for approving the execution of expenses, within the limits of the powers conferred upon it. Its objectives include the definition of an annual expenditure plan and the revision of the acquisitions strategy.	CHAIRMAN **Benjamin Friedrich Dickgiesser (CFO)**
Extended Impairment Committee	Responsible for defining the amount of impairment to be allocated to each Client taking into account novobanco's exposure to the client or group of clients.	CHAIRMAN **Carlos Manuel Ferreira Brandão (CRO)** MEMBERS: Benjamin Dickgiesser (CFO), Rui Fontes (CCO), Andrés Baltar (CCOC)

The EBD has also established three (3) Sub-Committees – the Non-Performing Assets (NPA) Sub-committee, the Model Risk Extended Sub-committee and the Operational Risk Sub-committee – and various Steering Committees, such as for the areas of Retail, Corporate, Human Capital, IT and Data, Investment and Activity Monitoring, and Sustainability (ESG).

Novobanco did not set up an autonomous risk committee in matters of corporate governance, being this matter monitored directly by the GSB and the EBD, within the scope of their respective responsibilities, and with support from the relevant departments.

5.2.5 Monitoring Committee

The Monitoring Committee is a statutory advisory body ruled by the Articles of Association and arising from the Contingent Capital Agreement (CCA). It is composed of three members elected by the General Shareholders Meeting, one of whom acts as Chairman. The composition of the Monitoring Committee must respect the following criteria: one of its members must be independent from the parties to the CCA, and another shall be a registered charter accountant. Two of its members are appointed by the Resolution Fund.

The Committee has as main responsibilities to discuss and issue (non-binding) opinions on any matters concerning the CCA upon which it is requested to issue an opinion. The members of the Monitoring Committee are entitled to attend as observers and speak (but note vote) at the meetings of the GSB.

5.2.6 Statutory Auditor

The Statutory Auditor and Alternate Statutory Auditor are elected and removed by the General Shareholders Meeting, under a proposal of the GSB, on a proposal from the Financial Affairs (Audit) Committee, and they have the powers and responsibilities provided for in the law.

5.3 Control Manuals

DEFINITION AND OBJECTIVES

Internal Control is integral to the running of the organisation, combining strategies, policies, processes, systems and procedures to ensure the medium- and long-term sustainability of the institution and the prudent exercise of its activity.

An efficient and effective internal control system is key for the organisation to ensure:

- the fulfilment of the objectives set out in strategic planning, through the efficient execution of operations, the efficient use of the institution's resources and the safeguarding of its assets;
- the proper identification, assessment, monitoring and control of the risks to which the institution is or may come to be exposed;
- the existence of comprehensive, relevant, reliable, and timely financial and non-financial information;
- the adoption of solid accounting principles;
- compliance with the legislation, regulations and guidelines applicable to the institution's activity, issued by the competent authorities, with the institution's own internal regulations, and with professional and ethical standards and practices and with rules on conduct and relationship with clients.

Internal Control is a responsibility of all the members of the Institution's management and supervisory bodies and employees, who perform their duties in accordance with internal policies and standards of ethics, integrity and professionalism, and with the responsibilities assigned to the structural units and all business areas, outsourced activities and product distribution channels. Each employee has a role to play as well as duties and responsibilities, which contribute to ensure the efficiency and effectiveness of Internal Control.

The EBD has ultimate and overall responsibility for the institution, and defines, supervises and is accountable for the implementation of an adequate Internal Control System with a clear organisational structure and independent risk management, compliance and audit functions.

For its part, the GSB is responsible, among other duties listed in the bank's Articles of Association, for ensuring that the EBD establishes and maintains adequate, independent and effective internal control, in compliance with the law, regulations and internal policies.

novobanco Group's Internal Control System is consistently implemented across all the financial entities of the Group over which it exercises management control, without prejudice to additional requirements of host territories and specificities of the functions involved in the System.

GENERAL PRINCIPLES

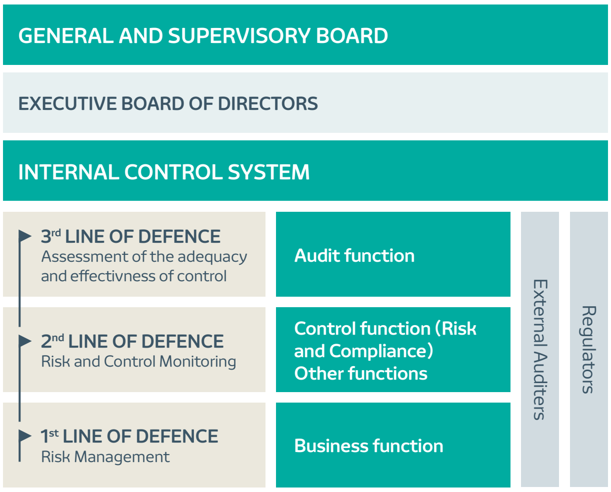
In order to effectively achieve the defined objectives, novobanco Group's Internal Control System (ICS) is based on the following principles:

- An appropriate control environment that reflects the importance attached by NBG to the Internal Control System, whose organisation is supported by a three lines of defence model that defines the levels of responsibility in terms of governance and risk management for the different functions that make up each line, including permanent, independent and effective internal control functions; a robust risk management system designed to identify, assess, monitor and control all risks that may affect the strategy, risk appetite and objectives of the novobanco Group (as detailed in section 4.3 - Risk Management);
- Efficient information and communication system that ensures the timely collection, processing and exchange of relevant, reliable, complete, comprehensive and consistent information to enable effective and timely management and control of the activity and the inherent risks;
- Effective monitoring process, implemented to ensure the adequacy and effectiveness of the Internal Control System over time, ensuring in particular the timely identification of any deficiencies and opportunities for improvement allowing to strengthen the ICS, and triggering corrective action.

Under novobanco Group's Internal Control System, policies, processes, procedures, systems and controls are formalised in internal standards, process catalogues, internal control manuals, presentations supporting the main committees involved in the management of risk, information and communication, control function reports, and the Annual Self-Assessment Report itself.

3 LINES OF DEFENCE MODEL

The Internal Control System is supported by the 3 lines of defence model, which clearly defines the levels of intervention and responsibility in risk management and control implementation to ensure the overall adequacy and effectiveness of internal control across the organisation.



The 1st **line of defence** is held by the organisational units that assume and manage the risk of their activities, of the IT processes and systems they sponsor, and of the outsourced activities under their responsibility, on a daily basis and within pre-established limits set by the EBD.

These units are responsible for the identification, assessment and control of risks in the activities under their responsibility, on an ongoing basis. It is up to them to protect the institution against taking risks that are not duly mitigated. Maintaining effective internal controls and conducting established control procedures is also their responsibility.

The mission of the 2nd **line of defence** is to keep the bank within its risk limits by controlling, measuring and monitoring risks and reporting any deviations from the applicable risk policies. This line of defence comprises the "Risk Management" and "Compliance" Control Functions, the first performed by the Global Risk Department and the latter by the Compliance Department, complemented by activities carried out by other departments of the bank (e.g. Accounting, Consolidation and Taxation Department, Internal Control and Data Protection Department, Chief Information Security Officer).

The 2nd line of defence defines risk management and control policies, methodologies and tools, monitors the effectiveness of the 1st Line, controls legal and regulatory compliance, and reports to the bank's management and supervisory bodies as well as to the relevant external authorities, where applicable.

The **3rd line of defence** is held by the Internal Audit Department, and its mission is to make an independent and risk-based assessment of the adequacy and effectiveness of the entity's organisational culture and its governance and internal control systems.

To ensure its necessary independence, the internal audit function:

- reports functionally to the Financial Affairs (Audit) Committee of the GSB and administratively (i.e., daily operations) to the Chief Executive Officer (CEO);
- performs its activity in accordance with a pre-established plan and a risk-based approach. This plan is approved by the Financial Affairs (Audit) Committee and notified to the GSB;
- cannot have any kind of responsibility or authority over the design, implementation and execution of the control procedures which it audits.

The EBD may request information and opinions from the internal audit function, namely in matters of risk, internal control and compliance.

Additionally, and as **external intervenient** in the defence of the Internal Control System (4th line of defence):

- the Statutory Auditor acts as an additional line of defence, given its duties, which are essentially to supervise the accounts, including the internal control report;
- the Supervision Authorities (European Central Bank and Bank of Portugal) act as the last line of defence, monitoring and promoting compliance with prudential rules at financial level and at the level of people, incentives schemes, governance structures, systems and processes. The intervention of the supervision authorities does not exempt the institution from its responsibility of ensuring sound and prudent management and compliance with the prudential rules.

This line of defence external to the bank promotes a strong risk culture as well as a more efficient risk management within the parameters institutionally defined for the purpose. In this context, these entities contribute in the following manner: (i) they provide guidelines/recommendations and supervise the governance of the bank, namely through detailed assessments and regular interaction with the EBD and senior management; (ii) they request improvements and remediation measures, when and if necessary.

CONTROL FUNCTIONS INDEPENDENCE

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

- Internal authority: the control functions are established at an appropriate hierarchical level and report hierarchically to the EBD and functionally to the GSB and respective committees, regularly participating in the meetings of these bodies;
- Head of function: the person responsible for the control function does not carry out activities in business or support areas that are subject to control;
- Human Resources: the employees allocated to these functions only perform control functions and are independent from the negotiation and support units that they supervise and control. However, they are not isolated from them, and are familiar with their activity. The control functions have an adequate number of qualified staff (both in the bank and in its branches and subsidiaries);
- Remuneration: the remuneration of employees in control functions is not linked to the results of the activities they supervise and control, nor does it otherwise compromise their objectivity;
- Technical resources and organisation: the functions have adequate technical resources at their disposal and are organisationally independent from each other;
- Scope: the bank's supervisory functions supervise and liaise with the supervisory functions of its branches and subsidiaries.

5.4 Main policies

For novobanco Group, the legal framework that regulates its activities is decisive for its actions, but so is the assumption of a framework of values, principles and good practices that steer its actions and define the standards that shape the manner in which the Group does business and carries out its activities. For this reason, the existence and application of the Code of Conduct, the Conflicts of Interest Policy, the Whistleblowing Policy and the Anti-Bribery and Corruption Policy are of particular importance throughout the novobanco Group.

Additionally, but no less important, the scrutiny and transparency requirements of the Related-Party Transactions Policy, the strict application of the Law and Policies on the Prevention, Detection and Combat of Financial Crime, the care and transparency towards clients and investors derived from the Investor Protection and Market Transparency Policies, and the sound and prudent management ensured by the Remuneration Policies for the Management and Supervisory Bodies and for the Employees, altogether provide evidence of the importance that novobanco attaches to a culture of compliance.

The novobanco Group's commitment focuses on the prevention, detection, reporting and management of situations involving risks of conduct or irregular conduct, based on principles of integrity, honesty, diligence, competence, transparency and fairness.

Code of Conduct

novobanco Group's Code of Conduct, which entered into force in 2015, applies to the members of the GSB and EBD, to the employees of novobanco and to the novobanco Group entities, and also to all third parties which have signed up to the Code at the bank's request. The Code of Conduct promotes a set of rules and good practices to be observed by employees in their relationship with clients and with the bank itself and aims to make everyone aware of the ethical and professional principles and standards that should guide their actions and the need and importance to follow them, respecting the interests of shareholders, employees and customers.

The Code of Conduct is available at novobanco's website, in Portuguese and English, at novobanco> About novobanco > Governance > Compliance https://www.novobanco.pt/english/about-novobanco/governance/compliance

The Compliance Department, in coordination with the Human Resources Department, is responsible for monitoring the application of the Code of Conduct at novobanco and clarifying its content and application to employees.

In 2023, the Group sanctioned 7 (seven) employees for failure to comply with internal rules in the performance of their duties, namely: 2 (two) dismissals without any indemnity or compensation; 1 (one) sanction of days' suspension without pay and loss of seniority; and 4 (four) written reprimands.

Conflicts of Interest Policy

The Conflicts of Interest Policy establishes the rules for identifying, managing and monitoring potential conflicts of interest in the various activities of novobanco and the novobanco Group, as well as its corporate bodies and employees and, to the extent possible, its suppliers and subcontractors. It ensures compliance with the applicable legal and regulatory provisions, and seeks to ensure that the Group, the bank and its agents identify, assess and, where appropriate, mitigate, or at least abstain from, any potential conflict of interest situation.

The Conflicts of Interest Policy is available at novobanco's website, in Portuguese and English, at novobanco> About novobanco > Governance > Compliance > Related-Party Transactions Policy. https://www.novobanco.pt/english/about-novobanco/governance/compliance

Related-Party Transactions Policy

novobanco's Related-Party Transactions Policy sets down rules aimed at identifying transactions concluded between novobanco and its Related Parties and at ensuring that the bank complies with the applicable legal provisions and regulations, namely Bank of Portugal's Notice no. 3/2020, the European Banking Authority (EBA) Guidelines, and Articles 85 and 109 of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF").

In this context, the control system implemented identifies the parties involved in transactions contracted with the bank, in strict compliance with the applicable legislation. The process of identification, analysis and validation is described in the internal regulations. Certain assessments and approvals are mandatory prior to the conclusion of transactions (loan granting, placement or subscription of securities, real estate operations, acquisition or disposal of equity holdings or other contractual relationships). Specifically, proposals for related-party transactions must be submitted for analysis and opinion to the Global Risk Department and the Compliance Department and to the opinion of the Compliance Committee of the GSB, for subsequent approval by the EBD and subsequent ratification by the GSB (or in accordance with the rules of the GSB).

The Related-Party Transactions Policy is available at novobanco's website, in Portuguese and English, at novobanco > About novobanco > Governance > Compliance.
https://www.novobanco.pt/english/about-novobanco/governance/compliance

During 2023, 16 (sixteen) credit transactions, provision of services and other contracts with related parties were approved, in which the credit transactions, including extensions and renewals of limits, with persons and entities that were related parties of novobanco on 31 December 2023, totalled €470.2 million.

Article 85 of the RGICSF states that credit institutions may not grant credit in any form or by any means, including the provision of guarantees, to members of their management or supervisory bodies, to members of their families, or to companies or other legal entities directly or indirectly controlled by them. However, Article 85(8) allows credit to be granted to companies or other legal entities, other than those referred to in paragraph 1, of which they are managers or in which they hold qualifying holdings. In this context, the Compliance Department issued favourable opinions on 4 credit transactions under Article 85(8) of the RGICSF, which subsequently received the favourable opinion and consent of the Compliance Committee of the GSB, the approval of the Executive Board of Directors, and finally, ratification by the GSB.

In addition, under Article 109 of the RGICSF, lending to qualifying shareholders, or entities directly or indirectly controlled or in a group relationship with them is allowed, subject to certain limits. During 2023 novobanco did not conclude any credit transactions with qualifying shareholders under this legal provision.

Whistleblowing Policy

novobanco remains firmly committed to promoting a culture of compliance, which includes the communication and reporting of improper conduct and behaviour that violates the law, regulations, good practices and the bank's internal policies.

The Whistleblowing Policy regulates, through specific, independent and autonomous means, the reporting of irregularities by the bank's employees, service providers or any third parties, and aims to preserve the bank's reputation, effectively protect its assets and those of its clients, and prevent or detect early irregularities at an early stage.

This Policy also aims to ensure compliance with the provisions of the RGICSF, Bank of Portugal Notice No. 3/2020, the Portuguese Securities Code, Law No. 83/2017 of 18 August establishing measures to combat money laundering and terrorist financing (the "LBCFT"), and Law no. 93/2021 of 20 December establishing the general regime for the protection of whistleblowers, in its current version.

Whistleblowing communications are submitted through the following channels:

- Reports of irregularities from employees and members of the corporate bodies are submitted through the "*Somos novobanco*" intranet platform.
- Other reports of irregularities will be submitted through the following channels, at the choice of the whistleblower:
  a. Letter addressed to the Compliance Officer at Avenida da Liberdade, 195, 10th floor, 1250-142 Lisbon;
  b. Form available at www.novobanco.pt;
  c. E-mail to: irregularidades@novobanco.pt;
  d. Orally, in a meeting scheduled through the above channels.

The whistleblower who makes his/her report in written form may freely chose to do it anonymously, or else to sign it / identify him/herself, in which case he/she may request that his/her anonymity be maintained.

The Compliance Department is the structural unit that, in coordination with the Compliance Committee of the GSB, is responsible for monitoring the implementation of this Policy and for ensuring that the procedure for analysing and handling whistleblowing reports is properly implemented and that the measures deemed appropriate are effectively adopted.

In 2023, 10 (ten) reports of irregularities were received, of which 7 (seven) had been analysed by 31 December 2023 and 2 (two) were found to be substantiated.

The Whistleblowing Policy is available at novobanco's website, in Portuguese and English, at novobanco > About novobanco > Governance > Compliance > whistleblowing Policy.
https://www.novobanco.pt/english/about-novobanco/governance/compliance

Bribery and corruption Policy

Bribery and corruption are among the greatest challenges facing modern societies, and preventing, detecting and combating them requires the combined efforts of all sectors of society, including the banking sector, which has an important role to play in promoting a culture of public integrity. Preventing, detecting and combating bribery and corruption has become everyone's responsibility, requiring the development of a new set of preventive duties and methodologies across organisations and public and private entities. The Anti-Bribery and Corruption Policy, approved by the Compliance Committee of the GSB and the EBD, aims to prevent and mitigate the risk of bribery and corruption and related practices, reaffirming novobanco's commitment to building a more integrity-driven society.

In 2023, and to ensure the exercise of its activity in accordance with legal frameworks, always with the underlying goal of combating corruption, the novobanco Group made approximately 570 communications to judicial entities, also collaborating with over 1.3 thousand responses to these entities.

The Anti-Bribery and Anti-Corruption Policy is available at novobanco's website, in Portuguese and English, at About novobanco > Governance > Compliance > Anti-bribery and Anti-corruption Policy.
https://www.novobanco.pt/english/about-novobanco/governance/compliance

Policy on the Prevention of Money Laundering and Terrorism Financing

A bank's ability to prevent, detect and combat activities that may constitute money laundering derives directly from its knowledge of its counterparties and their transactions.

The novobanco Group, through its Compliance Department, has a line of action that creates the conditions for the bank to prevent, detect and combat, through the implementation of appropriate policies, procedures and controls, the possibility of the bank and the novobanco Group being used as a vehicle for money laundering or terrorist financing activities, bearing in mind the significant prevalence of these risks in the financial system.

Aware of the challenge posed by this control and preventive action, the novobanco Group maintains an ongoing reassessment of the risks it incurs due to its business, operations and geographic areas of operation, endeavouring to identify weaknesses and areas of greater exposure, in order to ensure it has in place adequate methods to control and mitigate risks of money laundering or terrorist financing. The ability to prevent and, if possible, detect and combat activities capable of constituting such crimes is directly linked to the bank's knowledge about its clients, their counterparties and the transactions they engage in, particularly at the following moments:

- opening of a contract or changing the ownership of an existing contract through what is known as KYC (know your customer), i.e., verifiable identification of owners, agents and beneficial owners;
- monitoring contract transactions - KYT (Know Your Transactions), namely spotting unusual situations, either beforehand or by contacting the client after the situation was detected;
- analysis of counterparty risk in investment and divestment transactions, and of transaction and source of funds circuits, under the terms of the Law.

To that end, novobanco Group, using IT tools with recognised results at international level that complement the experience of its human capital, has created and developed assessment models that ensure that enhanced scrutiny is applied where it is most needed.

In order to comply with its regulatory obligations, novobanco Group conducts training sessions on the prevention of money laundering and terrorist financing for all its employees (commercial and central structures, including senior management and members of management and supervisory bodies). Training can be remote or face-to-face, the latter being mainly aimed at new employees, to provide them with the skills to work with the control functions to mitigate the risks associated with the performance of their duties.

In 2023, novobanco maintained its training in the prevention of money laundering and terrorist financing, providing 12,968 hours of online training (including 1,107 hours of training for senior managers).

Training is a fundamental tool for employees to correctly identify potential money laundering and terrorist financing situations, and is also critical to the proper fulfilment of the bank's legal and regulatory obligations.

The prevention of money laundering and terrorist financing is one of the foundations of trust in the financial system and will continue to deserve special and ongoing operational and strategic attention.

The bank's Policies on the Prevention of Money Laundering and Terrorist Financing are available at novobanco's website, in Portuguese and English, at About novobanco > Governance > Compliance > Policies on the Prevention of Money Laundering and Terrorist Financing.
https://www.novobanco.pt/english/about-novobanco/governance/compliance

Policy on the Investor Protection and Market Transparen

Directive on Markets in Financial Instruments no. 2014/65/EU, of 15 May 2014 ("MiFID II), and related regulations, which came into force in January 2018, aim to reinforce investor protection and increase the transparency and quality of the financial market operation and services provided, covering all persons and entities operating in the markets in financial instruments. In addition, national legislation on financial intermediation activities (in particular the Portuguese Securities Code) and insurance mediation (in particular Law 7/2019 of 16 January) provides the basic reference framework for fair and transparent action by operators in the financial markets and, as such, for the novobanco Group.

Given the international trend towards strengthening the obligations of financial intermediaries in terms of transparency, lawfulness, completeness of information, due diligence and investor protection, and to address the changes in the rules on the marketing of financial instruments, novobanco has adopted the best practices in terms of product and service governance, ensuring the prior assessment and subsequent monitoring of its offer, with the Compliance Department having broad responsibilities in this area.

In compliance with the legal framework, novobanco has approved its standards and policies arising from these regulations and discloses them in a dedicated area of its website, at novobanco > Investimento > Temas úteis > Informação ao Investidor.
https://www.novobanco.pt/particulares/investimento/informacao-investidor
The most relevant aspects of these standards and policies are summarised below:

Recording and registration of communications.
novobanco is obliged to keep recordings and registers of all communications with Clients and potential Clients regarding all services, activities and operations it carries out.

Customer classification.
novobanco classifies its customers for the purpose of transactions in financial instruments into one of three categories: non-professional, professional and eligible counterparty. These classifications have implications on the level of protection afforded to the investor. The lower the knowledge and experience of the customer about markets and financial instruments the greater the level of protection.

Assessment of suitability.
In order to ensure the suitability of the financial instruments or investment services offered by novobanco to the client's investment profile, novobanco

asks its Clients and potential Clients to complete investor profile questionnaires in order to obtain a more complete and detailed understanding of, among other things, their experience and knowledge in investment matters, their financial situation, their investment objectives (including their capacity to bear losses) and their risk tolerance. This sharing of information and knowledge permits to assess whether a given investment product or service is suitable to the specific situation of the investor client.

Safeguard of Customer Assets.
The Portuguese Securities Code stipulates that the financial intermediary must adopt procedures and take measures to ensure that, in all the transactions it carries out, as well as in the accounting and transaction records, a clear distinction is made between the assets belonging to it and those belonging to each of its clients, so that the opening of insolvency proceedings, the reorganisation of the company or the reorganisation of the financial intermediary does not affect the transactions carried out by the financial intermediary on behalf of its clients. The financial intermediary may not, in its own interest or in the interest of third parties, use its clients' financial instruments or exercise the rights attached to them without the consent of the holders. novobanco has in place procedures that ensure compliance with these rules.

Offer screening process.
novobanco has established procedures that govern the design, approval, distribution and monitoring of the products and services offered. These procedures include the screening of new offers, incentive schemes, internal campaigns and advertising of products and services, as well as the monitoring of existing offers.

Remuneration Policies for the Management and Supervisory Bodies and Staff Members

Novobanco's Remuneration Policies were drawn up in accordance with the legislation in force at the time, in particular with the Legal Framework, Notice No 3/2020 of Banco de Portugal and the EBA Guidelines 2021/04 on sound Remuneration Policies and other related legislation, reflect the guiding principles of meritocracy and transparency and take into account (i) the objectives, long-term strategy and interests, (ii) the corporate nature and structure, (iii) the corporate culture and values, (iv) the risk strategy and culture (including environmental, social and governance risk factors), (v) the long-term interests of shareholders; and (vi) the avoidance of conflicts of interest and the bank's failure to assume excessive risks.

Pursuant to and for the purposes of the Legal Framework, Notice No 3/2020 of Banco de Portugal, and in order to comply with the disclosure duties relating to the remuneration policies set out therein, the Remuneration Committee carried out an annual assessment of the implementation of the remuneration policies and remuneration practices and processes. The Remuneration Committee did not identify any deficiencies, during the period under review.

The Remuneration Committee and the relevant departments for this exercise (e.g. Human Capital, Legal Affairs, Compliance and Risk) reviewed the remuneration policies of the Management and Supervisory Bodies and of the Employees, ensuring full alignment of the established practices with the applicable regulatory requirements.

As a result of this assessment, slight adjustments were made to the Remuneration Policies, namely the elimination of the chapter on the limitations of remuneration resulting from the commitments made by the State Portuguese to the European Commission, in the context of the State aid granted (State Aid no. SA.49275 (2017 / N)) and the inclusion of the deferral rule in situations where the variable component of remuneration is particularly high.

The Regulation on Remuneration Units has also been revised to ensure consistency and alignment with the Remuneration Policies.

The Remuneration Committee understands that the Remuneration Policies are appropriate to novobanco's current situation and considers that the incentives defined for the members of the Executive Board of Directors and for the different categories of Employees, as well as the structure of these incentives, are in line with the long-term objectives of the institution and the various stakeholders.

The report prepared by the Remuneration Committee shall be submitted to the General and Supervisory Board, the General Shareholders' Meeting and the

Executive Board of Directors, which shall ensure the implementation of any measures identified.

i) Description of the Remuneration Policy of the Management and Supervisory Bodies

Competencies for Policy Approval.
The approval of the Remuneration Policy of the Management and Supervisory Bodies is the responsibility of the General Shareholders' Meeting, upon proposal of the Remuneration Committee of the General and Supervisory Board, which is also among other responsibilities responsible for:

- Prepare decisions on the remuneration to be awarded to the members of the Executive Board of Directors, as well as the definition of their KPIs;
- Define and approve the budget for the total variable remuneration of employees, based on the bank's results, both in financial terms and in terms of their sustainability;
- Verify that existing remuneration policies are up-to-date and, if necessary, propose appropriate changes;
- Assess the mechanisms and systems put in place to ensure that remuneration systems are consistent with sound and effective risk management and assess the criteria used to define remuneration and risk adjustments (Clawback or Malus).

General and Supervisory Board.
Only the independent members of the General and Supervisory Board receive remuneration from novobanco, approved by the General Shareholders' Meeting, which has only a fixed component and is paid 12 times a year.

Executive Board of Directors.
The remuneration of the Executive Board of Directors has a fixed component and a variable component. Fixed compensation is established according to the complexity, level of responsibility and skills required for the role, and is paid 14 times a year. The variable component of remuneration is discretionary and is based on an individual and collective assessment of performance, taking into account quantitative and qualitative criteria. These criteria shall be defined and evaluated by the Remuneration Committee and communicated to the members of the Executive Board of Directors in due course.

The following rules must be observed in the process of awarding variable remuneration:

- It may only be allocated if it does not jeopardise the bank's ability to maintain a sound capital base, the bank has achieved a positive operational performance and provided that the allocation (and its disbursement, including deferred instalments) is consistent with sound and effective risk management practices;
- It may not exceed 100% of the fixed annual remuneration, and the approval of a higher ratio, and up to a maximum limit of 200%, is subject to the approval of the General Shareholders' Meeting;
- It is deferred over a period of 5 years from the reference year, with 50% being paid in the year of allocation and the remaining 50% being acquired and paid on a pro rata basis in the four years following the allocation. In situations where the variable component of the remuneration exceeds one million euros, the amount to be deferred will be 60%, paid pro rata in the four years following the award;
- 50% of the variable remuneration amounts awarded will be in the form of "Remuneration Units", whose terms and conditions of attribution, acquisition and payment are defined in the Remuneration Units Regulations. The value of each Remuneration Unit is determined by the Remuneration Committee, in accordance with the bank's financial indicators, prior to the settlement of any of these deferred amounts.

Apart from any commitment agreed in the contracting process in the form of a signature bonus, no other type of variable remuneration can be guaranteed.

All amounts paid or deferred, regardless of whether they constitute acquired rights, are subject to the application of risk-based adjustment mechanisms, i.e. Clawback and/or Malus.

With regard to other benefits, such as Health Insurance or Mobile Phone, the bank's internal policies defined for this purpose apply.

ii) Description of the Remuneration Policy for Employees

Competencies for Policy Approval.
The approval of the Employee Remuneration Policy is the responsibility of the Executive Board of Directors, on a proposal from the Remuneration Committee.

Identified Collaborators

Selection of Identified Collaborators.
The bank's Employee Remuneration Policy foresees the regime applicable to employees who have or may have a significant impact on novobanco's risk profile, and are classified as Identified Employees, in accordance with the provisions of the Policy.

The list of Identified Employees is reviewed annually and reported at the same frequency to Banco de Portugal, pursuant to Instruction No 18/2020 of Banco de Portugal.

Compensation Components.
Fixed remuneration should reflect the competence, experience and responsibility inherent in the role performed, and should not be dependent on performance. The allocation of variable remuneration to the Identified Employees, as well as its amount, depends on the decision of the Remuneration Committee and the Executive Board of Directors. If there is a variable remuneration, it is calculated according to an individual and collective performance evaluation, and must consider the following principles:

Performance should be evaluated considering quantitative and qualitative criteria and through financial and non-financial variables:

- The period of performance evaluation and attribution of variable remuneration must be multi-year, which implies that a substantial part of the amount awarded is deferred to take into account economic cycles, risk management and promote the retention of Identified Employees;
- The variable remuneration must be deferred over a period of 5 years, assuming a payment of 60% in the year of the assignment, with the remaining 40% acquired and paid on a pro rata basis in the four years following the assignment;
- The variable remuneration of the Identified Employees may be excluded from deferral if the amount of the variable remuneration to be awarded is less than €50,000 and represents less than one third of the employee's total annual remuneration;
- The amount of the variable remuneration may not exceed 100% of the fixed annual remuneration, and the approval of a higher ratio, and up to a limit of 200%, is subject to the approval of the General Shareholders' Meeting;
- 50% of the Variable Remuneration assigned will be in the form of "Remuneration Units", whose terms and conditions of attribution, acquisition and payment are defined in the Remuneration Units Regulations. The value of each Remuneration Unit is determined by the Remuneration Committee, in accordance with the bank's financial indicators, prior to the settlement of any deferred amount;
- Retention Plans for Identified Employees may be defined, which may result in a variable remuneration exceeding 100% of the fixed annual remuneration, subject to the approval of the General Shareholders' Meeting and the conditions contained in the respective regulations;
- Apart from any commitments agreed in the hiring process in the form of a signature bonus or retention bonus under a retention program, no other form of variable remuneration is guaranteed;
- All amounts of variable remuneration paid or deferred, regardless of whether they constitute vested rights, are subject to the risk, Clawback and/or Malus adjustment mechanisms, as described in the Remuneration Policy.

iii) Disclosure of Remuneration
Refer to point 5.6 Remuneration of the Members of the Corporate Bodies and Identified Staff.

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

novobanco has a Policy for the Selection and Evaluation of Management and Supervisory Bodies and Key Function Holders ("Selection and Evaluation Policy"), thus complying with the existing legal and regulatory framework and ensuring the application of the standards required in terms of internal governance for significant financial institutions. This Selection and Evaluation Policy was approved by the Nomination Committee of the General and Supervisory Board, the General and Supervisory Board, the Executive Board of Directors and the General Shareholders' Meeting.

The Selection and Evaluation Policy aims to ensure that the holders of Administration, Supervision and Essential Functions positions (namely the holders of Risk, Audit, Compliance, Branch Directors, General Directors of branches and other directors that the bank identifies as having functions that involve the assumption of risks, currently those responsible for Treasury, Marketing and Prevention of Money Laundering) meet all the adequacy criteria, either at the time of their appointment or during their term of office or performance of duties.

This adequacy essentially translates into the ability to constantly ensure the sound and prudent management of the institution, taking into account the safeguarding of the financial system and the interests of customers, depositors, investors, creditors and other interested parties, with the following requirements being assessed: i) experience; (ii) reputation; (iii) absence of conflicts of interest and independence; iv) availability, v) collective adequacy, and (vi) adherence to the bank's ethical standards.

Policy for the Selection and Evaluation of Novo Banco' Statutory Auditor and the Contracting of Non-prohibited Non-audit services

novobanco approved in 2018 and revised in 2023 its Policy for the Selection and Evaluation of Novo Banco' Statutory Auditor and the Contracting of Non-prohibited Non-audit services, in compliance of the applicable regulations. This Policy was reviewed and approved by the GSB's Financial Affairs (Audit) Committee, the General and Supervisory Board and novobanco's General Shareholders Meeting.

The Policy applies to the selection, appointment, and assessment of novobanco's Statutory Auditor and aims to ensure that the Statutory Auditor fulfils the necessary requirements of suitability ("fit and proper"), professional experience, independence and availability, taking into account the nature, scope and complexity of novobanco and its financial subsidiaries' activity and the responsibilities inherent to the specific tasks to be performed.

To achieve its purpose, the Policy defines the assessment criteria, stipulates an obligation to monitor the Statutory Auditor's activity and establishes the internal responsibilities and the procedures that must be followed in this regard.

In addition, the policy sets out the criteria and procedures to be followed when engaging the Statutory Auditor to perform non-audit services and defines which services are permitted and which are prohibited.

The activity of novobanco' Statutory Auditor in 2022 was assessed in 2023, in accordance with this Policy.

5.5 Credit to Members of the Corporate Bodies

At 31 December 2023 the outstanding amount of loans granted to persons and entities falling under the provisions of article 85 of the RGICSF is presented below:

Name	Position	Amount (in euros)
Members of the Corporate Bodies at 31 December 2023		
Executive Board of Directors		
Luís Miguel Alves Ribeiro	Member of the Executive Board of Directors	
Closely related persons		121 669.15
Carlos Jorge Ferreira Brandão	Member of the Executive Board of Directors	72 950.71
General and Supervisory Board		
Carla Alexandra Severino Antunes da Silva	Member of the General and Supervisory Board	
Closely related persons		241 352.68
Entity where a member of the Executive Board of Directors holds a management position		
APB – Associação Portuguesa de Bancos		508.88
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.		137 721 811.85
novobanco dos AÇORES		12 294 560.00
SIBS - SGPS SA		9 375 000.00
UNICRE - Instituição Financeira de Crédito S.A.		15 000 000

The amount of credit granted to a person closely related to a member of the Executive Board of Directors refers to a mortgage loan. The amount owed by Carlos Jorge Ferreira Brandão relates to types of consumer credit contracted prior to his appointment. The amount of credit granted to persons closely related to a member of the General and Supervisory Board concerns to corporate loans. Any existing credit card balances are not considered, providing they are payable at 100% and do not exceed the gross monthly salary.

The amounts of the credit to entities in which members of the Executive Board of Directors hold a management position refer to corporate loans and bank guarantees, also including the subscription of senior (non-preferred) debt securities issued by novobanco dos Açores.

For the disclosure purposes of article 109 (7) of the RGICSF, as at 31 December 2023 there were no outstanding loans to direct or indirect holders of qualifying holdings.

5.6 Remuneration of the Members of the Corporate Bodies and Identified Staff

i) Corporate Bodies

a. Total Remuneration earned in 2023

	Fixed and Variable Remuneration earned in 2023					
	Role	Salary	Other post-Employment benefits[4]	Other Allowances[5]	Variable Remuneration 2022[6]	Total Paid
Executive Board of Directors		**2 545 147**	**35 838**	**252 500**	**810 000**	**3 643 484**
Mark Georges Bourke	CEO	600 000	-	210 000	195 000	1 005 000
Benjamin Dickgiesser[1]	Member EBD	125 147	-	42 500	-	167 647
Luis Miguel Alves Ribeiro	Member EBD	375 000	21 089	-	147 500	543 588
Andres Baltar Gracia	Member EBD	375 000	-	-	130 000	505 000
Luisa Marta Santos Soares da Silva Amaro de Matos	Member EBD	375 000	-	-	132 500	507 500
Carlos Jorge Ferreira Brandão	Member EBD	320 000	-	-	72 500	392 500
Rui Miguel Dias Ribeiro Fontes	Member EBD	375 000	14 749	-	132 500	522 249
General and Supervisory Board		**1 297 500**	**-**	**-**	**-**	**1 297 500**
Byron James Macbean Haynes	Chairman GSB	468 000	-	-	-	468 000
Karl - Gerhard Eick	Vice-Chairman GSB	328 000	-	-	-	328 000
Kambiz Nourbakhsh	Member GSB	-	-	-	-	-
Mark Andrew Coker	Member GSB	-	-	-	-	-
John Ryan Herbert	Member GSB	102 000	-	-	-	102 000
Robert Alan Sherman	Member GSB	102 000	-	-	-	102 000
Carla Alexandra Severino Antunes da Silva	Member GSB	81 000	-	-	-	81 000
Willian Henry Newton	Member GSB	176 000	-	-	-	176 000
Monika Wildner[2]	Member GSB	40 500	-	-	-	40 500
Evgeniy Kazarez[3]	Member GSB	-	-	-	-	-

(1) Member of EBD since October 2023. In addittion to the remuneration in the table above, a sign-on bonus of 150.000€ was paid.
(2) Member of GSB since July 2023. In the period from January to June, she received 40.500€ under a consultancy agreement.
(3) Member of GSB since November 2023.
(4) Annual Contribution for the Defined Contribution Scheme was reinstated in 2023. A total contribution of 66.678€ was made to the elegible EBD members regarding previous years.
(5) Other Allowances (expat and healthcare).
(6) 50% of 2022 Variable Remuneration Award.

Following the termination of the Restructuring Period by the European Commission in the context of the State Aid granted following the sale process of novobanco, remuneration limitations of the members of the Management and Supervisory Bodies were no longer applicable, which resulted in additional payments to existing EBD and GSB members in 2023 of 382.948€ of previously deferred salaries and other allowances and 2.663.167€ of previously awarded, deferred and vested variable remuneration. Prior to making these payments and based on the Bank's financial position, the Remuneration Committee evaluated the Remuneration Units at 1€ each, and no event was identified that justified the application of any risk adjustment mechanisms.

In 2023, there were no amounts paid to the members of the Corporate Bodies of novobanco by other group companies.

b. 2023 Variable Remuneration

For the year 2023, the Remuneration Committee awarded Variable Remuneration to the Executive Board of Director members as follows:

	2023 Variable Remuneration				Total Deferred Remuneration pending[2]
	Role	Total Awarded	Total in Cash	Total in Remunerations Units	
Executive Board of Directors		**1 877 647**	**938 824**	**938 824**	**2 362 816**
Mark Georges Bourke	CEO	390 000	195 000	195 000	565 000
Benjamin Dickgiesser	Member EBD	82 647	41 324	41 324	41 324
Luis Miguel Alves Ribeiro	Member EBD	305 000	152 500	152 500	406 667
Andres Baltar Gracia	Member EBD	275 000	137 500	137 500	347 500
Luisa Marta Santos Soares da Silva Amaro de Matos	Member EBD	275 000	137 500	137 500	375 833
Carlos Jorge Ferreira Brandão[1]	Member EBD	275 000	137 500	137 500	246 492
Rui Miguel Dias Ribeiro Fontes	Member EBD	275 000	137 500	137 500	380 000

(1) Includes 75.000€ awarded in September 2023 in advance of the 2023 Bonus award.
(2) Variable Remuneration deferred from awards of 2020, 2021, 2022 and 2023.

As stated in the Remuneration Policy for Management and Supervisory Bodies, Variable Remuneration awards are limited to 100% of Annual Fixed Remuneration of each EBD member with 50% of the award in cash and 50% of the award in Remuneration Units. According to the Remuneration Policy, 50% of awarded Variable Remuneration is deferred over a period of 5 years (2024-2028).

The value of the Remuneration Units at the date of the award is 1 (one) Euro and their value is then reassessed, by the Remuneration Committee, at the time of payment. According to the "Regulation of Remuneration Units", at the time of payment, the value of the Remuneration Units can only be adjusted downwards when compared to that defined at the time of award. These amounts are also subject to risk adjustment mechanisms (*Malus and Clawback*).

Other benefits and compensation and non-cash benefits.

Nothing to report.

Compensation paid or due to former members of the Executive Board of Directors in relation to early contract termination in the reporting year.

Nothing to report.

Plans for the attribution of shares or stock options.

Nothing to report.

ii) Identified Staff

Following the annual self-assessment procedure stated in the Remuneration Policy, the Identified Staff list was updated by the Executive Board of Directors and reviewed and approved by the Remuneration Committee. A group of 55 employees was classified as Identified Staff and the table below indicates their Fixed and Variable Remuneration awarded for 2023, of which 50% is awarded in cash and 50% in remuneration units.

# Identified Staff		Fixed and Variable Remuneration earned in 2023			
		Salary	Other post-Employment benefits [1]	Variable Remuneration 2022 [2]	Total Paid
Total	**55**	**7 718 517**	**231 608**	**2 240 046**	**10 190 170**
Comercial	7	918 683	59 285	303 407	1 281 375
Control Functions	4	660 894	2 499	173 451	836 844
Support	44	6 138 940	169 824	1 763 188	8 071 951

(1) Annual Contribution for the Defined Contribution Scheme was reinstated in 2023. A total contribution of 384.925€ was made to the elegible Identified Staff regarding previous years.
(2) 2022 Variable Remuneration awarded that was not deferred.

The 2023 Variable Remuneration will be paid and subject to deferral in accordance with the Remuneration Policy. These amounts may be subject to future adjustments in accordance with the conditions set out in the Remuneration Policy. Regarding the deferral exception included in the Remuneration Policy for Staff, it applies to a total of 23 members of the Identified Staff that have an individual variable remuneration award lower than 50,000€ and it represents less than 1/3 of their total annual remuneration.

# Identified Staff		2023 Variable Remuneration			Total Deferred Remuneration pending [1]
		Total Awarded	Total in Cash	Total in Remunerations Units	
Total	**55**	**4 442 547**	**2 221 273**	**2 221 273**	**3 496 212**
Comercial	7	573 842	286 921	286 921	501 665
Control Functions	4	327 000	163 500	163 500	274 349
Support	44	3 541 705	1 770 853	1 770 853	2 720 198

(1) Variable Remuneration deferred from awards of 2021, 2022 and 2023.

Regarding deferred payments in 2023, a total of 1.616.218€ have been paid to Identified Staff from variable remuneration awards of previous years.

During 2023, three members of Identified Staff in 2022 have left the Bank and received severance payments of a total of 1.000.000€.

5.7 Securities Held by Members of the Management and Supervisory Bodies

As at 31 December 2023 and in financial year 2023, the members of the Corporate 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 members of the Corporate Bodies.

5.8 Non-Material Indirect Investment in novobanco

All current members of the EBD and certain members of the GSB acquired, using their own funds, shares 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 stake of significantly 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 as a percentage of the share capital, and also for each individual concerned. Non-material indirect investments in novobanco have been disclosed in previous annual financial statements of novobanco and reported to the relevant supervisory authorities and to the Chief Compliance Officer of novobanco. In addition, certain staff members also had the opportunity to make a non-material indirect investment in novobanco using their own funds, under the same terms referred to above.

6 CONSOLIDATED FINANCIAL STATEMENTS AND FINAL NOTES

6.1 Consolidated Financial Statements

NOVO BANCO, S.A.
CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2023 AND 2022

(thousands of Euros)	31.12.2023	31.12.2022
Interest Income	1 955 662	834 679
Interest Expenses	(813 078)	(209 204)
Net Interest Income	**1 142 584**	**625 475**
Dividend income	2 133	5 035
Fees and commissions income	339 061	337 335
Fees and commissions expenses	(44 746)	(47 155)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(58 055)	(88 255)
Gains or losses on financial assets and liabilities held for trading	4 418	149 212
Gains or losses on financial assets mandatorily at fair value through profit or loss	26 633	(40 493)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	79	116
Gains or losses from hedge accounting	32 112	(1 713)
Exchange differences	24 369	6 789
Gains or losses on derecognition of non-financial assets	27 901	83 289
Other operating income	106 231	214 005
Other operating expenses	(124 054)	(118 357)
Operating Income	**1 478 666**	**1 125 283**
Administrative expenses	(435 577)	(395 870)
Staff expenses	(252 704)	(233 707)
Other administrative expenses	(182 873)	(162 163)
Cash contributions to resolution funds and deposit guarantee schemes	(78 481)	(41 155)
Depreciation	(43 588)	(52 493)
Provisions or reversal of provisions	(45 699)	(39 245)
Commitments and guarantees given	628	2 685
Other provisions	(46 327)	(41 930)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(141 893)	(101 882)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	7 406	21 546
Impairment or reversal of impairment on non-financial assets	6 351	8 375
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	7 215	8 354
Profit or loss before tax from continuing operations	**754 400**	**532 913**
Tax expense or income related to profit or loss from continuing operations	(5 769)	53 301
Current tax	(15 134)	(10 048)
Deferred tax	9 365	63 349
Profit or loss after tax from continuing operations	**748 631**	**586 214**
Profit or loss from discontinued operations	(412)	(270)
Profit or loss for the period	**748 219**	**585 944**
Attributable to Shareholders of the parent	**743 088**	**560 842**
Attributable to non-controlling interests	5 131	25 102
	748 219	**585 944**

O Contabilista Certificado

O Conselho de Administração Executivo

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2023 AND 2022

(thousands of Euros)	31.12.2023	31.12.2022
ASSETS		
Cash, cash balances at central banks and other demand deposits	5 867 189	6 599 078
Financial assets held for trading	436 148	171 810
Financial assets mandatorily at fair value through profit or loss	264 912	313 702
Financial assets designated at fair value through profit or loss	-	13
Financial assets at fair value through other comprehensive income	838 523	2 331 099
Financial assets at amortised cost	32 452 537	32 559 148
Securities	7 870 536	7 964 664
Loans and advances to banks	47 940	43 548
Loans and advances to customers	24 534 061	24 550 936
Derivatives – Hedge accounting	683 063	562 845
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(83 498)	(165 144)
Investments in subsidiaries, joint ventures and associates	59 511	119 744
Tangible assets	757 549	798 831
Tangible fixed assets	363 754	299 264
Investment properties	393 795	499 567
Intangible assets	86 748	69 832
Tax assets	931 036	956 000
Current Tax Assets	29 376	32 570
Deferred Tax Assets	901 660	923 430
Other assets	1 117 258	1 618 484
Non-current assets and disposal groups classified as held for sale	89 814	59 587
Total Assets	**43 500 790**	**45 995 029**
LIABILITIES		
Financial liabilities held for trading	100 639	99 386
Financial liabilities measured at amortised cost	37 330 355	40 987 177
Deposits from central banks and other banks	5 745 326	9 705 154
(of which: repos)	3 867 053	2 150 824
Due to customers	29 984 273	29 277 858
(of which: repos)	1 366 382	450 906
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 107 585	1 628 897
Other financial liabilities	493 171	375 268
Derivatives – Hedge accounting	124 729	119 578
Fair value changes of the hedged items in portfolio hedge of interest rate risk	62 049	-
Provisions	430 829	413 432
Tax liabilities	10 808	8 427
Current Tax liabilities	10 808	7 582
Deferred Tax liabilities	-	845
Other liabilities	1 005 846	839 919
Liabilities included in disposal groups classified as held for sale	13 107	15 492
Total Liabilities	**39 078 362**	**42 483 411**
EQUITY		
Capital	6 567 844	6 304 661
Accumulated other comprehensive income	(1 070 125)	(1 234 573)
Retained earnings	(8 577 074)	(8 577 074)
Other reserves	6 736 004	6 439 418
Profit or loss attributable to Shareholders of the parent	743 088	560 842
Minority interests (Non-controlling interests)	22 691	18 344
Total Equity	**4 422 428**	**3 511 618**
Total Liabilities And Equity	**43 500 790**	**45 995 029**

O Contabilista Certificado

O Conselho de Administração Executivo

6.2 Separate Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2023 AND 2022

(thousands of Euros)	31.12.2023	31.12.2022
Interest Income	1 940 462	838 291
Interest Expenses	(833 352)	(213 295)
Net Interest Income	**1 107 110**	**624 996**
Dividend income	32 444	17 452
Fees and commissions income	306 859	302 126
Fees and commissions expenses	(37 563)	(39 816)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(58 055)	(88 444)
Gains or losses on financial assets and liabilities held for trading	3 144	146 715
Gains or losses on financial assets mandatorily at fair value through profit or loss	71 766	(95 948)
Gains or losses from hedge accounting	31 468	(535)
Exchange differences	23 989	7 305
Gains or losses on derecognition of non-financial assets	27 608	82 159
Other operating income	45 120	56 579
Other operating expenses	(78 681)	(68 778)
Operating Income	**1 475 209**	**943 811**
Administrative expenses	(407 920)	(369 730)
Staff expenses	(234 729)	(216 821)
Other administrative expenses	(173 191)	(152 909)
Cash contributions to resolution funds and deposit guarantee schemes	(77 528)	(40 717)
Depreciation	(45 878)	(53 961)
Provisions or reversal of provisions	(23 305)	(10 894)
Commitments and guarantees given	434	2 555
Other provisions	(23 739)	(13 449)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(142 022)	(103 265)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	12 216	16 166
Impairment or reversal of impairment on non-financial assets	6 353	14 081
Profit or loss before tax from continuing operations	**797 125**	**395 491**
Tax expense or income related to profit or loss from continuing operations	4 656	58 339
Current tax	(5 386)	(4 611)
Deferred tax	10 042	62 950
Profit or loss after tax from continuing operations	**801 781**	**453 830**
Profit or loss from discontinued operations	(1 121)	-
Profit or loss for the period	**800 660**	**453 830**

O Contabilista Certificado

O Conselho de Administração Executivo

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2023 AND 2022

(thousands of Euros)	31.12.2023	31.12.2022
ASSETS		
Cash, cash balances at central banks and other demand deposits	5 742 599	6 387 295
Financial assets held for trading	436 345	170 847
Financial assets mandatorily at fair value through profit or loss	1 434 690	1 537 670
Financial assets designated at fair value through profit or loss	-	13
Financial assets at fair value through other comprehensive income	741 446	2 183 034
Financial assets at amortised cost	31 389 894	31 500 944
Securities	8 200 570	8 400 233
Loans and advances to banks	125 817	145 464
Loans and advances to customers	23 063 507	22 955 247
Derivatives – Hedge accounting	683 074	562 886
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(83 763)	(164 388)
Investments in subsidiaries, joint ventures and associates	263 675	251 457
Tangible assets	300 242	258 963
Tangible fixed assets	300 242	258 963
Intangible assets	86 427	69 640
Tax assets	923 641	947 500
Current Tax Assets	26 260	30 298
Deferred Tax Assets	897 381	917 202
Other assets	1 211 512	1 713 116
Non-current assets and disposal groups classified as held for sale	16 482	45 071
Total Assets	**43 146 264**	**45 464 048**
LIABILITIES		
Financial liabilities held for trading	100 607	99 317
Financial liabilities measured at amortised cost	37 392 300	40 904 697
Deposits from central banks and other banks	6 623 884	10 506 509
(of which: repos)	3 867 053	2 150 824
Due to customers	29 193 007	28 425 223
(of which: repos)	1 366 382	450 906
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 085 659	1 601 454
Other financial liabilities	489 750	371 511
Derivatives – Hedge accounting	124 957	120 612
Fair value changes of the hedged items in portfolio hedge of interest rate risk	62 049	-
Provisions	420 543	423 190
Tax liabilities	4 191	4 505
Current Tax liabilities	4 191	4 505
Other liabilities	1 012 395	844 779
Total Liabilities	**39 117 042**	**42 397 100**
EQUITY		
Capital	6 567 844	6 304 661
Accumulated other comprehensive income	(993 658)	(1 155 271)
Retained earnings	(8 577 074)	(8 577 074)
Other reserves	6 231 450	6 040 802
Profit or loss attributable to Shareholders of the parent	800 660	453 830
Total Equity	**4 029 222**	**3 066 948**
Total Liabilities And Equity	**43 146 264**	**45 464 048**

O Contabilista Certificado

O Conselho de Administração Executivo

6.3 Final Notes

6.3.1 Declaration of Conformity with the Financial Information Reported

In accordance with Article 29-G of the Portuguese Securities Code ("*Código dos Valores Mobiliários*"), the members of the EBD of Novo Banco, S.A., named below, state that:

i. the separate and consolidated financial statements of novobanco, for the year ended on 31 December 2023 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 in 2023 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 EBD held on 29 February, 2024.

6.3.2 Proposal for the distribution of novobanco results

Under the terms of article 66(5)(f) and for the purposes of article 376(1)(b), both of the Portuguese Companies Code, and pursuant to Article 29 of the Bank's Articles of Association, the Executive Board of Directors of novobanco proposes, for approval by the General Meeting, that the net profit reported in the separate accounts for fiscal year 2023, in the amount of €800 659 999.51, be allocated as follows: €80 065 999.95 to the Legal reserve, pursuant to article 97 of the Legal Framework of Credit Institutions and Financial Companies, and €720 593 999.56 to Other reserves and retained earnings, to cover losses from previous years.

6.4 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, 29 February, 2024

EXECUTIVE BOARD OF DIRECTORS

Mark George Bourke

Benjamin Dickgiesser

Luís Miguel Alves Ribeiro

Andrés Baltar Garcia

Luísa Marta Santos Soares da Silva Amaro de Matos

Carlos Jorge Ferreira Brandão

Rui Miguel Dias Ribeiro Fontes

7 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:

I – 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:

OFFICIAL INCOME STATEMENT

(thousands of Euros)

MANAGEMENT INCOME STATEMENT

OFFICIAL INCOME STATEMENT (thousands of Euros)		Net Interest Income	Fees and Commissions	**Produto Bancário Comercial**	Market Results	Other Operating Results	**Produto Bancário**	**Custos Operativos**	Staff Costs	General and Administrative Costs	Depreciation	**Net Operating Income**	**Net Impairments and Provisions**	Credit Impairment	Securities Impairment	Other Assets and Contingencies Provisions	**Resultado antes de Impostos**	Taxes	Special Tax on Banks
		1 142 584	296 103	**1 438 687**	14 737	(11 156)	**1 442 268**	**(479 165)**	(252 704)	(182 873)	(43 588)	**963 103**	**(173 835)**	(109 389)	(32 566)	(31 880)	**789 268**	(5 769)	(35 280)
Interest Income	1 955 662	1 955 662																	
Interest Expenses	(813 078)	(813 078)																	
Net Interest Income	**1 142 584**																		
Dividend income	2 133				2 133														
Fee and comission income	339 061		339 061																
Fee and comission expenses	(44 746)		(44 746)																
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(58 055)				(64 593)	6 538													
Gains or losses on financial assets and liabilities held for trading	4 418				4 418														
Gains or losses on financial assets mandatorily at fair value through profit or loss	26 633				26 633														
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	79				79														
Gains or losses from hedge accounting	32 112				32 112														
Exchange differences	24 369				24 369														
Gains or losses on derecognition of non-financial assets	27 901					27 901													
Other operating income	106 231		1 788		566	103 877													
Other operating expenses	(124 054)				(10 980)	(77 794)													(35 280)
Operating Income	**1 478 666**																		
Administrative expenses	-																		
Staff expenses	(252 704)								(252 704)										
Other administrative expenses	(182 873)									(182 873)									
Contributions to resolution funds and deposit guarantee schemes	(78 481)					(78 481)													
Depreciation	(43 588)										(43 588)								
Provisions or reversal of provisions	-																		
Commitments and guarantees given	628															628			
Other provisions	(46 327)															(46 327)			
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(141 893)													(109 389)	(32 566)	62			
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	7 406															7 406			
Impairment or reversal of impairment on non-financial assets	6 351															6 351			
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	7 215					7 215													
Profit or loss before tax from continuing operations	**754 400**																		
Tax expense or income related to profit or loss from continuing operations	-																		
Current tax	(15 134)																	(15 134)	
Deferred tax	9 365																	9 365	
Profit or loss after tax from continuing operations	**748 631**																		
Profit or loss from discontinued operations	(412)					(412)													
Profit or loss for the period	**748 219**																		
Attributable to Shareholders of the parent	**743 088**																		
Attributable to non-controlling interests	5 131																		
	748 219																		

II – Alternative performance measures

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

INCOME STATEMENT

Designation	Definition / Usage	Calculation Basis	Conciliation with the Financial Statements[7]
Fees and Commissions	Indicator of results of financial activity directly related to services provided to clients. Indicator of historical financial performance.	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. Indicator of historical financial performance.	Financial margin + Customer services.	
Capital markets results	Indicator of other diverse results, not directly related to activity with customers and markets. Indicator of historical financial performance.	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. Indicator of 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. Indicator of historical financial performance.	Net interest income + Fees and commissions + Capital markets results + Other operating results.	
Operating costs	Indicator of structural costs that support commercial activity and whose analysis allows to assess the trajectory of progression of costs. Indicator of historical financial performance.	Personnel expenses + Other administrative expenses + Depreciation.	(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. Indicator of historical financial performance.	Banking income - Operating costs.	
Provisions, net of replacement / Impairments	Indicator of net reinforcements of impairments made in the year. Indicator of historical financial performance.	Provisions or reversal of provisions + Impairment or reversal of financial assets not measured at fair value through profit or loss + Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates + Impairment or reversal of impairment of non-financial assets.	(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 reversal of impairment of non-assets financial.

(7) IS: Income Statement Item; BS: Balance Sheet Item

BALANCE SHEET/LIQUIDITY

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[8]
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 scale of residual maturity. Historical financial performance indicator.	Difference between [(Net assets - volatile liabilities)]	
Loans to Deposit Ratio Instruction No 16/2004 of Banco de Portugal	Indicator of the relationship between the financing of the activity and the funds raised from customers. Historical financial performance indicator.	Ratio between [(total credit - accumulated impairment for credit) and deposits customer]	(BS): Net customer loans and customer deposits.

(8) IS: Income Statement Item; BS: Balance Sheet Item

ASSET QUALITY AND COVERAGE RATIOS

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[9]
Overdue loans ratio	Loans quality indicator, showing the proportion of the gross loan portfolio that is in default. Indicator of historical financial performance.	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. Indicator of historical financial performance.	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 that are in a non-performing situation. Indicator of historical financial performance.	Ratio between the total balance of loans agreements with customers 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. Indicator of historical financial performance.	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. Indicator of historical financial performance.	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. Indicator of historical financial performance.	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. Indicator of historical financial performance.	Ratio between balance sheet impairments for loans to customers and non-performing loans.	(BS): Provisions for loans and non-performing loans.
Coverage of loans to customers	Indicator of the ability to absorb potential losses related to the customer loan portfolio. Indicator of historical financial performance.	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 and corporate bonds.	Ratio between impairment charges recorded in the period for loans risk and corporate bonds, and the balance of loans to customers gross and corporate bonds portfolio.	(IS): Reinforcement of provisions for loans and corporate bonds, in the year. (BS): Gross customer loans and corporate bonds portfolio.

(9) IS: Income Statement Item; BS: Balance Sheet Item

EFFICIENCY AND PROFITABILITY RATIO

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[10]
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 Instruction No 16/2004 of Banco de Portuga	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 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.
Return on Tangible Equity (RoTE)	Expresses the return (in %) generated by tangible equity over the period and provides information on the efficiency with which capital is used to generate results.	Ratio between net income and average equity, excluding intangible assets and the amount receivable from the contingent capitalization agreement (CCA).	(IS): Results attributable to the parent company's shareholders. (BS): Equity; the calculation of average equity includes, besides the values at the ends of the period under review, the values recorded in each of the months within the considered interval. Intangible assets and the amount receivable from the CCA are excluded.

(10) IS: Income Statement Item; BS: Balance Sheet Item

€713.2mn
of green investment

39%
of women in management positions

-36.8%
of CO_2 emissions (scope 1 and 2 vs 2021)

SUSTAINABILITY REPORT

1 2023 ESG HIGHLIGHTS

1.1 Messages from the executive management

Sustainability and the management of ESG risks and opportunities is a core strategic priority for novobanco, and in 2023 we consolidated our goal of being an ESG champion in the Portuguese financial services by continuing to deliver significant progress.

Sustainable finance has a pivotal role to play in achieving national and European climate goals and, for novobanco, enabling our customers to lower their carbon footprint is a priority that can only be achieved through major investment in energy transition and climate action. **Having invested 369M€ in green financing in 2023, novobanco surpassed its 2024 green financing** targets more than one year ahead of the commitment. We've renewed and reinforced our commitment, with a target of 2B€ in Green investments for the next 3 years.

This reflects our focus on giving customers more choice and making their transition journey easier. Going forward we will continue to contribute to accelerate the pace of the required transition – identifying new ways of doing business and ensuring speed to market in supporting our customers with products and services.

In our own operations, we have similarly already well surpassed the Scope 1 and 2 GHG emissions' reduction targets set for 2024 and remain confident we will meet our 50% reduction target before the committed date of 2030.

I was particularly pleased with the success of our ESG literacy initiatives, specially aimed at supporting Portuguese SMEs understand, discuss, and share experiences, best practices and challenges surrounding their sustainability journeys.

Amplifying our positive social impact in the communities we serve is also a key concern in the way we do business, both through our people agenda and through our client and community programs, promoting social well-being initiatives and financial and digital literacy programs.

In 2023 we launched and executed several key initiatives of our "Developing People and Culture" strategic pillar, advancing employee value proposition, talent development and culture & values programs that are key to empowering a diverse team and deliver on our equity and inclusion commitments. Our female representation in management roles as risen **2,5 p.p. to 38,7% in 2023, from 2022.**

Mark Bourke
Chief Executive Officer

In 2023, we strengthened our contribution to making the Portuguese financial market and its ecosystem more sustainable, deepening the integration of ESG concerns and principles into our different business areas. Not only have we far exceeded our green investment and scope 1 and 2 GHG emissions reduction targets, but we have strengthened ESG governance, impact monitoring, and training and awareness for our colleagues and customers.

In 2023, we focused our work, first and foremost, on supporting our clients' transition journeys, through sustainable financing solutions and incorporating ESG risks and opportunities into the offer of products and services. We have also prioritized the evolution of our risk management systems and frameworks to enable the integration of ESG risks structurally into the business.

At the same time, incorporating social criteria into the way we run our business was also a priority in 2023. In addition to the initiatives of the people and culture strategic pillar, which have allowed significant advances in the promotion of an organizational culture that has the diversity of its team as a strategic lever, the new novobanco campus, to be inaugurated in 2024, was developed with strict well-being criteria for our people. The financial well-being of the communities we serve has remained a priority area of action, not only through an inclusive financial offer that guarantees a fair value exchange with the customer, but also through financial support and volunteering initiatives for social causes in the community.

Luísa Soares da Silva
Chief Legal, Compliance & Sustainability Officer

1.2 Highlights

2023 was both a year of continuity and reinforcement of the measures and programmes already underway, and a year of transformation:

- Continued focus on developing the ESG risk management framework, strengthening of the product and service offering to support client transition and implementing measures to minimise the footprint of our own operations;
- Designing and launching the bank's strategic cultural transformation programme, rewriting novobanco's mission and values, reviewing ESG strategic priorities and strengthening the bank's transition plan.

Main highlights in 2023

1 CUSTOMER-CENTRIC BANK

€369m investment in green projects, an yoy increase of +7%.

Significant improvement in the customer recommendation index, with an increase of 17 points in the NPS (Net Promoter Score) vs. 2022.

€500,000 investment in the community, including support for projects aimed at the integration and empowerment of young people and adults.

Reinforcement of the offer of investment products with ESG considerations or objectives (Art. 8 or 9, SFDR): **€814M** invested by clients in December 2023.

2 SIMPLE AND EFFICIENT OPERATIONS EFICIENTES

The footprint of novobanco's own operations continues to shrink: -3% vs. 2022, with a cumulative reduction of 37% vs. 2021.

4.4 tons of PVC saved by issuing bank cards made of recycled PVC and sending **1.7 tonnes of bank cards for recycling.**

Increase in the share of electric or hybrid vehicles in the car fleet to 25% (+22 p.p. vs. 2022).

Integration of sustainability assessment into the supplier selection process: **76% of suppliers with sustainability assessment.**

3 DEVELOPING PEOPLE AND CULTURE

Maintenance of a policy of open-ended employment contracts, with **96% of employees on permanent contracts.**

0.3 p.p. reduction in gender pay gap vs. 2022, to 5.4%.

€828,4 thousand in social benefits for active and retired employees.

Reinforcement of 5+ programme to promote staff health and wellbeing, involving 1,870 employees in more than 50 initiatives in 2023.

4 DEVELOPING SUSTAINABLE PERFORMANCE

Increase in the proportion of women in management positions to **39%**, a **2 p.p. increase vs. 2022**.

Management team focus on ESG issues: we held 11 ESG steering meetings and completed 43 strategic initiatives under the ESG programme.

21,000 hours of ESG training delivered to all employees in 2023.

Increased inclusion of ESG criteria in the performance assessment model for the management team and the various departments.

+7%
green Investment

+17pts
NPS of Retail clients*

-3%
GHG Emissions scope 1 & 2

76%
suppliers with Sustainability score

39%
women in management positions

21 th
hours ESG training

*Source: BASEF Banca 2023 / Marktest. Period from September to December 2023 versus September to December 2022 109 Report and Accounts 2023 | novobanco

1.3 Our ESG journey

2020

Distribution of ESG/ ECO structured products, promoting investment with environmental and social concerns.

Inauguration of the 1st "new distribution model" branch, remodeled taking into account social and environmental concerns.

Launch of the ESG Program with multidisciplinary workgroups, redesigning the bank's ESG strategy.

ECO Residential Mortgage offer, with preferential conditions to high energy efficiency homes.

Association of the support to social, cultural and environmental causes to the bundle account offer

2021

Commitment to reducing greenhouse gas emissions in own operations by 50% by 2030 and achieving up to 100% of electricity consumption from renewable sources by 2024.

Establishment of Sustainability Steering to accelerate implementation of priority ESG initiatives.

Disclosure of targets for the promotion of gender equality in senior management positions.

Publication of Sustainability Policy.

Launch of Car Loans with bonus on the acquisition of hybrid/ electric vehicles.

2022

Creation of ESG Office and reinforcement of governance of ESG topics and environmental and climate risks.

Reinforcement of Exclusions and Safeguards Principles in the financing of industry sectors and projects with negative environmental and social impact.

Launch of 2022 Sustainability Credit Line to support companies in the transition to a more sustainable and low-carbon economy.

Launch of questionnaire on sustainability preferences to assess and incorporate customer preferences into their investment portfolio.

Reformulation of sustainability scoring for suppliers.

Organisation of ESG Talks, a cycle of conferences dedicated to ESG issues.

Participation in the climate stress tests carried out by the European Central Bank.

2023

Setting the first financed emissions (scope 3) reduction targets for three industry sectors (Power Generation, Cement Manufacturing and Commercial Mortgages), a key element of the Bank's transition plan.

Strengthening of multi-annual green investment targets, more than tripling the annual commitment

Revision of the ESG strategic priorities based on the double materiality matrix resulting from stakeholder consultation.

Strengthening of ESG risk assessment, monitoring and information gathering processes at client, transaction and collateral's level.

Publication of the first Task Force on Climate-Related Financial Disclosures (TCFD) Report .

Organisation of second edition of the ESG Talks, a cycle of conferences dedicated to ESG issues.

Organisation of Sustainability Programme for SMEs' cycle of conferences, podcasts and webinars to promote ESG literacy in SMEs.

Strengthening of Green Financing/Investment Classification Policy.

Launch of new Sustainability page on the novobanco website, improving communication tools with stakeholders.

2024 will be a year of continuity and consolidation of the various initiatives already underway, leading to an increasing integration of ESG factors into the Bank's way of doing business.

Hence, with regard to climate and environmental risks, we plan to i) obtain validation from the Science-Based Targets initiative (SBTi) for the financed GHG emission reduction commitments we have submitted; ii) expand the definition of financed emission reduction targets to new sectors with significant transition challenges; iii) strengthen the methodologies and broaden the integration and application of ESG risk criteria in customers' credit risk assessment; iv) expand the range of products and services offered to better address the different transition challenges faced by corporate and individual clients.

With regard to novobanco's social impact on the communities it serves, we plan to: i) conclude the implementation of the cultural transformation programme launched in 2023; ii) inaugurate the new campus for the Group's central services, following best practices in terms of employee well-being and the building's energy efficiency; iii) strengthen initiatives to promote inclusion, diversity and gender equality in the workforce, and iv) strengthen initiatives to empower companies and individuals through financial, digital or sustainability literacy programmes.

2 SUSTAINABILITY STRATEGY

novobanco's mission is to be the trusted banking partner that supports families and companies throughout their lifetime. Given the emphasis placed on the customer and society, relying solely on a financial perspective to identify the most material topics for the bank would be insufficient for novobanco.

Aware of the role it plays in the fight against climate change, novobanco has taken steps towards the adoption of a structured, ambitious and effective approach to the environmental, social and governance challenges of the transition to a sustainable and low-carbon economy and the development of an inclusive and fair society.

novobanco's current strategy integrates its ambitions in all these dimensions, and therefore its ESG vision permeates all the pillars of the bank's business model, namely: (i) its relationship with clients and society, in the context of supporting the transition and promoting socio-economic development; (ii) on the environmental and social efficiency of its own operations; (iii) on its practices concerning the development, inclusion and promotion of the wellbeing of all its employees; and (iv) in a sustainability strategy that fosters an effective governance model and the proper economic integration of all risks, including climate and environmental risks.

2.1 Stakeholders Engagement

To build and maintain a constant relationship with stakeholders and integrate their concerns andexpectations, the bank offers a wide range of communication channels.

Defining novobanco Group business strategy is intrinsically linked to a collaborative and proactive approach with all its stakeholders, with a special focus on the seven main ones: customers, employees, regulators, investors, suppliers, media, and the community. The group also regularly assesses the materiality of ESG themes.

2

EMPLOYEES

Request for in-person feedback via questionnaires and meetings;

Intranet (Somos novobanco, Yammer and Human Resources Portal);

Thematics Mailboxes Email (including CEO Office and "Ask the Chairman" address");

HCD manager for active and retired employees;

Human Resources Business Partner;

Executive leadership visits to the commercial network;

Whistleblower line;

Workshops and Lectures;

Annual Meeting and other thematic meetings, workshops, clarification sessions and webinars;

Workers Committee, Union Secretariat and Information and Consultation Procedure.

CLIENTS

Request by phone, online and in person;

Formal system for filing complaints;
Branch Network, Corporate Centres and Regional Divisions;

Social networks (novobanco Cultura, novobanco;

Facebook and Linkedin);

Events, such as novobanco Summit.

REGULATORS

Provision of mandatory and voluntary information;

Request for feedback by phone, online and in person;

Investor Relations team;

Regular meetings with investors;

Quarterly results presentation, Investors website.

SUPPLIERS

Contacts established through a specific website (Grupo novobanco Supplier Portal), coordinating the exchange of information via e-mail, telephone and in person.

MEDIA

Information provided in-person, by phone and online;

Press conferences;

Quarterly results presentation;

Sharing of specialized knowledge through social networks and media (radio, newspapers, televisions).

COMMUNITY

Continuous in-person, telephone and online dialogue with Associations, Private Social Solidarity Institutions, social and environmental NGOs;

Corporate Social Responsibility Initiatives;

Participation in conferences;

Social networks (novobanco Cultura, novobanco Facebook and Linkedin).

2.2 Materiality Analysis and ESG Approach

In 2023, novobanco updated its materiality matrix, with the aim of bringing it closer to the concept of dual materiality to come into force in fiscal year 2024 resulting from the new obligations of the Corporate Sustainability Reporting Directive.

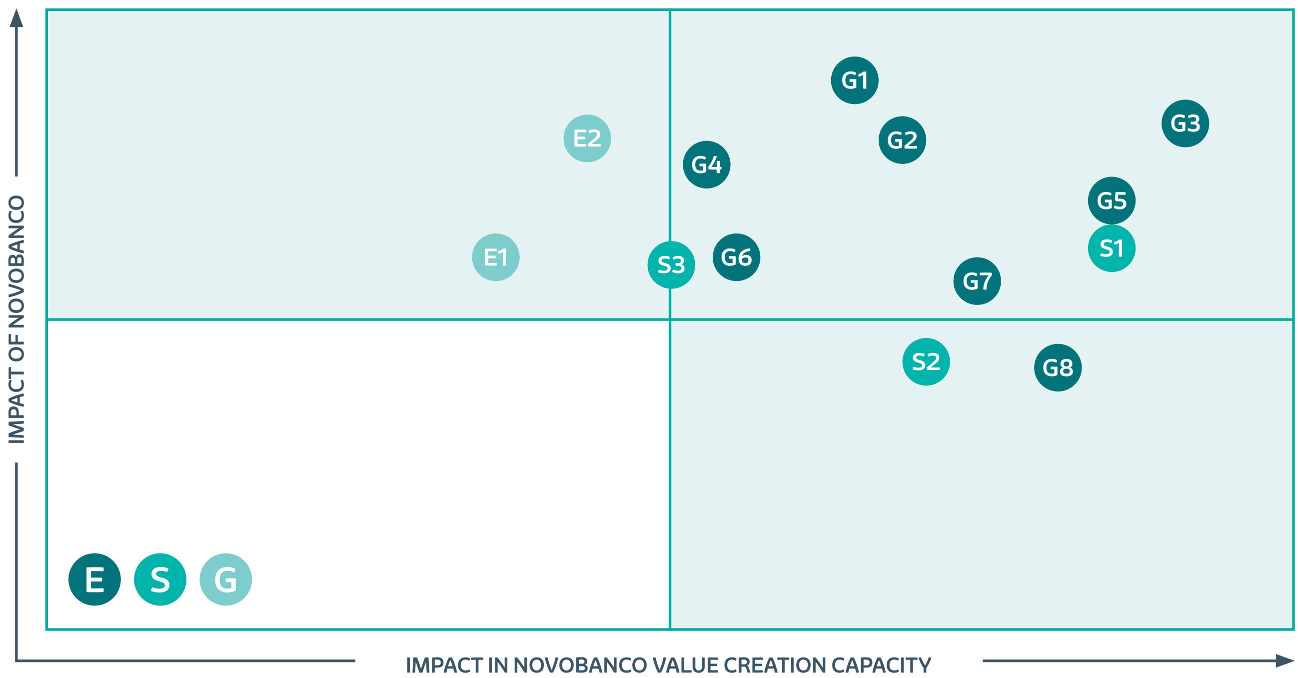
Given that the business strategy of the novobanco Group is inextricably linked to a collaborative and proactive approach to all its stakeholders, an extensive stakeholder consultation exercise was carried out for the new materiality analysis.

To this end, relevant stakeholders for novobanco were considered as all the groups or individuals that the Group affects through its activities, products and services and that, in turn, may also affect the Group's ability to achieve its objectives.

The identification and prioritisation of issues and impacts on the organisation was based on a process that included trend analysis and consultation with the stakeholder groups identified through questionnaires and discussion workshops.

Based on this process, 13 issues of greater relevance to novobanco were identified from a double materiality perspective, which we have aggregated into three typologies: Environmental (E), Social (S) and Governance (G).

2023 Materiality Matrix



G1 Cybersecurity, privacy and information protection

G2 Ethics, conduct, transparency and compliance

G3 Anti-corruption, bribery and money laundering

G4 Corporate Governance

G5 Risk management (including ESG)

G6 Customer satisfaction and experience

G7 Economic performance

G8 Innovation, research and technology

S1 Human Capital

S2 Diversity, equity and inclusion

S3 Respect for human rights

E1 Sustainable products and services

E2 Sustainable finance and investing

In light of this analysis and the identification of the most material issues for novobanco, an additional weighting was considered for the selection of Sustainable Development Goals (SDGs) that the bank should adopt as priorities in order to define its operating strategy, as per the analysis presented.

Cross-referencing of the 2023 Materiality Matrix and the SDGs

novobanco cross-referenced its priority material issues with each of the SDG's targets, to identify the relative relevance of each SDG to be bank. This analysis allowed novobanco to check, within each SDG, what specific target were linked to its priority issues (for instance – how the "Diversity, Equity and Inclusion" key topic related with targets within Quality Education, Economic Growth and Stronger Institutions).

Most relevant targets in SDGs

4 QUALITY EDUCATION	**Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all**	**4.3** Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.	**4.4** Substantially increase the number (...) who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.	
7 AFFORDABLE AND CLEAN ENERGY	**Ensure access to affordable, reliable, sustainable and modern energy for all**	**7.2** By 2030, increase substantially the share of renewable energy in the global energy mix.	**7.3** By 2030, double the global rate of improvement in energy efficiency.	
8 DECENT WORK AND ECONOMIC GROWTH	**Promote sustained, inclusive and sustainable economic growth, full & productive employment and decent work for all**	**8.2** (...) higher economic productivity through diversification, technological upgrading and innovation (...)	**8.5** achieve full (...) employment and decent work for all women and men, (...) and equal pay (...)	**8.0** (...) encourage and expand access to banking, insurance and financial services for all.
10 REDUCED INEQUALITIES	**Reduce Inequality within and among countries**	**10.2** (...) promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.	**10.5** Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations	
13 CLIMATE ACTION	**Take urgent action to combat climate change and its impacts**	**13.1** Strengthen resilience and adaptive capacity to climate -related hazards and natural disasters in all countries.	**13.2** Integrate climate change measures into national policies, strategies and planning.	
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	**Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels**	**16.4** reduce illicit financial and arms flows, (...) recovery of stolen assets and combat all forms of organized crime.	**16.5** Substantially reduce corruption and bribery in all their forms.	**16.6** Develop effective, accountable and transparent institutions at all levels.

2.3 Our Strategic Pillars

novobanco's strategic approach is based on four pillars that underpin its competitive positioning. As part of the new materiality analysis, the integration between the bank's strategy and its actions at the environmental, social and governance levels was reinforced.

Each of the bank's strategic pillars is aligned with its ESG vision and priority SDGs;

- To elevate the bank's customer-centric approach through differentiated value propositions, leveraging a digital and omnichannel approach and reinforcing its role in supporting its customers' energy transition needs;
- To provide simple and efficient operations that enhance the banking experience and ensure a more sustainable environmental and social footprint;
- To develop people and culture, attracting and actively nurturing a team of skilled professionals who stand as a reference for our bank's core values, including its goals of inclusion, diversity and enhancement of the wellbeing of all employees.
- To ensure sustainable performance in terms of risk management and deeper integration of ESG components, including climate and environmental risk, into the business.

STRATEGIC PILLARS

CUSTOMER-CENTRIC BANK

Support our clients transition and maximize positive impact on society and environment

• To develop an energy transition-linked business strategy in the Corporate and Retail segments, namely by enhancing green investment policies and targets, as well as products and services.

• To implement and monitor plans to reduce scope 3 financed GHG emissions through sector-specific targets to reduce emissions intensity, in line with the Paris Agreement targets.

• To continue to develop the ESG offering in the investment and financial advisory strategy for clients.

To promote stakeholder engagement and the Bank's corporate social responsibility strategy.

SIMPLE AND EFFICIENT OPERATIONS

Improve efficiency, enable own transition, ensure systems readiness for ESG

• To improve the environmental efficiency of novobanco's operations.

• To reduce scope 1 and 2 own emissions (and scope 3, excluding financed emissions, whose objectives are set under the "Customer-centric bank" pillar).

• To strengthen suppliers' ESG performance.

• To adapt IT and information management systems to ESG requirements.

DEVELOPMENT OF PEOPLE AND CULTURE

Strengthen capabilities, inclusiveness, diversity and the engagement of our people

• To promote diversity and a culture of inclusiveness among novobanco's employees.

• To reinforce employee learning and development actions.

• To promote initiatives to reinforce employee culture, engagement and wellbeing

DEVELOPING SUSTAINABLE PERFORMANCE

Build a robust ESG governance & risk management framework

• To implement the bank's future ESG management operating model, building a robust governance model

• To continue to implement the ESG risk management structure, namely in climate and environmental risk management, and its application to critical processes such as credit and customer onboarding

2.4 Risks and Opportunities

S Short-term M Medium-term L Long term

To ensure the robustness of the current strategy, an analysis was carried out of the main risks and opportunities associated with climate and environmental risks, in the field of physical and transition risks.

This permitted to identify mitigation measures, which are integrated into the bank's priority and strategic objectives and action plans, as referenced below.

FIELD	NATURE	RISKS FOR NOVOBANCO	MITIGATION MEASURES
PHYSICAL	Acute typology S M L	Business disruption for clients and counterparties due to damage to production assets or limitations in the value chain. Potential devaluation of collaterals on loans granted by the Bank. Possible costs arising from damage to the Bank's physical assets, including business disruption. Possible increased absenteeism among the Bank's employees.	To reinforce methodologies for assessing physical risks, managing covenants and financing conditions. To reinforce novobanco's business continuity and operational contingency plan. Pillar 2 - Simple and efficient operations. Pillar 4 – Achieving sustainable performance.
	Chronic typology S M L	Decrease in productivity and/or increase in operational and production costs in exposed sectors, impacting the financial performance of customers and counterparties or projects financed by the Bank.	To ensure the regular collection of information from companies and counterparties to calculate climate and environmental risks. To integrate climate and environmental risk assessment into lending and pricing decision processes. Pillar 4 – Achieving sustainable performance.
TRANSITION	Policies and legal framework S M L	Changes to the governance and organisational model to ensure a dedicated monitoring of ESG issues. Increased interaction with companies and counterparties, for a better insight into their transition and business adjustment challenges. Development of products and services with structuring conditions and rationale aligned with our customers' transition needs.	To reinforce novobanco's governance model to ensure monitoring of ESG issues. To ensure the regular collection of information from companies and counterparties to calculate climate and environmental risks. To reinforce novobanco's portfolio of products and services to support the transition needs of its customers. Pillar 1 – Customer-centric bank. Pillar 4 – Achieving sustainable performance.
	Technology S M L	Inability of the Bank's corporate clients and counterparties to adapt, due to limited investment capacity or restricted access to financing. Unavailability of the most suitable technologies (at a reasonable cost) required to meet the new standards of business operations. Business transformation and conversion costs, with an impact on the financial performance of customers and counterparties.	To ensure the regular collection of information from companies and counterparties in order to understand their challenges and prepare the most suitable commercial offer. To develop partnerships with organisations in order to enhance the bank's range of solutions to support its customers. Pillar 1 – Customer-centric bank. Pillar 4 – Achieving sustainable performance.
	Market S M L	Changes in supply and demand for ESG-oriented banking products and services, with an impact on the Bank's commercial competitiveness. General increase in market prices of technology and production factors with an impact on the competitiveness and financial performance of companies. Limitations on the growth of companies and sectors exhibiting greater misalignment with efficiency and decarbonisation standards, resulting in reduced demand for their goods and services.	To ensure the regular collection of information from companies and counterparties in order to understand their challenges and prepare the most suitable commercial offer. To develop partnerships with organisations in order to enhance the bank's range of solutions to support its customers. To develop plans to ensure the bank's response to climate risks, particularly when it comes to reducing financed GHG emissions. Pillar 1 – Customer-centric bank. Pillar 4 - Achieving sustainable performance.
	Reputational S M L	Risk of failing to meet stakeholders' expectations regarding the Bank's performance on critical climate change issues. Constraints on investors' and stakeholders' perception of the Bank's brand image. The Bank's involvement in instances of non-compliance with new ESG requirements, with an impact on its image and reputation. Association of the Bank with clients, counterparties, suppliers and other third parties with sensitive ESG profiles.	To ensure a rigorous methodology and robust monitoring of financed GHG emission mitigation plans. To ensure rigour in communication with the market. To implement controls against potential ESG risks in the selection and monitoring of suppliers. To ensure the inclusion of reputational risk analysis in ESG risk assessments. Pillar 1 - Customer-centric bank. Pillar 4 - Achieving sustainable performance.
	Economic wellbeing and Social rights M L	Risk of some economic sectors losing competitiveness as a result of the transition. Risk of employee skills becoming inadequate as a result of transition changes. Risk of loss of social rights associated with the deterioration of the competitiveness of certain economic sectors or regions.	To develop solutions and products to support the transition of the economic sectors with the greatest impact. To ensure recurrent risk analysis by economic sector to identify and proactively manage exposures in the sectors with the greatest impact. To provide in-house training on ESG issues and support the retraining of employees impacted by the transition. To ensure the inclusion of reputational and social risk analysis in ESG risk assessments. Pillar 1 - Customer-centric bank Pillar 3 – Developing people and culture Pillar 4 - Achieving sustainable performance

In addition to climate and environmental risks, social and governance risks were also analysed:

Financial inclusion and wellbeing:

- Increased risk of default in case of reduction of the purchasing power of the communities served, and consequently of clients' purchasing power.
  - Promoting financial inclusion and literacy initiatives, as well as providing products and services tailored to diverse customer needs, makes it possible to contribute to economic and social progress and thereby to mitigate the risk of loss of profitability.

- Risk of inability to meet employee needs in terms of i) flexible working models, ii) value proposition for employees, iii) culture of diversity and inclusion, including gender equality issues.
  - Loss of talent and reduced levels of employee engagement, thus increasing the risk of lower productivity and business profitability, the difficulty of defining succession plans and spreading knowledge and expertise, as well as reducing the ability to attract new business and new clients.

- Increased reputational and operational risk due to non-compliance with international principles and agreements on human and labour rights throughout the value chain, comprising clients, suppliers or other bank partners.
  - The definition and implementation of models to analyse, assess and monitor the social risks and the performance of clients and suppliers makes it possible to mitigate these risks and their impact on novobanco's reputation and activity.

Good governance and responsible management

- The ability to seamlessly adapt the business to an ever-changing market and competitive environment is only possible with a robust governance model capable of incorporating long-term objectives, resolving conflicts of interest, ensuring data security and adequately managing the risks of corruption, bribery, money laundering and terrorist financing.

The incorporation of environmental, climate and ESG issues into the Bank's strategy creates a number of opportunities that novobanco is intent on exploiting, in line with our Shaping the Future strategy:

Brand and Reputation: Strengthening novobanco's position alongside companies (Pillar 1)

S M L

• Strengthening our position as "Bank for businesses" by accompanying, challenging and supporting corporate clients in their energy transition and reinforcing our relationship as a partner of these clients.

• Setting the bank apart from its competitors through the quality, rigour and innovation of its approach to ESG.

Commercial offer: Offering the best solutions for companies (Pillar 1)

S M L

• Development of financial products and services to support the transition - structured finance catering to the needs of clients and meeting robust technical criteria.

• Implementation of external partnerships to strengthen the offer and deliver a comprehensive solution to our clients.

Commercial positioning: Communicating and interacting with the clients (Pillar 1)

S M L

• Promoting information and awareness actions among customers - conferences, events.

• Adapting the engagement models - from large to small companies.

• Establishing partnerships and programmes with business and sector partners, reinforcing proximity to corporate clients.

Investment offer: Reinforcing the investment offer (Pillar 1)

C M L

- Adoption of investment policies that integrate climate risk management considerations.
- Implementation of ESG classification matrix for transactions.
- Establishment of controls and procedures aligned with regulatory requirements in the design and provision of sustainable investment products.

Efficiency of operations: Improving the sustainability and efficiency of operations (Pillars 2 and 3)

C M L

- Moving to new, energy-efficient premises (novobanco campus).
- Strengthening resource-use efficiency (in the use of paper, water, electricity, other consumables).
- Promoting the efficiency of business travel to reduce energy costs.
- Improving the carbon footprint of novobanco's employees through green solutions in terms of transport and services on novobanco's premises, and increasing the green fleet integration.

Resilience: Promoting the resilience of our processes and people (Pillars 2, 3 and 4)

C M L

- Implementing assessment and acceptance models for suppliers and other third parties.
- Developing new routines and information reports to monitor climate risk.
- Training our employees to foster a mature management of climate risks.
- Strengthening staff involvement and commitment to the energy transition path through in-house initiatives to spread novobanco's commitments and raise environmental awareness.

2.5 novobanco's Path towards Transition

novobanco wants to play an active role in supporting the energy transition of the Portuguese economy and society. The bank has therefore undertaken an extensive exercise to define greenhouse gas emission reduction targets that are compatible with the Paris Agreement.

The bank thus commits to aligning its financing and investment portfolio for a reduction of the resulting carbon footprint, developing a business strategy aimed at enabling effective credit and investment orientation to achieve the objectives to which we have committed ourselves. Key actions will focus in particular on the most GHG-intensive sectors to which the bank has the largest credit exposure, and to this end we intend to:

- Strengthen dialogue with clients, particularly in the most affected sectors, and increase collection of ESG data (e.g. GHG emissions from their operations, Energy Performance Certificates (EPCs) for collateral, Transition Plans, decarbonisation commitments);
- Promote green finance by increasing the range of products and external partnerships that can help our clients achieve energy transition;
- Develop differentiated pricing models;
- Continue to develop monitoring tools to enable effective portfolio orientation;
- Continue to promote ESG literacy within the Portuguese business community.

In October 2019, novobanco signed the SBTi - Business Ambition for 1.5ºC commitment to limit the global temperature increase to 1.5ºC above pre-industrial levels. With this commitment, novobanco submitted its objectives in a transition/decarbonisation plan for its portfolio, which is currently being validated by SBTi.

The following sectoral commitments, applicable to exposures to large corporates and to medium and long-term financing or investments, stand out:

- Electricity generation:
novobanco commits to reducing GHG emissions of the electricity generation sector in its corporate financing and investment portfolio by 74% per KWh until 2030, compared to the baseline year of 2021.

The scope considered was the Long and Medium-Term exposure to Large companies in 2021 with CAE codes (classification of economic activity) related to electricity generation: 35111, 35112, 35113.

- Cement Manufacturing
novobanco commits to reducing GHG emissions of the cement sector in its corporate financing and investment portfolio by 23% per ton of cement until 2030, compared to the baseline year of 2021.
The scope considered was the Long and Medium-Term exposure to Large companies in 2021 with CAE code 23510, related to electricity generation.

- Commercial Mortgages
novobanco commits to reducing GHG emissions of the commercial mortgages sector in its corporate financing and investment portfolio by 68% per sqm until 2030, compared to the baseline year of 2021.

For this analysis the bank reviewed real estate collaterals for financing and real estate investments where the property is used for commercial purposes, such as retail, hotels, offices, industrial purposes or large rental properties, where the building owner or investor sells or rents the property to tenants for income.

GHG EMISSIONS SCOPE	METRIC / METHODOLOGY	TARGET 2030
Power Generation (Loan tape, Project Finance, Own portfolio)	**Relative reduction** (SBTi1.5, PCAF, Energy SDA)	**-74%** **$tonCO_2eq/MWh$**
Cement (Loan tape, Own portfolio)	**Relative reduction** (SBTi1.5, PCAF, Cement SDA)	**-23%** **$tonCO_2eq$/ton cimento**
CRE (Loan tape)	**Relative reduction** (SBTi1.5, PCAF, RE SDA)	**-68%** **$tonCO_2eq/m^2$**

2.6 novobanco's Commitments

Based on this integrated vision of the ESG policy and the pillars for strategic action, novobanco proposes to review its current commitments and set new targets for its environmental, social and governance performance for 2026 and 2030.

Customer-centric bank

Under this pillar, novobanco intends to continue strengthening the centrality of the customer in its operations. To this end, the bank has set itself two objectives: to increase its green investment ambitions from a three-year target of €600 million, which has already been more than achieved, to a total green investment commitment of €2,000 million by 2026. In terms of its offer of investment products, novobanco also commits to integrate more than 60% of products with ESG characteristics, in accordance with Articles 8 or 9 of the SFDR.

Simple and efficient operations

Under this pillar, novobanco commits to ensuring the simplicity and efficiency of its operations. In terms of the environment, this means increasing the target for reducing its own emissions (scope 1 and 2) from 28% by 2024 to 50% by 2030, compared to the same baseline year of 2021. To achieve this, the bank also commits to ensuring that by 2026 all electricity used in its premises comes from renewable sources.

Development of people and culture

novobanco wants to ensure the development of its most important asset, its people, by guaranteeing a robust and inclusive organisational culture. To this end, the bank is committed to continuing the planned reduction of the gender pay gap by function (equal pay indicator), bringing it to below 5% by 2026. In terms of employee engagement, novobanco aims to achieve a positive response rate of at least 65%.

Developing sustainable performance

novobanco aims to achieve sustainable performance for all its stakeholders. To this end, the bank is committed to reducing the intensity of greenhouse gas emissions in its main climate-impacting activities, in line with the objectives of the Paris Agreement. It also intends to ensure the representation of women in management positions within the Bank, with the aim of achieving 40% female representation in management positions by 2026.

novobanco commitments

1 CUSTOMER-CENTRIC BANK

Green production

Target 2026
2.000 MEUR by 2026

Target 2024
200 MEUR p/a até 2024 — ✓ 369

Produtos de investimento com características ESG

Target 2026
60% of invest. products[3]

Target 2024
60% — ✓ 63%

2 SIMPLE AND EFFICIENT OPERATIONS

Own emissions (Scopes 1 and 2)

Target 2030
-50% vs 2021

Target 2024
-28% vs 2021 — ✓ -36%

Renewables share

Target 2026
100%[4]

NEW

3 DEVELOPING PEOPLE AND CULTURE

Equal pay[1]

Target 2026
Below 5%

Target 2024
Below 5% — 5,3%

Employee engagement

Target 2026
At least 65%

Target 2024
65% — 57%

4 DEVELOPING SUSTAINABLE PERFORMANCE

GHG emissions reduction targets

Target 2030
100% Target by sector[2]

NEW

Women in management[5]

Target 2026
At least 40%

NEW

✓ Current target achieved   (xx%) Performance in 2023

1) Equal pay gap calculated per function.
2) Power generation; Cement; CRE.
3) % of investment products (investment funds, financial insurances, structured notes or deposits) with ESG characteristics/ concerns – Art.8 and 9.
4) Net renewables share of 100% by 2026 (Azores, Madeira, Group facilities and branches with no direct contract need to be addressed).
5) Previously Sr Leadership .

2.7 Our Performance

In the past, novobanco presented a social dividend plan based on 15 indicators, for which it set targets until 2024.

In 2023, as a result of the review of its strategic priorities, the bank revised and redefined new indicators and targets for 2026 and 2030, focusing its attention on 8 indicators that it considers to be the key indicators for monitoring progress in the strategic areas. However, novobanco intends to continue to ensure visibility for its performance in all 15 indicators for which targets for 2024 were set.

The table below shows the Bank's results for these indicators at the end of 2023, with the indicators aligned with the priority SDGs, and the strategic alignment resulting from the new double materiality exercise carried out this year.

Regarding 2023, we highlight the following facts: (i) the Bank has already exceeded the green investment target of €600 million set for 2024 (€713 million at the end of 2023); (ii) significant improvement in the NPS indicator compared to 2021 - 17 pts at year-end (annual average 3.8 pts, as per the dividend); and (iii) the bank has already exceeded the target for reducing its own emissions compared to 2021 (-36% compared to an initially planned reduction target of -28% by 2024).

1 CUSTOMER-CENTRIC BANK

Support our clients transition and maximize positive impact on society and environment

Results	Target	Indicator
€713M	€600M	of Green investment vs 2021[1]
63%	60%	of investment products with ESG characteristics[2]
3,8	10	in client NPS indicator vs 2021[3]
3	4	partners. to promote people with disabilities employment[4]

2 SIMPLE AND EFFICIENT OPERATIONS

Improve efficiency, enable own transition, ensure systems readiness for ESG

Results	Target	Indicator
-36%	-28%	of tCO_2 emissions from own operations vs 2020[5]
+11%	-30%	of tonnes of paper consumption vs 2021[6]
76%	90%	of suppliers with sustainability score[7]

3 DEVELOPING PEOPLE AND CULTURE

Strengthen capabilities, inclusiveness, diversity and the engagement of our people

Results	Target	Indicator
5,3%	5,0%	in gender pay gap[8]
47%	40%	employees benefitting from social well being program[9]
57%	65%	in employee engagement level vs 2021[10]
+792	9.594	growth in hours of employ. voluntary service vs 2021[11]
-5%	+3%	Employ. with psychosocial risk assessment as healthy[12]

4 DEVELOPING SUSTAINABLE PERFORMANCE

Build a robust ESG governance & risk management framework

Results	Target	Indicator
27,3%	30%	of women in senior leadership positions[13]
94.403	96.861	ESG training hours to employees
€0M	€0M	of financing to excluded sectors[14]

Results | Target

1. Origination of own portfolio financing of or investment in companies primarily engaged in activities eligible to the European Taxonomy, and origination of own portfolio financing or investment where the funds used by the borrower or projects are directed towards economic activities eligible to the European Taxonomy or at investments in energy transition or the transition of the company's business model towards green activities; 2. Mutual Funds, Financial Insurance and Structured Products; 3. Net Promoter Score calculated for Individual Clients - BASEF; 4. Number of organisations with active partnerships with the Bank; 5. Scope 1 and 2 Greenhouse Gas Emissions; 6. Reduction of photocopy paper consumption through the implementation of the Phygital programme in the commercial network (started in 2019) and the dematerialisation of processes in the central services; 7. Suppliers with a continuous relationship with novobanco and annual turnover of over 10 thousand euros; 8. Gender pay gap weighted by the representativeness of each Function (equal pay); 9. Percentage of employees who attended at least 2 programme initiatives to promote a balance between personal and professional life, mental and physical health, a healthy style, etc per year.; 10. Assessment of the level of employee involvement through the Pulse survey (average % of employee involvement); 11. Promotion of voluntary service actions in strategic areas of social impact of the Bank. Each employee is entitled to 1 day's leave per year for voluntary work; 12. Annual psychosocial risk assessment study of novobanco's employee base; 13. First-line senior leadership and Executive Board of Directors; 14. Economic sectors not financed by novobanco: Arms, Prostitution, Pornography, Coal (mining and energy production) and Trade in wildlife and endangered species.

2.8 Our Partners

SIGNATORY

Corporate citizenship initiative which had its origin, in 2000, in a proposal by the then UN Secretary-General, Kofi Annan. It is based on ten fundamental Principles, in the areas of human rights, labour practices, environmental protection and anti-corruption, and aims to promote businesses' public and voluntary commitment to endorse these principles.

MEMBERS

Non-profit association that brings together and represents more than 90 leading companies in Portugal, which are actively committed to the transition to sustainability.

Organisations for Equality Forum, created in 2013, comprises 69 organisations committed to reinforcing and highlighting their organisational culture of social responsibility, incorporating, in their strategies and management models, the principles of equality between women and men at work.

Global Compact accelerator programme, which supports companies in setting ambitious targets for women's representation and leadership in senior management.

The Inclusive Community Forum (ICF) is a Nova SBE initiative dedicated to the lives of people with disabilities and the promotion of a more inclusive community.

Non-profit business association, which works in the areas of Social Responsibility and Sustainability. It is part of the European network of CSR Europe, a leader in sustainability and corporate responsibility, supporting industrial sectors and companies at a global level in the transformation and search for solutions for sustainable growth.

ASSOCIATE

Main entity representing the Portuguese banking sector, it was created in 1984 to strengthen the financial system and contribute to the development of a more solid banking sector.

Portuguese Association of Investment a Pension Funds and Asset Management Firms, which represents the interests of Mutual Funds management, Real Estate Funds management, Pension Funds Management and Asset Management, viewing a more efficient defence of these activities.

The Portuguese Quality Association is a non-profit organisation, founded in 1969, that aims to promote and disseminate theoretical and practical knowledge in the field of Quality and Excellence in Portugal.

National Customer Satisfaction Index is a system for measuring the quality of goods and services available in the national market, through customer satisfaction surveys.

Association that promotes a corporate culture that places the mental health of employees as a strategic priority for companies in Portugal, through raising awareness and training their leaders.

SUBSCRIBER

Document presented by the United Nations Global Compact, which has as its main objective to achieve the transition to a low-carbon economy and to avoid the overheating of the atmosphere.

Letter of Commitment to Sustainable Finance in Portugal, which aims to contribute to the promotion of sustainable investment practices.

3 CUSTOMER AND SOCIETY CENTRIC BANK

novobanco's day-to-day activities are focused on responding in an exemplary manner to the needs of its customers at all moments of their lives, and this purpose is the first pillar of its strategy.

novobanco is aware that financial institutions play a key role when addressing their customers' needs on a daily basis. And because customers are not all the same, the Bank takes a differentiated approach that aims to deliver the best experience and the most appropriate products and services to each of them, thus reinforcing the trust they have placed in the Bank. In the current context, three issues deserved particular attention from novobanco in 2023: i) supporting customers in their transition to a low-carbon economy; ii) supporting customers with high levels of debt; and iii) providing savings solutions for all types of budgets.

In addition to its role with its customers, novobanco also actively contributes to the development of the community in which it operates, through its own investments or through partnerships with social economy or environmental organisations.

"Being aware of the environmental and social impacts of our financial products and services is one of our commitments. That´s why we evaluate the business opportunities in line with client´s expectations"

3.1 Supporting our Corporate Clients' ESG Transition and Journey

With the firm resolve of contributing to the promotion of sustainable investment practices in the country and accelerating the transition to a carbon-neutral economy by 2050, novobanco Group offers its clients sustainable financial solutions that comply with ESG policies and principles, and its products not only follow environmental criteria, supporting clients in their transition to acarbon-neutral economy, but also social and governance criteria.

3.1.1 Sustainability in our Offer for Corporate and Commercial clients

novobanco plays a leading role in supporting the Portuguese economy, with a large market share and a specialised sectoral and functional offer (for more information see chapter 3.3 of the Management Report).

Supporting its customers in their energy transition and sustainability journey is an integral part of this specialised sectoral and functional approach. To this end, novobanco has invested heavily in understanding and assessing the challenges of the climate and energy transition for Portuguese companies, in order to:

- Enhance and adjust the offer of products and services to the specific transition or conversion needs of each company; and
- Identify the potential impact of these challenges on each company's finances.

"Paying attention to climate change is no longer just a commitment. We act and reinforce our offer to be our client´s partner in a low carbon economy."

In this context, the Bank has bolstered its offer with environmental criteria aimed at the corporate segment.

SUSTAINABILITY LINE	DECARBONISATION AND THE CIRCULAR ECONOMY LINE	LINE FOR IMPROVING TOURISM OFFER
This line aims to support companies in their energy transition to a low-carbon economy and/or Taxonomy-eligible companies under Regulation (EU) 2020/852 of the European Parliament and of the Council.	This line aims to facilitate access to funding for the implementation of sustainable projects. Eligible investments include, among others: i) modern and efficient equipment; ii) investment in renewable energy sources for self-consumption in the production process or in circular strategies for any stage of the product/service life cycle; and iii) implementation of monitoring, control and action devices that optimise the conditions of use, energy consumption and raw material consumption.	Line promoted by Turismo de Portugal, this line aims to encourage investment in low-density regions, and its eligibility criteria are also aligned with ESG objectives, namely energy efficiency, water management and accessibility.
€26.7m	**€3.2m**	**€746.2th**
1.20% of the total offer		**0.03% of the total offer**

SME Advisory Services

novobanco also offers its corporate customers an advisory service to support them in the energy transition process. To this end, it has established ESG partnerships with a number of companies specialising in different areas, such as the diagnosis and calculation of carbon footprints, the definition of sustainability strategies, decarbonisation solutions, certification projects, among others.

“We stand with our clients in their transition to a more sustainable economy, wich is why we provide a range of financial products and services especially aimed at structuring and carrying out the necessary investments.”

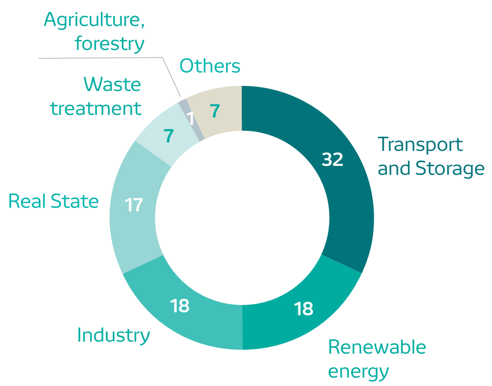
Green Investment

Cumulative green investment since 2021 reached €713m, surpassing the established target and thus proving right the strong bet made in this area.

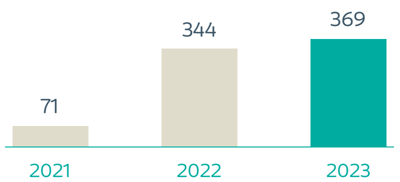
The concept of "Green Investment" is based on demanding criteria where the purpose of the financing or the activities involved are checked against the European Taxonomy. novobanco considers "Green Investment" (as defined in the Green Financing and Investment Classification Policy, available at www.novobanco.pt/sustainability/sustainable-business/our-approach - and presented in Chapter 6 of this report) as financing of or investment in companies or projects that:

- Operate in one or more of the eight sectors of activity (NACE codes for classification of economic activity) whose alignment with the European taxonomy is by default very high due to the characteristics of their main activity;
- Where the use of proceeds of the specific operation to be financed or invested in is aligned with the European Taxonomy objectives (Project Finance operations, Green or Sustainability Bonds/Loans,
- Commercial Paper and Sustainability-Linked Bonds/Loans. Where the eligibility of the activity and the contribution of the financing to the client's energy transition in accordance with the Taxonomy criteria is checked;
- Financing of real estate with level A energy certificate or BREEAM excellent or LEED gold.

Production of Green Financing/Investment in 2023 by sector of activity
(%)



Green Investment
(M€)/year



Value for 2022 has been recalculated

Social Sector Financing Line

Within the framework of the social economy, novobanco, in partnership with Banco Português de Fomento, also offers a Social Sector Financing Line designed to support the funding needs of social economy entities - private social solidarity institutions or similar non-profit organisations - either as support to investment or to working capital.

Credit Recovery Strategy

In line with its culture, novobanco fosters and maintains a close relationship with its corporate clients, being a partner even in times of greatest difficulty and when the resolution of possible credit difficulties is necessary. Recovery solutions and strategies are based on several indicators, namely customer cooperation, financial viability, guarantees and sustainability of the solution to be proposed to the customer, always in strict compliance with the laws and regulations in force, based on high ethical standards, cordiality and rigorous analysis of the financial situation of the companies under management.

3.1.2 Business Community Awareness and Capacity Building

novobanco is an active agent in the ecosystem to which it belongs, where it puts a particular focus on reviving the economy and supporting the communities it serves. In this context, it annually organises and participates in various initiatives to promote sustainability, including sectoral and/or regional initiatives, in a joint search for solutions and strategy that improve social and financial wellbeing, responsible growth, job creation, people capacity-building and respect for the environment.

In 2023, in order to strengthen its position as a reference financial partner for Portuguese SMEs, as well as a promoter of economic, environmental and social sustainability, novobanco signed two protocols with the Nova School of Business and Economics (Nova SBE):

- **novobanco Chair in ESG** - a chair that will focus on research and training in the field of finance, with a strong emphasis on ESG issues, including research on the impact of sustainable investment on reducing pollution.
- **Founding member of the Voice Leadership Programme** - a programme that aims to modernise and make Portuguese SMEs more competitive by empowering their decision-makers. By 2026, this programme will equip managers and decision-makers from around 5,000 companies with management tools and routines to improve their competitiveness and future growth, combining innovative theoretical and practical management training with personalised mentoring.

This partnership underlines novobanco's commitment to addressing the challenges facing business, from sustainability and environmental responsibility to leadership and innovation.

Two other programmes in the area of sustainability also deserve a note:

1. **"Sustainability for SMEs",** a programme launched in 2023 in partnership with the Portuguese Chamber of Commerce and Industry (CCIP), which aims to raise awareness among companies about sustainability. With media partners TSF and Dinheiro Vivo, the programme began with the broadcast of 9 radio programmes interviewing experts on various sustainability topics, and two webinars to support the transformation of SMEs: "Sustainability for SMEs - what you really need to know" and "Learn about the benefits of sustainable finance".

WHAT YOU CAN LEARN ABOUT SUSTAINABILITY ON THE RADIO

1. Is ESG the same as sustainability?
2. What is energy transition in an SME and what support and funding is available?
3. Can sustainability change the way SMEs interact with banks?
4. What are the main challenges of new working models in SME management?
5. What is greenwashing?
6. Taxonomy! What does it mean? How can you help SMEs to redirect their investments?
7. How can sustainability be leveraged in the company's value chain?
8. What are the easiest ways to reduce your company's CO2 emissions?
9. 9elationship between large companies and SME suppliers

2. **Second edition of the ESG Talks**, a cycle of novobanco conferences dedicated to sustainability, held with the strategic partners Nova SBE and PwC Portugal and the media partners VISÃO and EXAME.

   This cycle consisted of four conferences that addressed the key issues in the ESG universe through presentations, reflections, panel discussions and other interventions. All the conferences were attended by renowned entrepreneurs, political decision-makers and academics.

ESG Talks 2023 Conference Themes

HOW DOES ESG AFFECT MY BUSINESS?	CLIMATE CHANGE, BUSINESS RISK AND SUSTAINABLE FINANCE	NEW WAYS OF ORGANISING WORK, EQUALITY AND INCLUSION	CORPORATE GOVERNANCE, SUSTAINABILITY AND GREENWASHING
The criteria used to assess the social, environmental and governance impact of companies and how these affect the business of SMEs.	The increased risk of climate change to companies' businesses and how this can be addressed through the options available for energy transition.	How to design an equality and inclusion strategy in companies, the challenges of the 4-day week and whether diversity is good for business.	The importance of a company's organisational structure having a robust governance for professional business management.

Photos: Marco Borga

Photos: José Carvalho

3.2 Sustainability for our Retail Clients

Recognising the need to accelerate efforts to achieve carbon neutrality by 2050, the Group aims to be close to its clients, by responding to their financing needs, by reinforcing its offer of green or transition financing, and by enabling them to invest with sustainability objectives, through the provision of investment products and services with ESG criteria.

FINANCING

NOVOBANCO ECO RESIDENTIAL MORTGAGE LOANS

Offer with an environmental bias that allows customers to benefit from a bonus on the spread when purchasing a property with an A+, A and B energy certification.

PERSONAL LOANS - HYBRID AND ELECTRIC VEHICLES

Car loans (new and used) for the purchase of green mobility vehicles (plug-in, electric hybrids and non-electric hybrids), with a 1% bonus under the Personal Credit Line pricing strategy.

Achieved in 2023:

€51.9m
359 Clients
1.1% of total mortgage loans production in the year

€3.4th
9.9% of total car loans production

RENEWABLE ENERGY LOANS

Offer with an environmental bias that allows customers to purchase any renewable energy generation product at a more attractive rate.

18.25 AND 26.31 CARBON NEUTRAL ACCOUNTS

We neutralise CO_2 emissions, even those resulting from usage by our clients of, among others, computers, ATM enquiries, and cards.

The neutralisation of these accounts is equivalent to:

- CO_2 emissions resulting from 2549 round-trip journeys by medium-sized car, from Lisbon to Porto.
- CO_2 emissions equivalent to the consumption of 683 barrels of oil;
- Enough gas to fill 59 hot air balloons;
- CO_2 emissions resulting from the average electricity consumption of 457 Portuguese families

The first fully carbon neutral bank account in Portugal - (e) mission neutral certified®. Adapted to the needs of young people and designed to have a lower environmental impact, these accounts have low carbon emissions because they are online and because their emissions are neutralised, according to the PAS 2050:2008 methodology, which analyses the life cycle of products and services. The emissions that cannot be avoided are neutralised through the support provided to Tamil Nadu, a project to install a photovoltaic solar farm to replace energy produced by coal-fired power stations. This project not only reduces carbon emissions, but also brings social and economic benefits to local communities, creating 285 jobs for people in villages near the solar farm.

167.6 thousand novobanco accounts – €256.5m
12% of total service accounts of individuals and small businesses with in novobanco

4.3 thousand accounts novobanco do Açores – €5.9m
16% % of total service accounts of individuals and small businesses with in novobanco dos Açores.

ESG Factors in the Investment Advisory Service

The advisory model offered by novobanco to its individual clients has been enriched with the new ESG and sustainability dimensions, based on the revised asset selection model, including, in addition to ESG risk analysis, an analysis of the investment exclusions or safeguards of each fund. These new attributes are therefore taken into account when researching the most appropriate financial products for each client, in order to meet the preferences expressed in the Sustainability Preferences Questionnaire.

In the current state of the industry, it is already possible to find investment funds with ESG features or sustainability objectives. Therefore, customers who express their preferences in terms of standards to classify financial products that have sustainability objectives or promote environmental or social characteristics (SFDR), will always find a proposal from novobanco that suits such preferences.

ECO or ESG Structured Products

The novobanco Group has continued to market ESG and ECO structured products to its clients. These product's remuneration is linked to the share performance of companies that stand out for their ability to lead social and governance change subject to environmental and social criteria, or to financial assets that aggregate shares of companies with the same characteristics (e.g. ETFs, indices, etc.).

The criteria for the selection of the assets to be included in these products are subject to a valuation model based on quantitative and qualitative data. The analysis is based on publicly available information, combined with the company's strategy and its inclusion in ESG indices.

PERFORMANCE 2023 – novobanco	PERFORMANCE 2023 – novobanco dos Açores
€12.9m subscribed in 2023 in ESG/ ECO products, out of a cumulative total of €45.5m on customers' portfolios at the end of 2023.	€411th invested in 2023 in ESG/ ECO products, out of a cumulative total of €1m on customers' portfolios at the end of 2023.
20% of the total portfolio of structured products	**61% of the total portfolio of structured products**

ESG Funds

In 2023 the Group offered more than 1.500 ESG funds with investment made by its clients. In line with the European Sustainable Finance Directive, the Group classifies these funds into two categories:

- **Article 8 SFRD (Sustainable Finance Disclosure Regulation)** - funds that invest in companies with environmental, social and governance considerations;
- **Article 9 SFDR (Sustainable Finance Disclosure Regulation)** - funds whose objective is sustainable investment with environmental, social and governance considerations.

In 2023, clients' investments in these funds had the following performance:

PERFORMANCE 2023	ARTICLE 8	ARTICLE 9
novobanco	77 funds with an investment of **€431.4m** 36% of the total portfolio of distributed funds	5 funds with an investment of **€10.4m** 1% of the total portfolio of distributed funds
BANCO BEST	1375 funds with an investment of **€351.2m** 60% of the total portfolio of distributed funds 43 ETF with an investment of **€2.9m**	91 funds with an investment of **€18.1m** 3% of the total portfolio of distributed funds 3 ETF with an investment of **€20th**
novobanco dos AÇORES	1 fund with an investment of **€52.9th** 4% of the total portfolio of distributed funds	-

Financial Inclusion

The adaptation of products to the needs of customers also involves the integration of social concerns. novobanco adjusts its products to the new realities of customers, focusing on savings, which are tailored to each family's budget.

Micro Saving
Based on this positioning, the Bank offers a package of Micro Saving solutions comprising three products:

SAVINGS	DESCRIPTION	PERFORMANCE 2023
PLANNED SAVING	Permits to build up savings from as low as 10 euros per month through the subscription of a monthly plan in which the clients set the amount and the time of month of deposits, thus adjusting savings to the family budget.	**€91.4m** in savings 19.9 thousand subscribing clients
MICRO SAVING	Allows any client to start saving money by small amounts through the rounding up of debits of day-to-day expenses (such as residential mortgage loan instalments or personal loan repayments, insurance premiums, or direct debits), which are transferred to a saving account.	**€7.3m** 39.0 thousand subscriber clients
novobanco APP TARGETED SAVINGS **BEST BANK APP TARGETED SAVINGS**	Exclusive products for clients who have installed the novobanco or Banco Best apps: once the client has defined his/her saving objectives (how much and for how long he/she wants to save) the app traces the path to reach this objective.	**€33.0m** 24.0 thousand subscriber clients **€286.5th** 186 clients

In 2023, the micro-savings of novobanco's clients totalled €131.6m.

MINIMUM BANKING SERVICES ACCOUNT

This account provides a wider coverage of financial services provision and therefore wider social inclusion. It gives clients a current account and a debit card and the possibility to use the account through ATMs in the European Union, direct channels and the Bank's branches.
Its annual maintenance fee cannot exceed the equivalent of 1% of the social support reference rate at any given time. This product is designed for:

- Individuals who hold no other current account in any other institution, or who hold only one current account which is converted into a minimum banking services account.
- Individuals who hold other current accounts, but wish to open a minimum banking services account where one of the holders is over 65 years old or is dependent on others.

novobanco held 13,500 Minimum Banking Services Accounts.

Support to Families

In a year marked by a sharp rise in interest rates, the number of customers in financial difficulty and at risk of defaulting on their loan agreements increased.

For novobanco, supporting its clients also means developing measures to prevent and regularise situations of late payment on loans and designing an action plan for the risk of default, focusing on finding, together with the clients, the most appropriate solutions for these situations.

In order to regularise default situations, customers are offered a range of options, both short and medium term, which include different strategies and approaches, from the implementation of payment agreements to the renegotiation of debts.

From the first warning signs of financial difficulties, customers can use the Bank's face-to-face, digital and telephone channels to clarify their doubts and ask for the Bank's help.

Customers with loans at risk of defaulting or who are in arrears with their instalments can also obtain additional information on the rules applying to defaults on loan agreements at the bank's customer portal (http://clientebancario.bportugal.pt), at the "Todos Contam" portal (www.todoscontam.pt), as well as free advice and monitoring from RACE (www.consumidor.gov.pt).

novobanco also maintains a communication channel with the Portuguese Association for the Defence of Consumers (Associação Portuguesa de Defesa do Consumidores - DECO) to receive requests for assistance from the bank's customers.

Re-PVC (recycled PVC) cards

In 2023, novobanco began to gradually replace all traditional PVC bank cards with re-PVC cards, which are made from recycled plastic from regionally collected industrial waste.

Recycled PVC (re-PVC) cards contribute to the conservation of natural resources, as they avoid the production of new PVC and reduce the amount of PVC deposited in landfills.

With this initiative, novobanco avoided the production of more than 880,000 plastic cards in 2023, or 4.4 tonnes of traditional PVC.

For a future with less environmental impact, novobanco continued to recycle its expired bank cards for future use in the manufacture of street furniture. In 2023, 1.7 tonnes of credit and debit cards were sent for recycling and reused in the production of street furniture, thus promoting the circular economy.

More information about recycling in chapter 4 of this Report.

3.3 Asset Management

Responsible investment recognises the importance of environmental, social and governance factors for investment success and long-term stability. Under this premise, the novobanco Group offers ESG investment funds not only through GNBGA but also through entities outside the Group, which are diversified both geographically and in terms of investment strategies.

Through GNBGA, the Group offers three funds with ESG criteria. These funds promote sustainability characteristics and are classified under article 8 of the SFDR regulation.

Considering the scope and growing importance that the market as a whole, i.e., clients, banks, management companies and regulators, afford to the issue of sustainability, GNB Gestão de Ativos intends to continue expanding its range of products that promote sustainability criteria in 2024.

NOVOBANCO SUSTAINABLE MOMENTUM FUND	OPEN PENSION FUND MULTIREFORMA	PPR PENSION FUNDE VINTAGE SUSTAINABLE
With a diversified portfolio of assets of companies that adopt the best practices in terms of ESG criteria, the fund aims at consistent long-term value increase based on the three pillars of Sustainability. At least 75% of the fund's direct investment component must be invested in companies with an Eikon ESG rating above 50 points (rating B- or higher) and the Fund may not invest directly in companies with an Eikon ESG rating below 10 points. The Fund will invest at least 85% of its net asset value in shares and other securities convertible into shares or giving the right to subscribe shares.	With a diversified portfolio of assets of companies that adopt the best practices in terms of ESG criteria, the fund aims at consistent long-term value increase based on the three pillars of Sustainability. At least 75% of the fund's direct investment component must be invested in companies with an Eikon ESG rating above 50 points (rating B- or higher) and the Fund may not invest directly in companies with an Eikon ESG rating below 10 points. The Fund will invest more than 75% of its assets in shares of companies listed on regulated markets and in equities collective investment undertakings (including ETFs), with a benchmark (direct or indirect) investment allocation of 100% in equities.	With a diversified portfolio of assets of companies that adopt the best practices in terms of ESG criteria, the fund aims at consistent long-term value increase based on the three pillars of Sustainability. At least 75% of the fund's direct investment component must be invested in companies with an Eikon ESG rating above 50 points (rating B- or higher) and the Fund may not invest directly in companies with an Eikon ESG rating below 10 points. The Fund may invest a maximum of 15% of its assets in shares of companies listed on regulated markets, with a benchmark of 7.5%, and a minimum of 50% of its assets in bonds, with a benchmark of 55% for fixed-rate bonds and 37.5% for variable-rate bonds.
The Fund's assets are worth €160.5m. **The Fund represented 21.9% of all the Securities Funds domiciled in Portugal managed by GNB Gestão de Ativos.**	**At year-end the Fund's assets were worth €15.0m.** **The Fund represented 3.7% of all the Open-end Pension Funds managed by GNB Gestão de Ativos.**	**At year-end the Fund's assets were worth €59.4m.** **The Fund represented 14.5% of all the Open-end Pension Funds managed by GNB Gestão de Ativos Portugal.**

3.4 The Customer's Voice

To deliver the best experience to its clients, the Voice of the Customer Diagnostic model is based on several pillars that aim to bring the voice of the customer into the organisation, enabling a better understanding of customer needs and satisfaction throughout the customer lifecycle and identifying opportunities for improvement.

The information obtained through this consultation and monitoring model is shared with the Group's commercial structures and with the central areas, enabling a set of actions to be taken to improve the clients' experience of the Group in its various dimensions and to design an adequate offer of products and services.

Voice of the Client (VoC) Diagnostic Model

SERVICE QUALITY

Experience monitoring surveys of customers with the service provided in all commercial structures of the bank and all the segments.
In 2023 we will start installing feedback from customers 24 hours after visiting a branch.

EXTERNAL SURVEYS

Benchmark NPS* monthly monitoring of private customers (BASEF Banca and CSI developed by Marktest) and from clients company (Financial Services Barometer developed by DATA E).

MOMENTS OF TRUTH

Continuous monitoring of customer experience, immediately following key moments in the banking relationship, aiming to identify opportunities for improvement that meet customer expectations and needs

RELATIONAL STUDY

Survey carried out with all private clients with the aim of measuring their loyalty based on all the experiences lived throughout its life cycle.
The results identified key drivers of satisfaction and their root causes, enabling prioritized improvement actions.

DIGITAL CHANNELS

Study of customer satisfaction with digital channels across various dimensions (available features, ease of use, security, and visual appeal) and a comparison with competitors. In 2023 the bank implemented real-time customer feedback collection on its digital channels and website.

MYSTERY CLIENT

Customized program with the aim of identify service weaknesses and need for training. Performed annually depending on the critical themes and needs of the time.

QUALITY INDICATOR

Quality Indicator for commercial areas which reflects the quality of service and other elements that impact the customer experience.

AD HOC SURVEYS

Specific studies using different methodologies, depending on the themes critics of the moment.

IMPROVEMENT

Sharing the information resulting from the VoC Model with the bank's commercial structures and improvement teams, allowing trigger a set of actions that aim to improve customers' experience with the bank in its various aspects.

* NPS (Net Promoter Score) - Loyalty metric, based on the probability of the customer recommending the bank to friends and family/business partners based on the experiences they have had during their customer lifecycle.

The bank collected approximately 62,900 satisfaction questionnaire responses from individual and corporate clients in 2023, representing a 19% increase compared to 2022.

One of the main pillars of the bank strategic positioning is to be a bank that focuses on its customers and their needs, constantly seeking to understand their needs at the different stages of their lives, actively listening to what they have to say through the various channels available, and thus continuing to offer a range of products and services that best meet their expectations.

To this end, the Bank created the Customer Experience and Satisfaction Office, which represents the voice of the customer inside the novobanco Group and ensures the strategic alignment of the entire organisation to design the best service experience and customer satisfaction for the profitable growth of the business. The individual clients segment continues on its path of innovation, progressively developing and promoting the omni-channel capabilities of its Contact Hub, largely based on digital transformation, whereby it seeks to provide customers with maximum convenience, in a context of trust and relationship, whenever this is relevant.

Retail Clients

Around 59.2 questionnaires were returned in 2023 in the retail clients segment. Approximately 85.2% of novobanco's clients and 93.1% of novobanco dos Açores' clients are very satisfied with the quality of the service provided, up by 2.2 p.p. and 1.6 p.p., respectively, on the 2022 results.

In 2023 novobanco also collected the opinion of more than 5.3 thousand clients about their experience in the main moments of truth in their relationship with the bank, namely account opening, mortgage loans, and personal loans.

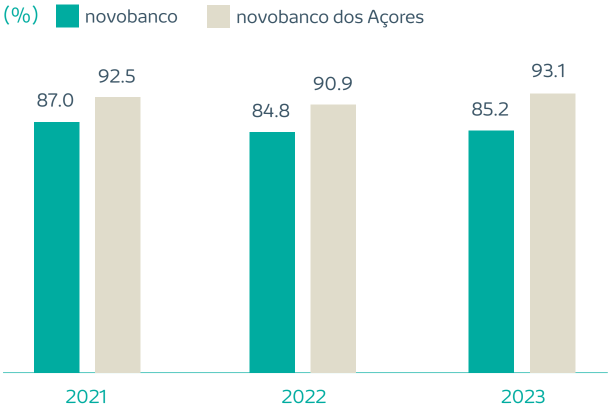
Always taking into account i) the adequacy of products and services to customer needs, which is a direct result of the consultation process carried out on a regular basis, ii) new market trends, and iii) regulatory requirements, the novobanco Group has been reshaping its offer in order to strengthen it and increasingly respond to environmental, social and ethical considerations. The Net Promoter Score (an index that calculates the intention to recommend the Bank) stood at 17 points in December 2023 (average of the last 4 months), an improvement of 17 points compared to the last 4 months of 2022*.

This improvement follows a year of frankly positive financial results, recognised by the market not only in terms of the significant improvement in novobanco's credit rating, but also through the "Bank of the Year in Portugal" award from The Banker, a prestigious publication of the Financial Times Group. This award recognises novobanco's unparalleled commitment to its customers, consistently anticipating their needs and providing innovative, efficient and transparent banking products and services, based on high standards of ethics and integrity.

The Net Promoter Score in Corporate segment stands at 45 points in 2023, an improvement of 7 points on 2022*.

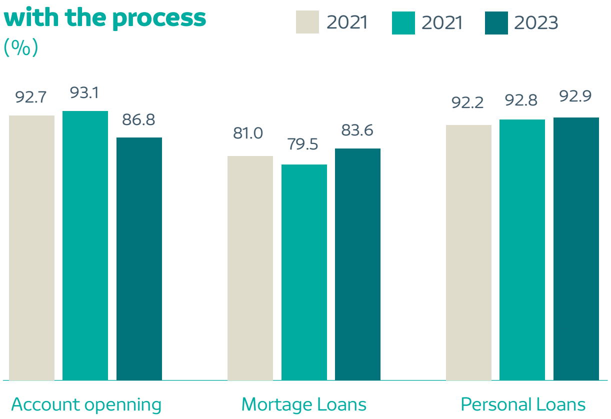
Very Satisfied Clients I Retail Banking

(%)



Moments of truth I satisfaction with the process

(%)



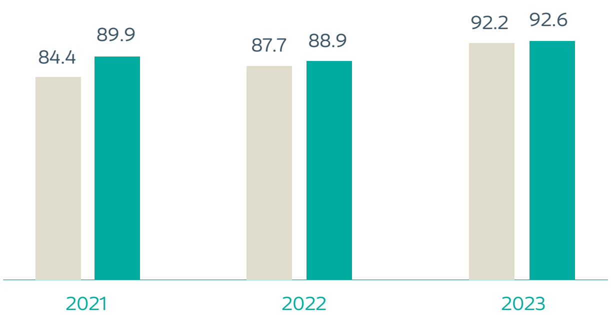
Corporate Clients

Creating a value proposition for the Corporate segment that is innovative, competitive and profitable, and bolsters novobanco's role as the reference bank for companies in Portugal, remains one of the Group's key priorities, and the customers' voice gives a crucial contribution to attaining this goal.

In 2023, corporate banking collected approximately 1.7 thousand replies to customer service satisfaction surveys. The results show that 92.6% of medium-sized corporate clients and 87.1% of large corporate clients are very satisfied with the service, representing increases of 7.3 p.p. for Medium-Sized Companies and 4.5 p.p. for Large Companies compared to 2022.

Very satisfied clients I Companies

(%)



The Net Promoter Score in Corporate segment stands at 45 points in 2023, an improvement of 7 points on 2022*.

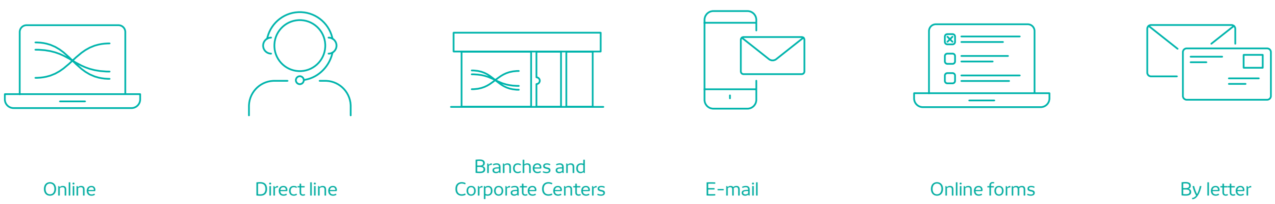
The segment's frankly positive evolution shows that the bank's actions are aligned with its needs.

> Customer experience is at the centre of our omni-channel banking strategy. We place great emphasis on continuously improving our customer satisfaction framework, bringing the Voice of the Customer into the organisation. Through this continuous system of learning and improving our customers' journeys, we aim to stand among the market leaders in both CSAT (% of very satisfied customers) and relational NPS.

In this consultation process, customers have several channels available to submit their complaints, which the Bank endeavours to solve upon the customer's first contact. A frank and continuous contact with this group of stakeholders requires fast and efficient replies to their comments or complaints, and helps maintain and develop a relationship of trust. At novobanco and novobanco dos Açores, the complaints index in 2023 was 0.38 and 0.15 per thousand active customers, respectively, in line with these figures in 2022.

* Source: BASEF Banca 2023 / Marktest. Period from September to December 2023 versus September to December 2022 for companies with a turnover greater than 5 M euros

Channels for submitting complaints



3.5 Wellbeing, Inclusion and Financial Security

Ensuring the development of financial skills and contributing to a generation of informed consumers with greater capacity for analysis and decision-making, as well as providing access to financial services in a safe and simple way, are the premises on which the Bank bases its operations.

With a focus on the wellbeing of the population and the stability of the financial system, the Bank's performance is thus based on three pillars:

SECURITY	ACCESSIBILITY	FINANCIAL AND DIGITAL LITERACY
Protecting customers and fighting cybercrime	Making the banking system simpler and more accessible	Increasing financial and digital knowledge

Security

Digital banking has enabled greater and faster access to financial services and products. The bank's customers are increasingly using the novobanco website and app for their financial transactions, which translates into 1.5 M access per day. To manage its customers' daily financial life, novobanco ensures that the bank is always available, convenient and secure. To this end, it provides both its customers and its employees with a wide range of tools and information to make online banking safe and secure at all times.

This accessibility requires a high level of information security, which is why the Group operates in accordance with best market practices and in compliance with legal and regulatory requirements to ensure privacy and the correct processing of personal data. To this end, it has developed a set of internal procedures and regulations, as well as a detailed Privacy Policy on the processing of personal data, which is available on its website, in order to guarantee the confidentiality, integrity and availability of information.

Information security means confidentiality, integrity, availability and authenticity.

WE ARE ALWAYS VIGILANT	WE USE STATE-OF-THE-ART TECHNOLOGY	WE HAVE DOUBLE SECURITY AND DISPOSABLE CODES
24 hours a day to monitor all transactions and identify suspicious activity.	We use SHA256RSA SSL technology to encrypt information/communications.	Online banking and credit card transactions have exclusive guarantees to protect you from fraud, giving you peace of mind.

Accessibility

Accessibility, or the lack of it, is perhaps one of the main factors leading to social and financial exclusion. In order to be always present, the Bank has taken every step to ensure that its customers can access financial services when digital is not an option.

To this end, and for those who find it more difficult to get around, as part of its social welfare programme and with the aim of developing a set of practices aimed at building a more inclusive society, the Bank has restructured the branches of its New Distribution Model (NDM) network and equipped them with ramps and stair lifts wherever possible. The majority of the NDM's branch network is accessible to people with reduced mobility.

To ensure financial inclusion and accessibility to financial services for all its customers, the bank has 299 branches, 51 of which are located in sparsely populated areas

"Preventing, detecting, and responding to new cyber threats are the goals that underlie the increased attention and strengthening of our technical controls."

Financial and Digital Literacy

In order to respond to the rapid digitalisation of society and the need to develop financial literacy, novobanco's priority is not only to guarantee a complete and innovative offer of digital financial services, but also to promote and educate for the correct use of these channels in everyday financial management.

With a particular focus on customers and the people who use digital channels to interact with financial services on a daily basis, novobanco continued its financial education programme based on two pillars: Digital Literacy and Savings and Personal Finance.

The aim of novobanco is not only to promote greater financial stability, but also to make the financial system simpler and easier to understand.

"We help make the banking system more accessible. Online financial transactions are simple, safe and easy."

DIGITAL LITERACY DIGITAL WELLBEING	**FINANCIAL LITERACY** WELLBEING BASED ON FINANCIAL HEALTH
Digital security is one of our priorities, and to improve the digital skills of people using financial services on a daily basis, we developed a digital literacy programme with the Portuguese Banking Association (APB) and its members. This programme enabled 600 participants to acquire basic digital skills from a user perspective, contributing to the safe use of digital channels. At the same time, we share basic rules for the safe use of our digital channels.	Balancing and planning your personal finances depends not only on your income and savings, but also on how you organise your personal budget. To help customers make informed key decisions for the present and the future, we have prepared a series of tips and simplified financial concepts to make it easier to manage personal finances.

With the aim of improving people's digital literacy, the Bank joined the Financial Education Project - Digital Literacy Programme of the Portuguese Banking Association (APB).

"All you need to know about online banking".
With this programme, the Bank aims to:

- Develop a set of basic digital skills from a user perspective
- Raise awareness to the importance of adopting more informed and safer financial behaviours
- Help train the target audience to use digital channels
- Promote higher levels of Digital and Financial Literacy in Portugal

In 2023, the Bank once again joined forces with the Portuguese Banking Association (APB), this time with the financial education project "O Banco da Minha Escola" (At my School Bench), which aims to create more informed generations capable of making informed decisions in the future. This initiative, which includes members of the APB, involves schools from the north to the south of the country and is aimed at students in the 3rd cycle and secondary education schools during the 2023/2024 school year. It is estimated that the APB and the employees of its 14 member banks will organise around 200 sessions in more than 50 schools, reaching more than 3,800 students.

novobanco employees organise financial education sessions at the General Serpa Pinto Primary School in Cinfães, the Padre José Augusto da Fonseca School Group in Aguiar da Beira and the Miramar School in Mafra.

TOPICS COVERED IN THE SESSIONS

1st term
Planning and Managing the Family Budget
Understanding what income and expenditure are, how to make a budget and how to manage a budget balance.

2nd Term
Financial System - Banking Products and Services
Gaining a deeper understanding of how the financial system works and learning about some basic banking products such as loans, deposits, payments and insurance.

3rd Term
Online Security
Identifying the different types of online fraud and adopting the most appropriate and safe behaviours to prevent them.

Braille Vision

Also in the context of integration, novobanco supports Visão Braille, published under a non-profit social responsibility and solidarity project and distributed free of charge by the TIN (Trust In News) Group. Issued monthly and containing a selection of articles, this magazine provides access to information for blind people who, despite all the technological innovations that have facilitated access to information, still prefer paper.

3.6 Social Welfare

To be integrated into society is to be part of it and to work towards developing initiatives that contribute to overcoming social, emotional, and cultural deficiencies, regardless of their cause. novobanco's contribution to the social wellbeing of the community in which it operates, aiming to reduce inequalities and respond to new opportunities for progress, is an integral part of the challenge undertaken by the bank in its corporate social responsibility strategy.

In line with its sustainable approach aimed at supporting the creation of solutions for important issues in the community where it operates, in 2023 the novobanco Group donated 475 thousand euros to various organisations, broken down as follows:

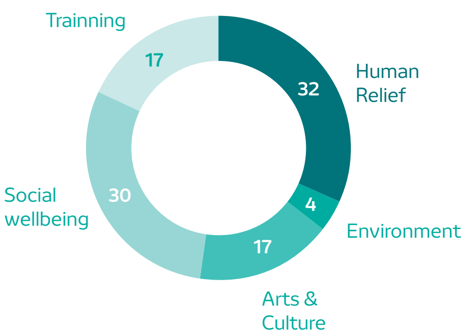
3.6.1 Diversity, Equity and Inclusion

Supporting organisations working in areas such as the promotion of diversity, equality and inclusion (DEI), combating poverty and social exclusion, among others, is the aim of novobanco's positive social impact programme. This approach is developed through various actions and initiatives, often involving the bank's employees.

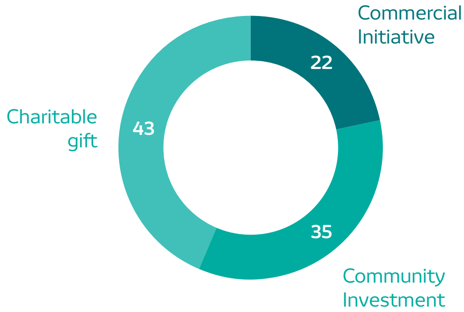
Bank Accounts

The first edition of “Contas com Gestos que Contam” ("Accounts with Gestures that Count”) ended in 2022. These service accounts of novobanco and novobanco dos Açores were associated with social responsibility causes of a social, cultural or environmental nature. In 2023, this initiative was continued with the campaign "For everyone, sustainability is our cause", in which the package accounts (100% and Conta 360º) are associated with a cause from the Bank’s corporate social responsibility programme, following on from two projects already supported in 2021/2022.

Donations by area
(%)



Donation by motivation
(%)



BECAUSE OF EVERYONE, SUSTAINABILITY IS OUR CAUSE		
SEMEAR ACADEMY	**WHAT CAN AN IMAGE TELL US**	**ECOETHICS PROJECT**
Together with SEMEAR Academy, we support the training and professional integration of 14 young people with intellectual and developmental disabilities and in socio-economic need, who otherwise would not be able to afford the tuition fees of the social integration programme.	Together with MEF (Photographic Expression Movement), we support and accompany the lives of 60 young people in 3 educational centres during their school career. The "What can an image tell us" Project aims to demonstrate the impact that the analysis of photo and video images can have on the development of young people's personalities, in a context of imprisonment.	Together with AMI, we support the Ecoethics project, which aims to rehabilitate and replant areas severely affected by forest fires, in particular in the Leiria pine forest. novobanco joined this project with a donation for the planting of 5,000 trees, with the help of customers and employees.

Leaders Gang Project

As a partner of Mentes Empreendedoras (Entrepreneurial Minds), the bank supports the Leaders Gang project, which aims to develop essential life skills in young adults and provides real moments of training and inspiration.

The 2023 pilot, supported by novobanco, involved 100 young people, of whom 65% were women and 18% came from rural and sometimes disadvantaged social and economic backgrounds. The participants organised and led three workshops for secondary school students in 43 municipalities and met seven inspiring leaders, including Catarina Furtado, Admiral Gouveia e Melo, Carlos Moreira da Silva and others.
They also took part in a Bootcamp involving formative and inspiring experiences. In addition, they visited novobanco, where they had the opportunity to learn about the professional development of one of its executive directors and several managers, as well as to ask questions and share their visions, ideas and fears.
The programme ended with a visit to the European Parliament, where they were welcomed by five Portuguese MEPs.

LEADERS GANG

The project is a talent and skills accelerator, aiming to celebrate and promote the social mobility of young people who have excelled throughout secondary school.

Participants testimonials

"The programme has shown me that I can achieve all my goals...

"It has made me more confident when speaking in public and dealing with an audience. These are skills that will help me in my professional future".

"I have learned to listen and understand other ways of thinking."

"I realised that I had to step out of my comfort zone. It gave me the push to venture out."

APCEF Associação para a Educação, Cultura e Formação

The partnership established with APCEF (Association for Education, Culture, and Training) supports the awarding of scholarships to children from the S. José de Beja School in Beja and the Laura Vicuña School in Vendas Novas, both areas of low population density and low income, who would otherwise not be able to continue their education.

Quality of Life Action

As a patron of the Salvador Association, an IPSS working in the field of motor disabilities, the bank once again joined the project to promote the social inclusion of people with motor disabilities. The Bank focused its support on the training and employment category, reinforcing its work in the area of diversity, equality and inclusion. The 16th edition, with a budget of 130,000 euros, supported 28 people with reduced mobility.

Christmas Action 2023 - This year we chose Acreditar

Christmas celebrations at the novobanco Group begin with the usual selection of a solidarity initiative by its employees. This year's chosen cause was Acreditar's new home in Lisbon, which has just been expanded from 12 to 32 rooms, thus tripling the number of families that it can accommodate free of charge. These families come from far away with their children for cancer treatment in Lisbon. Donations from staff and the Bank have made it possible to purchase more equipment than originally planned. This year, for the first time, the Christmas campaign had an external aspect: the bank's followers on social media were able to contribute through their reactions. For every "like", the Bank donated €1. This was another action in favour of equal opportunities and inclusion.

Associação Cais – Reflex Photography Award

In 2023, through the 16th edition of the REFLEX - CAIS | novobanco Photography Award, novobanco continued its long-standing partnership with Associação CAIS, an association that promotes the social integration of people experiencing poverty and/or social exclusion, through capacity-building methodologies to facilitate their approach to or return to the labour market.

This year's theme, "Water, the source of life", aims to spotlight the importance of this natural resource and to raise awareness to it, namely among the new generations. The aim is to use photography to help bring about a significant change in behaviours, particularly among political decision-makers, economic operators and civil society in general, and to raise citizens' awareness to the important challenge of preserving this resource. This year's edition saw a doubling in the number of participants, reflecting the growing concern for the environment, especially regarding water. In an initiative that aims to awaken consciences and have a positive impact on society, creativity, art and culture are the main tools of this project, which aims to highlight the value of photography as an artistic expression of excellence in Portugal and to raise awareness through images linked to socially relevant issues.

Humanitarian Relief

The earthquakes in Turkey, Syria and Morocco, and the floods in Libya, which have left millions homeless and displaced and claimed many victims, once again brought humanitarian aid to the fore. The Bank could not remain indifferent to these events and made donations to the organisations helping the victims: the Unicef Emergency Fund, the Red Cross, AMI and Care.

3.7 Cultural Patronage

novobanco Cultura brings together, under a single concept, all its Collections and its mission reflects a commitment to preserving, promoting and sharing our relevant cultural and artistic heritage. This facilitates access to the diverse collections for artistic communities, students, researchers, and the general public, both domestically and internationally.

novobanco Photography Collection

The collection comprises around 1,000 works by over 300 artists from 38 countries, encompassing renowned figures from both the national and international art scene. Recognized as one of the world's most significant photography collections, it is also highly awarded and stands out prominently within the global art landscape, ranking among the top 80 corporate collections worldwide.

The collection's works are frequently featured in national and international exhibitions. Notably, in 2023, the "Horizonte Y Limite. Visions of Paisaje" exhibition in Spain showcased contemporary photography from novobanco, furthering its international promotion.

novobanco Paintings Collection

Made up of Portuguese and European paintings from the 16th to the 20th centuries, 100 works from this collection are on permanent display in 39 museums across the country, representing important moments in the history of European art over six centuries.

Numismatics Collection

One of the largest and most complete numismatic collections in Portugal. Comprising approximately 13 thousand coins, all minted in territory that is or was Portuguese, from the period before Portugal was a nation up to the establishment of the Republic, the collection traces, through money, our development as a people, culture and nation over a period of more than 2,000 years.

Library of Humanistic Studies

It contains approximately 1,100 Old Books, including 8 incunabula, 90 works printed by the humanist Aldo Manuzio and his successors, and 600 titles printed in the 16th century. The remaining bibliography of about 8,600 titles serves as support to the study of the classical texts and their themes. The library is on deposit at the Faculty of Humanities of the Lisbon University (FLUL).

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4 SIMPLE AND EFFICIENT OPERATIONS

One of novobanco's strategic pillars is the aim of ensuring simple and efficient operations for its clients, providing a better banking experience and ensuring ever greater sustainability in its environmental and social footprint.

To this end, as already mentioned, the bank has made several commitments in the past, such as to significantly reduce its own emissions by 2024 (-28% vs 2021), a target which has already been exceeded (-36% emissions in 2023 vs 2021).

The bank intends to continue strengthening these objectives, having set new, even more ambitious targets for reducing emissions and adopting renewable energy solutions in all locations where they are available.

4.1 Environmental Footprint

Climate change is one of the greatest challenges of our time, giving rise to a huge variety of potential risks, such as floods, forest fires, storms and other extreme events. In this context, the Bank gives prime focus in all its activity to the minimisation of its environmental impact, structuring its climate pathway around 3 axes:

REDUCTION OF INDIRECT IMPACT ON THE ENVIRONMENT	REDUCTION OF DIRECT IMPACT ON THE ENVIRONMENT	AWARENESS-RAISING AND TRAINING FOR EMPLOYEES
Resulting from financing granted and investments made: • Financing to Companies • Financing to Individuals Staff • Investment Products with environmental criteria • Other	Resulting from its own operations within the scope of its activity: • CO_2 emissions • Electricity Consumption • Paper Consumption • Water Consumption • Other resources	• Consumption of resources at work. • ESG training to support the clients in their journey towards sustainability

The National Roadmap for Carbon Neutrality and compliance with the Paris objectives call for a profound transformation of business models.

The novobanco Group's operations directly impact the environment. For this reason, one of the strategic concerns of its environmental management is to find solutions that allow an adequate and rational use of the resources required to develop its activity.

The pandemic showed that it is possible to carry on the business while reducing the consumption of some resources. Hence, although the return of the employees to the premises after two years in home office may increase consumption, the Group has prepared this return by creating scenarios focused on strengthening dematerialisation initiatives at the business level and in terms of raising employee awareness, thus seeking to maintain or reduce consumption, mainly of paper and electricity.

Paper

Despite the dematerialisation of a significant part of the business processes and the adoption of the digital signature to formalise acts in the commercial network, which contributed to further a "paperless" culture and environment, there was a significant increase in the consumption of paper in 2023, of +16.6%, or 24.6 tonnes more than in 2022.
The novobanco Group carried out a detailed analysis to understand the causes of this significant increase in consumption and to reverse the negative trend observed in 2023:

- **A significant increase in commercial and operational activity**

  - Strong growth in the opening of new accounts and saving products: despite the fact that the process is already fairly digitalised, there are still cases that require it and clients who prefer to sign paper documents (more common among older clients);

  - A sharp increase in the formalisation of credit operations, both for retail and corporate clients.

  - Requests for instalment support: the increase in requests for instalment support resulted in more documents being printed to respond to these requests;

  - Paper-consuming execution of deeds at the branches.

- **New regulatory requirements**

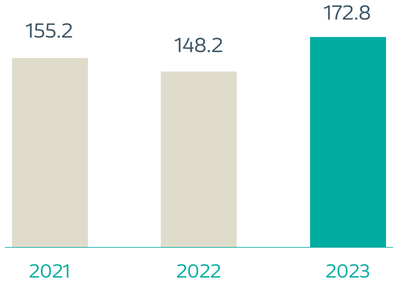
  - Change in spacing and font size in documents for delivery to individual clients, resulting in an increase in the number of printed sheets (Law No. 32/2021);

  - Increased issuance of duplicates of documents at the customer's request (Law No. 24/2023 prohibited the charging of commissions for duplicate requests, which led to an increase in customer requests).

- **Return of employees to face-to-face work**
  - In the central services the impact is significant, with face-to-face work having increased by 25.8 p.p. compared to 2022.

  novobanco has already launched a new campaign to raise awareness to the need to reduce paper consumption, recalling behaviours and habits that help achieve this goal, and will continue to invest in programmes to dematerialise internal processes, and in the digitalisation and phygitalisation of customer relations, giving priority, whenever possible and appropriate to customer preferences, to formalising documents by digital means.

Paper consumption
(ton)

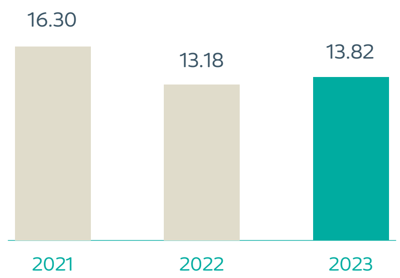


Electricity

Following the decision taken by the novobanco Group (novobanco, GNBGA and Banco Best) in November 2021 to use green energy (from renewable sources) in its facilities, which is currently available in around 77% of the facilities, some additional measures were implemented in 2023 to reduce consumption.

The teleworking scheme adopted since the beginning of the pandemic contributed significantly to reducing electricity consumption, but the return of staff from central services in 2023 led to a slight increase in consumption.

Electricity consumption
(kwh M)



A number of other measures were implemented in 2023 to reduce electricity consumption:

Commercial Network - with the consolidation of interventions under the New Distribution Model and in the number of branches, control of lighting, ventilation and air conditioning was increased. With modern new equipment in place, the process of preventive maintenance and monitoring and control of anomalies and alarms was optimised. The timer for the installed presence/movement sensors was also regulated, and the air conditioning set points and external signage hours of operation were adjusted.

Central Buildings - the policy of timed operation, both in terms of the lighting schedule - between 6am and 10pm, depending on the functional/departmental area - and in terms of the operating hours of the ventilation and air conditioning system, which is programmed to operate only on working days between 7am and 9pm, was maintained. In addition, incandescent lamps continued to be replaced by LED technology.

CO_2 Emissions

The goal set for 2030 is to reduce Scope 1 and 2 CO_2 emissions by 50%, an ambitious commitment for which the Bank will continue to make efforts to achieve reductions in different types of consumption.

To this end, in 2022, the novobanco Group defined a new Vehicle Policy to regulate and standardise fleet management, clarifying eligibility rules and responsibilities for using this benefit. The ESG commitments assumed by the Group were reflected in the policy, promoting and boosting the choice of vehicles with green motorisation (electric or plug-in hybrid), through the following measures:

- Price caps for electric or plug-in hybrid vehicles 10% higher than for combustion vehicles;
- Predominance of electric and plug-in hybrid options in the list of approved vehicles.

These targets have already led to an improvement in the composition of novobanco's fleet in 2023, with electric and hybrid vehicles rising from 3% of the total fleet at the start of the year to 25% at the end of the year.

The improvement in the composition of novobanco's fleet is the main factor in the reduction of Scope 1 emissions. novobanco's home office policy and the improvement of green mobility solutions for staff have prevented an increase in Scope 3 CO_2 emissions during the return to normality following the pandemic.

The increase in Scope 2 CO_2 emissions is temporary and mainly due to the fact that for some of novobanco's premises it has not yet been possible to find solid and permanent green energy solutions.

Environmental Indicators CO_2 Emissions* (ton)	2023	2022	2021	23 vs 22
Direct emissions (Scope 1)	3 675.3	4 158.1	4 696.1	-11.6%
Indirect emissions (Scope 2)**	1 146.3	811.3	2 937.5	41.3%
Indirect emissions (Scope 3)***	4 234.4	6 103.6	4 184.2	-30.6%
C1 - Goods and services purchased	91.5	81.6	87.2	12.1%
C4 – Business Travel (plane)	520.8	357.4	149.4	45.7%
C5 – Emissions from employees' home/ work daily trips	3 608.9	5 650,5	3 909.8	-36.1%
C7 – Waste generated in operations	13.2	14.1	3.9	-6.4%
Indirect Emissions (Scope 3 - Financed Emissions)	2 592 458.0	1 699 109.0		52.6%
Total (Scopes 1, 2 and 3) Excludes indirect emissions financed	**9 056.0**	**11 072.0**	**11 817.8**	**-18.2%**
Total (Scopes 1, 2 and 3) per employee	**2.2**	**2.7**	**2.7**	**-20.5**

*See methodological notes.

**Scope 2 is calculated under the market-based approach.

*** Includes the following categories of emissions: air travel, employees' commuting, waste, life cycle of paper consumed, paper recycling process, water consumption and wastewater treatment.

**** Includes financed emissions in the credit portfolio and in PCAF-based investments.

Recycling and Circular Economy

novobanco is aware that waste management is an essential process for the environment, bearing directly on the conservation of natural resources.

In this context, it has continued its recycling processes, especially of expired or unused bank cards, paper, cardboard, batteries and toners.

The amount of paper and cardboard sent for recycling has increased significantly compared to 2022 (+59% and +19% respectively), due not only to the increase in paper used in current activities, but also to the preparation of central services for the move to the new campus, which required a significant reduction in the existing paper archive that was no longer needed.

In 2022, the Bank started the process of recycling its bank cards. The card treatment process involves the collection and destruction of clients' expired bank cards, which are sent to Extruplás for recycling. Extruplás uses them to manufacture street furniture, significantly reducing the environmental impact of this waste if it were treated differently. In 2023 the Bank sent to Extruplás approximately 1.7 tonnes of bank cards for recycling, thus giving a new life to plastic.

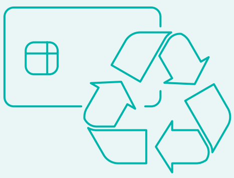
CIRCULAR ECONOMY		
PAPER	**BANK CARDS**	**CARDBOARD**
157.4 tonnes of paper made it possible to create new products, avoiding the extraction of more resources from nature.	1.7 tonnes of cards sent for recycling, giving plastic a new lease of life in the production of street furniture.	61.8 tonnes of cardboard reused in the production of new corrugated cardboard boxes or cardboard packaging.

In 2023, novobanco began to gradually replace all the old bank cards in PVC by re-PVC cards, which are made from recycled plastic from regionally collected industrial waste

More information on the re-PVC cards can be found in Chapter 3 of this report.

As part of the Bank's move to its new headquarters, which will take place in the second half of 2024, a pilot of the new working model has already been launched. The employees of the pilot department were given the chance to buy the old office furniture at a symbolic price, and the money raised was donated to charities of their choice. This reduced the environmental impact of destroying this material and encouraged its reuse for private use.

To reduce its direct impact on the environment, the Group also continued its practice of not using single-use plastics, providing its employees with alternatives made from paper, recyclable wood or other compostable materials.



We send expired bank cards for recycling to be used in the production of urban furniture.

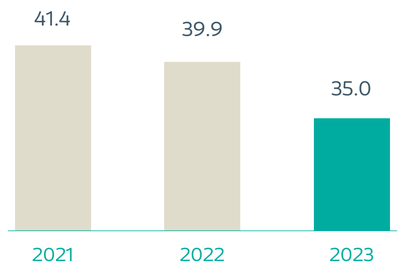
We stopped providing single-use disposable plastic cups, packaging, cutlery and straws, using instead paper cups and cutlery made from recycled and/or biodegradable materials.

Water

Despite the return of staff to the central buildings, the Group maintained a downward trend in water consumption, which was reduced by 12.2%, to 8m^3 per employee.

This reduction resulted from the installation of new equipment in the branches under the New Distribution Model (NMD), namely flow reducers and dual flush cisterns.

Water consumption
(m m^3)



4.2 Suppliers

The novobanco Group recognises the importance of sustainable business management covering the entire value chain, with suppliers playing an essential role in its ESG journey. The Group has therefore set in place a set of tools that ensure that the relationship with this group of stakeholders is based on environmental, social and governance criteria.

As a major buyer in the market, the novobanco Group has adopted a relationship model with its suppliers based on commitments to good practices and internationally recognised principles, recognising the importance of the economic, environmental and social impact generated by this group of stakeholders. The model is structured around two main axes:

- **Code of Conduct**, which determines that the process of supplier evaluation and selection is strict and carried out in accordance with the highest standards of transparency and ethics;

- **The Supplier Relationship Principles** are aligned with the OECD guidelines for multinational companies, the United Nations Global Compact, the Universal Declaration of Human Rights and the Fundamental Principles and Rights at Work of the International Labour Organisation. These principles set the minimum requirements, not only for suppliers but also for the Bank, with regard to business practices, health and safety at work, ethics and environmental management. Supplier selection principles are based on:

  - Impartiality: Equal treatment, without privileges or favouritism, and seeking to avoid conflicts of interest;
  - Transparency: Adequate reporting of information;
  - Quality and Efficiency: Selection of the best suppliers based on quality and efficiency standards.

novobanco Group's suppliers are invited to subscribe to these principles, undertaking to adopt rigorous behaviour, especially with regard to the environment, employment conditions and ethics.
In this context, the Supplier Relationship Principles, which were revised and strengthened in 2022 with the introduction of novobanco Group's Sustainability Policy, remain in force, with the expectation that all suppliers will follow and act in accordance with the guidance provided in both documents.

A responsible, coherent, and consistent attitude towards the selection of suppliers starts with total availability to receive all presentations from the most varied entities that intend to provide services or supply goods to the Group. To this end, any current or potential supplier may present itself and register in the Supplier Portal (https://fornecedores.novobanco.pt). In 2023 there were 3.2 thousand suppliers registered in the portal. In addition to providing the prime sourcing basis for market consultation processes, the database of registered entities also allows for an easier and more effective detection, assessment and comparison of the suppliers' characteristics, technical skills and commercial propositions.

The quality of this information permits to select the best propositions, i.e., the suppliers best capable of meeting the Group's needs and requirements in terms of the acquisition of goods and services. At 31 December 2023, the degree of coverage of suppliers with annual invoicing above €10 thousand and with registration completed or in the process of registration (pre-registered) was 94%.

For a more rigorous selection of this group of stakeholders and based on the information provided, the novobanco Group calculates the “sustainability scoring”, which takes into account ethical, labour, hygiene and safety at work, and environmental aspects. New certifications (ISO 45001, ISO 2700, ISO 50001) and aspects related to suppliers' sustainability and environmental policies also contribute to the calculation of this "sustainability score". This scoring is included in the assessment of suppliers in market consultation processes.

Additionally, this scoring is also included in the technical assessment of suppliers carried out by the Group's procurement structures and is one of the criteria/elements considered and weighted in the overall rating. As at 31 December 2023, suppliers that had completed their registration and sustainability assessment in the Supplier Portal represented around €206 million, or 76% of the amount invoiced to the novobanco Group, with the following industry sectors standing out:

In 2023, 12.9% of the Group's registered suppliers had a score of Excellent. The decrease compared to the previous year (-4.8p.p.) is explained by the introduction of new criteria in the calculation of the "sustainability score", which made the evaluation stricter and more robust. All in all, around 80% of the suppliers have a positive score (fair, good or excellent).

Main industry sectors of novobanco Group’s suppliers (%)	2023
IT services	25.2%
Consulting and auditing	23.9%
Electronic payment system	8.1%
Communications and dispatch	4.9%
Maintenance and repairs	4.4%
Legal expenses	5.5%
Advertising and publications	3.2%
Other	24.9%

Sustainability scoring
(%)

In 2023, the Bank concluded the roll out of the New Distribution Model project. The aim was to change and innovate, offering clients a totally differentiating and unique experience in the financial sector, and transforming the branch network into spaces where the financial experience becomes more than a simple visit to the bank. At the end of the year novobanco had 247 fully revamped branches, in which:

- National products were privileged, with the large majority of suppliers contracted being Portuguese companies with 100% national capital;

- The suppliers selected were those that could attest that they developed their business based on sustainability criteria, proven by environmental certifications, and which presented sustainability scores of good or excellent.

Maintaining a professional relationship with suppliers also implies responsible action, namely guaranteeing payment periods of 30 days, in line and in compliance with good market practices. This includes giving suppliers access to their current account, free of charge and at all times, simply by logging into the supplier's account on the Portal. In 2023, the payment period was 20 days, compared to 29 days in 2022.

The majority (92.1%) of novobanco Group's suppliers is Portuguese. The group's five largest foreign suppliers are from the United States, Spain, Belgium and Germany.

In 2023, the Bank adhered to the Code of Ethics of APCADEC - Associação Portuguesa de Compras e Aprovisionamento (Portuguese Purchasing and Procurement Association), a member of IFPSM - International Federation of Purchasing and Supply Management (www.ifpsm.org), which summarises the values and behaviours that the association aims to promote among its members, their organisations and the entire purchasing community in Portugal. This Code of Ethics bolsters the professionalism and transparency of our business structure, leading to a reduction in the financial, operational and reputational risks of organisations, and among them the Bank.

4.3 Cybersecurity and Data Privacy

The Information Security Policy follows the principles set out in the European Banking Authority (EBA) guidelines and is aligned with the main international security standards and frameworks (e.g. ISO27000 series, NIST CSF, CIS Critical Security Controls).

With the aim of reinforcing the fundamental role played by all employees in the prevention of cybersecurity risks, in 2023 the annual mandatory training covered various topics that can be applied in both professional and personal contexts, thus contributing to greater overall security and resilience in the cyberspace.

In order to increase customer awareness of digital channels, online security awareness campaigns have been carried out. novobanco maintains permanent security and fraud alerts on its digital channels.

Security systems and processes are subject to regular audits and risk assessments in order to strengthen controls and increase resilience in a logic of continuous improvement.

novobanco's Security Operating Centre (SOC) operates on a continuous 24x7x365 basis. novobanco Group's information systems are regularly tested by companies specialising in cybersecurity.

novobanco also uses cybersecurity rating tools to evaluate its suppliers and business-critical partners. novobanco has been a member of the national computer security incident response network (CSIRT) for several years, and regularly takes part in cyber-incident crisis management exercises involving public and private organisations.

In 2023, novobanco strengthened its means of detecting and responding to cybercrime with the aim of reducing fraud rates, particularly in digital channels, and contributing to a safer cyberspace.

novobanco has also taken out insurance to cover cyber risks in the event of a cyber-incident.

At novobanco, the privacy and protection of the personal data of its clients and other data subjects are fundamental. To this end, we guarantee the following principles in the management of personal data:

- **Lawfulness:** personal data is processed to the extent that at least one of the conditions laid down for lawful processing is met: (i) when consent is given by the data subject, (ii) within the framework of the contractual relationship, (iii) for the fulfilment of legal obligations, and (iv) in pursuit of the legitimate interest of novobanco or a third party;
- **Minimisation and limitation of storage:** only personal data that is suitable for the purposes of processing will be processed, and only kept for the time necessary for those purposes;
- **Transparency:** data subjects will be informed in a transparent manner about the main characteristics and measures of personal data protection, namely the processing purposes and possible transmission to third parties;
- **Need for access:** only employees, collaborators and partners whose duties require it will have access to the personal data processed by novobanco

novobanco is committed to respecting the fundamental principles of personal data protection and complying with the legislation applicable to the processing of personal data. For this reason, novobanco has implemented several technical and organisational measures to ensure an adequate level of protection of personal data, based on international best practices, which include a set of principles that are fundamental to all areas of information security, such as confidentiality, integrity, availability, authenticity, non-repudiation and privacy.

novobanco has a privacy policy, available at www.novobanco.pt, and a document with detailed information on the use and protection of personal data, the reason for processing it, the rights of the data subjects and how they can exercise these rights with novobanco.

Throughout 2023, novobanco carried out various awareness-raising and training activities for its employees in the area of personal data protection

5 DEVELOPMENT OF PEOPLE AND CULTURE

The novobanco Group knows that taking care of its business also means taking care of its employees and that is why it promotes a relationship based on a strategy of equal opportunities, with a focus on performance and continuous improvement

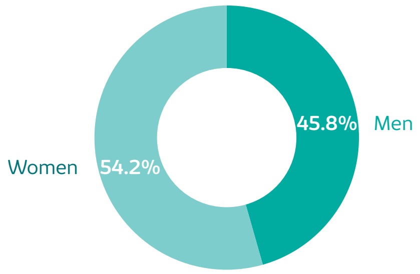
5.1 The People and Culture strategic pillar

The development of its employees and fostering an inclusive and collaborative culture is one of the four pillars of novobanco's strategy.

This pillar is based on three main priorities - developing a values-based inclusive culture, developing a value proposition for the employees, and developing talent. Each of the priorities of this strategic pillar is aimed at retaining and attracting the best and fostering an inclusive culture that allows employees to reach their full potential.

The novobanco Group is aware that good results come from an organisational culture that promotes and values diversity as a strategic lever for transformation, innovation and growth. By fostering an inclusive environment, the novobanco Group enables its employees to reach their full potential, which is why the "People and Culture" pillar is one of the cornerstones of the Bank's strategic plan, which is based on sound governance policies and guiding principles.

In order to implement its human capital strategy, the bank has sought to follow best practices in its decision-making process, focusing not only on results, but also involving a fair process based on strong employee motivation to achieve results. To this end, it endeavours to understand the needs and difficulties of employees throughout their life cycle and to meet their expectations in order to contribute to their full development, enable them to reach their full potential and maintain their motivation.



4209 employees

1926 Men

2283 Women

5.1.1 Culture and Values

Journey of cultural transformation: mission, values and behaviour

Once the restructuring phase was over, novobanco embarked in a phase of cultural transformation in which it aims to create an inclusive culture where all employees can learn, grow and realise their potential.

In this context of cultural transformation, novobanco has developed a project with a multidisciplinary team, deployed in three phases:

1. Assessment of the current cultural state and dissemination of the strategy

2. Defining the future and drawing up a detailed plan to achieve it

3. Implementation and presentation of the Mission and Values, involving the entire organisation

For novobanco, listening to all voices is essential to creating and maintaining a culture that is inclusive and open to dialogue. All employees have something to say and all contributions are important in moving the organisation forward.

In 2023, novobanco reinforced its openness to dialogue and its internal culture of transparency with the "Your VOICE Counts" concept, which encourages all employees to feel comfortable expressing their opinions freely or reporting inappropriate behaviour. To this end, the channels for promoting a culture of ethics have been renewed and participation can be anonymous or identified:

- **whispli platform,** to safely report inappropriate behaviour and situations or activities that are not in line with novobanco's guiding values
- **"Your voice counts" form,** to give voice to suggestions for improvement, ideas or comments from employees, with the aim of improving communication and collaboration between teams, projects or processes

Mission

novobanco's mission and values have been developed by actively listening to its employees, guiding their decisions and behaviour on a daily basis, and ensuring sustainable growth and positive performance.

novobanco's mission:

"To be the trusted bank that supports families and businesses throughout their lives"

is aimed at building a lasting relationship of trust. novobanco affirmed its mission and values through an internal campaign with the message "It's now", in which employees voluntarily participated as protagonists and which was launched at a hybrid event attended by over 3,000 employees.

Values

- Putting **customers first:**
  We are dedicated to supporting their needs, wills, dreams and desires and we invest in our people so that they put excellence into everything they do.
- Embracing **Ethics and Inclusion:**
  We always act ethically and do the right thing. We always respect each other and encourage everyone to be themselves.
- Acting with **Trust and Transparency**:
  We are open and honest. We give a clear view of decisions, the reasons for those decisions, either when we succeed or when we fail.
- Promoting **Simplicity every day:**
  We seek simplicity as a way of ensuring clarity and efficiency when dealing with complex situations.
- Cooperating **with each other:**
  We work together harmoniously for collective success and take pride in our teamwork.

5.1.2 How we convey the message

During 2023, novobanco continued to invest in its communication through live events broadcast via Teams, or in hybrid format, holding Quarterly Fora, which permit to reach all the bank's employees, at the same time, and anywhere in the country.

The Quarterly Fora are events organised by the Board of Directors and, in particular, by the CEO, at which the bank's strategy is shared, periodic results are presented, relevant strategic projects are discussed and employees have the opportunity to participate and have their questions answered, thus reinforcing transparency, clarity and two-way communication and bringing management closer to all employees.

To help convey the message and the culture and values of novobanco, a meeting was organised in a hybrid format which was attended by more than 3,000 employees, and a network of employees - Shapers - was also created to promote and influence the bank's cultural transformation. The Shapers come from different parts of the Bank, are of different ages and levels of seniority, but have one thing in common: they embrace change and have a mobilising spirit.

Using a visual, dynamic, participatory and informal methodology (Learning Map), they are committed to telling the story of novobanco, explaining the reasons for this cultural change and novobanco's strategy for the future, based on its mission and values. In 2023, during the soft launch phase, 54 sessions were held by 53 shapers, involving 567 employees. The objective for 2024 is to involve all the employees of the novobanco Group in this dynamic, with the expectation that all the Bank's employees will be covered by the end of March 2024.

With the aim of simplifying and optimising processes and tasks, saving time, and obtaining gains and better results, novobanco is relaunching an internal area for sharing knowledge and experience - the "Knowing Well, Doing Well" team meetings. Informal 30-minute sessions, open to all employees of the bank, creating moments for teams to come together and find synergies in the sharing of knowledge.

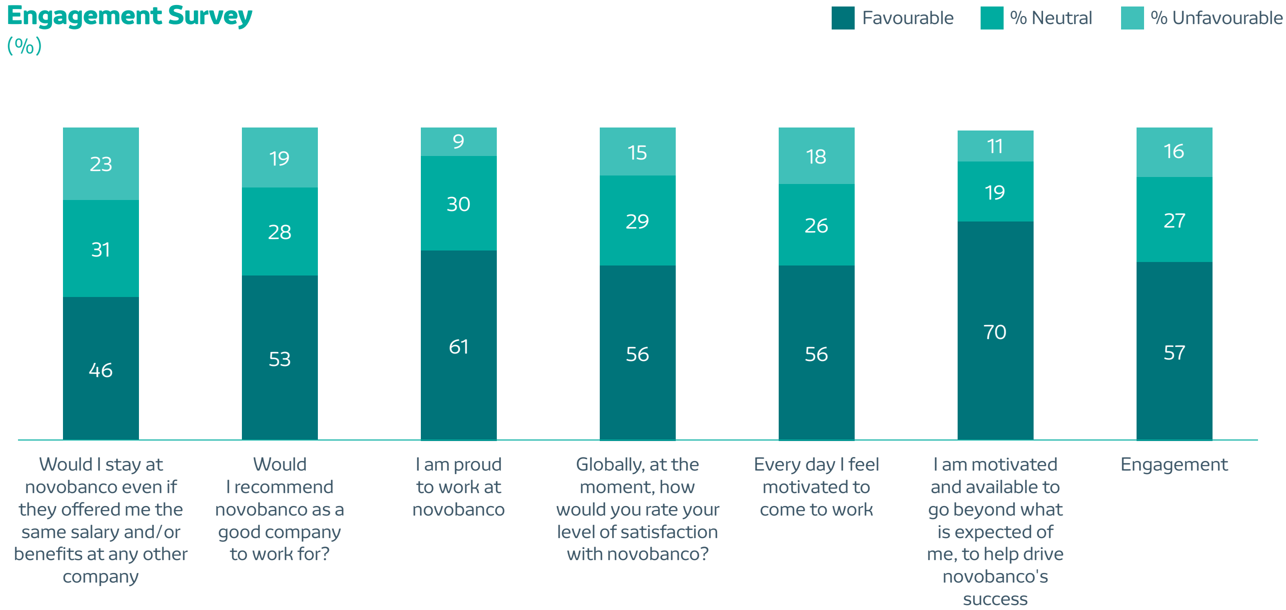
5.1.3 How we measure

An Engagement Survey - Pulse, one of the Bank's main tools for analysing the organisational climate, is carried out every six months. The participation rate at novobanco was around 86% and the favourability rate for employee engagement was 57%, in line with the figure observed in 2022.

At novobanco dos Açores, the favourability rate for employee engagement increased by 5 p.p. compared to the survey conducted in September 2022, reflecting the results of the various initiatives developed in different areas, which have made employees feel that novobanco dos Açores is their second home.

At Banco Best the favourability rate for employee engagement was 65%, up by 4 p.p. on the results of the survey conducted in September 2022.

Engagement Survey
(%)



5.2 Talent Development

5.2.1 Attracting and retaining talent

Attracting and retaining talent continues to be one of our major challenges. Several initiatives have been put in place to promote the personal and professional development of all potential and current employees, from when they are spotted and captured in the market to their retention as employees of novobanco.

To this end, the following 4-step model has been implemented:

1. CAPTURING TALENT
Responding to the Bank's need to recruit and rejuvenate its staff, while providing young students with new skills to enrich their CVs and expand their network of contacts:

- **Talent attracts talent:** in 2023, several young graduates were recruited for a 9-month professional internship programme, spread across different departments. In November 2023, 9 of these young people were integrated into the bank's workforce.

- **novobanco UP:** a programme for young university students with the duration of one month. In the 2023 edition, held between July and September, a total of 84 participants attended this programme, taking the opportunity to have an approach to active life and paid professional experience during the summer holidays.

2. INTERNAL MOBILITY
Stimulating the career development of each employee throughout his or her professional path. One of the instruments to achieve this is a programme that enhances the Group’s human capital and enables its employees to embrace new challenges and opportunities for individual development and progress.

- **In 2023**, 23 employees changed roles, thus enabling and contributing to the development of a more motivating work environment that promotes talent retention.

3. PERFORMANCE ASSESSMENT
Assessing the performance of the employees through a cross-cutting system (“My Portal”), which includes a personal development programme where each employee can define his or her objectives for continuous improvement in the performance of their functions. The Performance Assessment is conducted annually and focuses on two sides: objectives and skills, which are linked to a set of observable behaviours. Performance assessment is an important tool for aligning organisational strategy with team and individual performance, supporting constructive and ongoing feedback between each employee and their line manager.

- **"My Portal"** is also available on the AppRH (human resources App), a new intuitive mobile tool that facilitates and speeds up access to the employees through their smartphone.

4.TRAINING

Promoting continuous development to ensure the necessary skills to achieve the objectives that the Group has set out to reach. We provide training solutions that enhance the contribution of the employees, continuing to invest consistently in the design and adoption of distinctive and motivating training, enabling the improvement of performances and the development and evolution of novobanco's employees. Employee development justifies increasing the investment in their continuous training. This ensures the acquisition and updating of the necessary skills to achieve the best professional performance. In order to ensure adequate training, the Group organised a total of 169,400 hours of training, or 40.3 hours per employee, in the following areas of knowledge:

- **Leadership Training Programme** - As part of its Leadership Academy, novobanco continued to invest in a 50-hour leadership programme for all its 1st and 2nd lines (more than 200 managers participated). This programme, designed in partnership with Nova SBE, makes a precursory approach to the reality of the Bank and its current challenges. In its construction, there was a concern to promote the alignment of key skills for a modern leadership, which integrates the knowledge and tools necessary to manage new work models, to lead diverse teams and to deal in the best way with the new challenges facing the banking sector. Through the implementation of this programme, novobanco aims to strengthen a collaborative spirit among leaders, as well as to foster the continuous development of an agile, cooperative and effective organisational culture that provides a positive work space for all. The programme combines different methodologies and practical approaches, promoting curiosity, innovation and a synergic vision of the topics discussed.
- **ESG Training** - In 2023, due to the strategic importance of the topic, it was decided to renew the investment in ESG-related training for all the Group's employees. This training initiative focused on the importance of this issue in transforming business models across the economy through the incorporation of ESG criteria, with a particular focus on the financial sector, which is subject to a strict regulatory framework.
- **Mandatory Training** - Provides the indispensable knowledge that all our professionals, each in their different jobs, must have in order to perform their functions correctly. These training initiatives focused mainly on the Markets in Financial Instruments Directive, the Insurance and Reinsurance Distribution Act, the Mortgage Credit Marketing Directive, the Prevention of Money Laundering and Terrorist Financing, Conflicts of Interest, Related Parties, Pari & Persi (Action Plan for Default Risk & Out-of-Court Procedure for the Regularisation of Defaults) and Information Security.

5.2.2 Gender Equality, Equal Opportunities and Inclusion

5.2.2 Gender Equality, Equal Opportunities and Inclusion
The issue of gender equality, equal opportunities and inclusion remains a strategic priority on the novobanco Group's agenda, and the bank has developed a specific plan to reduce inequalities. The Group continues to consolidate the foundations for long-term sustainability, taking measures to promote inclusion and equality, with a priority focus on decision-making and management positions.

Gender parity is a reality at novobanco Group, with women representing 54.2% of the workforce. There is a positive trend in the representation of women in management, with the number of women in managerial positions increasing from 36.2% in 2022 to 38.7% in 2023, but there is still a need to strengthen the gender balance in top management, where representation has increased to 17.6%, but is still below the 20% target set in the Selection Policy for Management and Supervisory Bodies. With regard to the indicator that assesses the representation of the under-represented gender in Board of Directors and first line senior leadership positions, the share of women is 27.3%.

There were also positive developments in the equal pay indicator (equal pay for equal work), which fell to 5.4%, in line with the target, and in the unadjusted pay gap indicator, which fell to 18%.

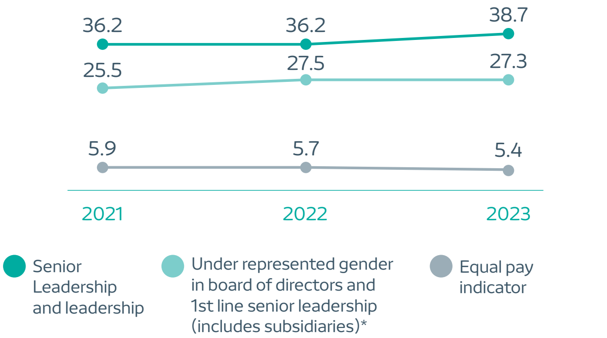
novobanco maintains an active participation in the community, namely taking part in the iGen Forum for Gender Equality and the UN Global Compact, and is developing a gender strategy for 2024.

Diversity in the novobanco Group is also revealed by the integration in its workforce of employees with a level of disability of more than 60%, as provided in Law no. 4/2019. The bank's internship programme already includes a quota for people with disabilities. This action is part of other social wellbeing and diversity initiatives, including the Salvador Association's Quality of Life Award and support for Visão Braile magazine, both of which are supported by the bank.

More information can be found in Chapter 7 (Social Indicators) and Chapter 3 (Social wellbeing) of this report.

Under-respresented gender

(%)



*Scope of the Novobanco Group includes: Boar of Directors of novobanco Group companies (novobanco + novobanco dos Açores Banco Best GNBGA) + novobanco first line senior management.

How we embrace equal opportunities and gender equality

5.2.3 New Working Methods and Tools

In anticipation of the move to the new headquarters on novobanco Campus, the Bank established a new working culture in 2023, based on a hybrid working model and team agreements that allow the implementation of new ways of working:

+ COLLABORATIVE - encouraging social interaction among People and teams, discussion of ideas and co-creation. Encouraging greater proximity to management.

+ FLEXIBLE - making interpersonal relationships, workspaces and clothing even more informal. And encouraging people to work where it's most convenient.

+ SUSTAINABLE - encouraging more sustainable and ecological behaviour, with a positive impact on the Community.

+ FOCUSED ON PEOPLE'S WELLBEING - giving them more freedom and confidence and helping them to balance their personal and professional lives.

These **new ways of working**, implemented in the central teams, are based on:

- a **hybrid and flexible working model** that aims to promote a balance between face-to-face and remote work, while guaranteeing the importance of interaction between teams in a face-to-face environment through a minimum presence in the office of 8 days per month.

- the ability to make **entry and exit times more flexible** within the context of the team, or on the adoption of an interspersed schedule of face-to-face and non-face-to-face work.

- and also on the **flexibility of the workplace**, which no longer necessarily has to be the employee's home, but can be another location agreed between the employee and the bank.

This new model also brings with it **new working routines.**
- **Trips to the office** take on a new meaning, bringing teams closer to each other and to the culture of novobanco. Individual, more demanding and concentrated tasks are left for non-face-to-face work, always guaranteeing the confidentiality of information.

- Team meetings also serve a purpose. Their timing, nature, participants and ideal frequency are now well defined, as are their objectives, which must be clear and pre-defined.

- And finally, **new tools and suitable spaces** that guarantee the same level of exposure, participation and involvement for everyone, whether they are physically present or work remotely.

Aware of the need for these new tools, as well as the need to simplify processes and streamline the activities of its employees, novobanco has launched a series of initiatives to provide its constantly evolving services with greater online freedom and flexibility for day-to-day tasks:

i) replacement of landlines with mobile phones, with improved data packages for all employees;

ii) allocation of new headsets with better communication and usage conditions for daily use;

iii) replacement of laptops and provision of new, more advanced and higher capacity monitors to ensure quality of work for employees;

iv) meeting rooms equipped with new audiovisual systems to enable hybrid meetings and increase team productivity.

5.2.4 Innovation and Ideas Lab

The Talent and Innovation Laboratory returned in 2023 with a new edition (LTI 2.0), as a token of novobanco's commitment to innovation. LTI 2.0 seeks innovative responses to specific challenges.

- **Silver Economy Ecosystem:** how can novobanco help senior clients make smarter decisions, going beyond financial services to create an ecosystem of partnerships to better serve them?

- **Payments:** how can novobanco create new forms of payment with differentiated user experiences? What value-added services can it offer customers, using information about payments?

- **Embedded finance:** how can novobanco distribute its financial services through non-financial partners? how can it embed its services in other digital journeys and take advantage of the subscription economy?

- **Micro and SME ecosystem:** how can novobanco create a truly integrated and digital experience for our corporate clients? what complementary services can novobanco add to meet the overall needs of micro businesses?

- **+1 Open challenge:** beyond all the proposed challenges, how is novobanco preparing for the future and for a new reality in financial services? how does it turn new regulatory requirements, such as on ESG, into opportunities?

In 2023, LTI 2.0 had 113 applications, of which 66 with ideas. 68 employees were involved in developing the ideas since Pitch Day, and 3 ideas went through the proof-of-concept phase and are currently in the pilot phase at novobanco.

5.3 Value proposition for employees

5.3.1 Reconciling personal and professional life and focus on wellbeing

Each one of novobanco's employees is an essential element in creating sustainable value for the bank and the community. novobanco thus actively seeks to improve the wellbeing of its employees on a day-to-day basis and has a specific area dedicated to this: the Wellbeing and Employee Experience area.

Wellbeing is understood as a set of areas that, depending on the individual and the context in which they live, represent a state of complete physical, mental and social wellbeing. In order to provide the best employee experience and achieve this objective, novobanco develops and promotes innovative initiatives, measures and projects aimed at achieving the best levels of wellbeing, from a holistic perspective that goes far beyond the "professional" experience, promoting a complete and balanced experience in the different aspects of life.

This value proposition also includes a range of benefits that contribute to boost life quality in a broader sense. These benefits include various measures to promote reconciliation of work, personal and family life, social responsibility, financial balance, healthy lifestyle, promotion of knowledge and socialisation.

In defining its wellbeing policy, novobanco adopted the eight dimensions detailed below, which it considers to be the closest to the socio-demographic characteristics of its human capital and the most appropriate for reconciling personal and professional contexts:

1.PHYSICAL WELLBEING
Promoted through occupational safety, preventive medicine, curative medicine, novobanco's food services, physical exercise and literacy activities that enable Employees to make informed and responsible choices.

Employees, both active and retired, have three canteens at their disposal where they can have low-cost, nutritionally balanced meals for lunch, with nutritional information (nutritional traffic lights) provided for each dish (3 to 4 options). As well as providing lunch, the aim was to encourage employees to make healthier food choices. Awareness-raising activities and food workshops are also held in these privileged dining areas.

In 2023, allergen information was added to the menus. Information on the presence of the most common food allergens is thus clearly and visibly displayed on all food products.

With this information, employees can make appropriate and informed choices.

2. MENTAL WELLBEING
Provided through free psychiatric and psychological consultations, as well as a strong investment in mental health literacy and tools to support prevention and the promotion of healthy habits in both personal and professional contexts.

One of the tools provided was the Basic Mental Health Kit, an online mini-course that brings together the essential information to look after your own mental health and that of those around you.

3. EMOTIONAL WELLBEING
Promoted through the teaching, practice and dissemination of good practice such as mindfulness and self-care.

4. SOCIAL WELLBEING
Promoted through events/experiences aimed at socialising and developing skills in this area. The novobanco volunteer programme also promotes this dimension of well-being.

5. FINANCIAL WELLBEING
Evident in the benefits that novobanco provides to its employees, whether in the form of specific banking services and credit solutions, or in the form of support for children's education and for coping with adverse contexts (such as the rise in inflation and interest rates this year).

Education support for children of active employees	Support for retirees
Special conditions on bank commercial offer	Specific support to fight inflation and increase of interest rates
Christmas hamper	Christmas presents for employees and their children and dependent stepchildren

In 2023, a total of €702,148 was allocated to support the education of children (Early Childhood, Children and Young People with Special Needs or Disabilities, and Scholarships) of 745 employees.

The amount of support for children and young people with disabilities or special needs was also increased this year, by €120/employee/year.

From a socio-economic point of view, 2023 was a particularly difficult year, marked by the continued rise in interest rates, rising inflation, social instability and the war scenario in Europe. In this context, and with a view to promoting the financial wellbeing of its staff, novobanco maintained the support measures introduced at the end of 2022 to mitigate the impact on family budgets:

- 410 employees benefited from an extension up to the age of 75 of the repayment period for mortgage loans under the CHPP-ACT (permanent mortage loan under the collective wage agreement) scheme (maximum tenor of 45 years).
- 305 employees transferred their permanent home loans (HPP) from the general scheme to the CHPP-ACT (maximum amount €50,000), benefiting from the subsidised rate, for a total amount of €7.6 million.
- 148 employees requested their Christmas bonus to be brought forward, starting from January 2023.

A new offer of individual credit solutions for employees was also launched, with more favourable conditions adapted to the associated purposes:

- **Standard Line:** for the purchase of a car, home improvements, purchase of goods and equipment for current use and other goods of a non-sumptuary nature.
- **Green Line:** for the purchase of electric cars and bicycles, solar panels and other environmental purposes.
- **Care Line:** intended for health and education expenses of the employee's household.
- **Social Line:** applicable only to situations of financial difficulty/expenses of an unforeseen and unavoidable nature.

6. FAMILY WELLBEING

fostered through the work-life balance programme, which includes the following measures:

To improve the work-life balance, in 2023 the Bank granted an additional 1 day's leave in recognition of the team effort to implement the Bank's restructuring plan and 2 days' leave during the Christmas period, for a total of 28 days' leave (including 25 days' leave provided for in the - Collective Wage Agreement - ACT).

Work and life balance measures	
Leave on special dates (Employee's birthday; birthday of children; 1st day of school of children)	Purchase of vacation days
Early Friday or Late Monday	Takeaway meals

7. INTELLECTUAL WELLBEING

Promoting initiatives aimed at the intellectual development of staff, namely through novobanco's Wellbeing Programme, the 5+ Programme, which focuses on the personal sphere, and the Academy, which focuses on providing technical and behavioural skills in the professional sphere. The Bank also actively promotes Culture across various fields, such as Art, Photography and Museums, and offers its staff access to these on favourable terms.

8. PROFESSIONAL WELLBEING

Developed through human resources practices based on flexible ways of working suited to the different functions and tasks, fostering the most appropriate working environment for each employee, and healthy working relationships that drive professional success.

5+ Programme

5+, novobanco's wellbeing programme, was launched on 22 June 2022, and was consolidated in 2023. Promoting the health and wellbeing of employees is the mission of this programme, which focuses on 5 objectives:

The 5+ programme includes several initiatives designed for the enjoyment of the employees, which can be dedicated to a "central theme" to be developed during the year, or specific themes for each month of the year. These initiatives offer employees moments of relaxation, the opportunity to deepen their knowledge with specialists, or simply to get to know different realities, new themes and activities that can lead to experiences and/or the adoption of behaviours that promote wellbeing in its various dimensions.

The theme of the month is the subject of a monthly lecture - **Lecture 5+** - broadcast live for everyone in the Bank and delivered by an expert in the field. This session is usually moderated by a member of the Human Capital department, and, to make it a better experience, everyone can participate by asking questions of the expert speaker.

Tips on the topic of the month (**5+ Tips**) are published every month in the form of suggestions or recommendations. The aim of these quick-read tips is to provide practical information certified by experts in the matters in question that foster the adoption of healthy behaviours and the capacity for self-care.

The 5+ Experiences are workshops, webinars, ateliers, awareness-raising activities of a practical and educational nature in different areas of extra-professional life: Food, Health, Physical Activity, Family and Home, Culture and Leisure, Emotional Management, Socialising, among others.

This programme also develops and launches **5+ Measures**, consisting of actions of an organisational nature, which seek to promote a healthier and more productive working environment and improve interpersonal relations between all functional and hierarchical levels of the organisation.

Self-care, Prevention, Change, Work-Life Balance, the (new) challenges of Nutrition, Socialisation and Mental Health were some of the monthly themes developed in the 5+ programme in 2023.

5+ programme

+ physical wellbeing | + mental health | + wellbeing | + balance | + happiness

Some figures for the 5+ programme in 2023

80	10	52	5,578	1,870
experiences (*webinars / workshops /* screenings)	5+ talks	5+ tips	participations	employees involved

novobanco's work in this area was recognised with the award for "Best Engagement and Communication" at the Wellbeing Awards 2023. This initiative, which recognises cases of excellence in the field of health and wellbeing in organisations intended to care for and value their human capital, has reinforced novobanco's positioning, which focuses on promoting the holistic well-being of employees through ongoing internal programmes and initiatives.

5.3.2 novobanco Campus

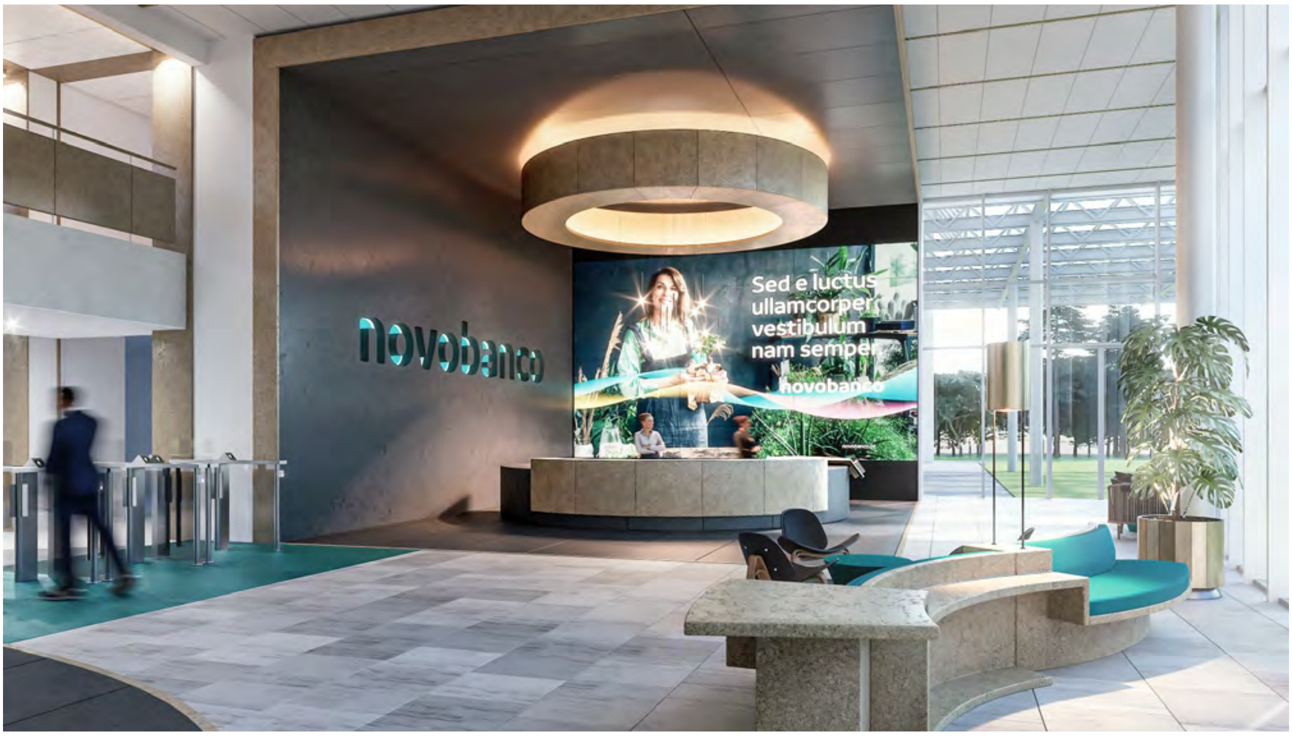
More than just a new office, the novobanco Campus will be the Group's new headquarters and a space for the future. Since 2021, novobanco has been preparing for this change, which represents the way it wants to position itself in the market and among its stakeholders.

It has been designed to meet the needs and expectations of all employees, with workspaces that combine technology, innovation and design with new ways of working.

THE NOVOBANCO CAMPUS SERVES THREE MAIN OBJECTIVES:

1. To be a more flexible space

- based on hybrid working models,
- with different work areas,
- with more efficient and collaborative technological means and tools,
- where the dress code is more suited to everyday work.



2. To be a more collaborative space

- a horizontal structure that promotes informal meetings,
- in an open space concept with no physical barriers to promote transparency,
- with different collaborative spaces that meet the need for privacy, confidentiality and collaboration.

3. To be a more sustainable space

- reborn from an existing structure,
- with green areas, less pollution and outdoor activities,
- where the aim is to adopt more efficient and cost-effective paperless and/or with no printing work processes,
- where the spaces, furniture, ergonomic equipment and support services are designed for the comfort of employees and mobility conditions are aligned with environmental concerns.

This change is also taking place alongside novobanco's employees. **A network of 80 ambassadors** has been set up to encourage change in their teams, and communicate and gather the feedback needed to make decisions. It's a network of employees who give their teams a voice and take part in joint discussions where they share ideas, opinions and questions from their colleagues. The Campus ambassadors are much more than the face of this period of transition and growth in the Bank; they are the voice of our teams.

~55000m^2
novobanco campus dimensions

1730
workplaces

102
meeting rooms

~1600
daily users

1000
parking places

~650
collaborative work spaces

~1400
daily meals

~100
charging posts

5.4 Volunteer Programme

The Volunteer Programme aims to develop and encourage the involvement of employees in community support actions that contribute to addressing socio-economic and environmental issues in the community. All the employees who wish to take part in these activities are given one day off per year, which can be divided into two periods (1/2 day for each activity), to dedicate to a cause. This programme also fosters a culture of empathy, generates learning opportunities through the sharing of knowledge and experiences, and the development of innovative solutions and ideas by promoting collaborative and team work. Through the actions developed under this programme, initiated in 2022, the Bank strengthened the sense of belonging of its employees, consequently increasing their wellbeing. A total of 406 hours were worked in 2023 in the various voluntary service activities, grouped into 4 sets:

REFORESTATION OF THE LEIRIA PINE FOREST	FOOD BANKS AGAINST HUNGER	DONATED GOODS BANK	ENTRAJUDA
Through its 100% and 360° accounts, novobanco supported AMI's Ecoethics project, which rehabilitates and reforests areas severely affected by forest fires. It brought together customers and employees in Pinhal de Leiria, planting 5 thousand trees.	The employees participated in Food Banks Against Hunger in Faro, Lisbon, Porto and Viseu, supporting a solidarity ecosystem that distributes 2 million meals a day to private social solidarity institutions across the country.	The employees sorted and organised non-food items received by the Donated Goods Bank to be distributed to social organisations, and through these, to help people in need.	The employees participated in the CONHECER project, a knowledge programme on the correct distribution of goods and services donated, designed for the institutions supported by Entrajuda and the Food Banks, helping them to help the most needy.
			

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6 DEVELOPING SUSTAINABLE PERFORMANCE

6.1. Sustainability governance

To the novobanco Group it is essential to conduct its activity with the firm resolve to give a positive contribution to the entire ecosystem within which it operates. This course of action requires a robust governance model, sustained by policies and principles of ethics and transparency that ensure effective and prudent management.

6.1.1 Governance Model

An effective governance structure is fundamental to ensure the good execution of the strategy. Climate-related issues are managed by novobanco in line with our Sustainability Governance Model, which establishes clearly defined roles for the identification and analysis of the associated risks and opportunities and guarantees an effective response to climate challenges.

The novobanco Group recognises that progress in terms of sustainability requires solid governance and an organisational model that guarantees the success of its implementation, ensuring accountability, mobilisation and alignment at all levels of the organisation. Under this premise, and to ensure adequate coordination of this issue, in 2022 the Group revised its sustainability governance structure, which comprises the following bodies:

- **Executive Board of Directors**
The Executive Board of Directors (EBD) takes direct responsibility for managing climate risks, actively engaging in strategy formulation and action planning. Oversight of these activities is provided by the General and Supervisory Board (GSB).

- **The Sustainability Steering,** created in 2021, prepares the background for effective management decision-making on sustainability-related issues.

The Sustainability Steering brings together the various companies of the novobanco Group and the departments responsible for integrating ESG into the bank's various activities, being supported by a dedicated team that coordinates novobanco Group's ESG approach, by the ESG Office and by the Global Risk Department. This Steering meets on a monthly basis and includes the four executive directors responsible for the ESG, Risk, Credit and Corporate Segment areas. The CEO and a member of the General Supervisory Board also attend its meetings on a quarterly basis.

In 2023, the ESG Steering met 11 times during the year to ensure that ESG issues were integrated across all business lines and activities.

SUSTAINABILITY STEERING	Given the high pace of transformation in all matters of Sustainability, ESG and Climate and Environmental Risks, this monthly forum promotes efficient decision-making and the preparation of management and supervisory decisions on all sustainability-related issues, thus adding the environmental, social and governance element to the traditional economic dimension, to ensure: • The definition of the strategy, positioning and action plans related to sustainability issues and their alignment with the action plans of the group's different operations and business areas; • The integration of ESG issues in all business lines and activities, with delegated decision-making and approval powers on matters included in the ESG and Climate and Environmental risk implementation plans; • The monitoring of the development and implementation of the action plan and initiatives defined; • The coordination of the teams appointed to support the implementation of the ESG action plan; • The assessment of the initiatives' impact and main indicators' performance against the defined ambition; • The coordination of the liaison with all relevant stakeholders and the reporting on performance through the different internal and external communication channels.

- **ESG Office** - Structure dedicated exclusively to the ESG issues of the novobanco Group, whose mission is to promote the integration of sustainability principles into the Group's organisation, strategy and activities. At the same time, it supports the Bank's business and risk management, collaborating both in the development of commercial products and initiatives and in the development of risk methodologies and controls. The ESG Office is responsible for overall coordination of the Bank's ESG strategy, including the implementation of various internal initiatives. It also provides guidance to the management and supervisory bodies on all ESG-related matters.

The Risk Management Function (Global Risk Department) is responsible for the overall risk processes, which include risk monitoring and assessment, as well as the development of the policies, methodologies and data required for this purpose.

We have also created a PMO - the ESG Project Management Team - to support the ESG Office and all the departments and teams involved in the transformation phase of the strategic plan, with the aim of increasing the capacity and pace of delivery during the transformation period and broadening the organisational commitment.

The governance and organisational model for integrating ESG issues into the business and managing climate, environmental, social and governance risks is cross-functional within the organisation and based on two fundamental principles:

- To identify all existing or planned activities that are affected or changed by the ESG programme;
- To formally establish an operating model leveraged on the existing structures, with roles and responsibilities allocated to the different Group structures across their ESG journey.

BOARD

GENERAL SUPERVISORY BOARD
Supervises strategy, positioning and plans for the Global Sustainability Framework.

EXECUTIVE BOARD OF DIRECTORS
Involved in decision-making processes related to the implementation of the Global Sustainability framework.

SUSTAINABILITY STEERING
Defines strategy. positioning and guidelines, discusses and approves matters related to the ESG and C&E risks, monitors risks and implementation plan.

RISK COMMITTEE
Discusses and approves risk management framework, policies, monitoring metrics and analysis.

OTHER COMMITTEES
Product and services offer, Data requirements and architecture, among others.

MANAGEMENT

ESG OFFICE
Coordinates strategy, positioning and implementation plans to integrate ESG principles in the bank's organization and activity.

RISK MANAGEMENT FUNCTION
Develops C&E risks assessment and management frameworks and methodologies.

OTHER FUNCTIONS
Marketing, Operational, Data, ...

ESG PMO
Supports ESG Office and remaining Teams in accelerating transformation.

BLOCK LEADERS & TEAMS
Implement ESG and C&E risks related initiatives.

6.1.2 Our ESG Policies

Compliance with the ESG strategy and objectives defined by the novobanco Group can be achieved through business management based on behaviours that everyone values, believes in and practices. Therefore, the ESG commitments are underpinned by various policies and principles that define the Group's culture and describe the principles and steps to achieve the defined purposes.

In 2023, we highlight the publication of two new policies focusing on financing:

Green Financing and Investment Classification Policy

One of novobanco's commitments to sustainability is "green" financing and investment, which involves the financing of our customers' transition.

To achieve a sustainable performance, it is necessary to increasingly embed ESG into the business. This is why direct and active support to clients in their energy transition and their journey towards low-carbon and more sustainable business models is a strategic priority. Financing and investments intended to support business activities that contribute to environmental sustainability and the Sustainable Development Goals, and which contribute significantly to at least one of the objectives of the European Taxonomy, namely climate change mitigation or adaptation, are considered eligible for classification as green financing by novobanco.

These are some of the activities that may be concerned in this respect:

ACTIVITY	DESCRIPTION	SDG's
AGRICULTURE, FORESTRY, FISHERIES AND LIVESTOCK	• Sustainable agriculture • Forestry and nature conservation • Sustainable Livestock and Aquaculture	12, 14, 15
ENERGY	• Production of energy from renewable sources • Energy production through cogeneration • Renewable energy storage and distribution	7, 9, 13
WATER, WASTE TREATMENT	• Sustainable waste management and recycling • Sustainable water supply and sanitation	6, 11, 12
INDUSTRY	• Manufacture of renewable energy technologies • Products and services that enable energy savings in industrial processes • Manufacture of energy efficient equipment for buildings	7, 12
REAL ESTATE	• Construction, acquisition of green buildings • Improvement works to green buildings • Sustainable equipment, such as energy efficient heating and air conditioning	7, 9, 11
TRANSPORTATION	• Sustainable land transport • Sustainable water transport • Sustainable transport infrastructures	9, 11
INFORMATION AND COMMUNICATION TECHNOLOGIES	• Solutions to reduce CO_2 emissions • Energy saving technology and software	9, 12
OTHER CLIMATE CHANGE MITIGATION AND ADAPTATION ACTIVITIES	• Reduction, prevention and sequestration of CO_2 emissions • Biodiversity projects	7, 12, 13, 14, 15

These are summarised below:

A) FINANCING TO COMPANIES

- **"Green Corridor"** for commercial transactions considered to be aligned with the European Taxonomy
  Transactions for which it is not necessary to define the specific purpose of the financing, with companies whose activity is classified in the CAE (Classification of Economic Activities) or BICS (Bloomberg Industry Classification System), such activity, according to an internal analysis, being strongly aligned with the European Taxonomy.

- **Financing with a specific purpose**
  Transactions in the form of Project Finance, Green Bonds/Loans, and Sustainability Bonds will be considered. Their conditions are assessed on a case-by-case basis, based on the collection of technical information supporting the transaction, namely Green or Sustainability Bond Frameworks and Second Party Opinions (SPO).

- **Financing with no specific purpose**
  Operations in the form of Commercial Paper, Sustainability-Linked Bonds (SLB) and Sustainability-Linked Loans (SLL) of companies or projects whose activity can be considered sustainable according to the European Taxonomy will be considered.

  If the financing does not have one of the above classifications, but the company is mature on ESG and aligned with the European Taxonomy, the financing or a percentage of it will be considered green, and its conditions are assessed on a case-by-case basis, based on the collection of technical information supporting the transaction

- **Real Estate Financing**
  Financing operations for the construction, renovation or acquisition of real estate that has obtained (or will obtain through the construction or renovation project) an energy certification level of A or higher, will be considered. Internationally recognised BREEAM and LEED classifications will also be taken into account, as they ensure compatibility with at least energy certification level A.

B) FINANCING TO INDIVIDUALS

- **Residential Mortgage Loans**
  Mortgage loans for the acquisition, construction or renovation of properties that have obtained (or will obtain through the construction or renovation project) an energy certification level of B or higher, will be considered.

- **Personal loans**
  Car loans for the purchase of electric or hybrid vehicles are considered, as are personal loans for the purchase of renewable energy generation equipment.

The analysis of the information (concerning with the product and with the credit) and the decision to consider a loan as green is independent of the origination/business area. The model and criteria for classifying green financing and investments at novobanco are approved by EBD . The Sustainability Steering also monitors the amount of new green operations on a monthly basis (and other information like price).

Financing Principles – Exclusions and minimum safeguards

Considering sustainable development to be a fundamental element in sound economic management, as set out in the Group's Sustainability Policy, and intending to develop its activities in accordance with the taxonomy defined by the European Union for the financial sector and in alignment with the principles of the United Nations (UN) Global Compact, the Universal Declaration of Human Rights, the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises and the main International Labour Organisation (ILO) Conventions, novobanco, in its financing and investment activity, excludes and imposes conditions on certain sectors and projects. Exclusions and limits are set out in the internal Risk Appetite and Credit Risk policies.

These policies aim to:
- Promote ethical and transparent business conduct aimed at long-term value creation;
- Integrate environmental, social and governance principles into the business, based on the definition of material issues and SDGs identified through stakeholder consultation;
- Apply the commitments made by integrating them into the marketing of its financial products or corporate bonds as sustainable investments.

We consider the following to be excluded from financing:
- Companies that in any way carry out their activities using behaviours rejected by the novobanco Group or that do not comply with the Fundamental Principles and Rights at Work established by the International Labour Organisation and the International Bill of Human Rights, including forced labour, child labour or any form of inhuman treatment or threat thereof.
- Coal mining and energy production projects;
- Projects for the production or sale of arms and ammunition (unless related to national defence);
- Production or marketing of chemical, nuclear, and biological weapons or weapons of mass destruction;
- Activities related to prostitution or whose business model is based on pornography;
- Projects for the extraction of and international trade in wild species of threatened or endangered exotic fauna and flora;
- Any piracy-related activity.

To mitigate adverse environmental and social consequences stemming indirectly from its operations and to actively foster a sustainable economy, the novobanco Group commits to conditioning its financing and investments. Specifically, projects within sectors prone to significant negative impacts will undergo thorough evaluation to assess potential repercussions, as follows:

- Production and commercialization of military equipment: Restrictions on the production and sale of military equipment to companies and countries with controversial or autocratic political regimes and limited by national legislation and international conventions;
- Production and marketing of chemical products and substances: Restrictions on customers and production projects for dangerous chemical substances restricted by national legislation and international conventions.
- Crude oil and gas extraction: Restrictions on operations arising from oil and gas extraction projects or project extensions under the following conditions:
  - Extraction from unconventional sources;
  - Located in World Heritage Sites and IUCN (International Union for Conservation of Nature) Category I to IV Protected Areas.
- Production of nuclear energy: Restrictions on operations and projects related to nuclear energy production that do not comply with the Convention on Nuclear Safety;
- Extraction of metals and minerals with high environmental and social impacts: Restrictions on operations or projects related to the extraction, processing and marketing of minerals:
  - Extraction in conflict-affected and high-risk areas;
  - Rough diamonds from producing countries that are involved in conflict and do not have a Kimberley certification (licence to import and export rough diamonds);
- Timber harvesting and marketing: Restrictions on operations or projects for the extraction and marketing of timber from tropical and native forests that have a negative impact on the environment:
  - Illegally harvested timber;
  - Timber from forests converted to plantations or non-forestry uses;
  - Timber from forests where high conservation values are threatened by deforestation;
  - Forest-sourced products of categories considered unacceptable by the Forest Stewardship Council (FSC).

FINANCING PRINCIPLES – SECTORS AND ACTIVITIES_EXCLUSIONS AND MINIMUM SAFEGUARDS

Principles that establish that the bank does not finance or invest in companies that comply with the ILO Principles and Rights, the sectors and activities that are excluded from financing (excluded from the Risk Appetite and Credit Risk Policies).

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/Financing%20Principles_Sectors%20and%20activities_exclusions%20and%20minimum%20safeguards%20.pdf.coredownload.inline.pdf

SUSTAINABILITY POLICY

Guiding principles of the Group's ESG actions and commitments to integrate sustainability into the business model.

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/SUSTAINABILITY%20POLICY%202022.pdf.coredownload.inline.pdf

CODE OF CONDUCT

Principles that steer the Group's activity, promoting ethical conduct, respect for and compliance with all applicable laws and regulations, supported by transparent relationships with all stakeholders.

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/Code%20of%20Conduct.pdf.coredownload.inline.pdf

REMUNERATION POLICY OF NOVOBANCO EMPLOYEES

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/Remuneration%20Policy%20for%20Staff%20Members.pdf.coredownload.inline.pdf

REMUNERATION POLICY OF THE MANAGEMENT AND SUPERVISORY BODIES

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/Remuneration%20Policy%20for%20Management%20and%20Supervisory%20Bodies.pdf.coredownload.inline.pdf

GREEN FINANCING AND INVESTMENT CLASSIFICATION POLICY OF NOVOBANCO

Principles that establish classification for funding and investments that are intended to support commercial activities that contribute significantly to at least one of the objectives of the European Taxonomy.

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/sustentabilidade/Green%20Financing%20and%20Investment%20Classification%20Policy_novobanco.pdf.coredownload.inline.pdf

NON-DISCRIMINATION AND GENDER EQUALITY POLICY

Principles of non-discrimination and promotion of equality, namely prohibiting discriminatory practices on the grounds of gender, race, colour, creed, socio-economic conditions or sexual orientation.

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/pol%20de%20igualdade%20de%20oportunidades%20UK.pdf.coredownload.inline.pdf

GUIDING PRINCIPLES OF THE VOLUNTEER PROGRAMME

Establish preferential areas for action aligned with the sustainability strategy, with conditions to stimulate participation in the programme.

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/Voluntariado%20novobanco%20site%20uk.pdf.coredownload.inline.pdf

ANTI-BRIBERY AND ANTI-CORRUPTION POLICY

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/compliance/ingles/Politica%20PSC_site_ENG.pdf.coredownload.inline.pdf

CONFLICTS OF INTEREST POLICY

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/compliance/PCI_NB_ENG.pdf.coredownload.inline.pdf

SUPPLIER RELATIONSHIP PRINCIPLES

Establish the minimum requirements, set not only to suppliers but also to the Group, with regard to business practices, health and safety at work, ethics and environmental management.

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/Principios%20Relacionamento%20com%20Fornecedores_ENG.pdf.coredownload.inline.pdf

HUMAN RIGHTS POLICY

Principles of respect for human rights and procedures to deal with any transgression of these rights.

https://www.novobanco.pt/content/dam/novobancopublicsites/sustentabilidade/docs/Pol%20Direitos%20Humanos%20UK.pdf.coredownload.inline.pdf

ENVIRONMENTAL STATEMENT

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/sustentabilidade/declara%C3%A7%C3%A3o%20impacto%20ambiental%20uk.pdf.coredownload.inline.pdf

STATEMENT OF POSITIVE SOCIAL IMPACT

Commitments to environmental and social sustainability, which go beyond legal obligations and embody the positive impact sought by the Group in its relationship with all stakeholders.

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/sustentabilidade/Declara%C3%A7%C3%A3o%20Impacto%20social%20positivo%20uk.pdf.coredownload.inline.pdf

WHISTLEBLOWING POLICY

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/compliance/ingles/Whistleblowing%20Policy.pdf.coredownload.inline.pdf

POLICY ON HANDLING COMPLAINTS

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/compliance/Pol%C3%ADtica%20Tratamento%20de%20Reclama%C3%A7%C3%B5es.pdf.coredownload.inline.pdf

RELATED-PARTY TRANSACTIONS POLICY

https://www.novobanco.pt/content/dam/novobancopublicsites/docs/pdfs/compliance/ingles/PTPR_NB_24052021_VF%20Eng.pdf.coredownload.inline.pdf

For more information on ESG policies please see:

Novobanco > Sustainability > Our aproach and policies
Novobanco > About novobanco > Governance > Company Documents

6.2. ESG Risks

6.2.1 Approach to ESG risks

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

- The group-wide sustainability strategy, which sets the objectives, targets, and actions for the business areas, the internal governance, the internal control and risk management of internal activities (e.g., own operations) and for internal and external reporting.
- A public positioning, embodied in the ESG policies and principles that guide the bank's activities, but also in the commitments it has made, in which novobanco discloses its sustainability objectives and main practices, with emphasis on:
  a) reducing direct or financed GEE emissions, in line with the global objectives of the Paris Agreement;
  b) increasing the use of "sustainable finance" instruments, namely through its commercial offer and investment policies, channelling direct financial support for the transition of the Portuguese economy; and
  c) properly managing the risks of the climate transition by systematically identifying and controlling its main drivers;
- A governance and operational structure specifically adapted to this strategy, ensuring that the internal teams have the necessary expertise and approaches / work plans to ensure the fulfilment of novobanco's objectives.

Developments in the ESG risk component of the risk management system address three primary objectives:

- Compliance with regulatory requirements, namely those concerning the disclosure of non-financial information on the sustainability strategy and ESG risk management, with a special focus on climate and environmental risks;
- Effective alignment with regulatory and supervisory expectations in this area, and in particular, implementation of the European Central Bank (ECB)'s Guide on climate-related and environmental risks (C&E);
- Implementation of enhanced ESG risk management procedures adjusted to novobanco Group's activity, including:
  a) assessment and quantification of the materiality of these risks;
  b) routines for global monitoring of exposure to ESG risks;
  c) integration of specific controls for ESG risk factors into the business, steering risk exposure origination and monitoring - including the processes required to operationalise the European Taxonomy for sustainable activities; and
  d) implementation of risk assessment practices, using sensitivity analysis or scenarisation methodologies.

6.2.2 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. Since 2020, these risks have been part of novobanco Group's internal taxonomy, focusing on the climate change component (and respective impacts on the traditional risk categories).

The following risk components are assessed:

- A climate and environment component (C&E risk): relating to the quality and functioning of the environment and natural systems, including elements relating to climate change, biodiversity, pollution, and waste management, to the extent that these elements may affect the performance or financial value of novobanco Group's counterparties, clients and assets.
- A social component: relating to social rights, wellbeing and the general interest of society and communities, including factors such as equality, health, inclusion, labour relations, health and safety at work, human capital and the community development.
- A governance component: relating to aspects of internal governance, including the management and supervisory bodies, internal organisation, remuneration policies, internal control, tax practices, conduct and transparency.

Each of these components is individually recognised and assessed for its impact on the other risk categories, with the main focus being on factors with an external origin, inasmuch as internal factors are already currently recognised and controlled by established processes (examples: internal factors relating to social aspects are managed and controlled by the reputational risk management policy; internal factors relating to governance aspects are controlled by the compliance policy; and internal factors relating to physical risk are recognised and controlled by business continuity policies and practices).

6.2.3 Strategy of alignment with the Paris Agreement objectives

The novobanco Group recognises the business opportunities inherent to the financing of an economy with lower levels of GHG emissions while simultaneously establishing enhanced controls for the more challenging exposures in terms of transition. Accordingly, it establishes business (and risk control) objectives based on the main variables of the financing of a less carbon-intensive economy, including:

- Adoption of sectoral policies (including exclusions and minimum safeguards) for those sectors with a special impact on the fulfilment of the Paris Agreement objectives;

- Establishment of general objectives for new green production to guide commercial and financial action, supported by a stronger structuring of green or sustainability-related products (including elements relating to guarantees or real estate collateral in the credit offer);

- Implementation of metrics for regular monitoring of the alignment of the Group's business portfolios, including quantification of financed GHG emissions (i.e., scope 3) and the use of estimates of alignment with the European Taxonomy for sustainable activities;

- Setting sectoral targets based on the SBTI methodology.

In this way, the novobanco Group has set itself the goal of gradually aligning its balance sheet with the general carbon emission reduction targets while at the same time limiting its exposure to transition risk.

6.2.4 Application of the European Taxonomy for Sustainable Activities

The novobanco Group recognises the centrality of the European Taxonomy for the integration of sustainability objectives into its business and, simultaneously, for improving the assessment and management of its clients' transition risk factors. Hence the risk management and control approaches are steered by the global aim of ensuring alignment with the Taxonomy criteria, promoting consistency between internal management procedures and the regulatory and prudential framework for sustainable banking activity.

EU Taxonomy Information Disclosure Principles

The EU taxonomy is a system for classifying activities that make a substantial contribution to the environment and sustainability. Article 3 of the EU Taxonomy Regulation 2020/852 sets out the criteria that an economic activity must meet in order to be considered environmentally sustainable. These criteria include: a) making a substantial contribution to one or more of the EU's six environmental objectives; b) without causing significant harm (DNSH - Do No Significant Harm) to the EU's other five environmental objectives, and c) simultaneously complying with minimum social and governance safeguards, and complying with the technical selection criteria for the EU's environmental objectives.

novobanco has been developing its internal procedures for the purposes of complying with the obligations, application and reporting, of the Taxonomy criteria, which include:

- Collection of information, throughout the credit granting processes, on the characteristics of customers, their activities and the guarantees received;
- Participation in national solutions with the aim of increasing the effectiveness of data collection with the quality and detail required for the purposes of the Taxonomy Regulation;
- Conducting internal analyses and applying methodologies that allow, on the one hand, to achieve the classification of sustainable and, on the other hand, to allow the Bank's management to monitor (on a monthly basis) the (sustainable) performance of customers and the guarantees received.

For this purpose, the provisions of that Regulation, its Delegated Acts and subsequent interpretations published by the European Commission (and/or Platform on Sustainable Finance) are taken into account, and all currently regulated environmental objectives are:
- climate change mitigation;
- climate change adaptation;
- sustainable use and protection of water and marine resources;
- transition to a circular economy;
- pollution prevention and control;
- protection and restoration of biodiversity and ecosystems.

In the following sections, novobanco Group complies with the disclosure obligations of the Taxonomy Regulation, based on the requirements of the Delegated Act - which complements Article 8 of the Taxonomy Regulation - Delegated Act 2021/2178, consolidated version on 1 January 2024.

The preparation of the taxonomy reports we present is based on the prudential perimeter of novobanco Group, which complies with the reporting for supervisory purposes of financial institutions, as defined in Regulation (EU) No. 575/2013 of the European Parliament and of the Council and Commission Implementing Regulation (EU) 2021/451 (FINREP).

In addition, the preparation and disclosure of information is based on the Delegated Act supplementing Article 8 of the Taxonomy Regulation (Delegated Act 2021/2178, consolidated version as of 1 January 2024).

Substantial contribution to EU environmental objectives

novobanco supports a range of activities that make a substantial contribution to the EU's environmental objectives, namely by financing large companies that are subject to the Non-Financial Reporting Directive (NFRD) and already public presented their information in line with the taxonomy. The bank also contributes to this alignment by financing energy-efficient housing (aquisition or renovation) and low-carbon emission cars that meet the applicable criteria in terms of their contribution to climate change mitigation or adaptation.

DNSH - Do No Significant Harm

Counterparties with economically sustainable activities cannot significantly harm any of the six objectives (DNSH criterion). Fulfilment of this requirement is assessed on the basis of the taxonomy reports published by the companies themselves.
In the case of car financing, the limited data available on the recyclability of vehicles and their performance in terms of air and noise emissions does not allow an analysis of the alignment for this segment.

Minimum Social Safeguards

A requirement in the assessment of the environmental sustainability of economic activities is compliance with the minimum safeguards set out in Article 18 of the EU Taxonomy Regulation (Regulation EU 2020/852.

The purpose of the minimum safeguards established in the EU Taxonomy Regulation is that economic activities defined as and considered sustainable must a) respect human rights, including labour rights, b) not engage in corrupt practices and not commit tax offences.

novobanco includes a specific clause in its loan agreements with companies whereby these undertake to conduct their business and carry out their activities in accordance with sound and prudent management criteria and in compliance with the laws, regulations and standards applicable to their sector of activity, including the Fundamental Principles and Rights at Work established by the International Labour Organisation and the International Bill of Human Rights, without resorting to forced or child labour or any form of inhuman treatment or threat thereof.

With regard to mortgages and car loans, and taking into account the guidelines for assessing the alignment of these activities, compliance with the minimum social safeguards depends on information from third parties, namely the producers and/or suppliers of the products and/or services contracted by the direct counterparty; in this sense, and in the absence of the necessary information, it is not possible to confirm compliance with these criteria and, consequently, the alignment of the activities with the Taxonomy Regulation.

Description of the compliance with Regulation (EU) 2020/852 in the financial undertaking's business strategy, product design processes and engagement with clients and counterparties

As described in the previous chapters, the novobanco Group has been implementing a group-wide sustainability strategy, which comprises the operational implementation of the European Taxonomy, focusing on the following elements:

- Adoption of the Taxonomy, based on estimates, to ensure regular monitoring of the evolution trend of novobanco Group's balance sheet and portfolios;
- Definition of an internal concept of 'green investment', which is used to validate the technical conditions (of the operation and/or of the customer's activity) based on European Taxonomy criteria in order to determine the eligibility of the new business in terms of compliance with the minimum annual green production values (which already guide commercial action);
- Consideration of the objectives and criteria of the European Taxonomy in the design of new products and financing solutions;

- Definition of operational requirements for the implementation of the Taxonomy in lending and investment processes, including: a) establishment of client and transaction segmentation principles, to enhance the definition of the information to be collected; b) controls on the information provided by the clients; and c) adaptation of the information system for the collection and maintenance of the Taxonomy indicators;

- Development of methodologies for the adoption of processes to assess the climate & environmental risks of the Bank's customers and counterparties, which rely on information collected from customers;
- Application of the European Taxonomy requirements in the characterisation of the (real estate) guarantees received on loans granted;
- Setting in place practises to keep track and pass on legal and regulatory changes to allow for the adoption of any expected developments regarding the European Taxonomy.

Data Limitations

Public information or information provided directly by counterparties is required to assess the alignment and eligibility of activities to the taxonomy. However, due to the limited number of companies required to disclose non-financial information, the amount of information available is limited and that which is available mainly relates to data prior to the reference date of this report (2023). The alignment ratios used are based on publicly disclosed information from counterparties, provided by an external information provider.

At the same time, the lack of robust evidence to verify the alignment of loans with specific purposes, and in particular to validate the DNSH (do no significant harm) criteria and minimum social safeguards, makes it impossible to fully verify the alignment of the relevant loans with the Taxonomy.

In terms of the energy certification of real estate collateral, i.e. the Energy Performance Certificates (EPC), the Bank has several initiatives underway to obtain the EPC, namely in older credit operations (i.e., carried out at a stage when the mechanisms for the collection and digital characterization of EPCs were not yet implemented).

Taxonomy KPIs

Total Green Assets Ratio (GAR) = Taxonomy-aligned activities as a percentage of total assets.

The numerator includes financial assets of financial and non-financial companies subject to non-financial reporting requirements (NFRD).

The denominator includes the same exposures as the numerator plus other asset classes required by the Taxonomy Regulation (exposures to companies not covered by the NFRD, sovereign debt, central banks and the trading book).

The following tables are presented in accordance with Annex VI and Annex XII of the Delegated Acts:

0. Summary of KPIs to be disclosed by credit institutions under Article 8 of the Taxonomy Regulation

(mn€)		Total environmentally sustainable assets****	KPI Turnover	KPI CAPEX	% coverage (over total assets) ***
Main KPI	**Green asset ratio (GAR) stock - Turnover**	**155**	**0.39%**	**0.44%**	**0.35%**

		Total environmentally sustainable activities	KPI Turnover	KPI CAPEX	% coverage (over total assets)***
Additional KPIs	GAR (flow)	15	0.10%	0.10%	0.10%
	Trading book*				
	Financial guarantees	3	0.83%	5.50%	
	Assets under management				
	Fees and commissions income**				

* For credit institutions that do not comply with the conditions laid down in Article 94(1) of the CRR or the conditions laid down in Article 325a(1) of the CRR;
** Fee and commission income from services other than lending and asset management;
*** % of assets covered by the KPI in relation to the bank's total assets;
**** Total environmentally sustainable assets KPI based on CAPEX is 177Mn€.

1. |Assets for the calculation of the GAR (Green Asset Ratio) based on Turnover

(mn€)	Total gross carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
			Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)				Of which environmentally sustainable (Taxonomy-aligned)			
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling
GAR - Covered assets in both numerator and denominator	21 161	150	150	0	5	1	0	0	0	0	150	150	0	5	1
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	21 161	150	150	0	5	1	0	0	0	0	150	150	0	5	1
Financial corporations	2 921	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit institutions	420	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	24	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	393	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	3	0	0		0	0	0	0		0	0	0	0	0	0
Other financial corporations	2 501	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which investment firms	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	0	0	0		0	0	0	0		0	0	0	0	0	0
of which management companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	0	0	0		0	0	0	0		0	0	0	0	0	0
of which insurance undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	0	0	0		0	0	0	0		0	0	0	0	0	0
Non-financial corporations	1 748	150	150	0	5	1	0	0	0	0	150	150	0	5	1
NFCs subject to NFRD disclosure obligations	1 748	150	150	0	5	1	0	0	0	0	150	150	0	5	1
Loans and advances	1 025	110	110	0	0	1	0	0	0	0	110	110	0	0	1
Debt securities, including UoP	722	40	40	0	5	0	0	0	0	0	40	40	0	5	0
Equity instruments	1	0	0		0	0	0	0		0	0	0	0	0	0
Households	11 669	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which loans collateralised by residential immovable property	9 939	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which building renovation loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which motor vehicle loans	58	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local governments financing	4 722	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Housing financing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other local government financing	4 722	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Collateral obtained by taking possession: residential and commercial immovable properties	101	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other assets excluded from the numerator for GAR calculation (covered in the denominator)	17 479	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	14 033														
SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	13 145														
Loans and advances	12 212														
of which loans collateralised by commercial immovable property	2 630														
of which building renovation loans	0														
Debt securities	870														
Equity instruments	63														
Non-EU country counterparties not subject to NFRD disclosure obligations	888														
Loans and advances	192														
Debt securities	696														
Equity instruments	0														
Derivatives	600														
On demand interbank loans	314														
Cash and cash-related assets	179														
Other assets (e.g. Goodwill, commodities etc.)	2 353														
Total GAR assets	38 640	150	150	0	5	1	0	0	0	0	150	150	0	5	1
Other assets not covered for GAR calculation	6 182														
Sovereigns	372														
Central banks exposure	5 375														
Trading book	436														
Total assets	44 822	150	150	0	5	1	0	0	0	0	150	150	0	5	1
Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations															
Financial guarantees	348	3	3	0	0	0	0	0	0	0	3	3	0	0	0
Assets under management	3 770	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which debt securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which equity instruments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

1. |Assets for the calculation of the GAR (Green Asset Ratio) based on CAPEX

		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
	Total gross carrying amount		Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)				Of which environmentally sustainable (Taxonomy-aligned)			
(mn€)				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling
GAR - Covered assets in both numerator and denominator	21 161	171	171	0	0	0	0	0	0	0	171	171	0	0	0
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	21 161	171	171	0	0	0	0	0	0	0	171	171	0	0	0
Financial corporations	2 921	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit institutions	420	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	24	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	393	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	3	0	0		0	0	0	0		0	0	0		0	0
Other financial corporations	2 501	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which investment firms	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	0	0	0		0	0	0	0		0	0	0		0	0
of which management companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	0	0	0		0	0	0	0		0	0	0		0	0
of which insurance undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity instruments	0	0	0		0	0	0	0		0	0	0		0	0
Non-financial corporations	1 748	171	171	0	0	0	0	0	0	0	171	171	0	0	0
NFCs subject to NFRD disclosure obligations	1 748	171	171	0	0	0	0	0	0	0	171	171	0	0	0
Loans and advances	1 025	166	166	0	0	0	0	0	0	0	166	166	0	0	0
Debt securities, including UoP	722	5	5	0	0	0	0	0	0	0	5	5	0	0	0
Equity instruments	1	0	0		0	0	0	0		0	0	0		0	0
Households	11 669	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which loans collateralised by residential immovable property	9 939	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which building renovation loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which motor vehicle loans	58	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local governments financing	4 722	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Housing financing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other local government financing	4 722	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Collateral obtained by taking possession: residential and commercial immovable properties	101	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other assets excluded from the numerator for GAR calculation (covered in the denominator)	17 479	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	14 033														
SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	13 145														
Loans and advances	12 212														
of which loans collateralised by commercial immovable property	2 630														
of which building renovation loans	0														
Debt securities	870														
Equity instruments	63														
Non-EU country counterparties not subject to NFRD disclosure obligations	888														
Loans and advances	192														
Debt securities	696														
Equity instruments	0														
Derivatives	600														
On demand interbank loans	314														
Cash and cash-related assets	179														
Other assets (e.g. Goodwill, commodities etc.)	2 353														
Total GAR assets	38 640	171	171	0	0	0	0	0	0	0	171	171	0	0	0
Other assets not covered for GAR calculation	6 182														
Sovereigns	372														
Central banks exposure	5 375														
Trading book	436														
Total assets	44 822	171	171	0	0	0	0	0	0	0	171	171	0	0	0
Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations															
Financial guarantees	348	19	19	0	0	0	0	0	0	0	19	19	0	0	0
Assets under management	3 770	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which debt securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Of which equity instruments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

2. GAR by sector, based on Turnover

Breakdown by sector - NACE 4 digits level (code and label)	Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
	Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
	Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)
0729 - Mining and preparation of other non-ferrous metal ores	15	4			15	0			15	4		
1629 - Manufacture of other products of wood; manufacture of articles of straw and plaiting materials; cork industry	7	0			7	0			7	0		
1711 - Manufacture of pulp	41	3			41	0			41	3		
1712 - Manufacture of paper and paperboard (excluding corrugated)	8	0			8	0			8	0		
1721 - Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	13	0			13	0			13	0		
1920 - Manufacture of refined petroleum products and fuels briquettes	104	0			104	0			104	0		
2211 - Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres	15	4			15	0			15	4		
2351 - Manufacture of cement	68	3			68	0			68	3		
2711 - Manufacture of pulp	2	0			2	0			2	0		
2892 - Manufacture of machinery for mining, quarrying and construction	5	1			5	0			5	1		
2910 - Manufacture of motor vehicles	20	0			20	0			20	0		
3020 - Manufacture of railway locomotives and rolling stock	8	1			8	0			8	1		
3511 - Production of electricity	108	106			108	0			108	106		
3514 - Trade of electricity	1	1			1	0			1	1		
4110 - Development of building projects	120	0			120	0			120	0		
4120 - Construction of residential and non-residential buildings	0	0			0	0			0	0		
4222 - Construction of networks for transmission and distribution of electricity and telecommunications networks	20	11			20	0			20	11		
4299 - Construction of other civil engineering projects n.e.c.	218	0			218	0			218	0		
4676 - Wholesale of other intermediate products	4	0			4	0			4	0		
4711 - Retail sale in non-specialised stores with food, beverages or tobacco predominating	77	0			77	0			77	0		
5020 - Sea and coastal freight water transport	20	1			20	0			20	1		
5320 - Other postal and courier activities	10	3			10	0			10	3		
5920 - Sound recording and music publishing activities	27	0			27	0			27	0		
6499 - Other financial services activities n. e, except insurance and pension funds	1	0			1	0			1	0		
6820 - Renting of own or leased real estate	45	4			45	0			45	4		
7010 - Activities of head offices	19	1			19	0			19	1		
7112 - Engineering activities and related technical consultancy	5	5			5	0			5	5		
9609 - Other personal service activities n.e.c.	48	0			48	0			48	0		

2. GAR by sector, based on CAPEX

Breakdown by sector - NACE 4 digits level (code and label)	Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
	Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
	Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)
1629 - Manufacture of other products of wood; manufacture of articles of straw and plaiting materials; cork industry	7	1			7	0			7	1		
1711 - Manufacture of pulp	41	21			41	0			41	21		
1920 - Manufacture of refined petroleum products and fuels brique	74	25			74	0			74	25		
2351 - Manufacture of cement	50	8			50	0			50	8		
3511 - Production of electricity	103	99			103	0			103	99		
3514 - Trade of electricity	1	1			1	0			1	1		
4110 - Development of building projects	120	0			120	0			120	0		
4120 - Construction of residential and non-residential buildings	0	0			0	0			0	0		
4222 - Construction of networks for transmission and distribution of electricity and telecommunications networks	1	1			1	0			1	1		
4299 - Construction of other civil engineering projects n.e.c.	218	0			218	0			218	0		
4511 - Sale of cars and light motor vehicles	4	0			4	0			4	0		
4649 - Wholesale of other household goods	4	0			4	0			4	0		
4676 - Wholesale of other intermediate products	4	0			4	0			4	0		
4711 - Retail sale in non-specialised stores with food, beverages or tobacco predominating	29	1			29	0			29	1		
6020 - Television activities	11	2			11	0			11	2		
6820 - Renting of own or leased real estate	11	0			11	0			11	0		
7010 - Activities of head offices	19	2			19	0			19	2		
7022 - Other business and management consultancy activities	70	1			70	0			70	1		
7112 - Engineering activities and related technical consultancy	5	5			5	0			5	5		
8211 - Combined office administrative service activities	18	3			18	0			18	3		
8299 - Other business support service activities n.e.c.	17	1			17	0			17	1		

3. GAR KPI stock based on Turnover

% (compared to total covered assets in the denominator)	2023														
	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					Proportion of total assets covered
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling	
GAR - Covered assets in both numerator and denominator															
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	0.7%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.7%	0.0%	0.0%	0.0%	54.8%
Financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.6%
Credit institutions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Other financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%
of which investment firms	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which management companies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which insurance undertakings	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Non-financial corporations	8.6%	8.6%	0.0%	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%	8.6%	8.6%	0.0%	0.3%	0.1%	4.5%
NFCs subject to NFRD disclosure obligations	8.6%	8.6%	0.0%	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%	8.6%	8.6%	0.0%	0.3%	0.1%	4.5%
Loans and advances	10.7%	10.7%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	10.7%	10.7%	0.0%	0.0%	0.1%	2.7%
Debt securities, including UoP	5.5%	5.5%	0.0%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	5.5%	5.5%	0.0%	0.7%	0.0%	1.9%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Households	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	30.2%
of which loans collateralised by residential immovable property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	25.7%
of which building renovation loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which motor vehicle loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
Local governments financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.2%
Housing financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other local government financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.2%
Collateral obtained by taking possession: residential and commercial immovable properties	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Total GAR assets	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.4%	0.0%	0.0%	0.0%	54.8%

3. GAR KPI stock, based on CAPEX

	2023														
	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					Proportion of total assets covered
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
% (compared to total covered assets in the denominator)			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling	
GAR - Covered assets in both numerator and denominator															
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	0.8%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%	0.8%	0.0%	0.0%	0.0%	54.8%
Financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.6%
Credit institutions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Other financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%
of which investment firms	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which management companies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which insurance undertakings	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Non-financial corporations	9.8%	9.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.8%	9.8%	0.0%	0.0%	0.0%	4.5%
NFCs subject to NFRD disclosure obligations	9.8%	9.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.8%	9.8%	0.0%	0.0%	0.0%	4.5%
Loans and advances	16.2%	16.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	16.2%	16.2%	0.0%	0.0%	0.0%	2.7%
Debt securities, including UoP	0.7%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.7%	0.0%	0.0%	0.0%	1.9%
Equity instruments	4.0%	4.0%		0.0%	0.0%	0.0%	0.0%		0.0%	4.0%	4.0%		0.0%	0.0%	0.0%
Households	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	30.2%
of which loans collateralised by residential immovable property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	25.7%
of which building renovation loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which motor vehicle loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
Local governments financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.2%
Housing financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other local government financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.2%
Collateral obtained by taking possession: residential and commercial immovable properties	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
Total GAR assets	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.4%	0.0%	0.0%	0.0%	54.8%

4. GAR KPI flow, based on Turnover

% (compared to flow of total eligible assets)	2023														
	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					Proportion of total new assets covered
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling	
GAR - Covered assets in both numerator and denominator															
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	9.6%	9.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.6%	9.6%	0.0%	0.0%	0.0%	0.1%
Financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Credit institutions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Other financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which investment firms	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which management companies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which insurance undertakings	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Non-financial corporations	9.6%	9.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.6%	9.6%	0.0%	0.0%	0.0%	0.1%
NFCs subject to NFRD disclosure obligations	9.6%	9.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.6%	9.6%	0.0%	0.0%	0.0%	0.1%
Loans and advances	9.5%	9.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.5%	9.5%	0.0%	0.0%	0.0%	0.1%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Households	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which loans collateralised by residential immovable property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which building renovation loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which motor vehicle loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Local governments financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other local government financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Collateral obtained by taking possession: residential and commercial immovable properties	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total GAR assets	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%

4. GAR KPI flow, based on CAPEX

% (compared to flow of total eligible assets)	2023														
	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					Proportion of total new assets covered
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling	
GAR - Covered assets in both numerator and denominator															
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	9.4%	9.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.4%	9.4%	0.0%	0.0%	0.0%	0.1%
Financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Credit institutions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Other financial corporations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which investment firms	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which management companies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
of which insurance undertakings	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Non-financial corporations	9.4%	9.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.4%	9.4%	0.0%	0.0%	0.0%	0.1%
NFCs subject to NFRD disclosure obligations	9.4%	9.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.4%	9.4%	0.0%	0.0%	0.0%	0.1%
Loans and advances	9.4%	9.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.4%	9.4%	0.0%	0.0%	0.0%	0.1%
Debt securities, including UoP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity instruments	0.0%	0.0%		0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Households	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which loans collateralised by residential immovable property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which building renovation loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
of which motor vehicle loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Local governments financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Housing financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other local government financing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Collateral obtained by taking possession: residential and commercial immovable properties	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total GAR assets	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%

5. KPI off-balance sheet exposures based on Turnover

% (compared to total eligible off-balance sheet assets)	2023													
	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling
Financial guarantees (FinGuar KPI)	0.85%	0.82%	0.00%	0.00%	0.06%	0.00%	0.00%	0.00%	0.00%	0.85%	0.82%	0.00%	0.00%	0.06%
Assets under management (AuM KPI)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

5. KPI off-balance sheet exposures based on CAPEX

% (compared to total eligible off-balance sheet assets)	2023													
	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling
Financial guarantees (FinGuar KPI)	5.50%	5.50%	0.00%	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	5.50%	5.50%	0.00%	0.01%	0.01%
Assets under management (AuM KPI)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Disclosures according to Annex XII - nuclear energy and fossil-gas related activities

1. Nuclear energy and fossil-gas related activities

	NUCLEAR ENERGY RELATED ACTIVITIES	
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	**No**
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	**No**
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	**Yes***
	FOSSIL GAS RELATED ACTIVITIES	
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	**Yes****
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	**Yes****
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	**No**

* Based on residual exposure to companies that, despite having related activity, have not reported, to date, alignment and eligibility ratios.
** The figures underlying this entry refer solely to the only company that has disclosed the ratios publicly.

2. Economic activities aligned with the Taxonomy (denominator) based on Turnover.

Row	Economic activities based on KPI Turnover (mn€)	Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
2	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
3	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
4	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
5	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
6	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
7	Amount and proportion of other Taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI.	149.6	100.0%	149.6	100.0%	0.0	0.0%
8	**Total green asset ratio, Turnover**	**149.6**	**0.4%**	**149.6**	**0.4%**	**0.0**	**0.0%**

2. Taxonomy-aligned economic activities (denominator) based on CAPEX.

Row	Economic activities based on KPI CAPEX (mn€)	Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
2	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
3	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
4	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
5	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
6	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
7	Amount and proportion of other Taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI.	170.9	100.0%	170.9	100.0%	0.0	0.0%
8	**Total green asset ratio, CAPEX.**	**170.9**	**0.4%**	**170.9**	**0.4%**	**0.0**	**0.0%**

3. Economic activities aligned with the Taxonomy (numerator) based on Turnover.

Row	Economic activities based on KPI Turnover (mn€)	Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
2	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
3	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KP.	0.0	0.0%	0.0	0.0%	0.0	0.0%
4	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
5	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
6	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
7	Amount and proportion of other Taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI.	149.6	100.0%	149.6	100.0%	0.0	100.0%
8	**Total amount and proportion of Taxonomy-aligned economic activities in the numerator of the total green asset ratio based on turnover.**	**149.6**	**100.0%**	**149.6**	**100.0%**	**0.0**	**0.0%**

3. Taxonomy-aligned economic activities (numerator) based on CAPEX

Row	Economic activities based on KPI CAPEX (mn€)	Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
2	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
3	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
4	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
5	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
6	Amount and proportion of Taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI.	0.0	0.0%	0.0	0.0%	0.0	0.0%
7	Amount and proportion of other Taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI.	170.9	100.0%	170.9	100.0%	0.0	0.0%
8	**Total amount and proportion of Taxonomy-aligned economic activities in the numerator of the total green asset ratio based on CAPEX.**	**170.9**	**100.0%**	**170.9**	**100.0%**	**0.0**	**0.0%**

4. Economic activities that are eligible, but not aligned with the Taxonomy - Turnover.

Row	Economic activities based on KPI Turnover (mn€)	Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
2	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
3	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
4	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.2	0.1%	0.2	0,0	0.0	0.0%
5	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
6	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
7	Amount and proportion of other Taxonomy-eligible but not Taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI.	149.6	99.9%	149.6	99.9%	0.0	0.0%
8	**Total amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activities in the denominator of the eligible ratio based on turnover.**	**149.8**	**100.0%**	**149.8**	**100.0%**	**0.0**	**0.0%**

4. Economic activities eligible but not aligned with the Taxonomy - CAPEX

Row	Economic activities based on KPI CAPEX (mn€)	Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
2	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
3	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
4	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
5	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
6	Amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%	0.0	0.0	0.0	0.0%
7	Amount and proportion of other Taxonomy-eligible but not Taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI.	170.9	100.0%	170.9	100%	0.0	0.0%
8	**Total amount and proportion of Taxonomy-eligible but not Taxonomy-aligned economic activities in the denominator of the eligible ratio based on CAPEX.**	**170.9**	**100.0%**	**170.9**	**100.0%**	**0.0**	**0.0%**

5. Economic activities not eligible with the Taxonomy based on Turnover.

Row	Economic activities based on KPI Turnover (mn€)	Amount	%
1	Amount and proportion of economic activity referred to in row 1 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
2	Amount and proportion of economic activity referred to in row 2 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
3	Amount and proportion of economic activity referred to in row 3 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
4	Amount and proportion of economic activity referred to in row 4 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	1.2	0.0%
5	Amount and proportion of economic activity referred to in row 5 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
6	Amount and proportion of economic activity referred to in row 6 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
7	Amount and proportion of other Taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI.	38 483.7	100.0%
8	**Total amount and proportion of Taxonomy-non-eligible economic activities in the denominator of the applicable KPI (non-eligible ratio turnover).**	**38 484.8**	**99.6%**

5. Non-eligible economic activities with CAPEX-based Taxonomy.

Row	Economic activities based on KPI CAPEX (mn€)	Amount	%
1	Amount and proportion of economic activity referred to in row 1 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
2	Amount and proportion of economic activity referred to in row 2 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
3	Amount and proportion of economic activity referred to in row 3 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
4	Amount and proportion of economic activity referred to in row 4 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	1.3	0.0%
5	Amount and proportion of economic activity referred to in row 5 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
6	Amount and proportion of economic activity referred to in row 6 of Template 1 that is Taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	0.0	0.0%
7	Amount and proportion of other Taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI.	38 467.5	100.0%
8	**Total amount and proportion of Taxonomy-non-eligible economic activities in the denominator of the applicable KPI (non-eligible ratio turnover).**	**38 468.8**	**99.6%**

Voluntary disclosures under Regulation (EU) 2020/852

As described in the previous sections, novobanco used only actual information, published by its counterparties, for the purposes of determining the level of alignment of its financing and investments with the Taxonomy criteria.

Nevertheless, it is considered that exposure to the mortgage portfolio may, on a voluntary basis, have a representation of its potential alignment with the European Taxonomy using the best available (and real) information relating to novobanco's real estate collateral (and for which the Bank collects, records and maintains its information).

In these terms, and for better transparency in the provision of information to the market, novobanco has determined the following potential alignment of its mortgage portfolio:

Million Euros	31 december 2023
Retail exposures	11,669 million €
Of which, mortgages	9,939 million €
Eligible exposure	3,625 million € (36.5%)
Aligned exposure	45 million € (0.4%)
Not Elegible	6,314 million € (63.5%)

The potential alignment values presented above allow us to increase novobanco's consolidated GAR% (presented in the previous sections) by 0.12% (i.e., corresponding to a potential GAR% of 0.52% in the case of the Turnover view, and potential GAR% of 0.56% in the case of CAPEX).

To calculate the above estimate, the following methodology was used:

- Verification of substantial contribution: the substantial contribution to the objective of climate change mitigation was measured based on the year of construction of the building and its EPC level (according to the technical criteria of activity 7.7). For buildings constructed before 31 December 2020, only those with an EPC higher than A (inclusive) were considered; For buildings built after this date, it was not possible to guarantee their alignment, given the information needs inherent to the fulfilment of the technical criteria of activity 7.1.
- Verification of DNSH criteria: Compliance with the DNSH criteria for climate change adaptation has been assessed on the basis of an assessment of the exposure of immovable collateral to physical climate risks, selected from those covered in the risk matrix in Section 2 of Appendix A to the Taxonomy Regulation. This analysis only considered the exposure of collateral to acute physical risks (specifically, fires, floods and landslides), if relevant in the respective territory; Chronic risks were not considered as their impact on the integrity of real estate collateral is neither direct nor immediate, and it is not possible to conclude on the materiality of these risks for this type of infrastructure. The alignment estimate was informed by the risk level of each collateral, i.e., properties with a high or severe exposure to at least one of the risks considered, were excluded (classified as non-aligned).

6.2.5 Assessment of Climate Materiality

In 2015, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) to address concerns around insufficient disclosure of climate-related risks and opportunities. In June 2017, the TCFD released its final recommendations, which aim to support companies and organisations to disclose climate-related risks and opportunities effectively and clearly, promoting transparency for investors and the public.

We are aware of the importance of using this approach and believe that following these reporting recommendations will make climate information clearer and easier to compare and contribute to promote more sustainable business strategies. An added benefit is that we approach climate-related issues not only as risks but also as opportunities and consider these two aspects in our business strategy. This year we integrated this approach in the report rather than in a separate document.

In the table below we briefly disclose our approach on the four TCFD theme areas: governance, strategy, risk management, and metrics and targets.

THEME AREA	NOVOBANCO APPROACH (summary)	STATED IN THE DOCUMENT
GOVERNANCE novobanco's governance around climate-related risks and opportunities.	Climate-related issues are managed in accordance with the Sustainability Governance model, led directly by the Executive Board of Directors and overseen by the General and Supervisory Board. Every month we hold a Sustainability Steering, with the participation of Executive Board members and multidisciplinary teams, responsible for coordinating the ESG approach at novobanco.	
	a. Describe management's oversight of climate-related risks and opportunities.	Chapter 6.1
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	Chapters 6.1; 6.2.3; 6.2.5
STRATEGY To analyse the actual and potential impacts of climate-related risks and opportunities on novobanco's business, strategy and financial planning	novobanco develops its activities with the firm objective of making a positive contribution to the entire ecosystem in which it operates. Based on the Sustainability Policy, novobanco assumes a clear position of developing a sustainable business that wants to contribute to the transition to a low-carbon economy. To this end, we have subscribed to the "Business Ambition for 1.5ºC" initiative, which aims to define scientific targets for reducing novobanco's GHG emissions. We also signed the "Letter of Commitment for Sustainable Finance in Portugal", which aims to contribute to the promotion of sustainable investment practices in the country. The SBTI Platform is in the process of assessing the Science Based Targets submission for commitments to reduce the portfolio's carbon footprint. The Sustainability Governance model allows novobanco to integrate physical and transition climate risks into its risk management models, as well as to leverage opportunities associated with climate change.	
	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	Chapter 6.2.5.1
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Chapter 6.2.5.1
	c. Describe the resilience of the Organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Chapter 6.2.5.1.2
RISK MANAGEMENT The processes used by novobanco to identify, assess and manage climate-related risks	The Bank has been gradually incorporating environmental and climate risks into its business model in order to effectively meet regulatory and supervisory requirements and reduce the negative impact arising from its activity. The Risk Management framework is centralised in the Risk Management Function and is composed of the Global Risk Department and the Rating Department.	
	a. Describe the organisation's processes for identifying and assessing climate-related risks .	Chapter 6.2.5.1.3
	b. Describe the organisation's processes for managing climate-related risks.	Chapter 6.2.5.1.4
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Chapter 6.2.5.1.4
METRICS AND TARGETS Metrics and targets used to assess and manage relevant climate-related risks and opportunities	A set of climate-related metrics and targets established in novobanco's ESG strategy are defined and are disclosed. The Bank has endorsed the Science Based Target Initiative (SBTi) with the objective of reducing its own as well as financed GHG emissions and contributing to a low-carbon economy in the long-term. The metrics and progress made are disclosed on a semi-annual basis.	
	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Chapters 2.4; 2.5.; 2.6
	b. Disclose GHG emissions (Scopes 1, 2, and 3) and the related risks.	Chapters 4.1; 6.2.5.1.3
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Chapters 2.4; 2.6; 2.7; 6.2.5.2.4

6.2.5.1 Climate-Related Risks

Climate change, which can have significant impacts on business models and the economy as a whole, is one of the greatest threats currently faced by society. When considering the impact of climate on the activities of financial institutions, a dual materiality perspective is commonly adopted:

a) on the one hand, there are impacts arising from a financial and indirect logic - in other words, the materialisation of climate-related risks in the performance of our clients and counterparties; and

b) on the other hand, there are environmental and social impacts that arise directly from the Bank's activities. novobanco has a dedicated strategy for its approach to environmental and social materiality, which is presented in section 2 of this report.

novobanco seeks to understand and manage climate-related risks and opportunities through their identification and the assessment of their impact on its loan and investment portfolio.

From a strategic discussion perspective, the bank adopts a systematic vision (as shown in the table below and described in the next section) of climate risks, which allows discussing their implications for business strategy and planning the best response to them. On the other hand, we have adopted a more granular approach to the management and control of these risks, using more detailed definitions (e.g., internal taxonomy) that allow for a comprehensive assessment of climate risk factors in the other financial and non-financial risk categories.

Climate risks in financial materiality

The risks stemming from climate change mainly encompass physical risks, such as extreme weather phenomena (storms, droughts, floods), and transition risks, which arise from the effort to adapt economic activities to more circular models with lower carbon footprints.

Generally speaking, these risks affect financial institutions primarily through their impact on the activity of their clients and counterparties: physical risks can cause damage to companies' production assets, disruption of operations or even loss of revenue due to disruption of supply chains. Transition risks can affect the value of financial assets directly (e.g., assets related to fossil fuel energy) or indirectly, through the effort and cost of the adaptation required from companies.

At the same time, climate change-related opportunities can be relevant. For instance, supporting the transition of companies or the development of infrastructures that are more resilient to physical risks can give rise to new products and services or even lead to increased turnover. While we know we are only at the beginning of this journey, we aim to support our clients in managing their own climate-related risks and opportunities by providing them sustainable financial solutions and the necessary guidance on the path to a low-carbon and more circular economy.

TYPOLOGIES OF PHYSICAL RISK	HORIZON
Acute risks Caused by one-off events such as droughts, floods and storms.	M L
Chronic risks Risks caused by gradual changes in climate patterns such as rising temperature and sea levels, increased pressure on water resources, loss of biodiversity, or changes in land use.	M L
TYPOLOGIES OF TRANSITION RISK	**HORIZON**
Public policy, legislation and regulation The bank's obligation to integrate sustainability criteria into its products and services faces mounting pressure from regulatory requirements.	S M L
Technological The need to incorporate new technologies into production processes may affect competitiveness and production costs.	M L
Market Shifts in supply and demand for products and services as the effects of climate change become increasingly mainstream.	M L
Reputational Perception by clients, stakeholders and society at large of the Bank's approach to ESG factors and their integration into the business.	S M L

S Short-term M Medium-term L Long-term

Strategic analysis of main climate risks

The table below describes how we analysed the main climate risks in terms of their potential impact on the Bank's strategy, business and activity, and the most significant measures we have adopted (or are in the process of adopting) in order to prevent or mitigate the risks and challenges identified.

RISKS	POTENTIAL IMPACT ON THE BANK'S STRATEGY AND BUSINESS	OUR MITIGATION MEASURES
Physical risks **Acute typology**	• Possible costs arising from damage to the Bank's physical assets, including business disruption. • Possible increased absenteeism of the Bank's employees. • Business disruption for clients and counterparties due to damage to production assets or limitations in the value chain • Potential devaluation of collaterals on loans granted by the Bank.	• Business continuity planning that ensures an adequate assessment of physical risks to the Bank's main assets and activities and the establishment of the necessary contingency measures. • Based on the reinforcement of physical risk assessment and quantification methodologies: a) adoption of a collateral acceptance policy that encompasses additional or differentiated requirements for formalising insurance policies on received collateral; and b) establishment of covenants and conditions for acceptance of financing that allow the inclusion of aspects pertaining to the continuity of the businesses being financed.
Physical risks **Chronic typology**	• Decrease in productivity and/or increase in operational and production costs in exposed sectors, impacting the financial performance of customers and counterparties or projects financed by the Bank.	• Development of risk assessment methodologies, including strengthening contact/engagement with clients (and gathering information on their activity and projects). • Integration of climate risk assessment into loan and pricing decision processes.
Transition risks **Policies and legal framework**	• Limitations on the development of business strategies, increase in the Bank's compliance costs (or process inefficiency costs) as a result of inadequate implementation of legal and regulatory requirements, especially those of a prudential nature. • Increased operating costs for exposed sectors and companies. • Inability to invest (due to restrictions on access to financing) with an impact on the commercial activity of companies/ counterparties.	• Changes to the governance and organisational model to ensure a dedicated monitoring of ESG issues. • Increased interaction with companies and counterparties, for a better insight into their transition and business adjustment challenges. • Development of products and services with structuring conditions and rationale aligned with our customers' transition needs.

RISKS	POTENTIAL IMPACT ON THE BANK'S STRATEGY AND BUSINESS	OUR MITIGATION MEASURES
Transition risks **Technology**	• Inability of the Bank's corporate clients and counterparties to adapt, due to limited investment capacity or restricted access to financing. • Unavailability of the most suitable technologies (at a reasonable cost) necessary to meet the new standards of business operations. • Business transformation and conversion costs, with an impact on the financial performance of customers and counterparties.	• Increased interaction with companies and counterparties, for a better insight into their transition and business adjustment challenges. • Development of products and services with structuring conditions and rationale aligned with our customers' transition needs. • Establishment of partnerships that allow keeping abreast of market developments and offerings of solutions/ technology.
Transition risks **Market**	• Changes in supply and demand for ESG-oriented banking products and services, with an impact on the Bank's commercial competitiveness. • General increase in market prices of technology and production factors with an impact on the competitiveness and financial performance of companies. • Limitations on the growth of companies and sectors exhibiting greater misalignment with efficiency and decarbonisation standards, resulting in reduced demand for their goods and services	• Promotion of awareness initiatives for the Bank's customers and counterparties, encouraging them to proactively address transition challenges. • Development of risk assessment methodologies, including strengthening contact/engagement with clients (and gathering information on their activity and projects). • Increased interaction with companies and counterparties, for a better insight into their transition and business adjustment challenges. • Development of products and services with structuring conditions and rationale aligned with our customers' transition needs.
Transition risks **Reputational**	• Risk of failing to meet stakeholders' expectations regarding the Bank's performance on critical climate change issues. • Constraints on investors' and stakeholders' perception of the Bank's brand image. • The Bank's involvement in instances of non-compliance with new ESG requirements, with an impact on its image and reputation. • Association of the Bank with clients, counterparties, suppliers and other third parties with sensitive ESG profiles	• Development, implementation and ongoing monitoring of a strategic ESG plan aimed at enhancing the Bank's readiness to effectively respond to the challenges posed by climate risks. • Adoption of conservative policies and criteria to ensure the highest level of rigour and compliance in the Bank's decisions and results. • Rigorous communication with the market. • Implementation of supplier selection and monitoring controls. • Reputational risks identification and assessment exercise.

6.2.5.2 Risk identification and assessment

ESG risks represent the potential negative impacts deriving from the current or future effects of possible ESG risk factors implicit in clients and counterparties or in the Bank's assets and liabilities. The impacts of ESG risks are usually transmitted through ´traditional' financial and non-financial risk categories.

The integration of ESG risks within the taxonomy means that this category of risk, consistently with the other risks, is subject to processes of identification and materiality assessment. Once the materiality of these risks has been established, the standard formal management and monitoring processes are applied. The internal taxonomy comprises the following components where ESG risk factors are described as follows:

- **Climate and environmental risks:** the main component of ESG risk, it concerns the quality and functioning of the environment and natural systems, including factors relating to climate change, biodiversity, pollution and waste management.
- **Social risks:** relate to social rights and the general wellbeing and interests of society and communities, and include factors such as equality, health, inclusion, labour relations, health and safety at work, human capital and communities' development.
- **Governance risks:** relate to aspects of internal governance, including the management and supervisory bodies, internal organisation, remuneration policies, internal control, tax practices, conduct and transparency.

Each of these components is individually recognised and assessed as to its impacts on the other risk categories, with a particular focus on a) factors with an external origin; and b) climate and environmental-related factors. The internal impacts of risk factors are largely recognised and controlled under the risk management framework already established for the other risk categories: e.g., factors relating to the Bank's governance risks are managed under novobanco's governance and internal control model and compliance management, and the impacts of physical risk factors on the Bank's activity and facilities are managed under the business continuity management framework.

OUR ESG RISK TAXONOMY

Transition risk factors	Factors associated with the challenges, and respective impacts, resulting from the transition to a **low GHG emission economy**, including the effort required to **change the energy mix (i.e., change to renewable sources)** and the adoption of **more circular business models.**
Physical risk factors	Factors arising from the **physical manifestation of climate change and environmental degradation**, analysed under two categories: a) **acute** - which result from climatic and meteorological events with immediate negative impacts; or b) **chronic** - which are determined by gradual changes in climatic and meteorological conditions, leading to progressive ecosystem degradation.
Biodiversity factors	Factors that relate to the **quality and normal functioning of natural systems**, including climatic factors, loss of biodiversity **(impact rationale)** or consumption of physical and energy resources **(dependency rationale).**
Social risk factors	Factors that relate to the **basic components of wellbeing, security and the evolution** of society and the economy.
Governance factors	Factors pertaining to the good governance of institutions and companies, which should ensure good management and control principles, including recognition of ESG challenges.
Greenwashing factors	These factors cross-cut all the other risk factors, and are related to the possible misalignment between the announced and the actual objectives and purpose of a given counterparty, issuer or instrument, with regard to ESG issues.

Climate and environmental risks | Other environmental risks | Other ESG risks

6.2.5.2.1 Climate Scenarios

novobanco recognises that the characteristics of climate and environmental risks advise that their assessment, management, and monitoring take into consideration the potential scenarios for the evolution of their factors and the timeframe for their materialisation.

The impact dynamics of transition and physical risk factors is dependent on the success of the implementation of policies and legislative proposals currently under execution (or still under discussion): for example, their success may lead to higher transition risk (due to economic activity adaptation or conversion efforts) and lower physical risk (through the ability to control the increase in global temperature).

Scenarios serve as a reference point for risk approaches by providing insights into the evolution of climate change and the associated impacts. In other words, depending on the scenario being considered, different assumptions are considered for climate risk management strategies, methodologies, and procedures.

Therefore, at the proposal of novobanco's sustainability and risk management functions, the bank adopts annual scenarios (along with the corresponding timelines) for the evolution of climate risk. These scenarios encompass the following:

- The design of the scenario (e.g., the main variables and underpinning narrative); and
- Each scenario's probability of occurrence.

Acknowledging that our understanding, assessment, and management of climate risks are still in their early stages, in 2023 we embraced the scenarios outlined by the NGFS. These scenarios were attributed equal value, assuming an equal probability of occurrence for each, as indicated in the matrix presented further down.
Each of the represented scenarios is further elaborated through complementary scenarios that expand their narratives, where novobanco considered:

- Orderly transition - net-zero 2050 scenario: global warming is limited at up to 1.5º C through stringent climate policies, allowing to reach net-zero status in 2050.
- Disorderly transition - disorderly scenario: Nationally Determined Contributions (NDCs) are maintained until 2030 and transition efforts are accelerated from them onwards. The level of global warming stays at 2°C.
- Warmer world – current policies: this scenario simulates the greatest impacts from physical risks, assuming that only currently known policies are implemented.

Based on the chosen scenarios, novobanco assesses different timeframes for the materialisation of risks, in a forward-looking perspective: by utilising projections of risk variables and metrics outlined in the scenarios, the bank assesses the evolving dynamics of risks over time. The year 2030 was selected as the reference year for the assessment of the materiality of the risks.

The year 2030 was selected for the materiality assessment for the following reasons:

- It is a public policy milestone at European level;
- It provides a sufficiently long time horizon to assess the manifestation of risks but is still close enough to determine management measures with predictable effects and, to that extent, normally included in the Bank's planning and management processes; and
- The year 2030 will be the timeframe considered for the establishment of plans and metrics for the Bank's balance sheet alignment/ transition.

Use of climate scenarios by type of risk

As far as possible, the assessment of ESG risks (and in particular of climate and environmental risks), adopts a forward-looking approach that acknowledges the dynamic nature of risk factors and consequently the varying resulting risk assessments.
In the identification and assessment of the materiality of risks, novobanco considers climate scenarios for the components of a) transition risk; b) phisical risk and c) social risk.

The Transition Risk assessment is underpinned by a sectoral approach that takes into account the expected impact of carbon prices, energy price volatility and technology investments - driven by energy transition efforts - on the profit margin of companies in each sector.

The transition score covers a total of 79 sectors across agriculture, extractive industries, manufacturing and services, and considers the expected impact of upcoming carbon, energy and investment costs on a company's profit margin - the climate shock - taking into account the following component risk factors:

- Portfolio GHG intensity - carbon shock: The carbon shock component represents the carbon price cost based on the Scope 1 GHG emission-intensity of the activities covered by the ETS, namely electricity and heat production, energy-intensive industrial sectors including oil refineries, steel, iron, aluminium, metals, cement, lime, glass, ceramics, pulp, paper, cardboard, acids and bulk organic chemicals production, and the aviation sector; it reflects the portfolio's GHG intensity risk.
- Portfolio energy intensity - energy shock: The energy shock component represents the cost of energy prices based on the intensity of energy consumption (by type of energy: electricity, coal, natural gas, crude oil and oil derivatives); it reflects the portfolio's energy intensity risk.
- Green investments in the portfolio - investment shock: The investment shock component represents the cost of green investments (CAPEX) based on the total distance to the Taxonomy requirements; it reflects the risk of portfolio misalignment with the Taxonomy.

The Physical Risk model is based on the integration of 4 components:

- Risk, Exposure, Vulnerabilities and Future Scenarios. The Risk component represents the intensity and/or frequency of each climatic hazard in a specific location, and was calculated for seven different types: Floods (river, urban and coastal), Extreme Heat, Landslides, Earthquake, Tsunami, Water Scarcity and Wildfires.
- The Exposure component represents the location of the client's headquarters, specifically its municipality;
- The Vulnerability component represents the inherent susceptibility of a specific location and sectoral land use (agroforestry, industry, urban areas and tourism) to the consequences of a climate hazard;
- The Future Scenarios component represents how the Exposure may change according to three different climate scenarios for 2050 (NetZero 2050, Delayed Transition and Current Policies).

The methodology for social risk places a strong emphasis on labour-related issues and is divided into six main topics, namely:

- Freedom of association - the right of individuals to join or form groups, including trade unions and organisations, without interference or coercion. It allows people to collectively pursue common interests and protect their rights.

RISK COMPONENTS SCENARISATION MATRIX - TIMEFRAMES CONSIDERED AND MAIN VARIABLES ASSESSED

Transition	2025	2030	2035	2040	2045	2050	Point-in-time (hist.)	Evolution of GHG emissions, carbon prices, green CAPEX estimates.
Physical	2025	2030	2035	2040	2045	2050	Point-in-time (hist.)	Time and space evolution of each risk factor (e.g. floods, forest fires, drought and extreme heat).
Biodiversity	2025	2030	2035	2040	2045	2050	Point-in-time (hist.)	No scenarisation - point-in-time assessment based on exposure characteristics at the reference date.
Social	2025	2030	2035	2040	2045	2050	Point-in-time (hist.)	No scenarisation - point-in-time assessment based on exposure characteristics at the reference date.
Governance	2025	2030	2035	2040	2045	2050	Point-in-time (hist.)	No scenarisation - point-in-time assessment based on exposure characteristics at the reference date.
Greenwashing	2025	2030	2035	2040	2045	2050	Pontual (hist.	No scenarisation - point-in-time assessment based on exposure characteristics at the reference date.

- Forced labour - any work or service that is not performed voluntarily and is required of an individual under threat of violence or punishment.
- Discrimination - unfair or prejudicial treatment of individuals or groups based on certain characteristics such as race, gender, age, religion, disability or other factors.
- Child labour - the employment of children below the minimum age for employment as defined in the ILO Minimum Age Convention, 1973 (No. 138) and the ILO Worst Forms of Child Labour Convention, 1999 (No. 182).
- Occupational Health and Safety - the necessary processes and measures to address workers' safety and health.
- Armed Conflicts - conflicts divided into six types of events (battles, explosions/remote violence, violence against civilians, riots, protests and strategic developments).

6.2.5.2.2 Risks materiality

novobanco conducts its risk identification and assessment exercise on an annual basis. In this exercise, all the relevant risks for banking activity are analysed and their materiality is assessed through specific methodologies (considering the probability of occurrence and the significance of their impacts), with the following objectives:

- To determine the relationship/integration rationale between ESG risks and the Bank's other risk categories;
- To justify, in a qualitative manner, the material (or immaterial) impact of ESG risk factors, informing, for example, the ICAAP; and
- To identify which risk categories and factors should be specifically managed and controlled in the framework of risk appetite and strategy.

Those risks which prove to be material are subsequently subject to formal quantification, management/control and regular monitoring procedures.
ESG risks are integrated in this exercise through recognition that their factors impact 'traditional' risk categories, using the following approach:

- Matrices of ESG risk factors and metrics: the metrics are based on the components and factors previously described, and, whenever possible, adjusted according to business area and/or portfolio. The metrics permit to make an objective assessment of the relevance of the Bank's exposure and, when applicable, to determine the scenario for the respective risk factor.
- Cross-cutting mapping of ESG risk factors and metrics for traditional risk categories: ESG risks are recognised as having the potential to materialise through the impact (or increase in risk) revealed in financial and non-financial risk categories.
- Risk materiality assessment scale, integrated into the (traditional) risk categories, to rank the potential for materialisation (present and long-term) of the risk factors.

This integration can be visualised in the table to the right, where ESG risk factors are correlated with traditional risk categories.

DESCRIPTION OF TRADITIONAL RISK CATEGORY							
Credit risk	Losses of capital (or remuneration) on banking book operations due the inability of a counterparty to meet its obligations. Includes sovereign and concentration risks.	●	●	●	●	●	○
Liquidity and funding risk	Losses arising from the Bank's present or future inability to settle its liabilities as they mature.	●	●	○	○	○	○
Interest rate risk on the banking book	Losses in the Bank's financial results or economic value due to unfavourable changes in market interest rates.	●	●	○	○	○	○
Market risk	Impacts from fluctuations in market prices or prices of factors that influence the valuation of instruments measured at fair value (e.g. credit spread, interest rate, exchange rate).	●	●	○	●	●	●
Operational risk	Financial impacts resulting from inadequacy or failures in processes, information systems or human conduct. Includes compliance, reputational and information systems risks.	○	●	●	●	●	●
Pension fund risk	Impacts resulting from the revaluation of Pension Fund's assets or liabilities that lead to liabilities exceeding the value of assets.	●	●	○	○	○	○
Strategy risk	Current or future impacts arising from changes in the Bank's strategy or restraints on its execution, or related to adverse impacts of business decisions.	●	○	○	○	○	○

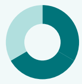
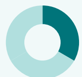
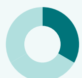
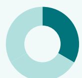
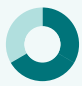
Materiality assessment results

novobanco conducted for the first time a comprehensive assessment of the materiality of the impact of ESG risks on its risk profile and activity with reference date of 31 December 2022. This exercise, reviewed in 2023 and whose results are summarised here, now incorporates risk management and control methodologies. For instance, the materiality assessment for credit risk within the credit segmentation model (ESG) determines the prioritisation of customers for information gathering and additional risk analysis.

Due to the impact of transition and physical risk factors, ESG risks particularly affect credit and strategy risk:

The adaptation effort of some industry sectors to which the Bank is exposed is reckoned to be particularly significant in the medium and long term, impacting the creditworthiness of these companies. On the other hand, the impact of physical risks on companies' activities (impact on business continuity) may be relevant due to the lack of mitigation measures.

For the same reasons and given the weight of the most exposed sectors in the Bank's results, it was concluded that ESG risks have a relevant impact on strategy risk.

CATEGORIES	MAIN RISK FACTORS AND METRICS	MAIN MITIGATION MEASURES	ASSESSMENT
Credit risk	• GHG emissions intensity, carbon prices. • Energy intensity, energy costs. • Green CAPEX financial effort. • Disruption in value chains (social risk) . • Physical risk in real estate collateral and (location) of business activity. • Energy performance of real estate collateral. • Country risk variables (physical, transition, social & governance).	• Insurance policies/collateral coverage • Sectoral approaches and policies • Sectoral diversification	
Liquidity and funding risk	• Profile of main counterparties (physical risk, reputational risk). • Location of depositors (physical risk). • Employment sectors of depositors (transition risk).	• Limited exposure to financial counterparties, namely insurance sector entities. • Geographical diversification of depositors.	
Interest rate risk on the banking book	• Approach similar to that adopted for liquidity risk, including assessment of possible impacts on contingent lines/ commitments.	• Limited exposure to financial counterparties. • Geographical diversification of depositors.	
Market risk	• Replication of the analyses for credit risk. • Reputational profile of main counterparties . • Robustness of ESG-labelled instruments - greenwashing risk.	• Risk profile of issuer and counterparties. • Limited exposure to ESG-labelled instruments.	
Operational risk	• Location of the Bank's main facilities - physical risk • ESG profile (reputational rationale) of novobanco's main suppliers and counterparties.	• Risk profile of issuers and counterparties. • Limited exposure to ESG-labelled instruments. • Low weight of real estate assets.	
Pension fund risk	• Replication of market risk analysis. • Energy performance of real estate assets. • Location of real estate assets.	• Perfil de risco dos emitentes e contrapartes. • Limitada exposição a instrumentos com etiqueta ESG. • Baixo peso de ativos imobiliários.	
Strategy risk	• Level of income (e.g. net interest income and fees and commissions) dependent on sectors exposed to high transition risks.	• Management controls and regular streamlining of the Bank's business plans and budget. • New products and approach to clients (transition finance).	

6.2.5.2.3 Analysis of Risks

Transition risk and financed emissions

novobanco acknowledges the direct correlation between the GHG emissions level of its counterparties and their transition risk: all else being equal, companies with higher GHG emission intensity tend to have greater adaptation or transition needs. Hence, without disregarding other methodologies for assessing transition risk, we monitor the emissions from the portfolio of companies that we finance (i.e., our scope 3 emissions, category 15 - investments). Whenever feasible, we try to obtain information reported by our clients. Where not available, we adopt estimation-based approaches.

The methodology we employ for measuring emissions is based on the "Partnership for Carbon Accounting Financials" (PCAF) global standard for the accounting and disclosure of GHG emissions financed through loans and investments.
To calculate emissions, we apply an allocation factor to the GHG emission values of counterparties (actual or estimated) in order to determine the share that novobanco must report due to its financing of the company's activity.
In summary: novobanco GHG emissions = company GHG emissions x allocation factor.
We have adopted the following PCAF data quality hierarchy to calculate the emissions of our counterparties (scopes 1, 2, 3, where available):

- Score 2: counterparty emissions calculated on the basis of emissions reported by the counterparties, incorporating financial information obtained from the IES (Simplified Business Information) and the companies' annual reports.

$$\sum_c \frac{Outstanding\ amount_c}{Total\ equity + debt_c} \times Unverified\ company\ emissions_c$$

- Score 4: this score incorporates financial information from the companies, to which sectoral carbon intensity ratios (tCO2/M€ revenues) are subsequently applied at the level of the company's Economic Activity Class (80 sectoral divisions applied).

$$\sum_c \frac{Outstanding\ amount_c}{Total\ equity + debt_c} \times Revenue_c \times \frac{GHG\ emissions_s}{Revenue_s}$$

- Score 5: lowest data quality level, with sectoral carbon intensity ratios applied at the level of the company's Economic Activity Class (80 sectoral divisions applied).

$$\sum_c Outstanding\ amount_c \times \frac{GHG\ emissions_s}{Assets_s}$$

We estimate that our emissions related to loans to companies amounted in 2023 to 2.6 million tonnes of CO_2 equivalent, covering approximately 99.8% of novobanco's corporate loans portfolio (exposure value, excluding financial activities and public administration). The carbon intensity of novobanco's financing portfolio is therefore around 199/tCO_2 e per million euros financed.

Both the total emissions financed and the carbon intensity of novobanco's corporate loans portfolio have therefore increased significantly. More than 85% of this increase can be explained by the increase in scope 3 real information available and the remainder by the significant increase in scope 1 emissions related to an exposure that was previously based on sector averages (PCAF score 4 or 5) and is now based on real data (PCAF score 2).

Financed emissions (loan portfolio)	2023	2022
Oustanding amount in scope (mn €)	13 052	13 014
Total emissions S1 (tCO_2)	1 521 809	1 393 901
Total emissions S2 (tCO_2)	148 275	155 125
Total emissions S3 (tCO_2)	922 372	150 083
Total emissions (tCO_2)	2 592 456	1699 109
Carbon Intensity (tCO_2/M€)	199	131

It was only possible to use real emissions information reported by companies for 6% of the loan portfolio analysed (scope 1). However, the real emissions data reported represent 43% of the total emissions financed, which can be explained by the concentration in larger companies and in sectors that are particularly relevant for climate policy.

Notwithstanding the foregoing, novobanco recognises the significant improvement in the availability and quality of GHG emissions information reported by companies and believes that this improvement will continue to accelerate in the coming years, not only as a result of legal and/or regulatory reporting requirements applicable to an increasing number of companies, but above all as a result of the development and evolution of transition plans and monitoring practices by an increasing number of companies operating in the market.

novobanco thus reinforces its commitment to the ongoing monitoring and disclosure of data on the emissions it finances, as well as to the continuous improvement of the quality and comprehensiveness of the data collected, which is essential for further analysis and monitoring of impacts, and for expanding the implementation plans of its own transition plan and strategy.

The portfolio's financed emissions are heavily concentrated in three carbon-intensive sectors, which account for 80% of total emissions but only 32% of the portfolio's outstanding amount:

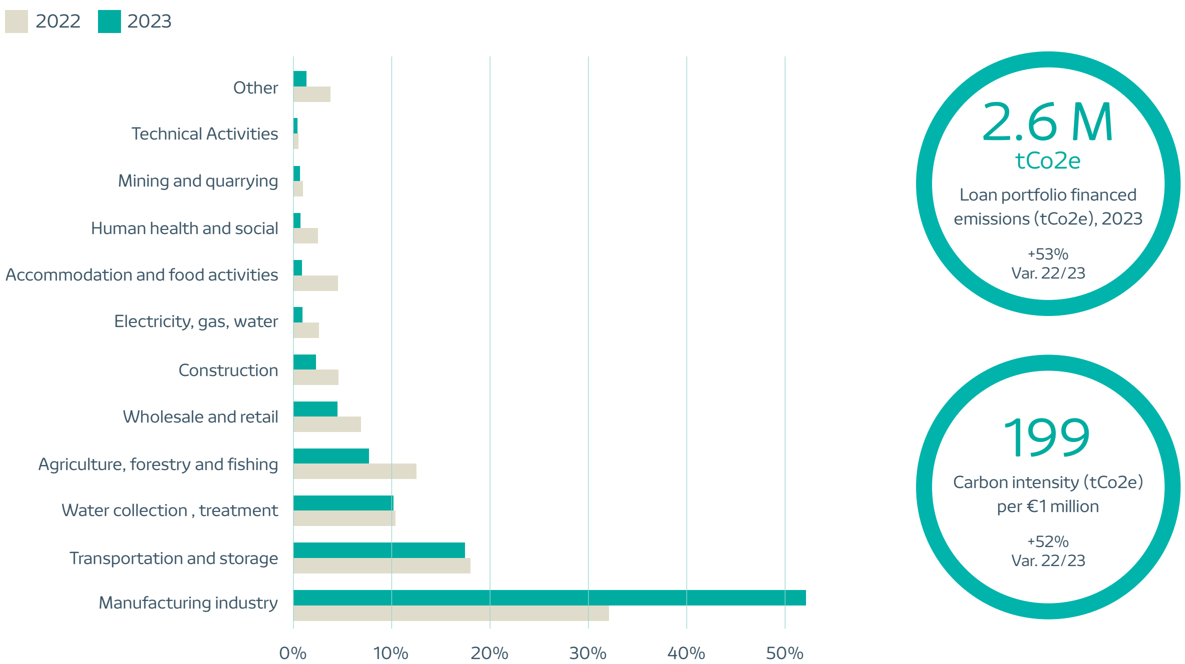
- C - Manufacturing;
- H - Transportation and storage; and
- E - Water collection, treatment and distribution, sanitation and waste management.

Transition risk additional methodologies

As a complement to the analysis of GHG emissions, we use additional classifications of our corporate loan book and monitor KRIs in our Sustainability Steering, namely:

- the Climate Policy Relevant Sectors (CPRS) is used by novobanco to better assess and monitor transition risk, focusing on sectors negatively affected or on which the impact is uncertain. This methodology takes into account the following factors: direct and indirect contribution to GHG emissions (such as the production and distribution of fossil fuels or renewable energy); relevance for climate policy (such as the cost structure sensitivity to regulatory or tax changes based on GHG emissions); and importance in the energy value chain (production, use, consumption). Taking into account the sectors with "negative" and "uncertain" impact and the classification of sectors included in the "Annual Report on the Banking Sector's Exposure to Climate Risk" (July 2023, BP), the exposure of novobanco's loan and investment portfolio to these CPRS sectors in December 2023 was 47% (better than the average for the banking sector in 2021 of 59%, as per this report, having declined from 48% in December 2022.

Breakdown of sectoral contribution to carbon footprint (loan portfolio)



(1) Calculation based on a best effort approach, excluding companies in the sectors "Financial and insurance activities" and "Public administration and defence; Obligatory Social Security".

We analyse the bank's exposure to CPRS on a monthly basis in terms of both this exposure's share of the volume of loans and investments, and its share of income from the loan component.

- Carbon-intensive sectors - we analyse the loan and investment portfolios' percentage of exposure to these sectors and its evolution. In December 2023 this percentage was 11% (considering the loan and investment portfolios' exposure to "high" and "very high" intensity sectors).

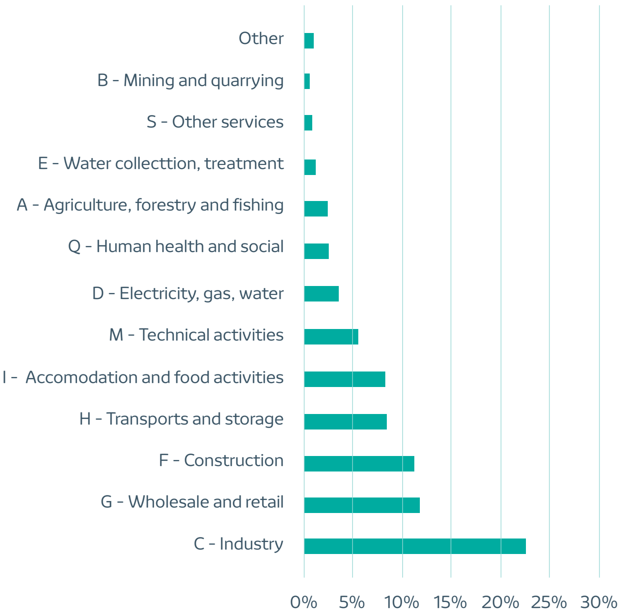
- Exposure to sectors excluded from the benchmarks aligned with the Paris Agreement - we analyse the loan and investment portfolios' percentage of exposure to these sectors and its evolution. In December 2023 this percentage was 11% (considering the loan and investment portfolios' exposure to "high" and "very high" intensity sectors).

Transition risk in real estate collateral

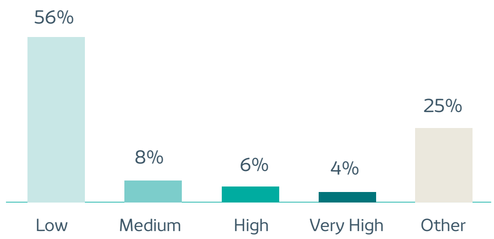
As the economy transitions to a low carbon economy, market policies and trends may indirectly impact the financial value of real estate - demand for properties with lower energy efficiency levels may diminish and these may also become less competitive due to the development of more energy-efficient alternatives (to which the legislative changes under discussion contribute). Therefore, the transition risk is also assessed with regard to the real estate collateral on the Bank's credit operations.
The energy classification of properties will also affect the alignment of novobanco's loan portfolio with its commitments to reduce its carbon footprint.
During 2023, the Bank made a strong effort to collect and register the energy certification levels of its real estate collateral. Currently, 36% of the collateral is registered based on the actual level of energy certification, and if we consider residential properties with loans granted after 2013, this coverage rises to 55%, and for commercial properties to 46%. In terms of actual EPC data, 34% of properties currently have a B- or higher certification.

We have introduced new procedures for lending against property, requiring customers to provide an energy performance certificate.

Exposure by sector (loan portfolio)



Distribution by GHG emissions intensity



Various computer developments are also underway that will permit to generate information on the energy performance of properties financed in the past. At present, it is mandatory to obtain the energy certificate for new loans secured by property.

It is worth noting that novobanco proactively manages the energy efficiency of collaterals and has long offered financing solutions with favourable terms for properties with better energy performance levels.

Assessment of physical risks

In addition to transition risk, novobanco also devotes special attention to monitoring physical risks. To this end, the Bank uses methodologies based on the classification of risks by geographical location, following regulatory recommendations.
The methodology used to calculate the results reported here is based on public information - ThinkHazard! - which is prepared by an initiative led by the World Bank. Of the various physical risk typologies available, we use those with the greatest impact on the structure of the properties financed, i.e., a) floods, b) fire, and c) landslides, as shown by the colours in the maps below.

The maps are used individually, to showcase a specific risk typology, or together, for a global understanding of the exposure to risk. It should be noted that this is a conservative approach, insofar as a district's classification represents the most severe classification within its municipalities.

Property collateral by energy class

% of number of properties (residential class)

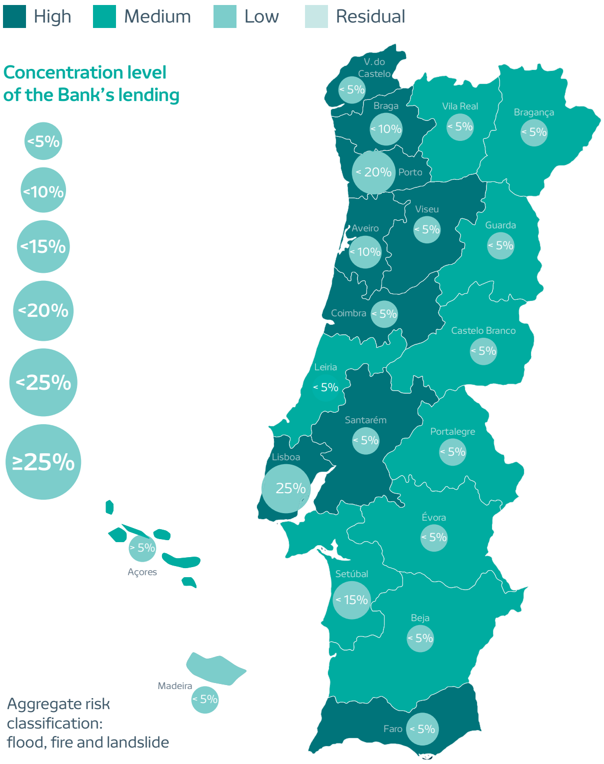
	△ 2023,2022	2023	2022
A	↑	7%	6%
B	↑	22%	20%
C	↓	46%	47%
D	↑	19%	22%
E	↑	4%	3%
F	↑	2%	1%
G	=	1%	1%

Exposure to physical risks

The exposure to physical risks results from the aggregate assessment of the typologies of a) floods; b) fires; and c) landslides. The risk level is depicted by the colour of the district, while novobanco's risk exposure is indicated as the percentage of concentration of real estate collateral (residential and commercial). This concentration is measured by the number of properties serving as real estate collateral as of 31 December 2023.
Overall, the following results are to be considered:
Due to demographic factors, financed real estate tends to concentrate in major urban areas, which, given the nature of the national territory, are predominantly situated along the coast, and therefore exposed to specific risks such as flooding and landslides.
Fire risks are more pronounced in the central and interior areas of the country, where there is no significant concentration of properties financed by the Bank.
The assessment presented here takes a conservative approach by representing a district's level of risk based on the most severe classification among its municipalities. Nevertheless, the exposure to physical risks may be relevant, given the characteristics of the national territory. The Bank's insurance policies and requirements therefore play an important role in protecting the value of collaterals.

Concentration of real estate collaterals

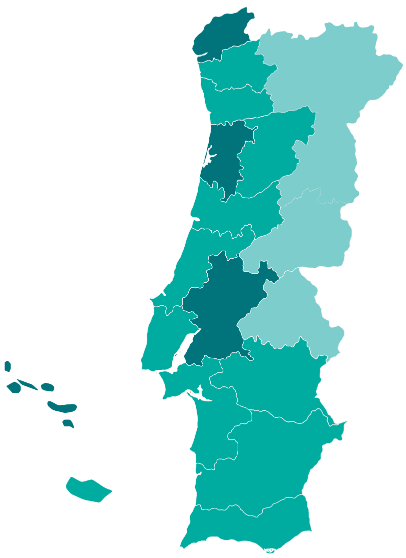
% of number of properties



Maps of physical risk in Portugal – external information

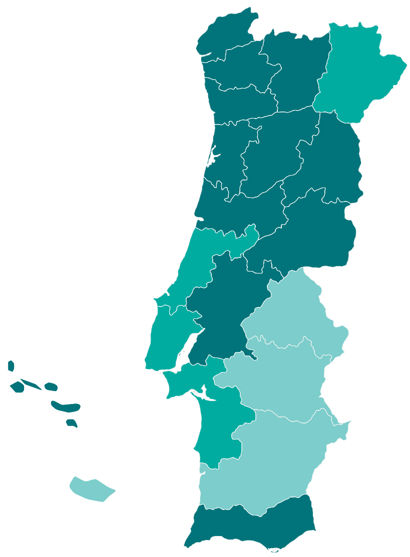
High | Medium | Low | Residual

Risk of flood[1]



Risk of fire

Risk of landslide



[1] Urban, river and coastal flood

4.2.5.2.4 Integration of Risks

Our transition finance model

Our climate risk management strategy assumes that we will maintain business and lending relationships with sectors and companies facing relevant transition challenges. novobanco has consistently shown a leading role in supporting the Portuguese business community. Therefore, our approach is centred on providing direct support to facilitate our clients' transition. To this end, we consider it essential to know and assess the challenges that climate and energy transition will pose to the companies we finance. On the basis of this assessment, we intend to: a) strengthen our offer of products and services by adapting them to the specific transition or conversion needs of each company; b) Identify the potential impact of these challenges on each company's finances; c) partner with specialists in the different areas of sustainability that can help our clients make the necessary investments to integrate sustainability into their strategy.

We anticipate that the companies that better prepare for their transition will demonstrate enhanced capabilities for operational and financial performance. This should be acknowledged in terms of their access to financing and the associated conditions. novobanco intends to reward this reduction in uncertainty and better performance through the access conditions to finance, and has already introduced price advantages for some products linked to sustainability. Conversely, the identification of ESG challenges that are not compatible with the evaluation of the viability and financial capability of the company and the Bank's clients, may lead to decisions to restrict financing or to increase prices.

In this way, novobanco embraces a balance sheet transition/ alignment strategy based on the transition trend observed among its customers, which will be promoted, whenever possible, by the offer of products and services.

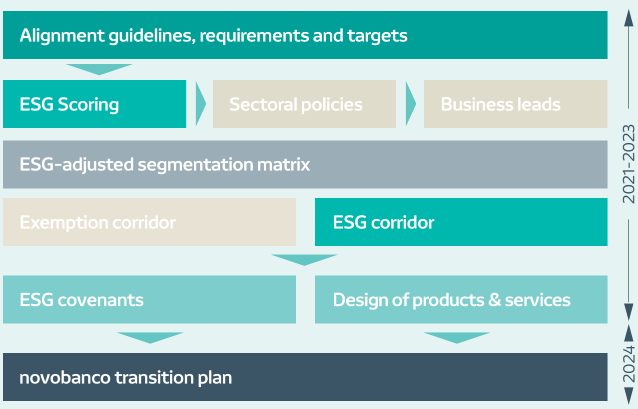
Methodologies for balance sheet alignment

As part of its strategic planning, novobanco has been developing methodologies since the end of 2021 that will allow it to set objectives to progressively align its balance sheet.

Firstly, we recognised the need for methodologies that would provide us with an encompassing view of climate and ESG risks within our portfolios, such as through the scoring model. Next, we proceeded with the development of methodologies that would allow us to conduct an effective risk assessment based on information collected from our clients and the specific characteristics of each company (including its performance and strategic planning) - the ESG corridor.

Finally, the implementation of this approach should allow us to identify priority clients and operations for our transition finance model: that is, clients with good financial capability and viability but facing, now or in the future, relevant transition challenges.

The implementation of these components follows the structure outlined below, which is driven by: a) the alignment targets to be adopted (such as emissions or other factors pertaining to risk reduction or mitigation); b) sectoral financing policies and strategies; and c) the Bank's strategic priorities (commercial and internal organisation).



First phase of developments (2022-2023): ESG scoring, segmentation model and design of ESG risk assessment methodologies (v.g., ratings).

In this phase, an ESG risk scoring assessment was conducted for all customers in the non-financial corporate segment, providing a comprehensive overview of the portfolio's overall risk profile. Subsequently, the segmentation criteria were revised to facilitate the operationalisation of the different methodologies, including initiating customer contacts for risk assessment purposes.

In the final phase (2023 and 2024), the methodologies operate at a regular pace, enabling the assessment of customers and operations, with the results being incorporated into the decision-making processes related to risk and/or pricing.

The integrated operation of the model

The ESG segmentation matrix is calibrated based on balance sheet alignment objectives and risk appetite - all corporate clients are subject to ESG scoring,
The Bank has made progress in integrating ESG risk assessment and quantification into credit management:

a) ESG scoring ratings;
b) ESG information collected from clients;
c) minimum safeguards in place for financing.

During 2023, novobanco revised the action plan for integrating ESG risk into loan granting, with the aim of prioritising the integration of ESG risk assessment into credit risk assessment for the most important transactions and in sectors with the highest ESG risk ("high" and "severe" risk according to our sectoral ESG scoring), guaranteeing the inclusion of an ESG risk assessment in the credit analysis of all transactions that meet these criteria. The analyst's assessment will be supported by sector guidelines and client ESG data (public data and consultation with clients, where appropriate) and will be implemented in the first half of 2024.

novobanco is also accelerating the collection of data for disclosure and portfolio risk management purposes, in order to maximise coverage of the largest exposures in the sectors most exposed to ESG risk ("high" and "severe" risk). This data collection effort will leverage publicly available data as well as client engagement, and should allow for an increase in the weight of real data in the 2024 disclosures and upcoming stress tests.

It should also be noted that the Portuguese banking ecosystem is seeking to create a common platform for collecting ESG risk data from commercial clients. The platform is due to be launched in 2024 and should allow banks to significantly speed up data collection, both for risk management and for credit decisions. This platform should be highly beneficial to our data collection efforts and we intend to gradually integrate it into our C&E risk analysis and disclosure processes as an alternative to novobanco's proprietary questionnaires.

Monitoring of climate risks

novobanco designed its Risk Appetite and Credit Risk strategy based on a medium and long-term perspective, while ensuring that short-term effects are anticipated and mitigated.
This strategy and the indicators that support it are incorporated in the Bank's RAF-RAS.
The analysis of the main climate risks related metrics is reported on a monthly basis to novobanco's management bodies.

KRIs that monitor various risk indices are also presented on a monthly basis in the Sustainability Steering, such as:

- Exposure to climate-sensitive sectors;
- Exposure to the most carbon-intensive sectors,
- Exposures collateralised by residential and commercial properties with the worst energy performance certificates (EPC);
- Production of green finance and investments;
- Alignment with the taxonomy.

It should also be said that both the risk strategy and the risk appetite serve as guidance for the Bank's incentives system and remuneration policies, ensuring alignment with key risk metrics and corresponding objectives. Currently, the remuneration policy of novobanco's management body includes assessment metrics for the Bank's ESG performance.

MONTHLY MONITORING

Green production (financing, investment)
No exposure to excluded sectors
Operations with Minimum Safeguards
Exposure to taxonomy eligibility
Exposure to climate-exposed sectors
Sectoral exposure by carbon intensity
Exposure to physical risk

6.2.6 Our next goals in climate and environmental risk management

Our ESG strategy includes the following key activities by thematic area:

A) Business Strategy

Strategic guidelines:
- To understand the short, medium and long term impact of climate and environmental risks on the business environment in which we operate, so that we can make informed, consistent and strategic decisions;
- To strengthen the integration of climate and environmental risks affecting the business environment in the short, medium or long term.

Challenges ahead:
- To assess and monitor the business environment in which we operate, particularly in terms of products and services, and strengthen the Bank's offer tailored to support our client's journey towards climate transition;
- To identify the risks arising from climate change and environmental degradation in key industry sectors, geographic areas and related products and services, reinforcing our sectoral policies;
- To define and monitor key performance indicators (KPIs) at the level of business lines (cascading down);
- To determine which climate and environmental risks affect business strategy in the short, medium and long term, e.g., using scenario analyses and stress testing.

B) Risk governance and risk appetite

Strategic guidelines:
- To consider climate and environmental risks when developing the business strategy and objectives;
- To improve the climate risk management model;
- To define the Appetite for climate risk.

Challenges ahead:
- To strengthen the application of the policy on exclusions and minimum safeguards for financing and investment in certain sectors and activities, transposed to the risk appetite policy, and establish robust control and implementation processes;
- To enhance the integration of climate and environmental KRIs within the risk appetite policy (RAF/RAS);
- To continue to develop appropriate key risk indicators and to set appropriate limits to effectively manage climate and environmental risks;
- To ensure effective monitoring of exposures and responses to climate and environmental risks;
- To collect data and assess the Bank's portfolio in light of the taxonomy.

C) Risk management

Strategic guidelines:
- To incorporate climate and environmental risks into risk management, with the objective of monitoring and mitigating these risks over a sufficiently long timeframe;
- To continuously monitor the effect of climate change and environmental factors on current market exposures.

Challenges ahead:
- To further enhance our risk materiality assessment, adopting a holistic and well-documented approach to evaluate the impact of climate and environmental risks on the existing risk categories;
- To implement an enhanced approach to risk identification/assessment and to the development of risk methodologies, including methodological definitions and customer ESG scoring results (segmentation model);
- To strengthen mitigation measures for C&E risks;
- To adopt a strategic approach to measure and mitigate climate and environmental risks in accordance with the risk appetite strategy, and accordingly adapt policies and procedures, risk limits and risk control.

D) Management of credit risk

Strategic guidelines:
- To consider climate and environmental risks at all stages of the credit granting process and portfolio risk monitoring.

Challenges ahead:
- Full integration of C&E risks into the financing origination framework;
- This phase corresponds to the development of risk methodologies that will provide the foundation for adjusting integration procedures and the decision-making framework to incorporate climate and environmental risks;
- To define and apply sectoral guidelines to credit origination processes enabling a more detailed ESG risk analysis of larger loans;
- To design methodologies to provide integrated assessment of client/transaction risk profile and EU Taxonomy rating (alignment);
- To consider climate-related risks in the assessment of collateral and in particular of real estate collateral.

E) Management of operational risk

Strategic guidelines:
- To consider the possible adverse impacts of climatic and environmental events on business continuity and also on reputational risks;

Challenges ahead:
- To assess the impact of physical risks on all operations, including the ability to recover quickly and continue to provide services;
- To ensure that remuneration policies and practices encourage behaviour aligned with our climate and environmental approach (risk), as well as with the voluntary commitments undertaken by the institution;
- To preemptively identify future sources of climate-related risks and/or litigation related to its own activities, to undertake an assessment of these risks and to adopt mitigation measures for the risks identified.

F) Quantification methodologies and stress testing

Strategic guidelines:
- To enhance stress testing approaches;
- To develop methodologies for quantifying climate risks.

Challenges ahead:
- To develop stress testing models focusing on climate risks;
- To improve methodologies for quantifying climate risks as the depth of historical data increases.

7 ESG PERFORMANCE INDICATORS

7.1 Environmental Indicators

Environmental Indicators - Materials consumed	2023	2022	2021	23 vs 22
White paper				
Internal use (tonnes)	172.8	148.2	155.2	16.6%
Paper for Internal use (Kg/employee)	41.1	36.2	37.0	13.3%
IT and electronic consumables				
Toner (units)[1]	2 482.0	2 856.0	-	-13.1%
Environmental Indicators - Energy				
Electricity				
Electricity consumption (kWh)	13 822 891.5	13 183 802.0	16 296 473.1	4.8%
Total electricity consumption (GJ)	49 762.4	47 461.7	58 667.3	4.8%
Electricity consumption (kWh/employee)	3 284.1	3 223.4	3 886.6	1.9%
Diesel				
Generator diesel consumption (litres)[2]	4 549.5	3 610.8	504.2	26.0%
Generator diesel consumption (GJ)[2]	164.0	130.2	18.2	26.0%
Vehicles diesel consumption (litros)	1 352 296.1	1 563 746.0	1 620 056.6	-13.5%
Vehicles diesel consumption (GJ)	48 617.7	56 219.8	58 244.3	-13.5%
Gasoline				
Vehicles gasoline consumption (litres)	35 035.3	1 680.0	840.0	1 985.4%
Vehicles gasoline consumption (GJ)	1 148.5	55.1	27.5	1 985.4%
Total energy consumption (GJ)	**99 962.7**	**103 866.8**	**116 957.3**	**-3.8%**
Total energy consumption per employee (GJ)	**23.7**	**25.4**	**27.9**	**-6.5%**
Trips				
Number of vehicles	958	922	957	3.9%
Number of flights	1 275	783	517	62.8%

1) The value of 2022 toners has been recalculated due to new ordering procedures.The value of 2022 toners has been recalculated due to new ordering procedures.
2) Diesel consumption is an estimate based on the number of hours generators were operating novobanco, Banco Best and GNBGA

Environmental Indicators - Emissions (tCO_2e)*	2023	2022	2021	23 vs 22
Direct emissions (Scope 1)	**3 675.3**	**4 158.1**	**4 696.1**	**-11.6%**
Emissions from trips in company cars	3 583.6	3 999.2	4 311.8	-10.4%
Emissions from emergency generators	12.8	10.2	1.3	25.5%
Emissions from leaks of fluorinated gases	78.9	148.7	382.9	-46.9%
Indirect emissions (Scope 2)**	**1 146.3**	**811.3**	**2 937.5**	**41.3%**
Emissions from the production of electricity purchased (market-based method)	1 146.3	811.3	2 937.5	41.3%
Emissions from the production of electricity purchased (Location based method)	1 534.8	2 013.3	2 386.5	-23.8%
Total (Scopes 1 and 2)	**4 821.6**	**4 969.4**	**7 633.6**	**-3.0%**
Indirect emissions (Scope 3)	**4 234.4**	**6 102.6**	**4 184.2**	-30.6%
Emissions from Employees' business trips, including flights	520.8	357.4	149.4	45.7%
Emissions from employees' home/ work daily trips***	3 608.9	5 649.5	3 909.8	-36.1%
Emissions over the life cycle of the paper consumed	82.2	71.0	76.6	15.8%
Emissions from the paper recycling process	3.7	3.2	3.9	15.6%
Emissions from water consumption	9.3	10.6	11.0	-12.3%
Emissions from wastewater treatment	9.5	10.8	-	-12.4%
Total (Scopes 1, 2 and 3)	**9 056.0**	**11 072.0**	**11 817.8**	**-18.2%**
Total (Scopes 1, 2 and 3) per employee	**2.2**	**2.7**	**2.8**	**-20.5%**
Financed Emissions	2 592 458.0	1 699 109.0	-	**52.6%**
Total (Scopes 1, 2 and 3 with financed emissions)	**2 609 423.7**	**1 720 441.6**	**-**	**51.7%**

**See methodological notes
**Scope 2 calculation by location-based method since 2018 only. The Total (S1+S2) was calculated using the Market-Based approach
*** Scope novobanco

Environmental Indicators Water consumption	2023	2022	2021	23 vs 22
Water consumption from public supply network (m^3)	35 010.2	39 870.2	41 355.1	-12.2%
Water consumption per employee (m^3/employee	8.3	9.8	9.9	-15.1%

Environmental Indicators Waste management	2023	2022	2021	23 vs 22
Paper sent for recycling (tonnes)	157.4	99.0	117.4	59.0%
Cardboard sent for recycling (tonnes)	61.8	51.9	66.3	19.1%
Other papers	4.1	-	-	-
Plastic Bank Cards sent for recycling (tons)	1.7	1.4	0	21.4%
Toner sent for recycling (units)	na	2 950	5 944	-

7.2 Social Indicators

Employees	2023	2022	2021	23 vs 22
Total	**4 209**	**4 090**	**4 193**	**2.9%**
Men (#)	1 926	1 880	1 944	2.4%
Men (%)	45.8%	46.0%	46.4%	-0,2 p.p.
Women (#)	2 283	2 210	2 249	3.3%
Women (%)	54.2%	54.0%	53.6%	2 p.p.

Employment contract	2023	2022	2021	23 vs 22
Total permanent workforce	**4 046**	**4 026**	**4 153**	**0.5%**
Men (#)	1 858	1 857	1 929	0.1%
Men (%)	45.9%	46.1%	46.4%	-0.2 p.p.
Women (#)	2 188	2 169	2 224	0.9%
Women (%)	54.1%	53.9%	53.6%	0.2 p.p.
Total Fixed-term Employees	**163**	**64**	**40**	**154.7%**
Men (#)	68	23	15	195.7%
Men (%)	41.7%	35.9%	37.5%	5.8 p.p.
Women (#)	95	41	25	131.7%
Women (%)	58.3%	64.1%	62.5%	-5.8 p.p.

Trainees and independent professionals*	2023	2022	2021	23 vs 22
Trainees	**10**	**10**	**14**	**0.0%**
Men (#)	5	4	5	25.0%
Women (#)	5	6	9	-16.7%
Temporary work	**13**	**42**	**30**	**-69.0%**
Men (#)	5	10	7	-50.0%
Women (#)	8	32	23	-75.0%
Provision of service	**1**	**2**	**4**	**-50.0%**
Men (#)	1	0	2	100.0%
Women (#)	0	2	2	-
Total (#)	**24**	**54**	**48**	**-55.6%**

* Not included in the total number of the Grupo novobanco employees. These are self-employed professionals who carry out their activity on the premises of Group companies, to whom the companies are responsible for their general safety in the work environment.

Employess Academic Qualifications	2023	2022	2021	23 vs 22
University Education	**3 245**	**3 117**	**3 100**	**4.1%**
Men (#)	1 414	1 356	1 357	4.3%
Men (%)	33.6%	33.2%	32.4%	0.4 p.p.
Women (#)	1 831	1 761	1 743	4.0%
Women (%)	43.5%	43.1%	41.6%	0.4. p.p.
High school/Basic Education	**964**	**973**	**1 093**	**-0.9%**
Men (#)	512	524	587	-2.3%
Men (%)	12.2%	12.8%	14.0%	-0.6 p.p.
Women (#)	452	449	506	0.7%
Women (%)	10.7%	11.0%	12.1%	-0.3 p.p.

Employee distribution by gender and professional category	2023	2022	2021	23 vs 22
Senior leadership				
Total	**481**	**481**	**472**	**0.0%**
Men (#)	295	307	301	-3.9%
Men (%)	7.0%	7.5%	7.2%	-0.5 p.p.
Women (#)	186	174	171	6.9%
Women (%)	4.4%	4.3%	4.1%	1 p.p.
< 30 years old	1	1	2	0.0%
30 to 50 years old	242	265	292	-8.7%
> 50 years old	238	215	178	10.7%
Leadership				
Total	**373**	**388**	**461**	**-3.9%**
Men (#)	205	218	257	-6.0%
Men (%)	4.9%	5.3%	6.1%	-0.4 p.p.
Women (#)	168	170	204	-1.2%
Women (%)	4.0%	4.2%	4.9%	-0.2 p.p.
< 30 years old	0	0	0	-
30 to 50 years old	244	272	346	-10.3%
> 50 years old	129	116	115	11.2%
Technical				
Total	**2 265**	**2 170**	**1 973**	**4.4%**
Men (#)	1 003	955	891	5.0%
Men (%)	23.8%	23.3%	21.2%	0.5 p.p.
Women (#)	1 262	1 215	1 082	3.9%
Women (%)	30.0%	29.7%	25.8%	0.3 p.p.
< 30 years old	145	101	111	43.6%
30 to 50 years old	1 456	1 524	1 459	-4.5%
> 50 years old	664	545	403	21.8%
Administrative				
Total	**1 083**	**1 044**	**1 279**	**3.7%**
Men (#)	416	393	487	5.9%
Men (%)	9.9%	9.6%	11.6%	0.3 p.p.
Women (#)	667	651	792	2.5%
Women (%)	15.8%	15.9%	18.9%	-0.1 p.p.
< 30 years old	143	84	61	70.2%
30 to 50 years old	562	639	831	-12.1%
> 50 years old	378	321	387	17.8%
Assistance				
Total	**7**	**7**	**8**	**0.0%**
Men (#)	7	7	8	0.0%
Men (%)	0.2%	0.2%	0.2%	-
Women (#)	0	0	0	-
Women (%)	-	-	-	-
< 30 years old	0	0	0	-
30 to 50 years old	4	4	4	0.00%
> 50 years old	3	3	4	0.0%

Admissions and departures	2023		2022		2021		23 vs 22	
	A	D	A	D	A	D	A	D
Total	**326**	**207**	**159**	**262**	**66**	**455**	**105.0%**	**-21.0%**
Gender								
Men	155	109	77	141	39	254	101.3%	-22.7%
Women	171	98	82	121	27	201	108.5%	-19.0%
< 30 years old	180	48	83	49	27	68	116.9%	-2.0%
30 to 50 years old	121	83	68	85	34	156	77.9%	-2.4%
> 50 years old	25	76	8	128	5	231	212.5%	-40.6%

A - Admissions; D - Departures

Staff turnover (%)	2023	20222	2021	23 vs 22
Total	**6.3%**	**5.0%**	**6.2%**	**1.3 p.p.**
Gender				
Men	3.1%	2.6%	3.5%	0.5 p.p.
Women	3.2%	2.4%	2.7%	0.8 p.p.
Age bracket				
< 30 years old	2.7%	1.6%	1.1%	1.1 p.p.
30 to 50 years old	2.4%	1.8%	2.3%	0.6 p.p.
> 50 years old	1.2%	1.6%	2.8%	-0.4 p.p.

Staff turnover including trainees, temporary work and provision of services (%)	2023			2022			2021	23 vs 22		
	A	D	R	A	D	R		E	S	R
Total	**370**	**277**	**3.3%**	**218**	**314**	**6.4%**	**-**	**69.7%**	**-11.8%**	**-3.1 p.p.**
Gender							-			
Men	168	126	1.5%	92	155	3.0%	-	82.6%	-18.7%	-1.5 p.p.
Women	202	151	1.8%	126	159	3.4%	-	60.3%	-5.0%	-1.6 p.p.
Age bracket							-			
< 30 years old	211	102	1.2%	124	88	2.6%	-	70.2%	15.9%	-1.4 p.p.
30 to 50 years old	132	97	1.1%	84	97	2.2%	-	57.1%	0.0%	-1.1 p.p.
> 50 years old	27	78	0.9%	10	129	1.7%	-	170.0%	-39.5%	- 0.8 p.p.

A - Admissions; D - Departures

Performance evaluation	2023			2022			2021			23 vs 22		
	M	F	T	M	F	T	M	F	T	M	F	T
Employees (#)	**1 671**	**1 966**	**3 637**	**1 884**	**2 173**	**4 057**	**2 074**	**2 318**	**4 392**	**-11.3%**	**-9.5%**	**-10.4%**
Senior Leadership (#)	261	160	**421**	286	166	**452**	294	168	**462**	-8.7%	-3.6%	**-6.9%**
Senior Leadership (%)	85.0	92.0	-	-	-	-	-	-	-	-	-	-
Leadership (#)	200	163	**363**	254	199	**453**	285	220	**505**	-21.3%	-18.1%	**-19.9%**
Leadership (%)	91,7	95.9	-	-	-	-	-	-	-	-	-	-
Technical (#)	864	1 104	**1 968**	860	1 041	**1 901**	951	1 152	**2 103**	0.5%	6.1%	**3.5%**
Technical (%)	90.5	90.9	-	-	-	-	-	-	-	-	-	-
Administrative (#)	339	539	**878**	476	767	**1 243**	536	778	**1 314**	-28.8%	-29.7%	**-29.4%**
Administrative (%)	86.3	82.8	-	-	-	-	-	-	-	-	-	-
Assistance (#)	7	0	**7**	8	0	**8**	8	0	**8**	-12.5%	-	**-12.5%**
Assistance (%)	100	-	-	-	-	-	-	-	-	-	-	-

The performance evaluation ends in May of each year.
The values presented refer to the evaluation received in the year, but referring to year n-1
M - Male; F – Female; T - Total

Promotion	2023	2022	2021	23 vs 22
Function change (#)	303	283	251	7.1%
Merit (#)	1 038	1 002	811	3.6%
Total (#)	1 341	1 285	1 062	4.4%

Training hours / employee	2023		2022		2021		23 vs 22	
	T	A	T	A	T	A	T	A
Total	**169 433.2**	**40.3**	**164 052.3**	**40.1**	**179 294.0**	**42.8**	**3.3%**	**0.4%**
Gender								
Men	77 610.3	40.3	75 368.4	40.1	79 999.0	41.2	3.0%	0.5%
Women	91 822.9	40.2	88 683.9	40.1	99 295.0	44.2	3.6%	0.2%
Professional category								
Senior Leadership	**19 568.4**	**40.7**	**18 270.2**	**38.0**	**9 372.0**	**19.9**	**7.1%**	**7.1%**
Men	11 856.9	40.2	12 021.8	39.2	5 838.0	19.4	-1.4%	2.5%
Women	7 711.5	41.5	6 248.3	35.9	3 534.0	20.7	23.4%	15.5%
Leadership	**16 099.7**	**43.2**	**18 287.6**	**47.1**	**9 914.0**	**21.5**	**-12.0%**	**-8.4%**
Men	9 087.7	44.3	10 288.9	47.2	5 436.0	21.2	-11.7%	-6.1%
Women	7 012.0	41.7	7 998.7	47.1	4 478.0	22.0	-12.3%	-11.4%
Technical	**77 498.1**	**34.2**	**79 284.4**	**36.5**	**94 958.0**	**48.1**	**-2.3%**	**-6.3%**
Men	33 917.4	33.8	34 207.6	35.8	43 078.0	48.3	-0.8%	-5.5%
Women	43 580.7	34.5	45 076.9	37.1	51 880.0	47.9	-3.3%	-6,9%
Administrative	**56 238.1**	**51.9**	**48 191.1**	**46.2**	**65 049.0**	**50.9**	**16.7%**	**12.4%**
Men	22 719.3	54,6	18 831.1	47.9	25 647.0	52.7	20.6%	14.0%
Women	33 518.8	50.3	29 360.0	45.1	39 403.0	49.8	14.2%	11.4%
Assistance	**29.0**	**4.1**	**19.0**	**2.7**	**0.0**		52.6%	53.4%
Men	29.0	4.1	19.0	2.7	0.0		52.6%	53.4%
Women	0.0	0.0	0.0	0.0	0.0		-	-

T - Total; A - Average

Parental Leave	2023		2022		2021		22 vs 21	
	M	F	M	F	M	F	M	F
Employees who took parental leave	63.0	83.0	58.0	107.0	39	88	8.62%	-22.4%
Employees who returned to work after parental leave ended	62.0	55.0	58.0	58.0	39	50	6.90%	-5.2%
Employees who returned to work after parental leave ended and remained in service after 12 months	-	-	51	103	36	80	-	-
Return to work rate	98.4%	66.3%	100%	54.2%	100.00%	56.8%	-1.6 p.p.	12.1 p.p.
Retention rate after 12 months of work	-	-	87.9%	96.3%	92.3%	90.0%	-	-

M - Men; F - Femal

Health Services	2023	2022	2021	23 vs 22
Occupational Health - Occupational Medicine				
Medical exams	3 210	2 493	3 007	28.8%
General Practice Consultations	7 104	7 038	7 597	0.9%
Curative Medicine consultations and prescriptions	-	583	11 952	-
Consultations in other medical specialities				
Mental health consultations (psychology and psychiatry)	1 396	1 057	928	32.1%
Nutrition Consultations	467	457	383	2.2%
Nursing				
Total procedures (treatments, vaccination, medication, ECG)	2 400.0	4 337.0	6 772.0	-44.7%
Risk Prevention and Control Programmes				
Cardiovascular screening	2 920	2 091	2 408	39.6%
Cancer screening	1 016	659	724	54.2%
Vision screening	2 645	1 875	2 674	41.1%
Executive Check-up (for senior executives)	354	510	186	-30.6%

Health and Safety Indicators	**2023**	**2022**	**2021**	**23 vs 22**
Work related accidents	**38**	**29**	**27**	**31.0%**
Men	4	11	10	-63.6%
Women	34	18	17	88.8%
Occupational diseases	**9**	**-**	**-**	**-**
Men	3	-	-	-
Women	6	-	-	-
Deaths	**0**	**0**	**0**	**-**
Men	0	0	0	-
Women	0	0	0	-
Accident rate	**5.0%**	**3.9%**	**3.8%**	**1.1 p.p.**
Men	1.1%	3.2%	3.0%	0.2 p.p.
Women	8.3%	4.6%	4.6%	-
Lost day rate	**0.1%**	**0.1%**	**0.0%**	**-**
Men	0.0%	0.1%	0.0%	0.1 p.p.
Women	0.1%	0.1%	0,0%	0.0 p.p.
Absenteeism rate	**2.4%**	**2.7%**	**3.2%**	**-0.3 p.p.**
Men	1.6%	1.9%	2.3%	-0.3 p.p.
Women	3.1%	3.4%	3.9%	-0.3 p.p.
Health and safety trainning				
Health training hours (#)	836.0	3 844.0	29.0	-78.3%
Safety training hours (#)	1 341.0	4 409.0	520.5	-69.6%
Hours of health awareness promotion (#)	6 665.0	6 013.0	2 938.0	10.8%
Total (#)	**8 842.0**	**14 266.0**	**3 487.5**	**-38.0%**
Safety audits to the premises (#)	164	178	107	-7.9%
Ergonomic assessments (#)	19	16	2	18.8%
Expert identifications and risk assessment of activities (IPAR) (#)	152	168	150	-9.5%
Thermal environment assessments (#)	0	2	1	-100.0%
Indoor air quality assessments (#)	0	0	0	-
Lighting assessments (#)	144	0	0	100.0%
Investigation of Causes of Work Injuries (#)	14	11	6	27.3%
Evaluation of conformity with COVID-19 requirements (#)	-	3	-	-
Investigation of Causes of Occupational Illnesses (#)	10	15	-	-33.33%
Elaboration/Follow-up of Integrated Action Plan (#)	161	184	-	-13%
Risk Assessment and List of Work Equipment (#)	151	164	-	-7.9%

Associativism	**2023**	**2022**	**2021**	**23 vs 22**
Employees covered by Collective Bargaining Agreements (#)	4 113	3 964	4 032	3.8%
Employees covered by Collective Bargaining Agreements (%)	97.7%	96.5%	96.2%	1.2 p.p.
Unionized employees (#)	3 931	3 786	3 901	3.8%
Unionized employees (%)	93.4%	92.6%	93.0%	0.8 p.p.

Employee Benefits	**2023**	**2022**	**2021**	**23 vs 22**
Education support (thousand €)	**702.2**	**706.5**	**705.9**	**-0.6%**
Early childhood benefits (#)	280	367	398	-23.7%
Early childhood benefits (thousand €)	380.5	423.4	454.4	-10.1%
School grants (#)	360	268	224	34.3%
School grants (thousand €)	218.1	196.5	164.1	11.0%
Support to children and youths with special needs (#)	105	94	91	11.7%
Support to children and youths with special needs (thousand €)	103.6	86.6	87.4	19.6%
Support to retired employees (thousand €)	**126.2**	**87.7**	**124.7**	**43.9%**
Expenses with senior residences, day-care centres, home, support, medicines and other basic necessities (#)	66	67	68	-1,5%
Support for active and retired employees (thousand €)	**828.4**	**794.2**	**830.6**	**4,3%**
Christmas gift (#)	**3 032**	**3 160**	**3 171**	**-4.1%**
Christmas gift (thousand €)	121.8	126.4	126.8	-3.6%
Under the ACT (Collective wage agreement) (thousand €)	**30 782.9**	**17 904.8**	**33 645.2**	**71.9%**
Residential mortgage loans (thousand €)	22 653.1	16 345.2	31 611.9	38.6%
Acquisition of consumer goods (thousand €)	2 129.8	1 559.6	2 033.4	36.6%
Social support	6 000.0	0.0	0.0	100.0%
In portofolio	**274 141.5**	**257 487.2**	**271 856.0**	**6.5%**
Residential mortgage loans (thousand €)	265 530.0	247 930.6	260 419.1	7.1%
Acquisition of consumer goods (thousand €)	8 611.5	9 556.6	11 436.9	-9.9%

Employees with disability more than 60% (Law No. 4/2019)	2023			2022			2021	23 vs 22
	M	F	T	M	F	T	T	T
Senior leadsership (#)	3	6	9	3	5	8	-	-12.5%
Leadsership (#)	4	3	7	4	4	8	-	-12.5%
Technical (#)	21	44	65	16	42	58	-	-12.5%
Adminsitative (#)	17	22	39	14	22	36	-	-8.3%
Assistance (#)	1	0	1	1	0	1	-	0%
Total (#)	**46**	**75**	**121**	**38**	**73**	**111**	**-**	**159**

7.3 Governance Indicators

Gender Equality (under-represented gender)	2023	2022	2021	23 vs 22
Board of Directors and 1st line Sennior Leadership (underrepresented gender)	**27.3%**	**27.5%**	**25.5%**	**-0.2 p.p.**
Senior leadsership and leadership	38.7%	36.2%	36.7%	2.5 p.p.
Equal pay indicator	5.4%	5.7%	5.9%	-0.3 p.p.
Ratio of women's total remuneration to men's total remuneration per employee category				
Senior leadsership	0.87	0.90	0.88	-0.03 p.p.
Leadsership	0.96	0.97	0.97	-0.01 p.p.
Technical	0.90	0.90	0.90	0.00 p.p.
Adminsitative	0.92	0.91	0.90	0.01 p.p.
Assistance	-	-	-	-
Total	**0.81**	**0.81**	**0.76**	**0.00 p.p.**

Scope of the Novobanco Group includes: Board of Directores of the Group's companies (novobanco + novobanco dos Açores Banco Best GNBGA) + senior leadership of novobanco

Suppliers that endorsed novobanco Group's relationship principles and have a sustainability scoring (%)	2023	2022	2021	23 vs 22
	75.7%	61.1%	52.0%	14.6 p.p.

8 ABOUT THIS REPORT

This report describes the manner in which the novobanco Group approaches sustainability in the management of its activity, in its involvement with employees and clients, in carrying out sustainable business and in ensuring responsible conduct. It also details the Group's sustainability performance in the last two years.

This report was drawn up in accordance with the Global Reporting Initiative (GRI) model, standard option. The GRI table is available in the Bank's website, at: NOVO BANCO/Institutional/Sustainability/ Sustainability Report. This report, which under the terms of Article 508-G of the Commercial Companies Code constitutes the Non-Financial Statement of the novobanco Group, is also drawn up for compliance with the legal requirements introduced by Decree-Law no. 89/2017, of 28 July.

Ernst & Young, Audit & Associados, SROC, SA has provided independent assurance to this sustainability performance, considering that the relevant indicators were reported in accordance with the GRI sustainability reporting standards and with Decree-Law no. 89/2017, as can be seen on pages 288 and 289.

The 2023 Sustainability Report complements and details the information contained in the 2023 Annual Report, providing evidence that sustainability is an integral part of the Bank's strategy.

In order to continue to progress and improve its performance, NOVO BANCO takes into account the concerns and suggestions of its stakeholders. To this end, any questions, comments or suggestions may be sent to the following email address:

sustentabilidade@novobanco.pt

8.1 Methodological Notes

Social	
Staff Turnover	((Number of admissions + departures)/2) / total employees) and ((Number of entries + exits / 2) total employees)2 with interns, temporary work and Service Provision
New hires rate	New hires in 2022/total number of employees in 2023
Accident Rate	Number of accidents at work/Hours worked*1000000
Absenteeism Rate	Number of absences (without maternity / paternity leave)/Possible working hours*100
Retention Rate	Total number of employees retained in 12 months after returning to work following parental leave/Number of employees who returned from parental leave in the previous year * 100, by gender
Return to Work Rate	Ratio between the number of employees who remain employed 12 months after returning to work from maternity/paternity leave and the number of employees who returned from maternity/paternity leave in the previous year.
Average training hours per gender	Total number of training hours per gender/Total number of employees in each gender
Average training hours per professional category	Total number of training hours per professional category/Total number of employees in each category
Branches located in low density areas	Number of branches located in the 165 low-density municipalities identified by Deliberation 55/2015 of the Interministerial Commission for Coordination, Portugal 2020
Senior leadership	Department and team management and coordination, with responsibilities and activities at the most strategic level, directly linked with top management. Function that operates at the level of planning, managing, supervising, and monitoring the business objectives. Defines and monitors the execution of an annual budget and decides over measures to mitigate deviations. Defines and delegates objectives to lower levels and monitors their achievement.
Leadership	Works in the planning, coordination and execution of the team's daily activities and projects. Guarantees the implementation of decisions made by management. Manages work teams and ensures good and efficient interpersonal relationships.
Technical	Operationalizes technical knowledge in an area of expertise. Has a breadth of knowledge about their area of professional activity and adjacent functional activities. Supervises activities of a more technical and operational nature, as well as verifying the correct execution of related tasks performed by others.
Administrative	Performs tasks related to the Bank's general business hours. Processes and archives information, respecting archive rules and procedures. Completes and checks documentation to support the Bank's operational and daily activities, as well as assisting and directing, by telephone or in person, internal and external people to the company, depending on the type of information or service required.
Assistance	Participates in the preparation of daily tasks of a very operational nature, carrying out the necessary activities, under guidance. Performs routine operations and checks the general condition of facilities and equipment, ensuring their maintenance and conservation.

Environment	
Water	Estimate based on real water consumption in 100% of the central buildings and 48% of the branches.
Electricity	Amount calculated directly from EDP records and billing and remaining suppliers.
Generators diesel	Diesel consumption in 2021 is an estimate based on the number of hours generators were operating.
Energia	To calculate direct energy consumption (fuel consumption) in GJ, the following formula was used: Fuel consumption (l) * PCIX * Density X / 1000, using the following conversion factors:
PCI diesel (road)	42.8 GJ/t (Source: Order No. 17313/2008 (SGCIE)
PCI petrol (road)	0.84 kg/l (Source: DGEG 2017, data on 9/21/2019)
Density of diesel (generators)	44.3 GJ/t (Source: Order No. 17313/2008 (SGCIE)
Density of diesel (generators)	0.74 kg/l (Source: DGEG 2017, data on 09/21/2019)
CO_2 Emissions Scope 1	When calculating emissions from energy consumption, the following formula was used: Emission = Consumption X * Emission factor (FE)X It also includes the following emission factors and parameters used to calculate Greenhouse Gas (GHG) emissions: - Diesel (generators): 0.078 ton CO_2eq/GJ • Light car, gasoline, engine capacity < 1,400 cm³ - 0.164 kg CO_2e/km (Source: APA – NIR 2023) • Light car, gasoline, engine capacity ≥ 1,400 and < 2,000 cm³ - 0.195 kg CO_2e/km (Source: APA – NIR 2023) • Light car, gasoline, engine capacity ≥ 2000 cm³ - 0.228 kg CO_2e/km (Source: APA – NIR 2023) • Light car, diesel, engine capacity < 2,000 cm³ - 0.172 kg CO_2e/km (Source: APA – NIR 2023) • Light car, diesel, engine capacity ≥ 2,000 cm³ - 0.172 kg CO2e/km (Source: APA – NIR 2023) • Hybrid Car - 0.142 kg CO_2e/km (Source: APA – NIR 2023)
CO_2 Emissions Scope 2	When calculating emissions from energy consumption, the following formula was used: Emission = Consumption X * Emission factor (FE)X It also includes the following emission factors and parameters used in calculating GHG emissions: • Mainland electricity production – market based method - 0.217 kg CO_2e/kWh (Source: 2023 supply mix – EDP Business Customers) • Mainland electricity production – location based method - 0.137 kg CO_2e/kWh (Source: APREN, energy mix 2022) • Electricity production on the island of Madeira – location and market method - 0.518 kg CO_2e/kWh (Source: EE Madeira 2022) • Electricity production on the island of the Azores – location and market method - 0.446 kg CO_2e/kWh (Source: EDA, Report and Accounts 2022)

Environment

CO_2 Emissions Scope 3	The calculation includes emissions resulting from the movements ofemployees at work, Home/Work/Home (CTC) travel, using the following formula: Emission = Trip (km) It also includes the following emission factors and parameters used when calculating GHG emissions: • Diesel Car - 0.210 kg CO_2e/km (Source: APA - NIR 2021) • Gasoline car - 0.208 kg CO_2e/km (Source: APA - NIR 2021) • LPG car - 0.193 kg CO2e/km (Source: APA - NIR 2021) • Hybrid Car - 0.144 kg CO_2e/km (Source: APA - NIR 2021) • Electric car - 0.018 kg CO_2e/km (consumption of 13.3 kW/100 km) (Source: APREN 2021) • Bus - 0.131 kg CO_2e/km (Source: DEFRA 2020); 1,420 kg CO_2e/km (Source: STCP 2011) and 0.189 kg CO_2e/km (Source: Carris 2020) • Metropolitan - 0.06 kg CO_2e (Source: Metro Lisboa 2016) and km, 0.040 kg CO_2e/km (Source: Metro do Porto 2018) • Train - 0.024 kg CO_2e/km (Source: CP 2019) and 0.021 kg CO_2e/km (Source: Fertagus 2013/2014) • Boat - 0.190 CO2e/km (Source: Transtejo+Soflusa, 2014) • Motorcycle (gasoline) - 0.132 kg CO_2e/km (Source: APA - NIR 2021) • Motorcycle (electric) - 0.012 kg CO_2e/km (Consumption of 9 kW/100 km) (Source: APREN 2021) • Motorcycle (diesel) – 0.134 kg CO_2e/km (Source: APA - NIR 2021) • Airplane Emission = Travel (Km) X * FEX * Take-off Factor * RFI2 • It also includes the following emission factors and parameters used when calculating GHG emissions: • Airplane, Domestic Flight FE CO2 - 0.17147 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Airplane, Short Course Flight FE CO2 - 0.09700 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Airplane, Long Haul Flight FE CO2 - 0.11319 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Airplane, Domestic Flight FE CH4 - 0.0001 kg CO2e/km (Source: DEFRA 2021) • Airplane, Short Course Flight FE CH4 - 0.00001 kg CO2e/km (Source: DEFRA 2021) • Airplane, Long Haul Flight FE CH4 - 0.00001 kg CO2e/km (Source: DEFRA 2021) • Airplane, Domestic Flight FE N2O - 0.00122 kg CO2e/km (Source: DEFRA 2021) • Airplane, Short Course Flight FE N2O - 0.00076 kg CO2e/km (Source: DEFRA 2021) • Airplane, Long Haul Flight FE N2O - 0.00096 kg CO2e/km (Source: DEFRA 2021) • Takeoff Factor - 109% (Source: DEFRA/IPCC 1999) • RFI - 1.9% (Source: DEFRA/IPCC 1999 It also includes the following emission factors and parameters used in thecalculation of GHG emissions from wastewater treatment: 0.0019 kgCH4/per day (the day corresponded to 8 hours and were considered the days of in-person work of employees in 2021), with the following factors: • Global Warming Potential (GWP)/(GWP) CO2 – 1 • GWP (GWP) CH4 – 28 • GWP (GWP) N2O - 265 It also includes the following emission factors for calculating emissions associated with paper consumption, treatment of paper sent to recycling and water consumption: • Paper life cycle - 0.3 t CO2e/t paper consumed (Source: CEPI - Key Statistics 2020) • Paper recycling - 0.0213 kg CO2e/kg of paper sent for recycling (Source: DEFRA 2021) • Water consumption - 0.265 kg CO2e/m3 of water collected (Source: EPAL 2017) • Water treatment – 0.272 kg CO2e/m3 of treated water

APA – Agência Portuguesa do Ambiente (Portuguese Environment Agency)

Governance

Remuneration Ratio	Ratio of total pay between women and men, by function category - (women pay / men pay)*100
Sustainability Scoring	Calculated based on information collected through the registration form completed by suppliers on the Novobanco Group's Supplier Portal, based on a set of criteria in the following dimensions and with the respective weighting: Labour and Governance – 40%; Occupational health and safety– 30% and Environment – 30%

Clients

Customer service	The weight of customers very satisfied with the service is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Global satisfaction	The weight of very satisfied customers with the Bank corresponds to the % of responses from 8 to 10 on a scale of 1 to 10.
Confidence	The confidence index corresponds to the average of responses on a scale of 0 to 10, with the average being converted into an index of 0 to 100
Net Promoter Score	The Net Promoter Score is calculated based on the recommendation intention, as the difference between the % of promoters and the % of detractors
Very Satisfied Clients	The weight of very satisfied clients is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Complaint rate per 1000 active clients	Number of existing complaints divided by the number of active clients, with active clients considered as those that used the Bank's service in the last 3 months.
Branches located in low density areas	Number of branches located in the 165 low-density municipalities identified by Deliberation 55/2015 of the Interministerial Commission for Coordination, Portugal 2020

8.2 GRI Table

SR – Sustainability Report
MG- Mangement Report
FD – Financial Demonstrations

novobanco Group

novobanco Group
(novobanco, novobanco dos Açores, Banco Best e GNBGA

novobanco

DECLARATION OF USE	novobanco reported in accordance with the GRI Standards for the period from January 1 to December 31, 2023
VERSION	GRI: Foundation 2021
GRI STANDARDS APPLICABLE SECTORS	N.A. on the date of publication of this Report

GRI 2: GENERAL DISCLOSURES 2021	Page in the Report	SDG	GC Principles	Omissions	Scope
ORGANISATIONAL PROFILE	AR- Novo Banco, S.A. MR – Av. da Liberdade, nº 195, 1250-142 Lisboa SR – pages 25-126;132.				
2-1 Organizational details	The 2023 Sustainability Report covers the novobanco Group – novobanco, novobanco dos Açores, Banco Best and GNBGA. MR – pages 16-23; 28-34; 68-75. FS – page 298, note 1.				
2-2 Entities included in the organization's sustainability reporting	The 2023 Sustainability Report covers the novobanco Group – novobanco, novobanco dos Açores, Banco Best and GNBGA. The information on employees reported in this report has the same scope as the Annual Report, i.e., it covers permanent employees, fixed-term contracts and employees on loan.				
2-3 Reporting period, frequency and contact point	Reporting period: 1 January to 31 December 2023 Frequency: yearly Sustainability points of contacts: sustentabilidade@novobanco.pt				
2-4 Restatements of information	The 2023 Sustainability Report covers the novobanco Group scope (novobanco, novobanco dos Açores, Banco Best and novobanco Gestão de Ativos Group). Significant changes occurred during the period covered by the report: Benjamin Dickgiesser joined the Executive Board of Directors ("CAE") of novobanco in the current mandate (2022-2025), in the role of Chief Financial Officer. Appointment of Evgeniy Kazarez as Board Member General and Supervision ("CGS") for the current term (2021-2024).				

GRI 2: GENERAL DISCLOSURES 2021	Page in the Report	SDG	GC Principles	Omissions	Scope
	Increase in the Bank's share capital to the amount of 6 567 843 862.91 Euros. Nani Holdings S.G.P.S., S.A – 75.00% Fundo de Resolução (Resolution Fund) – 13.04% Directorate General for the Treasury and Finance – 11.96% SR – pages 124-125. MR – pages 124-125.				
2-5 External assurance	SR – pages 288-289.				
ACTIVITIES, VALUE CHAIN AND OTHER BUSINESS RELATIONSHIPS					
2-6 Activities, value chain and other business relationships	SR – pages 123; 140- 152; 171-173;177-191; 203-207;225-230; MR – pages 19; 20-25;68-73 FS – page 298, note 1 Sustainability website> Sustainable Business The 2023 Sustainability Report covers the novobanco Group scope (novobanco, novobanco dos Açores, Banco Best and novobanco Gestão de Ativos Group). The information on employees reported in this report has the same scope as the Annual Report, i.e., it covers permanent employees, fixed-term contracts and employees on loan. The employees with the remaining employment contracts - interns, temporary workers and service providers - totalling 24 (11 men and 13 women) in 2023 it represent 0,56% of the group's total workforce.				

Links Labor	M	W	Variation 2023/2022
Trainees	5	5	0%
Temporary workers	5	8	-69.0%
Service providers	1	0	-50.0%
Total	11	13	-55.6%

GRI 2: GENERAL DISCLOSURES 2021	Page in the Report	SDG	GC Principles	Omissions	Scope
	Please see note 2-4. SR – pages 121; 176-195;246-255.				
2-7 Employees	SR – pages 121; 176-195;246-255. MR – pages 48-49.	8	6		
2-8 Workers who are not employees	SR – pages 247; 249.	8	6		
GOVERNANCE OF THE ORGANIZATION					
2-9 Governance structure and composition	SR – pages 197-199. MR – pages 84-111; 28-32. Novobanco Group website > About novobanco > Governance	5, 16			
2-10 Nomination and selection of the highest governance body	SR – pages 127-130. MR – pages 2-30, 75-96. Novobanco Group website > About novobanco > Company Documents > Articles of association	5, 16			
2-11 Chair of the highest governance body	SR – pages 197-199. MR – pages 28-32; 84-111. Novobanco Group website > About novobanco > Company Documents > articles of association	16			
2-12 Role of the highest governance body in overseeing the management of impacts	The Chairman of the Executive Board of Directors and remaining members of the Executive Board of Directors and General and Supervisory Board who are part of the Sustainability Steering Committee, control and approve sustainability management on a monthly basis, based on the objectives defined for 2024 and 2030. These objectives are monitored through an action plan and the coordination of teams appointed to implement both the E - pillar (ESG pillar) of the bank's strategy, and the Social Dividend model, with objectives defined for 2021, quarterly assessed.	16			

GRI 2: GENERAL DISCLOSURES 2021	Page in the Report	SDG	GC Principles	Omissions	Scope
	The social dividend aims to give back to the bank's employees and the community in general what the bank generates with its activity. These models and respective procedures ensure the alignment of sustainability performance across the Bank's various operations, through coordination of the initiatives with the officers appointed in each operation. SR – pages 197-199. MR – pages 28-32; 84-111. Novobanco Group website >About novobanco > Governance	16			
2-13 Delegation of responsibility for managing impacts	Board Of Directors, Committees, Sustainability Steering. SR – pages 197-199. MR – pages 28-32; 84-111. Novobanco Group website > About novobanco > Governance				
2-14 Role of the highest governance body in sustainability reporting	The Annual Report and the Sustainability Report are approved by the Executive Board of Directors and the General and Supervisory Board.				
2-15 Conflicts of interest	SR – pages 197-199. MR – pages 28-32; 84-111. Novobanco Group website > About novobanco > Governance > Conflict of interests policy	16			
2-16 Communication of critical concerns	SR – pages 197-199. MR – pages 28-32; 84-111. Novobanco Group website > About novobanco > Governance > Whistleblowing Policy				
2-17 Collective knowledge of the highest governance body	SR – pages 197-199. MR – pages 28-32; 84-111. Novobanco Group website > About novobanco > Governance	4			
2-18 Evaluation of the performance of the highest governance body	The performance evaluation of CAE members was carried out annually considering the performance and defined objectives. The attribution of annual variable remuneration is defined based on compliance with financial and non-financial, individual and key performance indicators (KPI).corporate, agreed with each member of the Executive Board of Directors.				

GRI 2: GENERAL DISCLOSURES 2021	Page in the Report	SDG	GC Principles	Omissions	Scope
	KPIs are definitions based on a combination of the Bank's overall financial performance, areas of member's individual responsibility (including the development of employees reportingdirect and the compliance with ESG factors). For more information consult Remuneration Policy for Management and Supervisory Bodies available on the institutional website, Novobanco Group > About Us > Governance > Corporate Documents and Main Regulations SR – pages 197-199. MR – pages 27-30, 75-96.				
2-19 Remuneration policies	SR – pages 127-130. MR – pages 27-30; 89-92. Novobanco Group website > About novobanco > Governance > Company documents				
2-20 Process to determine remuneration	SR – pages 197-199. AR – pages 28-32; 99-105. Novobanco Group website > About novobanco > Governance > Company documents				
2-21 Annual total compensation ratio	Median annual total compensation for all employees (excluding the highest-paid individual); €42 447,60 CEO total annual remuneration: € 990 000,00 Change in CEO remuneration: 155.7% Ratio of the CEO total annual compensation to the median annual total compensation for all employees (excluding the highest-paid individual) 23.32 In 2023 and within the scope of the Collective Bargaining Agreement, there was a salary increase of 4.50%. Average Remuneration: 6.2%				
STRATEGY, POLICIES AND PRACTICES					
2-22 Statement on sustainable development strategy	AR – CEO Talk com Mark Bourke pages 3-9. SR – pages 121-123.				

GRI 2: GENERAL DISCLOSURES 2021	Page in the Report	SDG	GC Principles	Omissions	Scope
2-23 Policy commitments	SR – pages 171-178; 180;185; 204-206. MR – 93-100. novobanco Group website > About novobanco > Company Documents	16	10		
2-24 Embedding policy commitments	SR – pages 171-178; 180;185; 204-206. MR – 93-100. novobanco Group website > About novobanco > Company Documents	16	10		
2-25 Processes to remediate negative impacts	SR – pages 171-177; 180;185, 204-206. MR – pages 93-100.	16	10		
2-26 Mechanisms for seeking advice and raising concerns	SR – pages 126,178. MR – page 94.	16	10		
2-27 Compliance with laws and regulations	During 2023, the Group will notwas aware of cases of non-compliance with laws and regulations	16	8		
2-28 Membership associations	SR – pages 139; 144; 157-162; 173. Sustainability website > Sustainable business > Our approach and policies				
STAKEHOLDER ENGAGEMENT					
2-29 Approach to stakeholder engagement	SR – 113;115;139;144-145, 157-163; 171;173.				
2-30 Collective bargaining agreements	SR – page 254.	4			

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
3-1 Process to determine material topics	SR – pages 128-131.				
3-2 List of material topics	SR – pages 128-131.				
ECONOMIC INDICATORS TOPIC: ECONOMIC PERFORMANCE					
3-3 Explanation of the material topic and its Boundary	The Strategic Plan defined for the 2024-2026 three-year period aims to provide the novobanco Group with the necessary conditions to fulfill its mission of being the trusted bank that supports families and companies throughout their lives. This mission guides and underpins everything that novobanco does and allows it to build long-term value, invest for growth, focused on delivering a social dividend with a positive contribution to society and driving sustainable returns for shareholders. novobanco's business model is based on 2 segments of commercial banking: companies and individuals. In both, it seeks to anticipate and respond to the needs of its customers, offering innovative, effective and transparent banking products and services, based on high ethical and integrity standards, and based on quality and satisfaction assessment mechanisms. novobanco's strategic approach is based on four pillars, which support its competitive positioning. During the current year, integration was reinforced between the bank's strategy and its actions in terms of environmental, social and governance strengthening actions. Each of the bank's strategic pillars is aligned with its ESG vision and priority SDGs; • Elevate the bank's customer-centric approach, with differentiated value propositions, leveraging a digital and omnichannel approach. reinforcing its role in supporting the needs arising from the energy transition of its customers; • Provide simple and efficient operations, which improve the banking experience, and ensure a more sustainable environmental and social footprint; • Develop people and culture, attracting and actively cultivating a team of qualified professionals who are a reference to our bank's fundamental values, including the objectives of inclusion, diversity and strengthening the well-being of all employees. • Ensure sustainable performance, in terms of risk management and strengthening the integration of ESG components into the business, including climate and environmental risk. The Group monitors indicators defined within the scope of the strategic plan associated with this topic on a monthly basis.				

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
201-1 Direct economic value generated and distributed	Banking Income: €1 438.7M MR – page 63. Banking Income: €1 438.7M MR – page 63. General and administrative expenses: €182.9 million MR - Page 65. Staff Costs: €252.7 million MR - page 65. Payments to providers of Capital - Shareholders - There was no distribution of dividends Taxes: €15.1M million FS – page 373, note 28 Community Investments: €0,474 million in donations SR – pages 159-161. Economic Value Distributed: €451.1M Economic Value Retained €987.6M	2, 5, 8, 9			
201-2 Financial implications and other risks and opportunities due to climate change	SR – pages 141-16; 223-241. MR – pages 51-59.	13			
201-3 Defined benefit plan obligations and other retirement plans	SR – pages 156-162;176-195;252.				
201-4 Financial assistance received from governance	FS – page 388, note 35.				
TOPIC: MARKET PRESENCE					
3-3 Explanation of the material topic and its Boundary	See Indicator 3-3 Aspect: Economic Performance of this table. Additionally, novobanco has participated over the years in several sustainable financing initiatives in partnership with its competitors. In 2019 he signed the "Commitment Letter for Sustainable Financing in Portugal", which aims to contribute to the promotion of sustainable investment practices in the country, with the purpose of accelerating the process of a carbon neutral economy by 2050 in full partnership with its peers. It also participates in two more working groups underlying the theme of Sustainable Financing, namely the Portuguese Association of Banks and the Portuguese Association of Investment Funds, Pensions and Assets. Integrated into its new strategic plan, one of the priorities is the pillar of partnerships that try to find added value and new relevant partners for the development of value propositions in the financial sector, trying to provide a global ecosystem response to customers by finding value in partners.The Group is part of several working groups that aim to create methodologies and tools to respond to sustainability challenges for both individuals and companies. The Bank monitors indicators associated with this topic and reports them in the Report & Accounts, on the institutional website and in the Sustainability Report.				

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	For the professional categories that are representative of its workforce, novobanco pays a minimum salary that is higher than the national minimum wage (the lowest salary paid by novobanco is 1.51 times higher than the national minimum wage).	5, 7, 8	6		
202-2 Proportion of senior management hired from the local community	The group develops most of its activity in Portugal. Local hiring is an integral part of the Bank's hiring practices. Priority is always given to local employees, so as to build a sustained and competent workforce, with possibilities for career advancement, moving on to leadership positions. Consequently, management positions are mostly held by local employees and non-local employees are few. For positions on the Executive Board of Directors, please see: MR – pages 30-31.	8	6		
TOPIC: INDIRECT ECONOMIC IMPACTS					
3-3 Explanation of the material topic and its Boundary	The novobanco Group has promoted several initiatives with indirect economic impacts over the years. The novobanco Group monitors indicators associated with this topic and reports them both in the Annual Report, on the website and in the Sustainability Report.				
203-1 The management approach and its components	SR – pages 141-152. MR – pages 68-73.	2, 5, 7, 9, 11			
203-2 Evaluation of the management approach	SR – pages 128-131: 140-155. MR – pages 6-43; 68-73.	1, 2, 3, 8, 10, 17			

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: PROCUREMENT PRACTICES					
3-3 Explanation of the material topic and its Boundary	The novobanco Group has promoted several initiatives in this area over the years by creating a sustainability score in the process of registering its suppliers on the Suppliers portal. The novobanco Group monitors indicators associated with this topic and reports them both in the Annual Report, on the website and in the Sustainability Report. SR – pages 128-131; 139-140; 171-173;241.				
204-1 Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation	The novobanco Group acquires its regular consumption products, such as stationery, equipment and specialised services for mainland Portugal and the Islands, from national companies. Around 92.1% of the expenses refer to national suppliers vs 7.9% of international suppliers. SR – pages 171-177;255.	12			
TOPICS: ANTI-CORRUTION					
3-3 Explanation of the material topic and its Boundary	The novobanco Group focuses on the prevention, detection, reporting and management of situations involving risks of conduct or irregular conducts, based on principles of integrity, honesty, diligence, competence, transparency and fairness. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
205-1 Total number and percentage of operations assessed for risks related to corruption	The 2023 Sustainability Report covers the novobanco Group – novobanco, novobanco dos Açores, Banco Best and GNBGA. Financial crime management Communications to judicial entities: 571 Answers to requests from judicial entities: 1349 Total number of reported cases of corruption and related offenses (Decree-Law 109-E/2021): 0 MR – page 95.	16	10		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
205-2 Total number and percentage of employees trained in the organization's anti-corruption policies and practices	MR – page 95.				
205-3 Medidas tomadas em resposta a casos de corrupção	Please see indicator 2-27.	16	10		
TOPICS: ANTI COMPETITIVE BEHAVIOUR					
3-3 Explanation of the material topic and its Boundary	The group carries out its activity in strict compliance with the law and regulations applicable to its activity and in accordance with a set of standards, principles and values, in an ethical manner, respecting and responding to all stakeholders. With this purpose, it guides and sustains its operations, which allows it to build long-term value, invest for growth, focused on delivering a dividend with a positive contribution to society and driving a sustainable return for shareholders.				
206-1 Number of legal actions pending or completed during the reporting period regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the organisation has been identified as a participant	There is no record of any legal action regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation involving the Bank in 2023.	16			
ENVIRONMENTAL INDICATORS TOPIC: MATERIAL					
3-3 Explanation of the material topic and its Boundary	The novobanco Group has over the years promoted several initiatives aimed at reducing its direct environmental impact. Some of these measures are included it is Environmental programme, which is integrated in its Social Dividend model. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and sustainability website> Sustainable business>Our approach and policies				
301-1 Materials used by weight or volume	SR – pages 123; 164-170 ; 243;245.	8, 12	7, 8		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: ENERGY WATER AND CO_2 EMISSIONS					
3-3 Explanation of the material topic and its Boundary	Over the years, the novobanco Group has promoted various initiatives aimed at reducing its direct environmental impact, some of which are included in its Environment programme, which is integrated into its Social Dividend model. novobanco has promoted several initiatives that allow the reduction of energy consumption, mainly in terms of electricity consumption. In most of its buildings, energy consumption comes from renewable sources. It carries out its annual inventory of CO2 emissions, in 2021 for the first time carried out within the scope of the novobanco Group. In 2019, and within the scope of the commitment to reduce CO2 emissions, the bank signed the letter "Business Ambition for 1.5ºC", a document recently presented by the United Nations Global Compact, with this signature, the bank assumes the commitment to preserve the planet and limiting temperature increases to 1.5ºC by 2050, committing to present a scientific project to reduce CO2 emissions resulting from its activity. The Group has also promoted initiatives that aim to reduce its direct environmental impact in terms of its water consumption in view of the scarcity of this resource. The novobanco Group monitors indicators associated with this topic and reports them in the Sustainability Report and on the Sustainability website> Sustainable website>We are taking care of the environment				
302-1 Energy consumption within the organisation	SR – pages 167;243.	7,8 12 13	7,8		
302-3 Energy intensity	SR – pages 167;243.	7,8 12 13	8		
302-4 Reduction of energy consumption	SR – pages 167;243.	7,8 12 13	8,9		
302-5 Reductions in energy requirements of products and services	SR – pages pages 167;243.	7,8 12 13	8,9		
303-3 Water catchment	SR – page 245.	7			
305-1 Direct (Scope 1) GHG emissions	SR –pages 168;244.	3 12 13 14 15	7,8		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
305-2 Energy indirect (Scope 2) GHG emissions	RS –páginas 168;244.	3 12 13 14 15	7,8		
305-3 Energy indirect (Scope 3) GHG emissions	SR –pages 168;244.	3 12 13 14 15	7,8		
305-4 GHG emissions intensity	SR –pages 168;244.	13 14 15	8		
305-5 Reduction of GHG emissions	SR –pages 168;244.	13 14 15	8,9		
305-6 Emissions of ozone-depleting substances (ODS)	There have been no recharges of gases with the potential to destroy the ozone layer since 2015, as these are prohibited under Regulation (EC) No. 1005/2009, on substances that deplete the ozone layer. Moreover, novobanco had been gradually replacing equipment that emit ozone-depleting gases, when such still exist.	3 12	7,8		
305-7 Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	SOx and NOx emissions linked to the group's activity result from combustion associated with transportation, emergency generators and boilers. However, due to the reduced expression of these activities within the group's typical activity, these emissions are immaterial and therefore are not accounted for.	3 12 14 15	7,8		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: SUPPLIERS ENVIRONMENTAL ASSESSMENT					
3-3 Explanation of the material topic and its Boundary	The novobanco Group has over the years promoted several initiatives to ensure a judicious selection of its suppliers, based on the information provided. The group calculates the suppliers' 'sustainability scoring', which takes into account environmental, ethical, labour, hygiene and safety in the workplace aspects of its suppliers. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
308-1 New suppliers that were screened using environmental criteria	SR – pages 171-173.	8			
308-2 Negative environmental impacts in the supply chain and actions taken	SR – pages 171-173.	8			
TOPIC: EMPLOYMENT					
3-3 Explanation of the material topic and its Boundary	The Development of Culture and People is one of the strategic pillars of the novobanco Group. Over the years, the Group has promoted several initiatives that allow the development of programs that guarantee human capital management aimed at attracting and retaining talent, using the diversity of its employee base and a culture of inclusion and equal opportunities as levers. growth and value generation strategies, rejuvenating teams and developing the potential of the most experienced employees, using methodologies and programs that aim to enhance individual development and contribute to the balance between professional and personal life, as well as creating a circle of knowledge and sharing. The information regarding employees reported in this report has the same scope as the Report and Accounts, that is, it includes permanent employees, fixed-term contracts and seconded employees. Employees with other employment contracts – interns, temporary workers and service providers totaling 24 (11 men and 13 women) in 2023) represent only 0.56% of the Group's total employees. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				

Links Labor	M	W	Variation 203/2022
Trainees	5	5	0%
Temporary workers	5	8	-69.0%
Service providers	1	0	-50.0%
Total	11	13	-55.6%

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
401-1 Total number and rate of new employee hires during the reporting period, by age group, gender and region.	SR – page 249.	5 8	6		
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	The novobanco Group informs its employees of any relevant facts pertaining to their career management in accordance with the established notice periods, seeking compliance with clause 27 of the Collective Wage Agreement, which stipulates that workplace transfers are subject to an advance notice of at least 30 days. Trainees and temporary workers do not have access to all the benefits granted to other employees, with the exception of health insurance, special conditions on housing and individual credit and other benefits that are included in the Collective Labor Agreement.	8	6		
401-3 Total number of employees that were entitled to parental leave, by gender and return to work and retention rates of employees that took parental leave, by gender	SR – page 251.	8	6		
TOPIC: LABOUR/MANAGEMENT RELATIONS					
3-3 Explanation of the material topic and its Boundary	The Development of Culture and People is one of the strategic pillars of the novobanco Group. Over the years, the Group has promoted several initiatives that allow the development of programs that guarantee human capital management aimed at attracting and retaining talent, rejuvenating teams and developing the potential of more experienced employees, using methodologies and programs that aim to individual appreciation and the contribution to the balance between professional and personal life, as well as the creation of a circle of knowledge and sharing. The Group monitors indicators associated with this topic and reports them in the Sustainability Report and institutional website.				

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
402-1 Minimum notice periods regarding operational changes and whether the notice period and provisions for consultation and negotiation are specified in collective agreements	The novobanco Group informs its employees of any relevant facts pertaining to their career management in accordance with the established notice periods, seeking compliance with clause 27 of the Collective Wage Agreement, which stipulates that workplace transfers are subject to an advance notice of at least 30 days.	5	3		
TOPIC: OCCUPATIONAL HEALTH AND SAFETY					
3-3 Explanation of the material topic and its Boundary	The physical, mental and social well-being of employees is essential for the Group, and is ensured through a health and well-being policy based on eight lines of action: 1. Physical Well-Being 2. Mental Wellbeing 3. Emotional Well-being 4. Social Welfare 5. Financial Wellbeing 6. Family Wellbeing 7. Intellectual Well-being 8. Professional Wellbeing The novobanco Group monitors indicators associated with this topic and reports them in the Sustainability Report and Sustainability website > Sustainable business > Employees.				
403-1 Percentage of workers whose work, or workplace, is controlled by the organisation, that are represented by formal joint management-worker health and safety committees.	novobanco group has no formal safety committees, however it engages its employees in the definition and implementation of safety practices and the prevention of occupational hazards. The national legislation requires a minimum guarantee of hygiene, health and safety conditions. The group goes beyond the requirements of the law, annually reporting its practices and results in the management of hygiene, health and safety of all its employees.	8			
403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by gender	SR – page 253.	8			

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
403-3 Workers with high incidence or high risk of diseases related to their occupation	The novobanco Group is not aware of a high incidence or high risk of work-related diseases amongst its employees. SR - pages 150-152;172.	8			
403-4 Health and safety topics covered in formal agreements with trade unions	novobanco has entered into Company-level Agreements with all the trade unions represented in the institution, which enshrine the obligations of Occupational Medicine and hygiene and safety in the workplace. In addition to the legally mandatory consultations and exams, the Bank has in place other measures. SR – page 253.	8			
403-9 Work accidents	SR – page 253.	8			
403-10 Professional diseases	SR – page 253.	8			
TOPIC: TRAINING AND EDUCATION					
3-3 Explanation of the material topic and its Boundary	The Group has over the years promoted several initiatives and programmes to ensure that human capital management is focused on talent attraction and retention. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
404-1 Average hours of training that the organisation's employees have undertaken during the reporting period, by gender and employee category	SR – pages 182-183;251.	4, 5, 8	6		
404-2 Programmes for upgrading employee skills and transitionassistance programmes	SR – pages 182-183;251.	8			
404-3 Percentage of employees receiving regular performance and career development reviews	SR – pages 182-183;250.	5, 8	6		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: DIVERSITY AND EQUAL OPPORTUNITIES					
3-3 Explanation of the material topic and its Boundary	Novobanco Group has over the years promoted several initiatives within its Responsible Banking programme, which monitors three indicators and aims to develop a fair and gender-equal model, having for the purpose defined specific objectives for 2024. The group monitors indicators pertaining to this topic and annually reports the results in its website and Sustainability Report. SR - 184;254-255.				
405-1 Percentage of individuals within the organisation's governance bodies in each of the following diversity categories: Gender, Age group, Other indicators of diversity where relevant (such as minority or vulnerable groups).	MR – pages 30-31. SR – 248.	5, 8	6		
405-2 Ratio of basic salary and remuneration of women to men for each employee category	SR – page 254. The novobanco Group calculates the ratio based on total rather than base remuneration as the latter is linked to a level defined by the collective labour agreement (ACT).	5, 8, 10	6		
TOPIC: NON-DISCRIMINATION					
3-3 Explanation of the material topic and its Boundary	Novobanco has promoted several initiatives over the years that aim to reduce negative impacts in terms of discrimination through its strategic pillar People and Culture Development, which is integrated into its Social Dividend model. Over the years, novobanco has promoted several initiatives in its Responsible Banking program that aim to monitor and create a fairer and more gender-equal Bank, having, for this purpose, defined concrete objectives until 2024.				
406-1 Total number of incidents of discrimination and corrective actions taken,	In 2023 no incidents or lawsuits came to the attention of the novobanco Group concerning discrimination on grounds of race, colour, gender, religion, public opinion or social background.	5, 8, 10	6		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING					
3-3 Explanation of the material topic and its Boundary	The novobanco group complies with the legislation, rules and regulations in force and develops its activity in full compliance with its Equality and Non-Discrimination Policy and Human Rights Policy, defined based on: • the United Nations Global Compact Principles; • the Universal Declaration of Human Rights; • The Guidelines of the Organization for Economic Cooperation and Development (OECD) for Multinational Enterprises; • the Core Conventions of the International Labour Organization (ILO). novobanco's Human Rights Policy reflects its endorsement of and commitment to the Global Compact Principles. The compliance and audit functions and the mechanisms in place for the anonymous reporting of irregularities minimise the risk of any such occurrences within the Group's operations and in connection to its employees. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and and Sustainability website				
408-1 **409-1 Operations and suppliers at significant risk for incidents of child labour**	During 2023 no instances came to the attention of novobanco Group concerning operations and suppliers where the risk of child labour or forced or compulsory labour had been identified.	8, 16	5		
TOPIC: SECURITY PRACTICES					
3-3 Explanation of the material topic and its Boundary	Within the scope of the Strategic Pillar "Development of Culture and People", the Group has promoted several initiatives on this topic over the years. The Group operates in full compliance with current legislation, has a Human Rights policy and a Code of Conduct, by which all employees are governed, and on which it carries out periodic training for employees, and conducts its activity in accordance with the principles of ethics, inclusion, trust and transparency. The Group monitors indicators associated with this topic and reports them in the Sustainability Report.				

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: RIGHTS OF INDIGENOUS PEOPLES					
3-3 Explanation of the material topic and its Boundary	The group does not promote initiatives in this regard as its activity is developed in urban or urbanised areas.				
411-1 Total number of identified incidents of violations involving the rights of indigenous peoples during the reporting period and remediation action taken	The group's operations are located in urban or urbanised areas, therefore there are no instances of violation of the rights of indigenous people.	2	1		
TOPIC: HUMAN RIGHTS ASSESSMENT					
3-3 Explanation of the material topic and its Boundary	The Development of Culture and People is one of the strategic pillars of the novobanco Group . Over the years, the Group has promoted various initiatives aimed at reducing the negative impact on issues related to Human Rights, more precisely through the #Bancasponsible program which is integrated into its Social Dividend model. One of the standards of excellence of the novobanco Group is the development of a culture of respect for human beings: respect for employees, respect in the way we work with customers, suppliers and other stakeholders, respect in the relationships established with the communities in which the group operates. The Group has a Human Rights policy that can be consulted on its institutional website. The novobanco Group monitors indicators associated with this topic and reports them in the Sustainability Report and Sustainability website.				
412-1 Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Not applicable		1		
412-2 Employee training on human rights policies or procedures	This was one of the topics addressed in the ESG training.		1		
412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All novobanco Group's suppliers are covered by its Principles for Suppliers, which require compliance with Human Rights obligations. These criteria are included in the agreements entered into with all suppliers (100%). The certification of suppliers requires answering mandatory response questions concerning human rights policies and practices.		2		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
	The Bank visits all its material suppliers to check their supply capabilities and their compliance with the requirements of the Principles for Suppliers. In 2023 the group found no instance of non-compliance with these principles by its material Suppliers, namely through its regular visits to their facilities. Should any cases of violation of human rights occur, the group undertakes to investigate them and reserves the right to terminate the agreement with the Supplier in question if it finds evidence of non-compliance with Human Rights obligations.		2		
TOPIC: LOCAL COMMUNITIES					
3-3 Explanation of the material topic and its Boundary	novobanco Group has over the years promoted several initiatives under its Corporate Social Responsibility programme, which aims to contribute devise solutions for important issues within the community in which the Bank operates. This programme is deployed based on three pillars, namely: culture, financial literacy and solidarity. Some of the initiatives under these pillars are an integral part of the Financial and social wellbeing programme, included within novobanco's Social Dividend Model. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and Sustainability website > Sustainable attitude.				
413-1 Operations with local community engagement, impact assessments, and development programmes	SR – pages 157-162		1		
413-2 Operações com impactes Operations with significant actual and potential negative impacts on local communities	The novobanco Group is not aware of any operations having negative impacts on local communities.	1, 2	1		

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: SUPPLIERS SOCIAL ASSESSMENT					
3-3 Explanation of the material topic and its Boundary	Within the scope of the strategic pillar "Simple and Efficient Operations", the novobanco Group aims to ensure the integration of ESG criteria also upstream in its value chain, increasingly integrating ESG criteria and concerns in the selection and management of the relationship with its suppliers, also acting as a model for the national business fabric. The Group has been promoting several				
414-1 New suppliers that were screened using social criteria	SR – pages 171-173.	5, 16	2		
414-2 Negative social impacts in the supply chain and actions taken	In 2023 novobanco was not aware of any negative impacts at this level.	5, 16	2		
TOPIC: PUBLIC POLICY					
3-3 Explanation of the material topic and its Boundary	The novobanco Group manages its activity in full compliance with the legislation in force. Novobanco monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
415-1 Political contributions	Political contributions by companies are not permitted under Decree Law No. 19/2003, of 20 June, and novobanco Group complies with these provisions.	16	10		
TOPIC: CUSTOMER HEALTH AND SAFETY					
3-3 Explanation of the material topic and its Boundary	Within the scope of the Customer-Centric Bank strategic pillar, as well as the Simple and Efficient Operations pillar, the Group ensures throughout its activity that the highest levels of attention and investment are maintained in the themes underlying customer security, including their safety. physical security, the security of the operations that are carried out, as well as the safeguarding of your personal data and that of other data subjects. The novobanco Group monitors indicators associated with this topic and reports them in the Sustainability Report.				

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
416-1 Assessment of the health and safety impacts of product and service categories	The group's facilities comply with all existing rules for secure and private customer service. The group conducts its relationship with clients in accordance with the new General Data Protection Regulation, guaranteeing privacy and security in the treatment of customer data. Maximum attention is paid to security and customer experience in the development of your remote customer interaction platforms, as well as all your IT systems.More information may be found in Indicator 418-1.				
416-2 Total number of incidents of non-compliance concerning the health and safety impacts of products and services	In 2023, there were no sanctions and/ or fines imposed on novobanco Group in connection to the General Data Protection Regulation (GDPR).	5, 16	2		
TOPIC: LABELLING OF PRODUCTS AND SERVICES					
3-3 Explanation of the material topic and its Boundary	Customer-Centered Banking is one of the Group's strategic pillars. In this context, over the years, it has promoted several initiatives to provide clear and transparent information about its products and services to its customers. The design of products, including their labeling and nomenclature, follows a careful and robust internal approval process with the participation of risk, compliance and legal functions, among others, which is enshrined in internal standards and which takes ethical concerns into account , transparency and customer protection. External communication of products is subject to prior approval by the competent supervisory entity. The Group monitors indicators associated with this topic and reports them in the Sustainability Report and Sustainability website > Sustainable business > Sustainable offer.				
417-1 Requirements for product and service information and labelling and percentage of significant product or service categories covered by and assessed for compliance with such procedures.	The group provides clear information about each product or service offered, including about their characteristics and specific conditions. This information and underlying processes are subject to strict internal controls in terms of the Bank's internal audit and quality control, as well as strict external controls, through the supervision conducted by the Bank of Portugal, the CMVM and the external audits to the Bank's processes.	12, 16			

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
417-2 Total number of incidents of non-compliance with regulations and/or voluntary codes concerning product and service information and labelling, by type of result	In 2023 no incidents of non-compliance with voluntary procedures and voluntary codes concerning product and service information or labelling of novobanco Group were identified.	16			
417-3 Total number of incidents of non-compliance with regulations and/or voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of result	In 2023 no incidents of non-compliance with voluntary procedures and voluntary codes on marketing communications, including advertising, promotion, and sponsorship by novobanco Group, were identified.				
TOPIC: CUSTOMER PRIVACY					
3-3 Explanation of the material topic and its Boundary	Within the scope of the "Customer-Centered Banking" strategic pillar, the Group's priority is to ensure the privacy of all its customers' data. In this context, it develops the necessary and appropriate initiatives to carry out the activity in accordance with best market practices and legal and regulatory requirements. The Bank ensures the confidentiality, integrity and availability of information. The novobanco Group monitors indicators associated with this topic and reports them in the Sustainability Report.				
418-1 Total number of substantiated complaints received concerning breaches of customer privacy	The Group received 2 complaints, originating from the National Data Protection Commission (CNPD) and no direct complaints from customers, there is, however, no additional information about their status.	12			

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
FINANCIAL SUPPLEMENT INDICATORS TOPIC: SOCIOECONOMIC COMPLIANCE					
3-3 Explanation of the material topic and its Boundary	Customer-Centered Banking is one of the Group's strategic pillars. In this context, it has reinforced its customer experience monitoring model with the aim of offering the best experience to its customers. Knowledge of their expectations throughout their life cycle, close monitoring of market trends and a strong commitment to innovation allow us to identify opportunities for improvement, based on a robust customer experience monitoring model based on several pillars of action. It has also reinforced its offer and services based on environmental and social criteria. The Group monitors indicators associated with this topic and reports them in the Sustainability Report and Sustainability website > Sustainable business > Suppliers.				
Management Approach					
Policies with specific environmental and social components applied to business lines.	SR – pages 171-173;199. MR – pages 93-100.	10			
Procedures for assessing and screening environmental and social risks in business lines.	SR – pages 126-137.	10			
Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	The novobanco Group has in place several mechanisms to regulate customer monitoring. In cases which may be considered more sensitive, prevention and monitoring plans are negotiated, and the situations are monitored, resorting, when necessary, to external experts.	16			
Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	The novobanco Group provides adequate training to its employees on the marketing of products with environmental and social concerns.	10			
Interactions with clients/investees/business partners regarding environmental and social risks and opportunities	SR – pages 123-133;139; 144-145;137;156-162;173.	10			

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
FS6 Percentage of the portfolio for business lines by specific region, size (e.g., micro/SME/large) and by sector	SR – pages 141-151. MR – pages 68-75;200-201.	1, 8, 9			
FS7 Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR – pages 141-151. MR – pages 68-75;200-201.	1, 8, 9. 10, 11			
FS8 Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR – pages 141-151. MR – pages 68-75;200-201.				
TOPIC: AUDIT					
FS9 Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	No audits strictly dedicated to the implementation of environmental and social policies are carried out. The group annually assesses the practices implemented and the quantitative data through an external independent verification of its AR and Sustainability Report.	10			
ASPECTO: PROPRIEDADE ATIVA					
FS10 Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	SR – pages 145;174;177-196; 200-201.	10			
FS11 Percentage of assets subject to positive and negative environmental or social screening	SR – pages 145;174;177-196; 200-201;208-242.	10			
FS12 Voting policy(ies) applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting	novobanco Group's equity holdings in other companies are always aimed at obtaining profitability in the long term. Having said that, the Bank's stance as a shareholder takes into account the relevant principles to ensure consistent ethical, social and environmental management.				

GRI 3: DISCLOSURES ON MATERIAL TOPICS 2023	Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: LOCAL COMMUNITIES					
FS13 Access points in low-populated or economically disadvantaged areas by type	Despite the downsizing carried out, the group still has a large network of branches across the country. The group has been investing in the digitisation of its services, which has permitted greater coverage and easier contact with its clients, wherever they may be. SR – pages 123;157.	1, 10			
FS14 Initiatives to improve access to financial services for disadvantaged people	Under its new distribution model, the group has been increasing the number of access ramps and lifting platforms in its branch network. It also provides lowered ATMs with Braille keyboards. his equipment is being installed if and when necessary, as the branch network is refurbished. The aim is to gradually extend these access improvements to all novobanco's branches and services. SR – pages 156-158.	1, 10			
TOPIC: LABELLING OF PRODUCTS AND SERVICES					
FS15 Policies for the fair design and sale of financial products and services	Customer-centric banking is one of the Strategic Pillars of the novobanco Group. In this context, all financial products and services are formulated in compliance with the requirements imposed by legislation, regulatory guidelines and the institution's policies, namely the standard for design, approval, distribution and monitoring of products, already referred to in indicator 417-1 of this table. The novobanco Group regularly reports to its respective regulators evidence that proves respect and agreement with external and internal policies and conduct. The internal and external audit of the group's procedures verifies the compliance of the procedures with the requirements formulated by the Bank of Portugal and the Insurance Institute of Portugal.	10			
FS16 Initiatives to enhance financial literacy by type of beneficiary	SR – pages 156-158.	1,8, 10			

8.3 Independent Limited Assurance Report

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(Translation from the original Portuguese language. In case of doubt, the Portuguese version prevails)

Independent Limited Assurance Report

To the Board of Directors of
Novo Banco, S.A.

Scope

We have been engaged by Novo Banco, S.A. ("Novo Banco") to perform a limited assurance engagement, as defined by International Standards on Assurance Engagements, to report on the disclosures identified in the chapter "8.2 GRI Table" of the Sustainability Report, which include the sustainability information included in the Annual Report 2023 (the "Sustainability Information"), for the year ended 31 December 2023.

Criteria applied

Novo Banco prepared the Sustainability Information in accordance with the sustainability reporting standards of the Global Reporting Initiative – GRI Standards and with the provisions of article 508.º-G of the Portuguese Companies Act (*Código das Sociedades Comerciais*) (disclose of non-financial information) (together the "Criteria").

Responsibilities of the Management

Novo Banco's management is responsible for selecting the Criteria, and for preparing the Sustainability Information in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining an appropriate internal control system, maintaining adequate records and making estimates that are relevant to the preparation of the Sustainability Information, such that it is free from material misstatement, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to examine the Sustainability Information prepared by Novo Banco and to issue a limited assurance report based on the evidence obtained.

Our engagement was conducted in accordance with the International Standards for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information – ISAE 3000 (Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and other technical standards and recommendations issued by the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*). These standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Sustainability Information is prepared in accordance with the Criteria.

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. In these circumstances, our independent review procedures comprised the following:

- Inquiries to management with the objective to understand the business context and the sustainability reporting process;
- Conducting interviews with personnel responsible for preparing the information in order to understand the processes for collecting, collating, reporting and validating of the Sustainability Information for the reporting period;

Novo Banco, S.A.
Independent Limited Assurance Report
(Translation from the original Portuguese language.
In case of doubt, the Portuguese version prevails)
31 December 2023

- Conducting analytical review procedures to support the reasonableness of the data;
- Execution, on a sample basis, of tests to the calculations carried out, as well as tests to prove the quantitative and qualitative information included in the report;
- Verification of the conformity of the Sustainability Information with the results of our work and with the Criteria applied.

We consider that the evidence obtained is sufficient and appropriate to provide the basis for our conclusion.

Quality and Independence

We apply the International Standard on Quality Control 1 and, accordingly, maintain a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the *Ordem dos Revisores Oficiais de Contas'* Code of ethics and of the International Code of Ethics for Professional Accountants (including international independence standards) (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentially and professional behavior.

Conclusion

Based on our work and evidence obtained, nothing has come to our attention that cause us to believe that the Sustainability Information, for the year ended 31 December 2022, has not been prepared, in all material respects, in accordance with the Criteria.

Lisbon, 05 March 2024

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(signed)

Manuel Ladeiro de Carvalho Coelho da Mota - ROC nº 1410
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CONSOLIDATED FINANCIAL STATEMENTS OF NOVOBANCO GROUP

novobanco GROUP
CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022

(in thousands of Euros)

	Notes	2023	2022
Interest Income	10	1 955 662	834 679
Interest Expenses	10	(813 078)	(209 204)
Net Interest Income		**1 142 584**	**625 475**
Dividend income	12	2 133	5 035
Fees and comission income	11	339 061	337 335
Fees and comission expenses	11	(44 746)	(47 155)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	12	(58 055)	(88 255)
Gains or losses on financial assets and liabilities held for trading	12	4 418	149 212
Gains or losses on financial assets mandatorily at fair value through profit or loss	12	26 633	(40 493)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	12	79	116
Gains or losses from hedge accounting	12	32 112	(1 713)
Exchange differences	12	24 369	6 789
Gains or losses on derecognition of non-financial assets	13	27 901	83 289
Other operating income	14	106 231	214 005
Other operating expenses	14	(124 054)	(118 357)
Operating Income		**1 478 666**	**1 125 283**
Administrative expenses		(435 577)	(395 870)
Staff expenses	15	*(252 704)*	*(233 707)*
Other administrative expenses	17	*(182 873)*	*(162 163)*
Contributions to resolution funds and deposit guarantee	18	(78 481)	(41 155)
Depreciation	25, 27	(43 588)	(52 493)
Provisions or reversal of provisions	19	(45 699)	(39 245)
Commitments and guarantees given		*628*	*2 685*
Other provisions		*(46 327)*	*(41 930)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	19	(141 893)	(101 882)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	19	7 406	21 546
Impairment or reversal of impairment on non-financial assets	19	6 351	8 375
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	24	7 215	8 354
Profit or loss before tax from continuing operations		**754 400**	**532 913**
Tax expense or income related to profit or loss from continuing operations		(5 769)	53 301
Current tax		*(15 134)*	*(10 048)*
Deferred tax		*9 365*	*63 349*
Profit or loss after tax from continuing operations		**748 631**	**586 214**
Profit or loss before tax from discontinued operations	30	(412)	(270)
Profit or loss for the year		**748 219**	**585 944**
Attributable to Shareholders of the parent		743 088	560 842
Attributable to non-controlling interests	35	5 131	25 102
		748 219	**585 944**
Weighted average number of ordinary shares outstanding (thousands)		10 948 426	10 034 965
Basic earnings per share (in Euros)		0,07	0,06
Diluted earnings per share (in Euros)		0,07	0,06
Basic earnings per share of continuing activities (in Euros)		0,07	0,06
Diluted earnings per share of continuing activities (in Euros)		0,07	0,06

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

novobanco GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022

(in thousands of Euros)

	Notes	2023	2022
Net profit / (loss) for the exercise		**748 219**	**585 944**
Other comprehensive income/(loss)			
Items that will not be reclassified to results		**(51 592)**	**116 903**
Actuarial gains / (losses) on defined benefit plans	a)	(27 294)	101 726
Other comprehensive income from associates accounted for using the equity method	a)	(583)	332
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(23 715)	14 845
Items that may be reclassified to results		**216 040**	**(305 988)**
Foreign exchange differences	a)	(45)	(892)
Cash flow hedging		192 974	(100 418)
Financial assets at fair value through other comprehensive income	a)	23 111	(204 678)
Total other comprehensive income/(loss) for the exercise		**912 667**	**396 859**
Attributable to non-controlling interest		5 131	25 102
Attributable to Shareholders of the Parent		**907 536**	**371 757**

a) See Statement of Changes in the Consolidated Equity

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

novobanco GROUP

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2023 AND 2022

(in thousands of Euros)

	Notes	2023	2022
Assets		**43 500 790**	**45 995 029**
Cash, cash balances at central banks and other demand deposits	20	5 867 189	6 599 078
Financial assets held for trading	21	436 148	171 810
Financial assets mandatorily at fair value through profit or loss	22	264 912	313 702
Financial assets at fair value through profit or loss	22	-	13
Financial assets at fair value through other comprehensive income	22	838 523	2 331 099
Financial assets at amortised cost	22	32 452 537	32 559 148
Securities		7 870 536	7 964 664
Loans and advances to banks		47 940	43 548
Loans and advances to customers		24 534 061	24 550 936
Derivatives – Hedge accounting	23	683 063	562 845
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	(83 498)	(165 144)
Investments in subsidiaries, joint ventures and associates	24	59 511	119 744
Tangible assets		757 549	798 831
Tangible fixed assets	25	363 754	299 264
Investment properties	26	393 795	499 567
Intangible assets	27	86 748	69 832
Tax assets	28	931 036	956 000
Current Tax Assets		29 376	32 570
Deferred Tax Assets		901 660	923 430
Other assets	29	1 117 258	1 618 484
Non-current assets and disposal groups classified as held for sale	30	89 814	59 587
Liabilities		**39 078 362**	**42 483 411**
Financial liabilities held for trading	21	100 639	99 386
Financial liabilities measured at amortised cost	31	37 330 355	40 987 177
Deposits from banks		5 745 326	9 705 154
(of which, Repurchase Agreement)		3 867 053	2 150 824
Due to customers		29 984 273	29 277 858
(of which, Repurchase Agreement)		1 366 382	450 906
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 107 585	1 628 897
Other financial liabilities		493 171	375 268
Derivatives – Hedge accounting	23	124 729	119 578
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	62 049	-
Provisions	32	430 829	413 432
Tax liabilities	28	10 808	8 427
Current Tax liabilities		10 808	7 582
Deferred Tax Liabilities		-	845
Other liabilities	33	1 005 846	839 919
Liabilities included in disposal groups classified as held for sale	30	13 107	15 492
Equity		**4 422 428**	**3 511 618**
Capital	34	6 567 844	6 304 661
Accumulated other comprehensive income	35	(1 070 125)	(1 234 573)
Retained earnings	35	(8 577 074)	(8 577 074)
Other reserves	35	6 736 004	6 439 418
Profit or loss attributable to Shareholders of the parent		743 088	560 842
Minority interests (Non-controlling interests)	35	22 691	18 344
Total Liabilities and Equity		**43 500 790**	**45 995 029**

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

novobanco GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022

(in thousands of Euros)

	Notes	Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the exercise attributable to shareholders of the Bank	Non-controlling interests		Total
							Other Comprehensive Income	Other	
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**
Capital increase by incorporation of special reserve for deferred taxes	34	249 754	-	-	(249 754)	-	-	-	-
Other Increase / (Decrease) in Equity		**-**	**1**	**(214)**	**187 798**	**(184 504)**	**-**	**(37 793)**	**(34 712)**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	-	*184 504*	-	-	-	-
Other movements		-	**1**	**(214)**	*3 294*	-	-	*(37 793)*	*(34 712)*
Total comprehensive income for the exercise		**-**	**(189 085)**	**-**	**-**	**560 842**	**25 102**	**-**	**396 859**
Changes in fair value, net of tax	35	-	*(185 616)*	-	-	-	-	-	*(185 616)*
Foreign exchange differences, net of tax		-	*(892)*	-	-	-	-	-	*(892)*
Remeasurement of defined benefit plans, net of tax	16	-	*101 726*	-	-	-	-	-	*101 726*
Other comprehensive income appropriated from affiliates		-	*332*	-	-	-	-	-	*332*
Reserves of impairment of securities at fair value through OCI	35	-	*(3 052)*	-	-	-	-	-	*(3 052)*
Reserves of sales of securities at fair value through OCI	35	-	*(1 165)*	-	-	-	-	-	*(1 165)*
Cash flow hedge reserves		-	*(100 418)*	-	-	-	-	-	*(100 418)*
Net income of the exercise		-	-	-	-	*560 842*	*25 102*	-	*585 944*
Balance as at 31 December 2022		**6 304 661**	**(1 234 573)**	**(8 577 074)**	**6 439 418**	**560 842**	**(10 199)**	**28 543**	**3 511 618**
Capital increase by incorporation of special reserve for deferred taxes	34	263 183	-	-	(263 183)	-	-	-	-
Other increase / (Decrease) in Equity		**-**	**-**	**-**	**559 769**	**(560 842)**	**-**	**(784)**	**(1 857)**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	-	*560 842*	*(560 842)*	-	-	-
Other movements		-	-	-	*(1 073)*	-	-	*(784)*	*(1 857)*
Total comprehensive income for the year		**-**	**164 448**	**-**	**-**	**743 088**	**5 131**	**-**	**912 667**
Changes in fair value, net of tax	35	-	*283 614*	-	-	-	-	-	*283 614*
Foreign exchange differences, net of tax		-	*(45)*	-	-	-	-	-	*(45)*
Remeasurement of defined benefit plans, net of tax	16	-	*(27 294)*	-	-	-	-	-	*(27 294)*
Other comprehensive income appropriated from affiliates		-	*(583)*	-	-	-	-	-	*(583)*
Reserves of impairment of securities at fair value through OCI	35	-	*(421)*	-	-	-	-	-	*(421)*
Reserves of sales of securities at fair value through OCI	35	-	*(283 797)*	-	-	-	-	-	*(283 797)*
Cash flow hedge reserves		-	*192 974*	-	-	-	-	-	*192 974*
Net income of the exercise		-	-	-	-	*743 088*	*5 131*	-	*748 219*
Balance as at 31 December 2023		**6 567 844**	**(1 070 125)**	**(8 577 074)**	**6 736 004**	**743 088**	**(5 068)**	**27 759**	**4 422 428**

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

novobanco GROUP

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022

(in thousands of Euros)

	Notes	2023	2022
Cash flows from operating activities		**1 145 231**	**577 845**
Interest received		1 995 630	862 685
Interest paid		(696 029)	(211 860)
Fees and commissions received		339 061	337 335
Fees and commissions paid		(44 764)	(47 155)
Recoveries on loans previously written off		32 512	40 423
Contributions to the pension fund		-	(249)
Contributions to resolution funds and deposit guarantee		(78 481)	(41 155)
Cash payments to employees and suppliers		(402 698)	(362 179)
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(5 228 153)	(1 702 869)
Financial assets mandatorily at fair value through profit or loss		140 610	361 790
Financial assets designated at fair value through profit or loss		(226 476)	146 801
Financial assets at fair value through other comprehensive income		1 831 667	4 463 594
Financial assets at amortised cost		219 383	(6 738 365)
Debt securities		*259 862*	*(5 831 051)*
Loans and advances to banks		*(4 157)*	*7 342*
Loans and advances to customers		*(36 322)*	*(914 656)*
Financial liabilities at amortised cost		1 865 439	2 343 653
Deposits from banks		*1 226 408*	*635 597*
Due to customers		*639 031*	*1 708 056*
Derivatives - Hedge accounting		(415 258)	(53 738)
Other operating assets and liabilities		383 202	960 322
Net cash from operating activities before corporate income tax		**(284 355)**	**359 033**
Corporate income taxes paid		(33 035)	(44 800)
Net cash from operating activities		**(317 390)**	**314 233**
Cash flows from investing activities			
Sale of investments in subsidiaries and associated companies		-	(1 560)
Dividends received		2 133	5 035
Acquisition of investment properties		(611)	(16 464)
Sale of investment properties		183 309	367 213
Acquisition of tangible fixed assets		(88 091)	(137 533)
Sale of tangible fixed assets		980	107 261
Acquisition of intangible assets		(30 345)	(25 306)
Sale of intangible assets		-	4
Net cash from investing activities		**67 375**	**298 650**
Cash flows from financing activities			
Issuance of bonds and other securitized liabilities		-	106 000
Repayment of bonds and other liabilities		(582 980)	(14 285)
Issue of subordinated debt		500 000	-
Reimbursement of subordinated debt		(400 000)	-
Net cash from financing activities		**(482 980)**	**91 715**
Net changes in cash and cash equivalents		**(732 995)**	**704 598**
Cash and cash equivalents at the beginning of the period		**6 311 181**	**5 606 583**
Net changes in cash and cash equivalents		(732 995)	704 598
Cash and cash equivalents at the end of the period		**5 578 186**	**6 311 181**
Cash and cash equivalents include:			
Cash	20	179 229	182 895
Deposits with Central Banks	20	5 374 612	5 942 498
(of which, Restricted balances)		(289 003)	(287 897)
Deposits with banks	20	313 348	473 685
Total		**5 578 186**	**6 311 181**

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

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novobanco Group
Explanatory notes to the consolidated financial statements as of December 31, 2023

(Amounts expressed in thousands of euros, except where indicated)

Note 1 - Activity and Structure of the Group

Novo Banco, S.A. is the main entity of the financial novobanco Group 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 to novobanco (novobanco or 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.

As at 18 October 2017, the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging 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.

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. On December 19, 2023, the company became Nani Holdings S.à.r.l, with its headquarters at Rue des Mérovingiens 7A, Bertrange, Luxembourg. 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.

novobanco Group (hereinafter also designated as Group or novobanco Group) has a retail network comprising 290 branches in Portugal and abroad (31 December 2022: 292 branches), including branch in Luxembourg, and two representative offices: one in Switzerland and one in Spain (31 December 2022: 2 representative offices in Switzerland).

Group companies in which the Bank has a direct or indirect holding higher or equal to 20%, over which the Bank exercises control or significant influence, and that were included in the consolidation perimeter, are presented below. [1]

[1] The references made to the RGICSF refer to the version in force on the date of the resolution measure. The current version of the RGICSF has undergone changes, notably in article 145 by virtue of Law 23-A 2015, of March 26, which came into effect the day after its publication.

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Banking		
Novo Banco dos Açores, SA (novobanco Açores)	2002	2002	Portugal	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	Management of social participations	100,00%	Full consolidation
GNB - Gestão de Ativos, SGOIC, S.A. (GNB GA)	**1987**	**1987**	**Portugal**	Management of social participations	**100,00%**	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100,00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxemburgo	Investment fund management	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	Management of social participations	**100,00%**	Full consolidation
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	equity method
NB Finance, Ltd. (NB FINANCE)	2015	2015	Ilhas Caimão	Issuance and placement of securities	100,00%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Management of social participations	100,00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brasil	Representation services	99,99%	Full consolidation
Aroleri, SLU	2021	2021	Espanha	Real estate promotion	100,00%	Full consolidation
Righthour, SA	2013	2013	Portugal	Service provision	100,00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real Estate Investment Fund	96,34%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real Estate Investment Fund	95,24%	Full consolidation
NB Branches - Fundo Especial de Investimento Imobiliário Fechado	2006	2019	Portugal	Real Estate Investment Fund	100,00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate promotion	100,00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real Estate Investment Fund	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	Credit finance company	17,5% [a)]	equity method
Edenred Portugal, SA	1984	2013	Portugal	Provision of various services	50,00% [b)]	equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Management of social participations	22,52%	equity method
Lusitano Mortgages No.6 plc [c)]	2007	2007	Irlanda	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.7 plc [c)]	2008	2008	Irlanda	Special Purpose Entity	100%	Full consolidation

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

b) Entities consolidated by the equity method due to the respective decomposition of voting rights not giving control to novobanco

c) Entities established under securitization operations, recorded in the consolidated financial statements in accordance with the Group's ongoing involvement in these operations, determined based on the percentage held of equity pieces of the respective vehicles (see Note 39)

During 2023, the main changes in novobanco Group's structure were as follows:

- In March 2023, Novobanco's branch in Spain was closed;
- In June 2023, the FCR NB Capital Growth Fund was liquidated, with the assets and liabilities of this Fund being transferred to novobanco;
- In June 2023, the merger of Fungepi II into Fungepi was carried out;
- In October 2023, novobanco redeemed Fungepi participation units, worth 66,280 thousand euros;
- In December 2023, the Invesfundo VII, Febagri, and Imalgarve were liquidated;
- In December 2023, as part of the internal reorganization of the GNB GA subgroup, GNB – Gestão de Ativos, SGPS, GNB Real Estate – SGOIC and GNB – Sociedade Gestora de Patrimónios were merged by incorporation into GNB Fundos Mobiliários. SGOIC, the latter having changed its corporate name to GNB – Gestão de Ativos, SGOIC, S.A..

The most significant changes in the Novobanco Group structure during the fiscal year 2022 were as follows:

- In January 2022, the NB Pension Fund redeemed participation units in Fungere, changing the Novobanco Group's stake to 98.22%. In March 2022, Novobanco redeemed 12,688,194 participation units from Fungere, amounting to 15,051 thousand euros, changing the Group's stake to 97.87%. In September 2022, Fungere was merged into Fungepi. After this merger, Novobanco redeemed participation units from Fungepi amounting to 39,964 thousand euros;
- In February 2022, the Five Stars Fund changed its name to NB Branches and increased its capital by 43 million euros in November 2022;
- In March 2022, the stake held in Autodril was sold, with a negative impact of 591 thousand euros;
- In May 2022, the FCR PME NB Fund proceeded with the capital reimbursement, with Novobanco receiving 3,174 thousand euros;
- In June 2022, Novobanco redeemed participation units in the Imogestão Fund, amounting to 38,000 thousand euros;
- In August 2022, the Imoinvestmento Fund sold the companies Várzea da Lagoa and Quinta D. Manuel I, for 2,592 thousand euros and 1,107 thousand euros, respectively. These sales generated a capital gain of 88 thousand euros for the Novobanco Group;
- In September 2022, Novobanco redeemed participation units from Fungepi II worth 4,068 thousand euros;
- In September 2022, the Novobanco Pension Fund redeemed all the participation units it held in NB Património, with Novobanco now holding 96.24% of the Fund;
- In September 2022, Fundes was liquidated;
- In December 2022, Quinta da Ribeira, Novimove, and NB Logistics Real Estate Funds, as well as the FCR PME NB were liquidated. The latter sold all the stakes it held (M N Ramos Ferreira, Epedal, Cristalmax, Nexxpro, and Ach Brito) during the fiscal year 2022;
- In December 2022, the stake in Ribagolfe was sold, with a positive impact of 270 thousand euros;
- In December 2022, the stake in the Arrábida Fund was sold, with a positive impact of 999 thousand euros;
- In December 2022, the stake in Herdade da Vargem Fresca VI was sold, with a positive impact of 136 thousand euros;
- In December 2022, Espírito Santo International Management was liquidated.

novobanco holds in its balance mandatory convertible securities (VMOC) from two entities, obtained through credit recovery, measured at the fair value which was estimated to be nill. The extension of the conversion of these VMOC into shares ended during the month of December 2021. The Group contests this conversion, having addressed to the issuers, letters of formal notice for payment of the payable amounts.

During 2023 and 2022, the movements relating to acquisitions, sales and other investments and repayments in subsidiary and associated companies are detailed as follows:

(thousands of Euros)

	2023						
	Acquisitions			Reductions			
	Aquisition Value	Others investments (a)	Total	Sale Value	Others Refunds (a)	Total	More / (losses) in sales / settlements
Subsidiaries companies	**-**	**135**	**135**	**-**	**(133 675)**	**(133 675)**	**-**
Benagil	-	135	135	-	-	-	-
Febagri	-	-	-	-	(12 412)	(12 412)	-
Imoinvestimento	-	-	-	-	(25 150)	(25 150)	-
FCR NB Growth	-	-	-	-	(3 847)	(3 847)	-
Imalgarve	-	-	-	-	(11 764)	(11 764)	-
Invesfundo VII	-	-	-	-	(14 222)	(14 222)	-
Fungepi	-	-	-	-	(66 280)	(66 280)	-
	-	**135**	**135**	**-**	**(133 675)**	**(133 675)**	**-**

a) Increases / decreases in capital, supplementary provisions, supplies, financial instrument exchange operations and company formations

(thousands de euros)

	2022						
	Acquisitions			Reductions			
	Acqusition value	Others investments (a)	Total	Sale Value	Others Refunds (a)	Total	Gains/ (losses) in sales/ settlements
Subsidiaries companies	**-**	**43 000**	**43 000**	**32 373**	**(100 258)**	**(67 885)**	**902**
Autodril	-	-	-	504	-	504	(591)
Fungere	-	-	-	-	(15 051)	(15 051)	-
FCR PME NB	-	-	-	-	(3 174)	(3 174)	-
Várzea da Lagoa	-	-	-	2 592	-	2 592	66
Quinta D. Manuel I	-	-	-	1 107	-	1 107	22
Fungepi II	-	-	-	-	(4 068)	(4 068)	-
Fungepi	-	-	-	-	(39 965)	(39 965)	-
Arrábida	-	-	-	20 057	-	20 057	999
H. Vargem Fresca VI	-	-	-	500	-	500	136
Imogestão	-	-	-	-	(38 000)	(38 000)	-
NB Branches	-	43 000	43 000	-	-	-	-
Ribagolfe	-	-	-	7 613	-	7 613	270
Associated companies	**-**	**-**	**-**	**7 506**	**-**	**7 506**	**67**
Epedal	-	-	-	1 709	-	1 709	67
Nexxpro	-	-	-	2 790	-	2 790	-
Cristalmax	-	-	-	2 667	-	2 667	-
M N Ramos Ferreira	-	-	-	340	-	340	-
	-	**43 000**	**43 000**	**39 879**	**(100 258)**	**(60 379)**	**969**

a) Increases / decreases in capital, supplementary provisions, supplies, financial instrument exchange operations and company formations

The subsidiaries classified under IFRS 5 as non-current assets held for sale and discontinued operations, are detailed in Note 30.

Note 2 – Basis of Presentation

The consolidated financial statements of novobanco are presented as of 31 December 2023, expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Group in the preparation are consistent with those used in the preparation of the financial statements as of 31 December 2022. The changes to the most relevant accounting policies are described in Note 5.

The consolidated financial statements of novobanco have been prepared under the assumption of continuity of operations from the accounting records and following the historical cost convention, except for the assets and liabilities accounted at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

The consolidated financial statements and the Management Report of 31 December 2023 were approved at the Executive Board of Directors' meeting held on 29 February 2024 and will be submitted to the General Assembly of Shareholders, which has the power to justifiably decide to change them. However, it is Executive Board of Directors conviction that these consolidated financial statements will be approved without changes.

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, 2023, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of 19 July 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).

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 caption.

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented throughout the different balance sheet notes.

Note 5 – Changes in Accounting Policies

In the preparation of its financial statements with reference to 31 December 2023, 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:

Standards, interpretations, amendments and revisions that came into effect in the financial year

The following standards, interpretations, amendments and revisions endorsed by the European Union are mandatorily applied for the first time in the financial year beginning on January 1, 2023:

Standard / Interpretation	Description
IFRS 17 – Insurance Contracts	IFRS 17 replaces IFRS 4 and applies to all insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), regardless of the type of entities that issue them, as well as to some warranties and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides a more useful and more consistent accounting model for insurance contracts. Contrasting with 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 IFRS 17 – Insurance Contracts – Initial application of IFRS 17 and IFRS 9 – Comparative information	This amendment to IFRS 17 pertains to the presentation of comparative information of financial assets upon the initial application of IFRS 17. The amendment adds a transition option that allows an entity to apply an 'overlay' to the classification of a financial asset in the comparative period(s) presented upon the initial application of IFRS 17. The 'overlay' allows all financial assets, including those held in relation to activities not related to contracts within the scope of IFRS 17, to be classified, instrument by instrument, in the comparative period(s) in line with how the entity expects these assets to be classified upon the initial application of IFRS 9.
Amendments to IAS 1 - Disclosure of Accounting Policies	These changes aim to assist an entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However, due to the absence of this concept in IFRS standards, it was decided to replace it with the concept of "materiality", a concept already known by the users of financial statements. When assessing the materiality of accounting policies, the entity must consider not only the size of the transactions but also other events or conditions and their nature.
Amendments to IAS 8 - Definition of Accounting Estimates	The amendment aims to clarify the distinction between changes in accounting estimates, changes in accounting policies, and the correction of errors. Additionally, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction	IAS 12 now requires an entity to recognise deferred tax when its initial recognition gives rise to equal amounts of taxable temporary differences and deductible temporary differences. However, it is a matter of professional judgment whether such deductions are attributable to the liability that is recognised in the financial statements or to the related asset. This fact is particularly important in determining the existence of temporary differences in the initial

	recognition of the asset or liability, insofar as the initial recognition exception is not applicable to transactions that originated equal taxable and deductible temporary differences. Among the applicable transactions are the registration of (i) assets under right of use and lease liabilities; (ii) provisions for dismantling, restoration, or similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset, when at the date of initial recognition they do not apply for tax purposes. This amendment is retrospectively applicable.
Amendments to IAS 12 - International Tax Reform - Second Pillar Model Rules	These changes arise in the context of implementing the Global Anti-Base Erosion ("Globe") rules of the OECD, which may have significant impacts on the determination of deferred taxes that are difficult to estimate as of the date of issuance of these changes. These changes introduce a temporary exception to the accounting for deferred taxes arising from the application of the OECD's second pillar model rules, and additionally establish new specific disclosure requirements for affected entities.

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

Note 6 - Principles 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 (facto control) and could 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 recognised 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 recognises the resulting gain or loss in the income statement upon determining the respective goodwill. When a partial sale occurs, resulting in the loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to its fair value at the date the control is lost, and the resulting gain or loss is recognised in the income statement.

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

Associated companies

Associated companies are those entities 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 until the date that significant influence ceases. The carrying value of the investments in associated companies includes the value of the respective goodwill determined at the acquisition date and is presented net of impairment losses. The Group carries out impairment tests on its investments in associated companies, whenever there are any indications of impairment. Impairment losses recognised in prior years may be reversed, up to the limit of the accumulated losses.

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

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

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

Structured Entities (SE)

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

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

Investment funds managed by the Group

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

Goodwill

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

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

In accordance with IFRS 3, 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 added to the acquisition amount.

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

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

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 recognised 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 recognised in the income statement. The recoverable amount is determined by assessing each cash-generating unit (or group of cash-generating units) to which the goodwill refers. When a cash-generating unit has a recoverable value that is less than its carrying amount, an impairment loss is recognised. Impairment losses related to goodwill from subsidiaries 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 recognised as a result of such transactions. Any difference between the acquisition cost and the carrying book value of the non-controlling interest acquired is recognised directly in reserves. Similarly, gains or losses arising from sale of non-controlling interests that do not result in a loss of control over a subsidiary, are always recorded against reserves.

The non-controlling component of Open Real Estate Funds controlled by the Group is recorded under Other Liabilities in the consolidated accounts.

Balances and transactions eliminated with consolidation

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

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transactions reveal evidence of impairment. The accounting policies of subsidiaries and associated companies are changed, whenever necessary, to ensure that the same are applied consistently throughout the Group.

Note 7 – Material information about the accounting policy

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

Transactions conducted in foreign currency are converted into euros at the exchange rate effective on the date of the transaction.

Monetary assets and liabilities expressed in foreign currency are converted to euros using the exchange rate effective on the balance sheet date. The exchange differences resulting from this conversion are recognised in profits and are presented in the income statement.

Non-monetary assets and liabilities denominated in foreign currency and valued at historical cost are converted to euros using the exchange rate applied on the transaction date. Those that are valued at fair value use the exchange rate in effect on the date the fair value was determined. The resulting exchange differences are recognised in profits except for differences related to shares classified as financial assets at fair value through other comprehensive income, which are recorded in comprehensive income and presented on the comprehensive income statement.

In the case of effective cash flow hedging relationships or net investments in foreign operations, the exchange differences of the effective component are recognised in other comprehensive income.

7.2. Recognition of interest income/expense

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

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

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

Interest and similar income include interest from financial assets for which were recognised impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value. For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognised 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. Fee and commission income recognition

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

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

7.4. Financial instruments - Classification and initial measurement

7.4.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and amounts owed to customers, are initially recognised on the trade date, that is, the date on which the Group becomes party to the contractual provisions of the instrument. This includes regular trades, that is, purchases or sales of financial assets that require delivery of assets within the time period generally established by regulation or convention in the market. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises amounts owed to customers when funds are transferred to the Group.

7.4.2. Initial recognition of financial instruments

The classification of financial instruments upon initial recognition depends on their contractual terms and the business model for managing the instruments, as described in note 7.6. Financial instruments are initially measured at their fair value plus or minus transaction costs (as defined in Note 7.5), except in the case of financial assets and liabilities measured at fair value through results, for which transaction costs are directly recognised in results. Amounts receivable from customers are measured at the transaction price. When the fair value of financial instruments upon initial recognition differs from the transaction price, the Group recognises Day 1 profits, as described below.

7.4.3. Day one profit

When the transaction price of the instrument differs from the fair value at origin and the fair value is based on a valuation technique using only data observable in market transactions, the Group recognises the difference between the transaction price and the fair value in net trading income. In cases where the fair value is based on models for which some of the data are not observable, the difference between the transaction price and fair value is deferred and only recognised in the result when the data become observable, or when the instrument is derecognized.

The Group recognises in results the earnings from the intermediation margin (day one profit), mainly generated in the intermediation of derivative and foreign exchange financial products, since the fair value of these instruments, on the date of their initial recognition and subsequently, is determined only based on variables observable in the market and reflects the Group's access to the wholesale financial market.

7.4.4. Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the contractual terms of the asset, measured at:

- Amortised cost, as explained in note 7.6.1;
- Fair value through other comprehensive income, as explained in notes 7.6.1, 7.6.2 and 7.6.3;
- Fair value through profit or loss, as explained in note 7.6.4.
- Mandatory measured at fair value through profit or loss, as explained in note 7.6.4.

The Group classifies and measures its trading derivatives portfolio in the trading portfolio, as explained in Note 7.6.5. The Group may designate financial instruments in this portfolio, if this eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 7.6.6.

Financial liabilities are measured at amortised cost, except for loan commitments and financial guarantees or trading portfolio liabilities which are measured at fair value.

7.5. Fair value of financial assets and liabilities

The fair value of quoted financial assets is determined based on the closing quote (bid-price), the price of the last transaction executed, or the value of the last known quote (bid). In the absence of a quote, the Group estimates the fair value using (i) valuation methodologies, such as using prices from recent transactions, similar and carried out in market conditions, discounted cash flow techniques and custom option valuation models to reflect the peculiarities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For assets included in level 3 of the fair value hierarchy whose quotation is provided by a third party using unobservable market parameters, the Group proceeds, when applicable, to a detailed analysis of the historical performance and liquidity of these assets. Following this analysis, as well as additional internal or external evaluations, adjustments may be made to the provided quotation to determine the fair value of these assets.

Following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding method of valuation:

Quoted market prices (level 1)

This category includes Financial Instruments with quotations available in official markets and those for which there are entities that regularly disclose transaction prices for these instruments traded in liquid markets.

Priority in the prices used is given to those observed in official markets, in cases where there is more than one official market the option falls on the main market where these financial instruments are traded.

The Group considers the prices disclosed by independent entities as market prices, assuming as an assumption that they act in their own economic interest and that such prices are representative of the active market, always using, where possible, prices provided by more than one entity (for a particular asset and/or liability). In the revaluation process of Financial Instruments, the Group analyses the different prices in order to select the one that appears most representative for the instrument under analysis. Additionally, prices from recent transactions on similar financial instruments are used as inputs, where they exist, and are subsequently compared with those provided by the aforementioned entities in order to better substantiate the Group's choice for a given price.

This category includes, among others, the following financial instruments:

(i) Derivatives traded on an organised market;
(ii) Shares quoted on a stock exchange;
(iii) Open investment funds quoted on a stock exchange;
(iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
(v) Bonds with observable market valuations;
(vi) Financial instruments with market offer even if not available from normal information sources (e.g. securities trading based on the recovery rate).

Valuation models based on observable market parameters / prices (level 2)

In this category, financial instruments valued using internal models are considered, particularly models of discounted cash flows and option valuations, which involve the use of estimates and require judgements that vary according to the complexity of the products being valued. Nevertheless, the Group uses variables provided by the market as inputs in its models, such as interest rate curves, credit spreads, volatility and indices on quotes. It also includes instruments whose valuation is obtained through quotes disclosed by independent entities, but whose markets have lower liquidity. Additionally, the Group also uses as observable market variables those resulting from transactions on similar instruments and that are observed with a certain recurrence in the market.

This category includes, among others, the following financial instruments:

(i) Bonds without observable valuations in the market valued using observable market inputs; and
(ii) Derivatives (OTC) over-the-counter market valued with observable market inputs; and
(iii) Unlisted shares valued with internal models using observable market inputs

Valuation models based on unobservable market parameters (level 3)

This level includes valuations determined using internal valuation models or quotes provided by third parties, but whose parameters used are not observable in the market. The bases and assumptions for calculating fair value are in accordance with the principles of IFRS 13.

In this category, among others, the following financial instruments are included:

(i) Debt securities valued using inputs not observable in the market;
(ii) Unquoted shares;
(iii) Closed real estate funds;
(iv) Hedge Funds;
(v) Private equities;
(vi) Restructuring Funds; and
(vii) Derivatives (OTC) over-the-counter with prices provided by third parties.

7.6. Financial Assets and Liabilities

The Group classifies financial assets at the time of their acquisition based on the considered business model and the characteristics of the contractual cash flows of these assets. 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 Group may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognised in equity;
- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets are acquired for the purpose of trading in the short term, they are classified as held for trading.

7.6.1. Financial assets at amortised cost

For a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is required that:

(i) the contractual clauses must give rise to cash flows that correspond only to payments of principal and interest on the amount owed (SPPI – Solely Payments of Principal and Interest). For the purposes of the SPPI test, the principal is the fair value of the financial asset at the time of initial recognition. Contractual flows that are SPPI are consistent with a basic loan agreement. Initial contractual clauses that introduce exposure to risks or volatility of contractual cash flows that are not related to a basic loan agreement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are only repayments relating to principal and interest calculated on the amount of principal owed. In these cases, financial assets must be measured at fair value mandatorily through profit or loss;

(ii) The business model of the financial asset is to receive only the contractual cash flows until maturity (asset at amortised cost). The evaluation of the financial asset's business models is crucial for its classification. The Group determines the business models by groups of financial assets according to how they are managed to achieve a certain business objective. The Group's business models determine whether cash flows will be generated through the receipt of only contractual cash flows, the sale of financial assets or both. At the initial recognition of a financial asset, the Group determines whether it forms part of an existing business model or whether it reflects a new business model. The Group reassesses its business models in each reporting period, in order to determine whether changes have occurred in the business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria set out in IFRS 16 - Leases.

Financial assets that are subsequently measured at amortised cost are subject to impairment calculation, as explained in note 7.12.

Financial assets at amortised cost are initially recorded at acquisition value, subsequently they are measured at amortised cost based on the effective interest rate. The interest, calculated at the effective interest rate, is recognized in the income statement.

7.6.2. Debt instruments with fair value changes in other comprehensive income

The Group classifies debt instruments with fair value changes in other comprehensive income when the following conditions are met:

- The financial asset is held within a business model which objective is achieved through the receipt of contractual cash flows and the sale of financial assets; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely principal repayments and interest payments on the amount of capital owed.

Debt instruments thus classified are subsequently measured at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income until the assets are derecognised, at which point the accumulated amount of potential gains and losses recorded in reserves is transferred to profit or loss under the heading of gains or losses on financial assets and liabilities measured at fair value through profit or loss. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same way as for financial assets measured at amortised cost as explained in Note 7.2.

The expected credit loss calculation is explained in Note 7.12. When 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.

7.6.3. Equity instruments with fair value changes in other comprehensive income

After initial recognition, the Group irrevocably classifies financial equity instruments with variations in other comprehensive income when they are classified as equity instruments according to IAS 32 and are not held for trading. This designation is determined on a case-by-case basis.

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

Equity instruments with fair value changes in other comprehensive income are not subject to impairment.

7.6.4. Financial assets recorded at fair value through profit or loss

An asset recorded at fair value through profit or loss has the following characteristics:

- the contractual cash flows are not SPPI (mandatory at fair value through profit or loss); and/or
- it is held in a business model that does not aim solely to obtain 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 the application of the fair value option.

7.6.5. Assets and Liabilities Held for Trading

The Group classifies financial assets or financial liabilities as held for trading when they have been acquired or issued mainly for the purpose of making a short-term profit through trading activities or are part of a portfolio of jointly managed financial assets for which there is recent evidence of realization of short-term profits.

Assets and liabilities held for trading are recorded and evaluated on the balance sheet at fair value. Changes in fair value are recognized in financial operations results. Interest income or expense and dividends are recorded in the same line item according to the terms of the contract or when the right to payment has been established.

Included in this portfolio are debt securities, shares, short positions, and loans to customers that have been primarily acquired for the purpose of sale or repurchase in the short term.

7.6.6. Derivative Financial Instruments and Hedge Accounting

Classification

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

Recognition and Measurement

Derivative financial instruments are recognized on their trading date (trade date), at their fair value. Subsequently, the fair value of derivative financial instruments is reassessed on a regular basis, with the gains or losses resulting from such revaluation recorded directly in the results of the year, except for hedging derivatives. The recognition of fair value changes of hedging derivatives depends on the nature of the risk covered and the hedging model used.

Derivatives traded on organized markets, namely futures and some options contracts, are recorded as trading and are revalued at the expense of results. Margin accounts are recorded in Other assets and Other liabilities (see Notes 29 and 33) and include the minimum collateral required for open positions.

The fair value of other derivative financial instruments corresponds to their market value, when available, or is determined based on valuation techniques including discounted cash flow models and option valuation models, as appropriate.

Hedge Accounting

- Classification Criteria

The derivative financial instruments used for hedging purposes can be classified for accounting purposes as hedging instruments as long as they cumulatively fulfill the following conditions:

(i) The hedging instruments and the hedged items are eligible for hedging;
(ii) At the date of the commencement of the transaction, the hedging relationship is identified and formally documented, including the identification of the hedged item, the hedging instrument, the nature of the hedged risk, and the evaluation of hedge effectiveness;
(iii) There is an economic relationship between the hedged item and the hedging instrument;
(iv) The effect of the 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 transaction and throughout its life.

In cases where the Group uses macro hedging, the accounting is carried out according to IAS 39, using the option provided for in IFRS 9, with the Group performing prospective tests at the start date of the hedging relationship, where applicable, and retrospective tests used to confirm, at 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 identified ineffectiveness is recognized in results as it occurs, in gains or losses of hedge accounting. In the specific case of fair value hedging of interest rate risk for the deposit portfolio, the IAS 39 carve-out exception was adopted for the application of macro hedging to core deposits.

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

- Fair Value Hedging

In a fair value hedging operation of an asset or liability, the balance sheet value of that asset or liability is adjusted to reflect changes in its fair value attributable to the covered risk. Changes in the fair value of the hedging derivatives are recognized in results, along with changes in the fair value of the hedged assets or liabilities, attributable to the hedged risk. In cases where the hedged item is an equity instrument designated at fair value through other comprehensive income, changes in the fair value of the hedging instruments are also recognized in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the risk management objective remains, the Group may adjust the hedge to meet eligibility criteria (rebalancing).

If the hedge no longer meets the criteria required for hedge accounting (if the hedging instrument expires, is sold, has terminated or is exercised, without having been replaced according to the entity's documented risk management objective), the derivative financial instrument is transferred to the trading portfolio, and hedge accounting is discontinued prospectively. If the hedged asset or liability corresponds to a fixed-income instrument, the revaluation adjustment is amortized in results until maturity by the effective interest rate method.

- Cash Flow Hedge

In a hedge operation of the exposure to variability of highly probable future cash flows (cash flow hedge), the effective portion of changes in the fair value of the hedging derivative is recognized in the cash flow hedge reserve. The value of this reserve is transferred to the results in the periods in which the expected cash flows of the hedged item affect results. The ineffective portion of the hedge is recorded in results.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria required for hedge accounting, the changes in the fair value of the derivative accumulated in reserves are recognized in results when the hedged operation also affects results. If it is foreseeable that the hedged operation will not be carried out, the amounts still recorded in equity are immediately recognized in results, and the hedging instrument is transferred to the trading portfolio.

Embedded Derivatives

If a hybrid contract includes a base contract that is a financial asset within the scope of IFRS 9, the Group classifies the whole contract according to the policy referred to in Note 7.5.

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

(i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the base contract;
(ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(iii) The hybrid contract is not measured at fair value with changes in fair value recognized in the income (i.e., a derivative embedded in a financial liability at fair value through income is not separated).

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

7.6.7. Financial Liabilities

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be made by the delivery of cash or another financial asset, regardless of its legal form. Financial liabilities are derecognized when the underlying obligation is settled, expires, or is canceled.

Non-derivative financial liabilities include resources from credit institutions and clients, loans, liabilities represented by securities, other subordinated liabilities, and short sales.

These financial liabilities are recorded (i) initially at their fair value minus the transaction costs incurred and (ii) subsequently at amortized cost, based on the effective interest method, with the exception of short sales and financial liabilities designated at fair value through profit or loss, which are recorded at fair value.

The Group designates certain financial liabilities at fair value through profit or loss at their initial recognition when:

- such a designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability is part of a group of financial assets or liabilities or both, which is managed and assessed on a fair value basis, according to the Group's risk management or investment strategy; or
- such financial liabilities contain embedded derivatives, and IFRS 9 allows the entire hybrid contract to be designated at fair value through profit or loss.

Reclassifications are not allowed between liability categories.

The structured products issued by the Group – with the exception of the structured products in which the embedded derivatives were bifurcated and recorded separately and revalued at fair value – always fall under one of the above situations and follow the valuation method of financial liabilities at fair value through profit or loss.

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.

These liabilities are measured at fair value, and the respective gains or losses in the revaluation are recognized in results except for changes resulting from the change in the Group's own risk, the “Debt Valuation Adjustment” (DVA), which is recognized in other comprehensive income. The new bank Group does not register any gain associated with its own credit risk.

The gains or losses resulting from the revaluation of liabilities at fair value are recorded in results. However, the fair value change attributable to changes in credit risk is recognized in other comprehensive income. At the time of derecognition of the liability, the value recorded in other comprehensive income related to changes in credit risk is not transferred to results.

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

7.6.8. Financial guarantees and performance guarantees

Financial Guarantees

Financial guarantees are considered to be contracts that require the issuer to make payments to compensate the holder for losses incurred from defaults on the contractual terms of debt instruments, namely the payment of the respective capital and/or interest.

Issued financial guarantees are initially recognized at their fair value. Subsequently, these guarantees are measured at the greater of (i) the fair value initially recognized and (ii) the amount of any obligation arising from the guarantee contract, measured at the balance sheet date. Any variation in the value of the obligation associated with issued financial guarantees is recognized in results.

Financial guarantees issued by the Group usually have a defined maturity and a periodic fee charged in advance, which varies depending on counterparty risk, amount and contract period. On this basis, the fair value of the guarantees on the date of initial recognition is approximately equivalent to the value of the initial commission received, considering that the agreed conditions are market-based. Thus, the value recognized at the date of contracting equals the amount of the initial commission received, which is recognized in results in the period to which it refers. Subsequent commissions are recognized in results in the period to which they refer.

Performance Guarantees

Performance guarantees are contracts that result in compensation of a party if the if there is non-compliance with the defined contractual obligation. Performance guarantees are initially recognized at fair value, which is normally evidenced by the value of commissions received during the contract's duration. If the defined contractual obligation is not fulfilled, the Group has the right of recourse against the main debtor of the guarantee, with the amounts recognized in Loans to customers after payment of compensation to the beneficiary of the guarantee. As the right of return is embedded in the performance guarantee, and therefore part of the same unit of account, the Group understands that it does not assume insurance risk, but only financial (credit) risk on the main debtor, and, in this sense, treats these guarantees as financial instruments.

7.7. Reclassification of Financial Assets and 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.

7.8. Modification of Financial Assets and Liabilities

The activity of commercial renegotiation of financial assets is one of the tools that the Group has available and that it regularly uses in the management and recovery of these instruments. Therefore, the Group understands that the assessment to determine whether these renegotiations result in the derecognition of financial assets should be exceptional and case-by-case, taking into account the identification of the operations in question by professional judgment and the materiality of the same.

In these situations, the Group carries out an assessment to determine whether 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, the Group considers, among others, the following factors:

- Change in the currency of the loan;
- Introduction of a capital feature;
- Change in the counterparty;
- The modification is such that the instrument does not pass the SPPI test.

If the modification does not result in substantially different cash flows, as defined below, it will 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 a loss for impairment has not yet been recorded. The Group's accounting policy regarding past due loans is presented in Note 7.10.

When the modification of the terms of an existing financial liability is not classified as substantial and therefore does not result in derecognition, the amortized cost of the financial liability is recalculated by calculating the present value of the estimated future contractual cash flows that are discounted based on the original effective interest rate of the financial liability. Any resulting difference is recognized immediately in the result. The Group accounts for the substantial modification of the terms of an existing liability or part thereof as an extinction of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the present value of the cash flows according to the new terms, including any fee paid net of any fees received, and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The difference between the balance sheet value of the original liability and the value of the new liability is recorded in income statement.

7.9. Derecognition

Financial assets are derecognized from the balance sheet when (i) the Group's contractual rights to their respective cash flows have expired, (ii) the Group has transferred substantially all the risks and benefits associated with their holding, or (iii) notwithstanding that the Group has retained some, but not substantially all the risks and benefits associated with their holding, control over the assets has been transferred. When a transaction measured at fair value through other comprehensive income is derecognized, the previously recognized accumulated gain or loss in other comprehensive income is reclassified to results. Specifically, for equity instruments, the previously recognized accumulated gain or loss in other equity is not reclassified to results, being transferred between equity items.

Specifically for customer loans, at the time of sale the difference between the sale price and the balance sheet value should be 100% provisioned, with the derecognition of the sold credit being made by counterpart of the funds/assets received and consequent use of balance sheet impairment.

7.10. Forborne modified loans

In the context of credit recovery, the Group makes modifications to the original terms of contracts in response to the borrower's financial difficulties, rather than taking possession or otherwise demanding the collection of collateral. The Group considers a loan to be restructured when such modifications occur as a result of the customer's current or expected financial difficulties, and the Group would not have agreed to them if the borrower were financially sound. Indicators of financial difficulty include contractual defaults or other warning signs identified by the Global Risk Department. Changes may involve extending payment agreements and/or agreeing to new loan conditions. If the modifications are substantial, the loan is derecognized, as explained in Note 7.8. Once the terms have been renegotiated without resulting in derecognition of the loan, any reduction in the recoverable amount is measured using the original effective interest rate calculated before the modification of the terms. Additionally, the Group reassesses whether there has been a significant increase in credit risk, as demonstrated in Note 42, 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 classified as a Stage 3 restructured asset with impairment. Once an asset has been classified as restructured, it will remain restructured for a minimum period of 24 months. For the loan to cease being reclassified in this category, the customer must comply with the following criteria:

- All its financing must be considered *performing*;
- The two-year curing period has occurred and the loan is now considered *performing*;
- Regular payments of more than an insignificant amount of capital or interest have been made for at least half the curing period;
- The customer has no contract that is more than 30 days overdue.

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

7.11. Offseting of Financial Instruments

Financial assets and liabilities are presented on the balance sheet at their net value when there is an enforceable legal right to offset the recognized amounts and there is an intention to settle them at their net value or realize the asset and settle the liability simultaneously. The enforceable legal right cannot be contingent on future events and must be enforceable during the normal course of the Group Novobanco's business as well as in the event of default, bankruptcy or insolvency of the Group or the counterparty.

7.12. Impairment of Financial Assets

Impairment principles

The Group recognizes impairment for expected credit losses for the following debt instruments:

- Loans and Advances to Customers;
- Financial and performance guarantees;
- Import Documentary Credit;
- Confirmed Export Documentary Credit;
- Undrawn loan commitments;
- Money Market exposures;
- Securities Portfolio.

Equity instruments are not subject to impairment according to IFRS 9.

Debt instruments classified in amortized cost or fair value through other comprehensive income are considered within the scope of impairment calculations.

Identified impairment losses are recorded against results and are subsequently reversed by results if, in a subsequent period, the amount of the estimated loss decreases.

Impairment is based on expected credit losses for 12 months provided there is no significant deterioration in credit risk since origination. In the event of a significant increase in credit risk since origination, expected credit losses consider the remaining life of the asset, that is, they consider the remaining maturity of this asset.

Expected credit losses for 12 months represent the portion of expected credit losses up to the maturity of the asset resulting from default events on an instrument occurring within the 12 months following the balance sheet date. Expected credit losses can be calculated individually or collectively, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to assess, at the end of each reporting period, whether the credit risk of a financial instrument has increased significantly since initial recognition, considering the change in the risk of default that occurs over the remaining life of the financial asset.

Based on the above process, the Group aggregates exposures by stage as described below:

- Stage 1: includes all exposures without any indication of significant credit risk deterioration and without active default status. For these exposures, impairment is recognized as a 12-month expected loss;

- Stage 2: includes all exposures where at least one indication of significant credit risk deterioration was identified. For these exposures, impairment is recognized at the current value of expected losses accrued until maturity. This universe also includes exposures in the quarantine period, that is, exposures that have recently ceased to have (1) indications of significant credit risk deterioration and/or (2) default classification;

- Stage 3: includes all exposures classified as default - according to the internal definition of the Group which is aligned with the regulatory definition. This definition includes, cumulatively:

- Exposures with substantial default for more than 90 consecutive days; or

- Exposures that, not having a substantial default for more than 90 consecutive days, are classified as "Unlikely to pay".

Financial assets purchased or originated with impairment (POCI), that is, for which impairment was identified at initial recognition, can be classified in stage 2 or stage 3.

The calculation of collective impairment

For the determination of impairment on a collective basis, exposures are segmented based on similar credit risk characteristics according to the risk assessment defined by the Group. For each of these homogeneous risk segments, risk factors are estimated that are applied in the context of the impairment calculation.

For the purposes of determining collective impairment, the risk factors considered in each risk segment must reflect, in accordance with IFRS regulation, prospective information. Additionally, the impairment calculation must also reflect the consideration of multiple scenarios, with the final impairment resulting from the sum of the amounts determined in each scenario, weighted by the respective associated probability.

The calculation of the expected loss always involves the consideration of:

- Probability of default (PD) - this risk factor is an estimate of the probability of default within a certain time period. The default can only occur at a certain point in the period evaluated, if the credit line has not previously been derecognized and is still on the balance sheet;

- Severity (LGD) - this risk factor is an estimate of the loss that arises if the default happens at a certain moment. It is based on the difference between contractual cash flows and those that the Group estimates to receive, including the execution of collaterals or other contractual changes that become an integral part of the loan and do not meet the criteria to be recognized separately.

- Exposure – it represents the notional amount of exposure on the reporting date and this amount is considered for the purposes of the basis of incidence for the calculation of collective impairment. In the case of off-balance sheet exposures, a credit conversion factor (CCF) is applied to the notional amount of the exposure. This factor represents the probability of off-balance sheet exposures converting into on-balance sheet exposures.

When an exposure is classified in stage 2, it is considered, for impairment calculation purposes, that the exposure evolves according to the contracted capital and interest repayment schedule, or in the absence of this information, that the disbursement occurs at maturity.

The details of the impairment calculation are presented as follows:

- Stage 1: this calculation applies to productive exposures that show no active indication of significant credit risk deterioration compared to origination. Impairment represents the expected loss resulting from default events on a financial instrument that may occur within a term of 12 months after the balance sheet date. Risk factors - PD and LGD – consider the 12-month horizon and are applied to the value of the exposure. This calculation is carried out by the scenario, since each considered scenario has specific risk factors - PD and LGD;

- Stage 2: this calculation applies to productive exposures that show an indication of a significant increase in credit risk since origination. Impairment represents the current value of the sum of expected losses until the maturity of the exposure. Expected losses are calculated on the projected exposure at each moment of the debt amortization, according to the exposure amortization plan, and these expected losses are discounted at the original effective rate of the contract to obtain their current value, as of the reporting date. As mentioned above, this determination is done by scenario since different risk factors are considered for each scenario;

- Stage 3: this calculation applies to non-productive exposures, where impairment corresponds to the difference between the amount outstanding and the current value of the expected recoveries for this exposure, given its characteristics. To determine the current value of the expected recoveries, the original effective rate of the contract is also used;

- As previously mentioned, POCI are financial assets originated or purchased with impairment at initial recognition. Exposures in this situation cannot be classified in stage 1;

- Irrevocable commitments and letters of credit: as previously mentioned, given the off-balance sheet nature of irrevocable commitments, the Group estimates on these contracts the respective amount that it expects to be converted into an on-balance sheet amount (credit). In this way, the estimated conversion factor for this type of exposure is applied to its notional value and the respective result is taken into account as the basis for incidence for the calculation of collective impairment;

- For credit cards and revolving lines that include an irrevocable commitment, the impairment is calculated and deducted from the asset. For irrevocable commitments and letters of credit, the impairment is recognized in Provisions in liabilities.

Impairment for debt instruments measured at fair value through other comprehensive income does not reduce the balance sheet value of these financial assets, which remains at fair value. In this way, an amount equal to the provision that would arise if the assets were measured at amortized cost is recognized in other comprehensive income as an accumulated reduction in recoverable value, with a corresponding debit to the result. The accumulated loss recognized in other comprehensive income is recycled to results upon derecognition of the assets.

Process of analysis of individual impairment

The Individual Credit Analysis comprises a staging analysis and an analysis of quantification of individual impairment. The staging analysis is carried out for borrowers previously classified in stage 1 and stage 2 and aims to assess the adequacy of the stage assigned with additional information obtained on an individual basis. The analysis of quantification of individual impairment aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Customers who have been targeted for Individual Analysis, but for whom an objective impairment loss has not been considered, are once again included in the Collective Impairment Model. The Individual Analysis of selected customers is carried out based on information provided by the Commercial Structures regarding the classification of the customer/Group, historical and forecast cash flows (when available) and existing collateral.

7.13. Valuation of collateral and financial guarantees

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 Group'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 Group 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 indexes.

7.14. 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 aims to sell all properties received in lieu of payment or through the execution of guarantees immediately, during 2016 the Group changed the classification of these properties from Non-current assets held for sale to Other assets (and to Investment properties, in the case of assets held by investment funds or leased properties), due to their stay in the portfolio being longer than 12 months. However, the accounting method did not change, and they are initially recognized at the lower of their fair value less expected sale costs and the balance of the granted credit object of recovery. Subsequently, these assets are measured at the lower of the initial recognition value and fair value less sales costs and are not amortized. For the properties registered in the balance sheet of Novo Banco and the other credit institutions that make up the Group's consolidation perimeter, the immediate sale value is considered as its fair value. For properties held by investment funds, in accordance with Law no. 16/2015, of February 24, its fair value is considered as the simple arithmetic average of two appraisals performed by independent experts, determined in accordance with the best price that could be obtained if it were put up for sale, under normal market conditions, at the time of the appraisals, which is reviewed with a minimum annual periodicity or, in the case of open collective investment organisms, with the redemption frequency if less than that, and whenever there are acquisitions or sales or significant changes in the value of the property. The market value of the properties for which a purchase and sale promise contract has been signed corresponds to the value of this contract.

The valuations of real estate received for credit recovery are performed using one of the following methodologies, applied according to the specific situation of the asset:

(i) The Market Method
The Market Method references transaction values of similar properties comparable to the property being studied obtained through market prospecting in the area.
(ii) Income Method
This method aims to estimate the value of the property from the capitalization of its net income, updated for the present time, using the discounted cash flow method.
(iii) Cost Method
The Cost Method aims to reflect the amount currently required to replace the asset in present conditions, breaking down the property value into its fundamental components: Value of Urban Land and Urbanity; Construction Value; and Value of Indirect Costs.

Valuations carried out are performed by independent entities specialised 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 specialised 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 recognised at their fair value, and any differences between their fair values and those of the extinguished loans following the acquisitions, are recognised as impairment losses on loans and advances. On the acquisition of an entity meeting the subsidiary criteria and for which the Group's objective is its resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these specific cases, the assets are classified as non-current assets held for sale and the liabilities are classified as non-current liabilities held for sale. Consequently, and at the first consolidation date, the net value of the assets and liabilities of the subsidiary reflects their fair value determined at the acquisition date (which results from the loan restructuring operation).

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

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

- for subsidiaries which assets comprise fundamentally real estate, their fair value is determined with reference to the value of those assets, which is based on valuations performed by independent specialised entities;

- for the remaining entities, their fair value is determined based on the discounted cash flow methodology, using assumptions consistent with the business risks of each of the subsidiaries under valuation. If these subsidiaries cease to comply with the conditions necessary to be recorded as non-current assets held for sale in accordance with IFRS 5, their assets and liabilities are fully consolidated in the respective asset and liability captions, in accordance with that provided for in Note 30.

7.15. Investment properties

The Group classifies as investment properties those properties held for rental or capital appreciation or both. Investment properties are initially recognized at acquisition cost, including directly related transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognized in results, in the headings of Other operating income or Other operating expenses, based on periodic evaluations carried out by independent entities specialized in this type of service. Investment properties are not subject to amortization.

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

Transfers to and from the heading Investment properties can occur whenever there is a change in the use of the property. When transferring investment properties to own-use properties, the estimated cost, for accounting recognition, is the fair value at the date of the change of use. If an own-use property is classified as an investment property, the Group records this asset in accordance with the policy applicable to own-use properties, until the date of its transfer to investment properties and at fair value subsequently, with the difference in valuation determined at the date of transfer recognized in revaluation reserves. If a property is transferred from Other assets to Investment properties, any difference between the fair value of the asset on that date and the previously recorded amount is recognized as a result of the year.

Subsequent related expenditures are capitalized when it is likely that the Group will obtain future economic benefits in excess of the level of performance initially estimated.

The capital gains and losses determined on the disposal of investment properties resulting from the difference between the realization value and the carrying amount are recognized in results for the year under the headings of Other operating income or Other operating expenses. All costs and income generated with investment properties are also recognized in the results for the year under the headings of Other operating income or Other operating expenses, in addition to the changes in fair value previously mentioned.

The Investment Properties recorded result only from non-banking activities (Investment Funds and Real Estate Companies).

7.16. ***Write-offs***

A 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 due date of the part of the loan to be written off (total or partial) would have been required, i.e. the loans must be registered (total or partial) in overdue credit. Exceptions to this requirement are (i) debt restructurings/forgiveness carried out within the scope of extrajudicial agreements, PER and Insolvencies, in which part of the loan may remain alive and the remainder of the debt may be written off by judicial/extrajudicial decision and (ii) situations in which despite the contract not being overdue in its entirety, the Group believes it is facing a scenario of total or partial loss;
(ii) Collection efforts considered adequate would have been developed (and relevant and adequate evidence gathered);
(iii) The expectations of loan recovery are very low, and it is necessary that the amount to be written off (whether it is a total or partial write-off of the debt) is fully covered by impairment and under the management of the central credit recovery application. It is necessary to ensure that the value to be written off the asset is fully covered by impairment (constituted at least in the month prior to the write-off).

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

7.17. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and its equivalents include the amounts recorded in the balance sheet with a maturity of less than three months from the date of acquisition/contract, and whose risk of value variation is immaterial, including cash, cash balances at central banks and other sight deposits. Cash and cash equivalents exclude mandatory deposits made with Central Banks.

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

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

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

Securities transferred through loan agreements are not derecognized from the balance sheet, being classified and valued in accordance with the accounting policy referred to in Note 7.10. Securities received through loan agreements are not recognized in the balance sheet.

Short sales represent securities sold that are not part of the Group's assets. They are recorded as a financial trading liability at the fair value of the assets that are to be returned under the resale agreement. The gains and losses resulting from the change in their fair value are directly recognized in results in the line of Gains or losses on financial assets and liabilities held for trading.

7.19. Property, plant and equipment

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

Subsequent costs for tangible fixed assets are recognized only if they are likely to result in future economic benefits for the Group. All maintenance and repair expenses are recognized as cost, in accordance with the accrual basis principle.

Land is not depreciated. Depreciation of tangible fixed assets is calculated using the straight-line method, at the following depreciation rates that reflect the expected useful life of the goods:

	Number of years
Own-use properties	35 a 50
Improvements in rented buildings	10
Computer equipment	4 a 5
Furniture and fixtures	4 a 10
Interior installations	5 a 10
Security equipment	4 a 10
Machines and tools	4 a 10
Transportation material	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 should be recognized whenever the net value of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement and are reversed in subsequent reporting periods when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount will not exceed the one that would have been accounted for if no impairment losses had been attributed to the asset, considering the depreciations that it would have suffered.

The recoverable amount is determined as the lower one between its fair value less the costs of sale and its value in use, and this is calculated based on the current value of estimated future cash flows expected to be obtained from the continued use of the asset and its disposal at the end of its lifespan.

On the date of derecognition of a tangible asset, the gain or loss calculated by the difference between the fair value less the costs of sale and the book net value is recognized in results in the heading Other operating income or Other operating expenses.

7.20. Leases

Lease definition

The Group evaluates whether a contract is or contains a lease based on the definition of a lease, which focuses on the right to use an identified asset for a certain period of time, in exchange for a fee.

As lessee

As a lessee, the Group rents various assets, including real estate, vehicles, and computer equipment. The Group recognizes an asset for the right to use the leased asset and a lease liability for the obligation to pay rents.

The Group does not recognize right-of-use assets and lease liabilities for short-term leases, whose lease term is 12 months or less, and leases of low-value assets (e.g. computer equipment), with a new value less than 5 thousand euros. The Group recognizes lease payments associated with these leases as expenses on a straight-line basis over the lease term, under "Other administrative expenses - Rents and leases".

The Group presents right-of-use assets that do not fit the definition of investment property in "tangible fixed assets", in the same line of items where it presents the underlying assets of the same nature that it owns. Right-of-use assets that fit the definition of investment property are presented as investment property. These assets are measured at cost less accumulated depreciation and impairment, and are amortized on a straight-line basis over the lesser of the lease term or the life of the asset. The cost corresponds to the value of the recognized lease liability, incurred direct costs, and less any incentive received for the lease.

The Group presents lease liabilities in "Other liabilities" in the financial position statement. The lease liability is determined by the present value of the rents to be paid during the lease term. Rents include fixed amounts, variable amounts that depend on an interest rate, amounts to be paid regarding 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 a rate are recognized as a cost in the period to which they relate. During the lease period, the lease liability increases by the interest count and decreases by the rent payment. The value of the lease liability is changed if the lease terms change (such as the term or the value of the index) or if the assessment of the exercise of the purchase option of the
asset changes.

As lessor

Finance leases

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

Operating leases

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

7.21. 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. Exceptionally, these may be extended whenever it is verified that the useful life of the asset is demonstrably longer.

Costs directly related to the development of computer applications, from which it is expected to generate future economic benefits beyond one year, are recognized and recorded as intangible assets.

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

7.22. Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication of an asset may be impaired. If any such 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 asset's or cash-generating unit's 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 detailed 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 beyond the fifth year (perpetuity).

Impairment losses of continuing operations are recognized in the income statement in expense categories consistent with the function of the impaired asset, except for assets previously revalued with other comprehensive income. For such assets, 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's recoverable amount. An impairment loss earlier recognized 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 revalued amount, in which case the reversal is treated as a revaluation increase.

The Group assesses where climate risks may have a significant impact, such as the introduction of emission 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 measurement of the recoverable amount. These assumptions have been included in the cash flow forecasts in the assessment of use values.

Intangible assets with indefinite lives are annually subjected to impairment testing at the cash-generating unit level, as appropriate, and when circumstances indicate the carrying value may be impaired.

7.23. Employee Benefits

Pensions

Resulting from the signing of the Collective Labor Agreement (ACT) and subsequent changes resulting from the 3 tripartite agreements, as referred to in Note 16, pension funds and other mechanisms have been established in order to ensure the coverage of responsibilities assumed for old-age pensions, disability, survival and also for medical care.

The coverage of responsibilities is ensured, for the majority of the Group's companies, through pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, a subsidiary of the Group.

The pension plans existing in the Group correspond to defined benefit plans, because they define the criteria for determining the value of the pension that an employee will receive during retirement, usually depending on one or more factors such as age, years of service and remuneration.

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 recognised in equity under the caption other comprehensive income.

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest income or interest expense, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACTV) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65. The Group makes payments to the fund to ensure its solvency, with the minimum levels set by the Bank of Portugal as follows: (i) full financing at the end of each year of actuarial responsibilities for pensions in payment and (ii) financing at a minimum level of 95% of the actuarial value of past service responsibilities of active personnel.

The Group assesses the recoverability of any excess of the fund in relation to pension liabilities, based on the expectation of reduction in future necessary 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 recognises 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.

7.24. Provisions and Contingent Liabilities

Provisions are recognised 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 recognised in financial expenses.

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

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

7.25. Contingent Assets

Contingent assets are not recognized in the financial statements but are disclosed when it is probable that there will be a future economic inflow of resources.

7.26. 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), to the Special Regime applicable to Deferred Tax Assets (approved by Law No. 61/2014, of August 26), and to other legislation.

Corporate income tax comprises current tax and deferred tax.

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

Current taxes

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

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 exercises.

Deferred taxes

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

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

Following the changes set forth in Law no. 27-A/2020, of July 24, within the scope of the Supplementary Budget for 2020, the deadline for carrying forward tax losses is now 14 years for tax losses generated in 2014, 2015 and 2016 and 7 years for tax losses generated in 2017, 2018 and 2019. Tax losses generated in 2020 and 2021 have a limit of 12 years and can be deducted until 2032 and 2033, respectively. The limit for tax losses is increased from 70% to 80%, applicable only to tax losses generated in 2020 and 2021.

Law 24-D/2022, of December 30 (State Budget Law for 2023) introduced changes in terms of the carry forward of tax losses. A period for carrying forward tax losses is no longer foreseen. On the other hand, the annual limit of the deduction to taxable income is reduced to 65% (currently 70%). This change applies to the deduction of losses from taxable profits in taxable periods beginning on or after 1 January 2023, as well as to tax losses assessed in taxable periods prior to 1 January 2023.

The elimination of the time limitation on tax losses does not apply to those ascertained in tax periods prior to 1 January 2023, in which one of the situations provided for in No 1 of the Article 6 of the Special Regime applicable to Deferred Tax Assets (REAID), approved as an annex to Law No. 61/2014, of August 26 (conversion of deferred tax assets into tax credits), applying to tax losses ascertained in these tax periods the deduction period in force on 31 December 2023.

This change does not affect the application of paragraph 2 of article 11 of Law 27-A/2020, of July 24 (which allows an increase of 10 percentage points in the deduction of taxable income when dealing with tax losses ascertained in 2020 and 2021).

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 Group complies with the guidelines of IFRIC 23 - Uncertainty on the Treatment of Income Tax regarding 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.

DAC6

The obligation to report to the Tax and Customs Authority ("AT") internal or cross-border mechanisms of tax relevance has emerged in the context of Law no. 26/2020, of July 21 ("Law no. 26/2020"), which transposes Council Directive (EU) 2018/822 of May 25, 2018 ("DAC6") into Portuguese law. The DAC6 aims to discourage the use of potentially aggressive tax planning mechanisms by imposing reporting obligations to the Tax Authorities of the different Member States of the European Union. In addition, it aims to provide tax administrations and national legislators with information that will help combat aggressive tax planning.

Novobanco, with the collaboration of tax consultants, has implemented measures that allow for the identification of operations subject to reporting to tax authorities. These measures focus mainly on a primary analysis conducted by business areas and a second-line analysis conducted by novobanco's tax area. The Bank's own operations are analyzed by novobanco's tax area and validated by the Compliance Department.

BEPS - Pilar II

In October 2021, as part of the Erosion of the Tax Base and Profit Shifting project ("BEPS 2.0 - Base Erosion and Profit Shifting 2.0") of the Organization for Economic Cooperation and Development ("OECD"), about 137 members of the OECD/G20, representing 90% of the world's GDP, reached an agreement for a reform of the international tax system, through which a general framework for a commonly designated "Pillar II" global minimum tax regime was approved.

In this regard, Pillar II of BEPS 2.0, enshrined in Council Directive (EU) 2022/2523 of December 15, 2022, established a global minimum tax level of 15% for major multinational companies and large domestic groups, which could result in the payment of an additional tax.

Novobanco has been identifying the potential impacts associated with the implementation of Pillar II rules, having found that it should meet the eligibility criteria for the application of the Pillar II rules, namely by presenting consolidated annual incomes exceeding 750 million euros in two out of the last four financial years.

However, both the Directive and the preliminary draft establish an exclusion rule for the application of the Income Inclusion Rule ("IIR") and the Undertaxed Payments Rule ("UTPR") for large national groups and multinational enterprise groups in the initial stage of international activity.

Notwithstanding, that special rule stipulates that the additional tax due is zero in the reference jurisdiction for large national groups and multinational enterprise groups that are in an initial stage of their international activity, which implies (in the case of multinational enterprise groups) that, in each tax year: (i) they include constituent entities located in no more than six jurisdictions and (ii) the sum of the net book value of tangible assets of all their constituent entities, excluding those located in the reference jurisdiction, does not exceed 50 million euros.

Additionally, said standard provides for the possibility of applying the exclusion rule for five years after the start of the first fiscal year in which the group comes under the Pillar II rules. However, it must be ascertained annually whether the above requirements are met.

In this regard, according to the analysis carried out, Novobanco Group should meet the requirements for the application of the exclusion rule for multinational enterprise groups in the initial stage of their international activity, not foreseeing material impacts during the period when such exclusion rule is applied.

7.27. Recently issued accounting standards and interpretations

The recently issued accounting standards and interpretations, which have not yet come into force and which the Group has not yet applied in the preparation of its financial statements, can be analyzed as follows:

Standards, interpretations, amendments and revisions that come into force in future exercises

The following standards, interpretations, amendments and revisions, with mandatory application in future exercises, had been adopted ("endorsed") by the European Union as of the approval date of these financial statements:

Standard / Interpretation	Applicable in the European Union for exercises beginning in or after	Description
Amendments to IAS 1 - Presentation of Financial Statements - Classification of Current and Non-Current Liabilities	1-jan-2024	This amendment aims to clarify the classification of liabilities as current or non-current balances based 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 evaluation should determine whether a right exists but should not consider whether the entity will or will not exercise such right), or by events occurring after the reporting date, such as non-compliance with a "covenant". However, if the right to defer settlement for at least twelve months is subject to the fulfilment of certain conditions after the balance sheet date, these criteria do not affect the right to defer settlement whose purpose is to classify a liability as current or non-current. This amendment also includes a new definition of "settlement" of a liability and is retroactively applicable.
Amendments to IFRS 16 - Leasing liabilities in sale and leaseback transactions	1-jan-2024	This amendment to IFRS 16 introduces guidance regarding the subsequent measurement of leasing liabilities, related to sale and leaseback transactions ("sale & leaseback") that qualify as "sale" according to the principles of IFRS 15, with greater impact when some or all of the lease payments are variable lease payments that do not depend on an index or a rate. When subsequently measuring leasing liabilities, the seller-lessees should determine the "lease payments" and "revised lease payments" in such a way that they do not recognize gains/(losses) in relation to the right of use they retain. This amendment is retroactively applicable.

The Group has not proceeded with the early application of any of these standards in the financial statements for the fiscal year ended December 31, 2023. No significant impacts are estimated on the financial statements as a result of their adoption.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

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

Standard / Interpretation	Description
Amendments to IAS 7 and IFRS 7 - Disclosures: Supplier Financing Arrangements	These amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures, aim to clarify the characteristics of a supplier financing arrangement and introduce additional disclosure requirements when such arrangements exist. The disclosure requirements are intended to help users of the financial statements understand the effects of supplier financing arrangements on the entity's liabilities, cash flows and liquidity risk exposure. The amendments take effect in the period beginning on or after January 1, 2024. Early adoption is permitted, however it should be disclosed. .
Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability	This amendment aims to clarify how to assess the exchangeability of a currency, and how the exchange rate should be determined when it is not exchangeable for a long period. The amendment specifies that a currency should be considered exchangeable when an entity is able to obtain the other currency within a period that allows for normal administrative management, and through an exchange mechanism or market in which an exchange transaction creates enforceable rights and obligations. If a currency cannot be exchanged for another currency, an entity should estimate the exchange rate on the measurement date of the transaction. The goal will be to determine the exchange rate that would be applicable, on the measurement date, for a similar transaction between market participants. The amendments also state that an entity may use an observable exchange rate without making any adjustments. The amendments take effect in the period beginning on or after January 1, 2025. Early adoption is permitted, however the transition requirements applied must be disclosed.

These standards have not yet been adopted ("endorsed") by the European Union and, as such, have not been applied by the Group for the year ended on December 31, 2023. No significant impacts are estimated on the financial statements 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 amortised cost and at fair value through other comprehensive income

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

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Group determines its business model based on how it manages the financial assets and its business objectives. The Group 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 7.12 – 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 to 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 40.

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 recognised in the period and evidenced in Note 28.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Group 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 Group 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 novobanco'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.

Executive Board of Directors monitors these matters as they develop to regularly reassess whether the provisions should be recognised. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

Complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognised 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 recognised 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 specialised in this type of service, using the market, income or cost methods, as defined in Notes 7.14 and 7.15. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

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

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. Lease Contract 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 recognised 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 of 31 December 2023, the Group has novobanco as its main operating unit - with 272 branches in Portugal (31 December 2022: 273 branches), with branches in Luxembourg and 2 representation offices – with novobanco Açores (12 branches), Banco BEST (5 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 and Corporate (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:

Retail

This Segment includes retail banking with individual customers and small businesses developed on a national territory based on the branch distribution network, investment centers and other channels. The financial information of the segment relates to, among other products and services, home loans, consumer credit, small business financing, deposits, insurance products for individuals and companies, account and payment means management and the placement services of investment funds, retirement plans and other savings products and services, including the buying and selling of securities and their custody.

Corporate

This segment includes activities with medium and large companies, through a commercial structure dedicated to this segment made up of 20 Business Centers. It also includes business with domestic and foreign institutional investors. The Group holds a significant presence in this segment, as a result of its know-how in supporting the development of the national business fabric, focused on companies of good risk, with an innovative nature and export orientation.

Corporate Structure and Support Units

This area does not correspond to an operational segment in the true sense of the concept, it is an aggregation of transversal corporate structures, which ensure the basic functions of global management of the Group, such as those related to the Administration and Supervision bodies, Treasury, Compliance, Planning, Accounting, Risk Control, Communication, Internal Audit, Human Resources, among others. Strategic decisions with cross-sectional impact throughout the Group are recognized in 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 recognised in net income for the year are included in the Corporate Centre. Deferred tax assets and liabilities are included in the Markets segment.

Domestic and International Areas

In 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 units located outside of GNB GA 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)

	2023			
	Retail	**SMEs and *corporate***	**Support functions**	**Total**
Net interest income	648 466	550 156	(56 038)	1 142 584
Net fees and comissions	196 355	92 544	5 416	294 315
Commercial banking income	**844 821**	**642 700**	**(50 622)**	**1 436 899**
Other operating results (excluding banking sector contribution and solidarity additional)	2 012	37 983	37 052	77 047
Contributions to resolution and deposit guarantee funds	-	-	78 481	78 481
Operating expenses	318 415	98 980	61 770	479 165
Provisions / Impairment	54 137	89 995	29 703	173 835
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	7 215	7 215
Profits or losses from continuing operational units before taxes and interests that are not controlling (excluding banking sector contribution and solidarity additional)	**474 281**	**491 708**	**(176 309)**	**789 680**
Banking sector contribution and solidarity additional	-	-	35 280	35 280
Profit / (loss) from continued operations before taxes and non-controlling interests	**474 281**	**491 708**	**(211 589)**	**754 400**
Expenses or revenues with taxes	1 395	150	4 224	5 769
Profit / (loss) of discontinued operations	-	-	(412)	(412)
Net Profit / (loss) for the period attributable to non-controlling interests	4 488	-	643	5 131
Net Profit / (loss) for the period attributable to Shareholders of the parent	**468 398**	**491 558**	**(216 868)**	**743 088**
Intersegment operating income (1)	*21 704*	*(52 673)*	*38 483*	*7 514*
Total Net Assets	**14 613 687**	**13 941 951**	**14 945 152**	**43 500 790**
Loans to customers	13 424 547	11 092 049	17 465	24 534 061
Total Liabilities	**21 239 578**	**7 542 180**	**10 296 604**	**39 078 362**
Investments in associated companies	**-**	**-**	**59 511**	**59 511**
Investments in tangible fixed assets	**4 632**	**280**	**83 164**	**88 076**
Investments in intangible assets	**168**	**-**	**30 195**	**30 363**
Investments in investment properties	**-**	**-**	**611**	**611**
Investments in other assets - real estate properties	**134**	**-**	**8 898**	**9 032**

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

(in thousands of Euros)

	2022			
	Retail	SMEs and *corporate*	Support functions	Total
Net interest income	247 868	338 274	39 333	625 475
Net fees and comissions	202 434	88 316	(570)	290 180
Commercial banking income	**450 302**	**426 590**	**38 763**	**915 655**
Other operating results (excluding banking sector contribution and solidarity additional)	17 501	63 957	162 302	243 760
Contributions to resolution and deposit guarantee funds	-	-	41 155	41 155
Operating expenses	286 483	90 722	71 158	448 363
Provisions / Impairment	10 420	86 739	14 047	111 206
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	8 354	8 354
Profits or losses from continuing operational units before taxes and interests that are not controlling (excluding banking sector contribution and solidarity additional)	**170 900**	**313 086**	**83 059**	**567 045**
Banking sector contribution and solidarity additional	722	-	33 410	34 132
Profit / (loss) from continued operations before taxes and non-controlling interests	**170 178**	**313 086**	**49 649**	**532 913**
Expenses or revenues with taxes	2 450	956	(56 707)	(53 301)
Profit / (loss) of discontinued operations	-	-	(270)	(270)
Net Profit / (loss) for the period attributable to non-controlling interests	1 941	23 161	-	25 102
Net Profit / (loss) for the period attributable to Shareholders of the parent	**165 787**	**288 969**	**106 086**	**560 842**
Intersegment operating income (1)	*4 232*	*36 871*	*(34 077)*	*7 026*
Total Net Assets	**14 311 696**	**13 363 952**	**18 319 381**	**45 995 029**
Loans to customers	13 164 282	11 385 481	1 191	24 550 954
Total Liabilities	**21 287 734**	**7 842 800**	**13 352 877**	**42 483 411**
Investments in associated companies	**-**	**-**	**119 744**	**119 744**
Investments in tangible fixed assets	**615**	**-**	**136 918**	**137 533**
Investments in intangible assets	**146**	**-**	**25 160**	**25 306**
Investments in investment properties	**-**	**-**	**16 464**	**16 464**
Investments in other assets - real estate properties	**758**	**829**	**15 587**	**17 174**

(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)

	2023					
	Portugal	Spain	Luxembourg	Brazil	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	706 173	440	36 854	(379)	-	743 088
(of which: rel. to discontinued units)	*(1 218)*	-	-	*806*	-	(412)
Total income	6 275 487	677	277 488	806	-	6 554 458
Intersegment operating income	*60 187*	-	*(52 673)*	-	-	*7 514*
Net assets	40 455 077	5 655	3 033 036	1 987	5 035	43 500 790
(of which: rel. to discontinued units)	*83 501*	-	-	*1 987*	*4 326*	*89 814*
Investments in associated companies	59 511	-	-	-	-	59 511
Investments in tangible fixed assets	87 796	-	280	-	-	88 076
Investments in intangible assets	30 363	-	-	-	-	30 363
Investments in investment properties	611	-	-	-	-	611
Investments in other assets - real estate properties	9 032	-	-	-	-	9 032
Profits / (losses) of continuing operating units before taxes and non-controlling interests	717 485	440	36 854	(379)	-	754 400
Turnover (a) (b)	2 283 202	677	182 825	806	-	2 467 510
Number of employees (a)	4 113	3	13	-	3	4 132
Public subvencions received (a)	-	-	-	-	-	-

(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)

	2022					
	Portugal	Spain	Luxembourg	Brazil	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	533 282	(5 568)	30 893	2 235	-	560 842
(of which: rel. to discontinued units)	*(270)*	-	-	-	-	(270)
Total income	6 933 076	463	226 885	2 235	-	7 162 659
Intersegment operating income	*(29 845)*	-	*36 871*	-	-	*7 026*
Net assets	43 490 936	47 959	2 448 197	2 747	5 190	45 995 029
(of which: rel. to discontinued units)	*51 650*	-	-	*2 747*	*5 190*	*59 587*
Investments in associated companies	119 744	-	-	-	-	119 744
Investments in tangible fixed assets	137 533	-	-	-	-	137 533
Investments in intangible assets	25 306	-	-	-	-	25 306
Investments in other assets - real estate properties	16 345	829	-	-	-	17 174
Profits / (losses) of continuing operating units before taxes and non-controlling interests	494 784	(5 568)	41 462	2 235	-	532 913
Turnover (a) (b)	1 406 239	352	97 712	2 235	-	1 506 538
Number of employees (a)	4 071	6	10	-	3	4 090
Public subvencions received (a)	-	-	-	-	-	-

(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 of 31 December 2023 and 2022 is as follows:

		(thousands of Euros)
	2023	**2022**
Interest Income	**1 955 662**	**834 679**
Amortised cost (*)	1 595 275	735 159
Interest from loans and advances	1 224 643	596 394
(of which, financial leasing operations)	35 550	30 046
(of which, repurchase agreement)	8	-
Interest from deposits with and loans and advances to banks	143 547	24 958
(of which, repurchase agreement)	47	160
Interest from securities	217 259	112 981
Other interest and similar income	9 826	826
From assets / liabilities at fair value through other comprehensive income (*)	40 253	38 850
Interest from securities	40 253	38 850
Income/expenses from negative interest rates (*)	1 862	40 142
Interest from deposits with and loans and advances to banks	9	38 413
Interest from derivatives	1 853	1 729
Fair value through profit or loss	318 272	20 528
Interest from loans and advances	611	18
Interest from securities	10 763	1 453
Interest from derivatives	306 898	19 057
Interest Expenses	**813 078**	**209 204**
Amortised cost (*)	595 494	167 604
Interest on debt securities issued	57 420	58 520
Interest on amounts due to customers	208 104	45 050
(of which, repurchase agreement)	33 880	3 397
Interest on deposits from Central Banks and other banks	272 119	22 268
(of which, repurchase agreement)	116 938	4 859
Interest on subordinated liabilities	44 779	34 178
Other interest and similar expenses	13 072	7 588
From negative interest rates (*)	305	19 737
Interest on deposits from Central Banks and other banks	222	12 306
Interest on derivatives	83	6 850
Other interest and similar expenses	-	581
From assets / liabilities at fair value through profit or loss	217 279	21 863
Interest on derivatives	217 279	21 863
	1 142 584	**625 475**

*Calculated by the effective interest method

Average rates of financial assets and liabilities

The table below presents the average interest rates for the major categories of the Group's financial assets and liabilities, as of December 31, 2023 and 2022, as well as their respective average balances and the interest of the fiscal year:

(in thousands of Euros)

	2023			2022		
	Average balance for the year	Year interest	Average interest rate	Average balance for the year	Year interest	Average interest rate
Money market - assets	4 536 215	143 325	3,12%	6 308 062	12 654	0,20%
Loans to customers	25 571 497	1 213 069	4,68%	25 424 392	590 751	2,29%
Securities and others	10 938 065	368 603	3,32%	10 181 113	153 284	1,48%
Differential applications	-	-	-	-	-	-
Financial and Differential assets	**41 045 777**	**1 724 997**	**4,15%**	**41 913 567**	**756 689**	**1,78%**
Money market - liabilities	7 265 138	238 230	3,23%	10 455 407	(19 542)	-0,18%
Due to customers	28 981 803	241 984	0,82%	28 321 910	48 466	0,17%
Debt issued and others	1 402 137	102 199	7,19%	1 452 268	92 698	6,30%
Differential liabilities	3 396 699	-	-	1 683 982	9 592	-
Financial and Differential liabilities	**41 045 777**	**582 413**	**1,40%**	**41 913 567**	**131 214**	**0,31%**
Net interest margin		**1 142 584**	**2,75%**		**625 475**	**1,47%**

Note 11 – Fee and Commission Income and Fee and Commission Expenses

The breakdown of this caption is as follows:

(in thousands of Euros)

	2023	2022
Fees and commissions income	**339 061**	**337 335**
From banking services	248 624	250 119
Cards	46 884	42 336
Means of Payment	115 328	109 290
Asset Management	35 715	38 256
Credit Operations	50 697	60 237
From guarantees provided	31 054	32 202
From transaction of securities	11 867	10 968
From commitments to third parties	6 871	6 601
Bancassurance	29 356	30 294
Other fee and commission income	11 289	7 151
Fees and commissions expenses	**44 746**	**47 155**
With banking services rendered by third parties	28 212	30 902
Cards	9 319	9 438
Means of Payment	13 513	15 026
Asset Management	2 723	2 488
Credit Operations	2 657	3 950
With guarantees received	1 313	1 903
With transaction of securities	5 277	5 147
Other fee and commission income	9 944	9 203
	294 315	**290 180**

Note 12 – Results of financial operations

The breakdown of this caption is as follows:

		(in thousands of Euros)
	2023	**2022**
Dividend income	**2 133**	**5 035**
From financial assets mandatorily measured at fair value through profit or loss	185	1 276
Shares	77	113
Participation units	108	1 164
From financial assets measured at fair value through other comprehensive income	1 948	3 759
Shares	1 948	3 759
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss	**(58 055)**	**(88 255)**
From financial assets at fair value through other comprehensive income	5 090	(82 802)
Bonds and other fixed income securities - Issued by government and public entities	5 090	(30 768)
Bonds and other fixed income securities - Issued by other entities	-	(52 034)
From financial assets and liabilities at amortized cost	(63 145)	(5 453)
Bonds and other fixed income securities - Issued by government and public entities	(387)	2
Bonds and other fixed income securities - Issued by other entities	(69 296)	(6 496)
Loans to customers	6 538	1 041
Gains or losses on financial assets and liabilities held for trading	**4 418**	**149 212**
Bonds and other fixed income securities - Issued by government and public entities	205	(23 620)
Bonds and other fixed income securities - Issued by other entities	106	39
Financial Derivatives	4 107	172 793
Foreign exchange rate contracts	(1 302)	5 385
Interest rate contracts	938	163 685
Equity / Index contracts	4 306	1 216
Credit default contracts	(2)	187
Other	167	2 320
Gains or losses on financial assets mandatorily measured at fair value through profit or loss	**26 633**	**(40 493)**
Bonds and other fixed income securities - Issued by other entities	13 329	(408)
Shares	1 280	14 074
Other variable income securities	6 639	(22 962)
Loans to customers	5 385	(31 197)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	**79**	**116**
Other variable income securities	79	116
Gains or losses from hedge accounting	**32 112**	**(1 713)**
Fair value changes of hedging instruments		
Foreign exchange rate contracts	(153 359)	439 936
Fair value changes of hedging item attributable to hedged risk	185 471	(441 649)
Foreign exchange revaluation	**24 369**	**6 789**
	31 689	**30 691**

As of December 31, 2023, profits from the intermediation margin (day one profit) recognized in the results, are essentially related to foreign exchange operations, amounted to approximately 3,684 thousand euros (December 31, 2022: 3,693 thousand euros).

Gains or losses from hedge accounting

Gains or losses from hedge accounting include fair value variations of the hedging instrument (derivative) and fair value variations of the hedged item attributable to the hedged risk. In the event that hedging operations are prematurely terminated, a compensation payment/receipt may occur, which is recorded in Other operating expenses/Other operating income. On December 31, 2023, there were no compensations (December 31, 2022: 89 thousand euros).

Note 13 – Gains or Losses on Derecognition of Non-Financial Assets

The breakdown of this caption is as follows:

(in thousands of Euros)

	2023	2022
Real estate properties	27 343	86 516
Equipment	526	(5 790)
Others	31	2 563
	27 901	**83 289**

The caption of gains or losses on derecognition of non-financial assets - real estate includes, as of December 31, 2022, the gain of 66,797 thousand euros from the sale of the novobanco headquarters building, as detailed in note 25.

Note 14 – Other Operating Income and Other Operating Expenses

The breakdown of this caption is as follows:

(in thousands of Euros)

	2023	2022
Other operating income	**106 231**	**214 005**
Gains / (losses) on recoveries of loans	32 512	40 423
Non-recurring advisory services	331	334
Income of Funds and real estate companies	19 470	35 461
Gains on repurchase of Group debt securities (see Note 31)	-	13
Gains on investment properties revaluation (see Note 26)	45 091	118 433
Other income	8 827	19 341
Other operating expenses	**(124 054)**	**(118 357)**
Losses on repurchase of Group debt securities (see Note 31)	(1 432)	-
Direct and indirect taxes	(4 727)	(5 275)
Contribution on the banking sector	(29 853)	(28 881)
Solidarity additional	(5 427)	(5 251)
Membership fees and donations	(1 460)	(2 490)
Expenses of Funds and real estate companies	(7 639)	(7 465)
Charges to supervisory entities	(2 228)	(2 254)
Losses on investments properties revaluation (see Note 26)	(28 565)	(27 300)
Other expenses	(42 723)	(39 441)
Other operating income / (expenses)	**(17 823)**	**95 648**

As at 31 December 2023, there was no receipt related to compensation for interruption of hedge operations, included in other income (December 31, 2022: 89 thousand euros) (see Note 12).

Note 15 – Staff Expenses

The breakdown of this caption is as follows:

		(thousands of Euros)
	2023	**2022**
Wages and salaries	192 712	179 909
Remuneration	191 465	179 905
Long-term service / Career bonuses (see Note 16)	1 247	4
Mandatory social charges	49 632	47 216
Costs with post-employment benefits (see Note 16)	316	301
Other costs	10 044	6 281
	252 704	**233 707**

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

As of 31 December 2023 and 2022, the number of Novobanco Group employees breaks down as follows:

	2023	**2022**
novobanco Employees	3 939	3 817
Employees of the Group's subsidiaries	270	273
Total employees of the Group	**4 209**	**4 090**

By professional category, the number of Novobanco Group employees breakdowns as follows:

	2023	**2022**
Senior management functions	481	481
Middle management positions	373	388
Specific positions	2 265	2 170
Administrative and other functions	1 090	1 051
	4 209	**4 090**

Note 16 – Employee Benefits

Pension and health-care benefits

As mentioned in accounting policy 7.23, 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 exercise 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.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to novobanco. 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).

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 402º), and the amount of 8.8 million euros of net liabilities of the value of the fund's assets related to the undivided part is recorded under the heading Provisions of the Group's liabilities.

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 31 December 2023, the amount of Euro 629 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2022: Euro 548 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 responsibilities and coverage levels of the Group, calculated according to the accounting policy defined in Note 7.23 - Employee Benefits, reportable as of December 31, 2023 and 2022, are analysed as follows:

	(thousands of Euros) 2023	2022
Liabilitities		
Liabilitities in the beginning of the exercise	**1 418 647**	**1 929 188**
Current service cost	116	(26)
Interest cost	54 974	25 469
Plan participants' contribution	2 700	2 601
Contributions from other entities	214	206
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	103 329	(527 073)
- Experience adjustments (gains) / losses	93 981	52 113
Pensions paid by the fund / transfers and one-off bonuses	(88 597)	(81 459)
Early retirement	11 444	19 473
Foreign exchange differences and other	2	(1 845)
Liabilities at end of exercise	**1 596 810**	**1 418 647**
Of which:		
Pensioners	1 195 361	1 075 292
Assets	401 449	343 355
Pension Funds		
Fair value of fund assets at beginning of exercise	**1 478 263**	**1 907 928**
Net return from the fund	222 774	(348 984)
- Share of the net interest on the assets	53 494	23 153
- Return on assets excluding net interest	169 280	(372 137)
Group contributions	-	249
Plan participants' contributions	2 700	2 601
Pensions paid by the fund / transfers and one-off bonuses	(88 597)	(81 459)
Foreign exchange differences and other	374	(2 072)
Fair value of fund assets at the end of the exercise	**1 615 514**	**1 478 263**
Assets / (liabilities) recognized in the balance sheet (see notes 29 and 33)		
In the begging of the exercise	**59 616**	**(21 260)**
Cost of the exercise	(1 797)	(2 617)
Actuarial (gains) / losses recognized in other comprehensive income	(27 294)	101 726
Contributions made in the exercise	-	249
Other	(11 821)	(18 482)
In the end of the exercise	**18 704**	**59 616**
Accumulated actuarial losses recognized in other comprehensive income		
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the exercise	**697 326**	**799 052**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial assumptions	103 329	(527 073)
- Plan assets return (excluding net interest)	(75 299)	424 250
Period's amortization		
Other	(545)	1 097
Accumulated actuarial losses recognized in other comprehensive income at the end of the exercise	**724 811**	**697 326**
Participants in Pension Plan	**12 311**	**12 108**
Assets	4 143	3 958
Retirees and survivors	7 074	7 066
Participants under the clausule 98	1 094	1 084

The pension funds' assets can be analysed as follows:

(in thousands of Euros)

	2023			2022		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	-	125 736	125 736	-	63 411	63 411
Debt instruments	1 034 102	-	1 034 102	947 801	-	947 801
Investment funds	127 841	56 200	184 041	155 923	55 794	211 717
Structured debt	20	-	20	60	15	75
Real estate properties	-	228 483	228 483	-	181 960	181 960
Cash and cash equivalents	-	43 132	43 132	-	73 299	73 299
Total	**1 161 963**	**453 551**	**1 615 514**	**1 103 784**	**374 479**	**1 478 263**

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

(in thousands of Euros)

	2023	2022
Cash and cash equivalents	21 408	63 802
Real estate	39 965	39 056
Total	**61 373**	**102 858**

The main actuarial assumptions used in the calculation of pension and health benefit liabilities are the same and are presented as follows:

	2023		2022	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	3,45%	15,87%	4,00%	-18,92%
Discount rate	3,45%	-	4,00%	-
Pension increase rate	0,75%	4,36%	0,75%	1,41%
Salary increase rate	1,00%	5,71%	1,00%	2,54%
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 liabilities. The determination of the discount rate as of December 31, 2023 and 2022 was based on: (i) the evolution in the main indexes related to high quality corporate bonds and (ii) the duration of the liabilities.

As of December 31, 2023 and 2022, the sensitivity analysis to a variation of 0.25% in the rate of assumptions used and a year in the mortality table results in the following variations in the present value of the liabilities for past services:

Assumptions	Change in the amount of liabilities due to the change: (in thousands of Euros)			
	2023		2022	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(47 893)	50 439	(41 764)	43 959
Salary increase rate	9 665	(9 349)	6 893	(6 658)
Pension increase rate	47 559	(45 481)	44 420	(42 463)
	+1 year	-1 year	+1 year	-1 year
Mortality table	(49 967)	49 683	(41 178)	40 787

The costs of retirement pensions and health benefits for the years as of December 31, 2023 and 2022 may be applied as follows:

(in thousand of Euros)	2023	2022
Current service cost (a)	116	(26)
Net interest	1 481	2 316
Early retirements (a)	200	327
Post-employment benefits costs	**1 797**	**2 617**

(a) recorded in Staff expenses (see Note 15)

In 2023, the value of early retirements was 11.4 million euros (December 31, 2022: 19.4 million euros), of which 11.2 million euros fall within the Group's restructuring process (December 31, 2022: 19.1 million euros) and, as such, were recognised in counterparty to the use of the provision for restructuring (see Note 32).

The average duration of the defined benefit plan liabilities is approximately 13 years (December 31, 2022: approximately 13 years).

Career Bonus

As of December 31, 2023, the liabilities assumed by the Group amount to 6,602 thousand euros, corresponding to the past service liabilities of the career premium, as described in Note 7.23 - Employee Benefits (December 31, 2022: 5,621 thousand euros) (see Note 33).

As of December 31, 2023, a cost of 1,247 thousand euros was recorded for career premiums (December 31, 2022: 4 thousand euros) (see Note 15).

Note 17 - Other Administrative Expenses

The breakdown of this caption is as follows:

	(in thousands of Euros)	
	2023	**2022**
Rentals	4 909	4 250
Advertising	6 055	5 513
Communication	10 616	11 600
Maintenance and repairs expenses	7 735	8 206
Travelling and representation	2 652	2 211
Transportation of valuables	2 889	2 711
Insurance	5 056	6 190
IT services	46 372	43 983
Independent work	2 616	2 470
Temporary work	716	1 284
Electronic payment systems	15 089	12 395
Legal costs	7 777	6 781
Consultancy and audit fees	42 435	28 066
Water, energy and fuel	1 521	2 826
Consumables	1 683	1 586
Other costs	24 752	22 091
	182 873	**162 163**

The 'Other costs' item includes, among others, specialised services for security and surveillance, information, training costs and various external supplies.

The 'Rents and leases' item includes, as of December 31, 2023 an amount of 683 thousand euros related to short-term operating lease contracts (December 31, 2022: 704 thousand euros), as described in note 7.20.

The fees billed during the exercises 2023 and 2022 by the Official Accounting Reviewers' Society, in accordance with the provisions of art. 508-F in the Commercial Companies Code, are detailed as follows:

	(milhares de euros)	
	2023	**2022**
Statutory audit of annual accounts	1 689	1 445
Other reliability assurance services	2 005	1 264
Total value of billable services	**3 694**	**2 709**

Note 18 - Contributions to Resolution and Deposit Guarantee Schemes

As of 31 December 2023 and 2022, this caption is analysed as follows:

	(In thousands of Euros)	
	2023	**2022**
Contribution to the Single Resolution Fund	14 977	24 492
Contribution to the National Resolution Fund	7 101	16 364
Contribution to the Deposit Guarantee Fund	56 403	299
	78 481	**41 155**

As part of the annual periodic contributions to the Deposit Guarantee Fund (DGF), Novobanco and the other Banks of the Group have assumed irrevocable commitments, under the terms of paragraph 4 of article 161 of the General Regime of Credit Institutions and Financial Companies ("RGICSF"), relating to part of these contributions, with the commitment to make the respective payment when the DGF requested it. At the end of 2023, and at the indication of this institution, the Group proceeded to pay the total value of the commitments assumed, amounting to 56,147 thousand euros, having recognised this amount as a cost of the year.

Additionally, the Group has irrevocable commitments amounting to 20,143 thousand euros related with contributions to the Single Resolution Fund, resulting from the option to make part of the annual contributions through a collateral deposit.

Note 19 – Impairment

(in thousands of Euros)

	2023	2022
	Total	**Total**
Provisions or reversal of provisions (see Note 32)	**45 699**	**39 245**
Provisions for guarantees and commitments	(628)	(2 685)
Other provisions	46 327	41 930
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (see Note 22)	**141 893**	**101 882**
Securities at fair value through other comprehensive income	(394)	(433)
Securities at amortised cost	32 960	68 067
Loans and advances to banks	(62)	(287)
Loans and advances to customers	109 389	34 535
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates (see Note 24)	**(7 406)**	**(21 546)**
Impairment or reversal of impairment on non-financial assets	**(6 351)**	**(8 375)**
Non-current assets and disposal groups classified as held for sale (see Note 30)	14 486	(664)
Tangible fixed assets (see Note 25)	(996)	(1 776)
Intangible fixed assets (see Note 27)	18	-
Other assets (see Note 29)	(19 859)	(5 935)
	173 835	**111 206**

Note 20 - Cash, Cash Balances at Central Banks and Other Demand Deposits

This caption as of December 31, 2023 and 2022 is analysed as follows:

(in thousands of Euros)

	2023	2022
Cash	**179 229**	**182 895**
Demand deposits with Central Banks	**5 374 612**	**5 942 498**
Bank of Portugal	5 365 346	5 936 637
Other Central Banks	9 266	5 861
Deposits in other domestic credit institutions	**89 559**	**222 866**
Repayable on demand	9 167	62 900
Uncollected checks	80 392	159 966
Deposits with banks abroad	**223 789**	**250 819**
Repayable on demand	193 526	213 506
Other deposits	30 263	37 313
	5 867 189	**6 599 078**

The item Demand Deposits at the Bank of Portugal includes mandatory deposits in the amount of 289.0 million euros (December 31, 2022: 287.9 million euros) aimed at satisfying the legal requirements for the establishment of minimum cash availabilities. In accordance with Regulation (CE) No. 1358/2011 of the European Central Bank of December 14, 2011, the mandatory minimum availabilities in demand deposits at the Bank of Portugal are remunerated and correspond to 1% of deposits and debt securities with a term of less than 2 years, excluding from these the deposits of institutions subject to the minimum reserve regime of the European System of Central Banks. On December 31, 2023, the average interest rate for these deposits was null, and on December 31, 2022, it was 2%.

The fulfilment of the mandatory minimum availabilities, for a given observation period, is determined based on the average value of deposit balances with the Bank of Portugal during that period. The balance of the account with the Bank of Portugal on December 31, 2023 was included in the observation period from December 20, 2023 to January 30, 2024.

Cheques to be collected from credit institutions in the country and abroad were sent for collection on the first business days following the reference dates.

Note 21 - Financial Assets and Liabilities Held for Trading

This item as of December 31, 2023 and 2022 is analysed as follows:

(thousands of Euros)	2023	2022
Financial assets held for trading	**436 148**	**171 810**
Bonds and other fixed income securities - Issued by government and public entities	318 528	36 428
Derivatives held for trading with positive fair value	117 620	135 382
Financial liabilities held for trading	**100 639**	**99 386**
Derivatives held for trading with negative fair value	100 639	99 386

Securities held for trading

The details of securities held for trading by fair value hierarchy are presented in Note 40.

Derivatives

Derivatives as of December 31, 2023 and 2022 are analysed as follows:

(thousands of Euros)

	2023				2022			
	Notional		Fair value		Notional		Fair value	
	Buy	Sell	Asset	Liability	Buy	Sell	Asset	Liability
TRADING DERIVATIVES			**117 620**	**100 639**			**135 382**	**99 386**
Exchange rate contracts			**11 227**	**11 413**			**23 141**	**22 069**
Forward	484 603	484 586	7 848	8 215	664 046	662 467	13 976	13 326
Currency Swaps	692 915	692 574	2 161	1 980	715 504	713 759	2 559	2 137
Currency Options	86 152	76 649	1 218	1 218	293 418	293 419	6 606	6 606
Interest rate contracts			**101 085**	**83 897**			**103 673**	**74 413**
Interest Rate Swaps	3 040 734	3 040 734	90 160	73 772	3 071 249	3 071 249	98 468	70 120
Swaption - Interest Rate Options	-	-	-	-	-	-	-	-
Interest Rate Caps & Floors	337 730	414 502	10 925	10 125	142 992	233 310	5 205	4 293
Equity / Index contracts			**4 345**	**4 393**			**8 279**	**2 695**
Equity / Index Options	266 706	266 706	4 345	4 393	423 960	423 956	8 279	2 695
Contracts on risk of default			**-**	**104**			**-**	**-**
Credit Default Swaps	-	45 249	-	104	-	-	-	-
Commodities Contracts			**963**	**832**			**289**	**209**
Commodities Swaps	29 082	29 082	963	832	15 759	15 759	289	209

a) Derivatives traded on organised markets, whose market value is settled daily against the margin account (see Notes 29 and 33)

In the fiscal year 2023, the Group recognised a gain of 228 thousand euros related to the CVA of derivative instruments (December 31, 2022: loss of 1,820 thousand euros). The method of determining the CVA is explained in note 40.

Note 22 - Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss, at Fair Value Through Other Comprehensive Income and at Amortised Cost

These items as of December 31, 2023 and 2022 are analysed as follows:

(thousands of Euros)

	2023					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost[1]	Fair value changes [2]	Total
Securities	264 912	-	838 523	7 870 536	-	8 973 971
Loans and advances to banks	-	-	-	47 940	-	47 940
Loans and advances to customers	-	-	-	24 534 061	(83 498)	24 450 563
	264 912	**-**	**838 523**	**32 452 537**	**(83 498)**	**33 472 474**

[1] Includes fair value adjustments resulting from micro-hedging of interest rate risk (see Note 23)

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

(thousands of Euros)

	2022					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost[1]	Fair value changes [2]	Total
Securities	313 684	13	2 331 099	7 964 664	-	10 609 460
Loans and advances to banks	-	-	-	43 548	-	43 548
Loans and advances to customers	18	-	-	24 550 936	(165 144)	24 385 810
	313 702	**13**	**2 331 099**	**32 559 148**	**(165 144)**	**35 038 818**

1 Includes fair value adjustments resulting from micro-hedging of interest rate risk (see Note 23)

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

22.1. Securities

The detail of the Securities portfolio as of December 31, 2023 and 2022 is detailed as follows:

(thousands of Euros)

	2023	2022
Securities mandatorily measured at fair value through profit or loss	**264 912**	**313 684**
Bonds and other fixed income securities - From other issuers	11 418	13 473
Shares	142 282	141 119
Other securities with variable income	111 212	159 092
Securities at fair value through results	**-**	**13**
Bonds and other fixed income securities - From other issuers	-	13
Securities at fair value through other comprehensive income	**838 523**	**2 331 099**
Bonds and other fixed income securities - From public issuers	371 675	1 764 578
Bonds and other fixed income securities - From other issuers	389 194	479 406
Shares	77 654	87 115
Securities at amortised cost	**7 870 536**	**7 964 664**
Bonds and other fixed income securities - From public issuers	4 421 480	4 423 089
Bonds and other fixed income securities - From other issuers	3 773 368	3 833 106
Impairment	(324 312)	(291 531)
	8 973 971	**10 609 460**

On December 29, 2022, the Crow Project was completed, entered into between Novobanco, Banco Comercial Português, S.A., Caixa Geral de Depósitos, S.A., Banco Santander Totta, S.A. and Oitante, S.A. (the sellers) and Davidson Kempner (the buyer), relating to the process of sale of the units of participation held by these banks in the restructuring Funds. From this operation resulted: (i) the transfer of the units of participation held in the FRT, together with the assets directly and indirectly held by the fund to the buyer; (ii) the transfer of shares in the FLIT together with the assets directly and indirectly held by the fund to the buyer; (iii) certain hotel assets indirectly held by the Recovery Fund, FCR were indirectly acquired by the FLIT; and (iv) certain assets indirectly held by the FLIT and FRT were transferred to the Sellers. As a result of this operation, in fiscal year 2022 Novobanco received, net of costs, 224 million euros, proceeded to the derecognition of 267 million euros of units of participation and acquired assets registered as non-current assets in the amount of 48 million euros, with a positive impact on results of 4.8 million euros.

The remaining participations in restructuring funds remaining on the Group's balance sheet are accounted for in shares and other variable income securities mandatorily accounted for at fair value through profit or loss, according to the accounting policy described in Note 7.6.4, based on net book value reported by the Management Companies, adjusted relative to information, analyses or independent valuations considered necessary to determine its fair value, responding to guidelines from the Central Bank of Europe. Being "level 3" assets according to the IFRS 13 fair value hierarchy (quotes provided by third parties whose parameters used are mostly not observable in the market), the detail of the valuation methodology is described in Note 40.

During this year, the Bank decided, on an exceptional basis, to fully sell a portfolio of supranational debt recorded at amortized cost whose yield was significantly below those observed in the market, within the scope of interest rate risk management, and in line with the Bank's strategy of protecting financial margin in a scenario of falling interest rates as early as 2024. Given the exceptionality and non-repeatable nature of the operation, we understand that it is part of the adopted business model. This portfolio consisted of eighteen securities with a duration of around 5 years (not considering call options), which represented around 9.4% (in nominal value) of the total securities portfolio recorded at amortized cost. With this operation, the Bank recognized a loss in the line Gains or losses of financial assets and liabilities not measured at fair value of 70,982 thousand euros in the 2023 financial year, which corresponds to the realization of potential losses on these securities, for the benefit of gains in future margin.

The detail of the securities at fair value through other comprehensive income as of December 31, 2023 and 2022 is as follows:

(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	378 488	1 757	(9 332)	762	371 675	(49)
Residents	70 492	10	(8 722)	-	61 780	(28)
Non residents	307 996	1 747	(610)	762	309 895	(21)
Bonds and other fixed income securities - From other issuers	421 252	775	(27 052)	(5 781)	389 194	(190)
Shares	147 220	42 517	(112 083)	-	77 654	-
Other securities with variable income	3	-	(3)	-	-	-
Balance as at 31 December 2023	**946 963**	**45 049**	**(148 470)**	**(5 019)**	**838 523**	**(239)**

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

(2) In the context of fair value hedge operations (see Note 23)

(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	1 783 420	321	(19 163)	-	1 764 578	(453)
Residents	349 818	10	(13 271)	-	336 557	(115)
Non residents	1 433 602	311	(5 892)	-	1 428 021	(338)
Bonds and other fixed income securities - From other issuers	541 022	-	(49 628)	(11 988)	479 406	(207)
Shares	445 229	41 222	(399 336)	-	87 115	-
Other securities with variable income	3	-	(3)	-	-	-
Balance as at 31 December 2022	**2 769 674**	**41 543**	**(468 130)**	**(11 988)**	**2 331 099**	**(660)**

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

(2) In the context of fair value hedge operations (see Note 23)

During the fiscal year 2023, the Group sold 1,243.4 million euros of financial instruments classified at fair value through other comprehensive income (December 31, 2022: 5,921.9 million euros), with a gain of 5.1 million euros (December 31, 2022: loss of 82.8 million euros), recorded in results, from the sale of debt instruments and a loss of 283.8 million euros that were transferred from revaluation reserves to sales-associated reserves (December 31, 2022: loss of 1.2 million euros), from the sale of capital instruments.

The transfers between stages occurred in the portfolio of securities at fair value through other comprehensive income and amortised cost during the exercises 2023 and 2022 are presented as follows:

(thousands of Euros)

	2023					
	Transfers between Stage 1 and 2		Transfers between Stage 2 and 3		Transfers between Stage 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 1 from Stage 3*
Bonds and other fixed income securities - Capitals						
From other issuers	86 586	25 549	29 648	-	-	-
	86 586	**25 549**	**29 648**	**-**	**-**	**-**

(thousands of Euros)

	2022					
	Transfers between Stage 1 and 2		Transfers between Stage 2 and 3		Transfers between Stage 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 1 from Stage 3*
Bonds and other fixed income securities - Capitals						
From other issuers	18 523	1 405	-	-	29 263	-
	18 523	**1 405**	**-**	**-**	**29 263**	**-**

The movements occurred in the impairment reserves in the securities at fair value through other comprehensive income are presented as follows:

(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 2021	**3 716**	**-**	**-**	**3 716**
Transfers to stage 3	(20)	-	20	-
Increases due to changes in credit risk	2 339	-	-	2 339
Decreases due to changes in credit risk	(2 752)	-	(20)	(2 772)
Write-off	(2 654)	-	-	(2 654)
Other movements	30	-	1	31
Balance as at 31 December 2022	**659**	**-**	**1**	**660**
Increases due to changes in credit risk	416	-	-	416
Decreases due to changes in credit risk	(810)	-	-	(810)
Write-off	(22)	-	-	(22)
Other movements	(5)		-	(5)
Balance as at 31 December 2023	**238**	**-**	**1**	**239**

The movements occurred in the impairment losses in the securities at amortised cost are presented as follows:

(thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	*Stage* 2	*Stage* 3	Total
Balance as at 31 December 2021	**5 471**	**38 283**	**203 243**	**246 997**
Transfers to stage 1	76	(76)	-	-
Transfers to stage 2	(61)	61	-	-
Transfers to stage 3	(6 357)	-	6 357	-
Increases due to changes in credit risk	15 463	173 771	1 687 706	1 876 940
Decreases due to changes in credit risk	(9 262)	(208 666)	(1 590 945)	(1 808 873)
Write-off	(41)	-	(25 237)	(25 278)
Other movements	58	-	1 687	1 745
Balance as at 31 December 2022	**5 347**	**3 373**	**282 811**	**291 531**
Transfers to stage 1	1 883	(1 883)	-	-
Transfers to stage 2	(1 784)	1 784	-	-
Transfers to stage 3	-	(1 654)	1 654	-
Increases due to changes in credit risk	8 913	11 020	1 631 947	1 651 880
Decreases due to changes in credit risk	(12 248)	(9 201)	(1 597 471)	(1 618 920)
Write-off	(153)	(23)	(5)	(181)
Other movements	1 749	(3 402)	1 655	2
Balance as at 31 December 2023	**3 707**	**14**	**320 591**	**324 312**

In accordance with the accounting policy described in Note 7.12, the Group regularly assesses whether there is objective evidence of impairment in its portfolio of financial assets at fair value through other comprehensive income following the judgement criteria described in Note 8.1.

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

The securities in the portfolio given as collateral by the Group are analysed in Note 36.

22.2. Loans and advances to Banks

The detail of Loans and advances to Banks as of December 31, 2023 and 2022 is detailed as follows:

(Thousands of Euros)

	2023	2022
Loans and advances to banks in Portugal	**44 938**	**39 232**
Deposits	24 761	4
Loans	20 177	39 228
Loans and advances to banks abroad	**3 716**	**5 096**
Deposits	3 716	5 096
	48 654	**44 328**
Impairment losses	**(714)**	**(780)**
	47 940	**43 548**

All loans and advances to Banks are accounted under amortised cost portfolio.

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

(thousands Euros)

	Loans and advances to Banks			
	Stage 1	*Stage* 2	*Stage* 3	Total
Balance as at 31 December 2021	**217**	**474**	**422**	**1 113**
Increases due to changes in credit risk	371	391	-	762
Decreases due to changes in credit risk	(413)	(636)	-	(1 049)
Other movements	25	(75)	4	(46)
Balance as at 31 December 2022	**200**	**154**	**426**	**780**
Increases due to changes in credit risk	302	517	-	819
Decreases due to changes in credit risk	(446)	(435)	-	(881)
Other movements	51	(56)	1	(4)
Balance as at 31 December 2023	**107**	**180**	**427**	**714**

22.3. Loans and advances to customers

The detail of the Loans and advance to customers as of December 31, 2023 and 2022 is detailed as follows:

(thousands of Euros)

	2023	2022
Loans and advances – Corporate	**13 494 029**	**13 949 104**
Current account loans	1 388 599	1 171 800
Loans	10 523 888	11 116 414
Discounted bills	73 167	87 371
Factoring	817 655	700 708
Overdrafts	13 674	46 709
Financial leases	656 291	796 661
Other loans and advances	20 755	29 441
Loans and advances – Individuals	**11 629 113**	**11 337 636**
Residential Mortgage loans	10 050 449	9 966 380
Consumer credit and other loans	1 578 664	1 371 256
Overdue loans and advances and interests	**365 444**	**330 606**
Under 90 days	27 461	13 267
Over 90 days	337 983	317 339
	25 488 586	**25 617 346**
Impairment losses	(954 525)	(1 066 392)
	24 534 061	**24 550 954**
Fair value adjustments of interest rate hedges (See Note 23)	**(83 498)**	**(165 144)**
Corporate – Loans	-	(16 805)
Individual - Mortgage loans	(83 498)	(148 339)
	24 450 563	**24 385 810**

As of December 31, 2023, there are operations mandatorily registered at fair value through profit or loss, with a nominal value of 13,090 thousand euros and a fair value of 0 thousand euros (December 31, 2022: 31,197 thousand euros and 18 thousand euros, respectively), the impact of which was recorded in the line Gains or losses on financial assets mandatorily accounted at fair value through profit or loss on the income statement (see Note 12).

As of December 31, 2023, the value of customer loans (net of impairment) includes the amount of 1,008.7 million euros (December 31, 2022: 1,127.6 million euros), related to securitization operations that, according to the accounting policy mentioned in Note 6, are consolidated by the Group (See Notes 1 and 39). The liabilities associated with these securitisation operations were recognised as Liabilities represented by securities (see Note 31).

As of December 31, 2023, the item customer loans includes 7,442.1 million euros of mortgage credit related to the issuance of mortgage bonds (December 31, 2022: 6,078.4 million euros) (see Note 31).

As of December 31, 2023, the value of interest and fees recorded in the balance sheet for credit operations amounts to 97,082 thousand euros (December 31, 2022: 37,310 thousand euros).

The movements occurred in the capital amounts of credit are presented as follows:

(thousand of Euros)

	Movement in loans and advances to customers			
	Corporate loans	Mortgage loans	Other loans to Individuals	Total
Balance at 31 December 2021	**13 714 025**	**9 812 013**	**1 406 415**	**24 932 453**
New production	1 791 033	1 241 684	246 522	3 279 239
Scheduled refunds	(1 515 841)	(259 060)	(126 299)	(1 901 199)
Unscheduled refunds	(706 394)	(703 526)	(61 167)	(1 471 087)
Write off	(133 479)	(52 200)	(31 051)	(216 730)
Other movements	1 095 132	(61 189)	(39 273)	994 671
Balance at 31 December 2022	**14 244 477**	**9 977 722**	**1 395 147**	**25 617 346**
New production	2 290 752	1 429 897	433 695	4 154 344
Scheduled refunds	(1 852 664)	(304 718)	(163 119)	(2 320 501)
Unscheduled refunds	(1 131 526)	(885 942)	(184 498)	(2 201 966)
Write off	(133 479)	(52 200)	(31 051)	(216 730)
Other movements	401 850	(106 728)	160 971	456 093
Balance at 31 December 2023	**13 819 410**	**10 058 031**	**1 611 145**	**25 488 586**

The transfers between stages that occurred in credit during the exercises 2023 and 2022 are presented as follows:

(thousands of Euros)

	2023					
	Transfers between Stage 1 and 2		Transfers between Stage 2 and 3		Transfers between Stage 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 1 from Stage 3*
Loans - Capitals						
Corporate loans	924 486	738 400	172 165	104 580	70 868	314
Loans to individuals	509 329	281 917	53 510	30 955	25 747	5 603
	1 433 815	**1 020 317**	**225 675**	**135 535**	**96 615**	**5 917**

(thousands of Euros)

	2022					
	Transfers between Stage 1 and 2		Transfers between Stage 2 and 3		Transfers between Stage 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 1 from Stage 3*
Loans - Capitals						
Corporate Loans	555 353	514 595	81 989	40 423	29 605	2 250
Loans to individuals	393 129	317 341	35 718	41 354	8 668	22 856
	948 482	**831 936**	**117 707**	**81 777**	**38 273**	**25 106**

The movements occurred in the impairment losses of credit are presented as follows:

(thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	**63 575**	**322 194**	**862 148**	**1 247 917**
Transfers to stage 1	73 627	(73 627)	-	-
Transfers to stage 2	(19 094)	47 974	(28 880)	-
Transfers to stage 3	(249)	(18 699)	18 948	-
Financial assets derecognised	(4)	-	(26 847)	(26 851)
Increases due to changes in credit risk	19 743	64 166	130 905	214 814
Decreases due to changes in credit risk	(94 166)	(41 063)	(45 050)	(180 279)
Write-off	-	(38)	(198 740)	(198 778)
Other movements	18 842	(300)	(8 973)	9 569
Balance as at 31 December 2022	**62 274**	**300 607**	**703 511**	**1 066 392**
Transfers to stage 1	145 919	(145 918)	(1)	-
Transfers to stage 2	(48 035)	86 820	(38 785)	-
Transfers to stage 3	(379)	(34 291)	34 670	-
Financial assets derecognised	(123)	(188)	(75 114)	(75 425)
Increases due to changes in credit risk	12 485	171 190	128 336	312 011
Decreases due to changes in credit risk	(114 471)	(39 941)	(48 210)	(202 622)
Write-off		(31)	(155 306)	(155 337)
Other movements	5 740	(3 618)	7 384	9 506
Balance as at 31 December 2023	**63 410**	**334 630**	**556 485**	**954 525**

The distribution of credit by type of rate is as follows:

(thousands of Euros)

	2023	2022
Fixed rate	3 494 865	2 802 871
Variable rate	21 910 223	22 649 331
	25 405 088	**25 452 202**

The lease loans, by residual terms, is presented as follows:

	(thousands of Euros) 2023	2022
Gross investment in finance leases receivable	**768 608**	**915 702**
Up to 1 year	228 441	216 621
1 to 5 years	418 850	496 962
More than 5 years	121 317	202 119
Interest due from finance leases	**100 061**	**97 481**
Up to 1 year	31 620	26 238
1 to 5 years	52 892	54 097
More than 5 years	15 549	17 146
Capital due	**668 547**	**818 221**
Up to 1 year	196 821	190 383
1 to 5 years	365 958	442 865
More than 5 years	105 768	184 973
Impairment	**(66 291)**	**(84 922)**
	602 256	**733 299**

As of December 31, 2023 and 2022, the detail of the gross exposure value of credit and individually and collectively assessed impairment, by segment was as follows:

(thousands of Euros)

	2023						
	Individual Evaluation[1]		Collective Evaluation[2]			Total	
	Exposure	Impairment	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	**871 878**	**419 296**	**12 947 533**	**343 662**		**13 819 411**	**762 958**
Stage 1	-	-	10 243 033	42 688		10 243 033	42 688
Stage 2	-	-	2 651 010	272 035		2 651 010	272 035
Stage 3	871 878	419 296	53 490	28 939		925 368	448 235
Mortgage loans	**274**	**120**	**9 974 259**	**71 121**		**9 974 533**	**71 241**
Stage 1	-	-	9 102 417	3 896		9 102 417	3 896
Stage 2	-	-	775 655	37 565		775 655	37 565
Stage 3	274	120	96 187	29 660		96 461	29 780
Other Credit to Individuals	**52 005**	**49 058**	**1 559 139**	**71 268**		**1 611 144**	**120 326**
Stage 1	-	-	1 178 276	13 879		1 178 276	13 879
Stage 2	-	-	321 709	27 422		321 709	27 422
Stage 3	52 005	49 058	59 154	29 967		111 159	79 025
Total	**924 157**	**468 474**	**24 480 931**	**486 051**		**25 405 088**	**954 525**

(1) Loans whose final impairment has been determined and approved by the Impairment Committee

(2) Loans whose final impairment has been determined in accordance with the calculation rules of the collective impairment model

(thousands of Euros)

	2022					
	Individual Evaluation[1]		Collective Evaluation[2]		Total	
	Exposure	Impairment	Impairment	Exposure	Exposure	Impairment
Corporate	**1 093 692**	**542 602**	**13 133 980**	**333 908**	**14 227 672**	**876 510**
Stage 1	-	-	10 187 063	43 504	10 187 063	43 504
Stage 2	1 587	392	2 898 148	260 974	2 899 735	261 366
Stage 3	1 092 105	542 210	48 769	29 430	1 140 874	571 640
Mortgage loans	**3 626**	**395**	**9 825 757**	**54 440**	**9 829 383**	**54 835**
Stage 1	-	-	8 939 605	3 595	8 939 605	3 595
Stage 2	-	-	781 080	20 958	781 080	20 958
Stage 3	3 626	395	105 072	29 887	108 698	30 282
Other Credit to Individuals	**80 441**	**74 467**	**1 314 706**	**60 580**	**1 395 147**	**135 047**
Stage 1	-	-	1 090 919	14 912	1 090 919	14 912
Stage 2	-	-	177 390	18 448	177 390	18 448
Stage 3	80 441	74 467	46 397	27 220	126 838	101 687
Total	**1 177 759**	**617 464**	**24 274 443**	**448 928**	**25 452 202**	**1 066 392**

(1) Loans whose final impairment has been determined and approved by the Impairment Committee

(2) Loans whose final impairment has been determined in accordance with the calculation rules of the collective impairment model

In the case of credits analysed by the Impairment Committee for which the impairment determined automatically by the Impairment Model was not changed, they are included and presented in the "Collective assessment".

As of December 31, 2023 and 2022, the detail of the gross exposure value of credit and individually and collectively assessed impairment, by geography was as follows:

(thousand of Euros)

	2023					
	Individual evaluation*		Collective Evaluation**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	799 080	406 166	20 575 238	437 184	21 374 318	843 350
Spain	-	-	1 101 455	15 191	1 101 455	15 191
United Kingdom	-	-	432 690	6 314	432 690	6 314
France	-	-	391 402	3 669	391 402	3 669
Switzerland	-	-	243 967	2 482	243 967	2 482
Luxembourg	-	-	337 211	1 418	337 211	1 418
Others	125 077	62 308	1 398 968	19 793	1 524 045	82 101
Total	**924 157**	**468 474**	**24 480 931**	**486 051**	**25 405 088**	**954 525**

* Credits whose impairment results from individual analysis (defined and approved by the Impairment Committee)

** Credits whose impairment was evaluated collectively and determined automatically by the Impairment Model.

As of December 31, 2023 and 2022, the detail of the gross exposure value of credit and impairment constituted by segment was as follows:

(thousand of Euros)

Segment	2023						
	Performing			Non-Performing			Total
	Performing or Delay < 30 days	Delay > 30 days	Total	Days late <= 90 days	Days late > 90 days	Total	
Gross Value	**24 171 609**	**100 827**	**24 272 436**	**648 744**	**483 908**	**1 132 652**	**25 405 088**
Corporate	12 859 810	34 569	12 894 379	547 879	377 153	925 032	13 819 411
Mortgage loans	9 825 151	54 568	9 879 719	46 948	47 866	94 814	9 974 533
Other loans to Individuals	1 486 648	11 690	1 498 338	53 917	58 889	112 806	1 611 144
Impairment	**392 487**	**5 556**	**398 043**	**293 640**	**262 842**	**556 482**	**954 525**
Corporate	314 329	730	315 059	237 750	210 149	447 899	762 958
Mortgage loans	44 741	2 729	47 470	11 954	11 817	23 771	71 241
Other Loans to Individuals	33 417	2 097	35 514	43 936	40 876	84 812	120 326
Net Value	**23 779 122**	**95 271**	**23 874 393**	**355 104**	**221 066**	**576 170**	**24 450 563**

(thousand of Euros)

Segment	2022						
	Performing			Non-Performing			Total
	Performing or Delay < 30 days	Delay > 30 days	Total	Days late <= 90 days	Days late > 90 days	Total	
Gross Value	**23 998 856**	**76 954**	**24 075 810**	**834 125**	**542 267**	**1 376 392**	**25 452 202**
Corporate	13 053 682	33 134	13 086 816	724 413	416 443	1 140 856	14 227 672
Mortgage Loans	9 689 291	35 682	9 724 973	55 744	48 666	104 410	9 829 383
Other loansto Individuals	1 255 883	8 138	1 264 021	53 968	77 158	131 126	1 395 147
Impairment	**329 627**	**7 100**	**336 727**	**381 142**	**348 523**	**729 665**	**1 066 392**
Corporate	274 903	3 632	278 535	324 410	273 565	597 975	876 510
Mortgage loans	27 858	1 881	29 739	13 308	11 788	25 096	54 835
Other loans to Individuals	26 866	1 587	28 453	43 424	63 170	106 594	135 047
Net Value	**23 669 229**	**69 854**	**23 739 083**	**452 983**	**193 744**	**646 727**	**24 385 810**

As of December 31, 2023 and 2022, the detail of the credit portfolio by segment and by reference year was as follows:

(thousand of Euros)

	2023											
	Corporate			Mortgage			Other Loans to Individuals			Total		
Reference year	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and previous	861 106	251 696	8 094	50 883	854 736	9 750	220 535	53 430	3 534	1 132 524	1 159 862	21 378
2005	749	25 788	7 145	6 902	251 529	1 543	16 453	7 329	282	24 104	284 646	8 970
2006	863	104 772	9 880	11 593	479 751	2 986	19 595	7 263	362	32 051	591 786	13 228
2007	1 165	178 320	29 798	17 124	714 002	4 739	28 748	11 007	602	47 037	903 329	35 139
2008	1 081	315 201	11 073	11 439	504 010	3 177	21 880	10 309	336	34 400	829 520	14 586
2009	833	107 798	10 453	7 199	340 525	2 371	15 629	17 827	9 273	23 661	466 150	22 097
2010	873	104 891	13 570	6 897	354 314	2 561	23 967	20 904	604	31 737	480 109	16 735
2011	1 090	74 858	8 294	3 468	154 708	820	27 431	14 607	339	31 989	244 173	9 453
2012	1 409	136 269	24 948	1 674	62 978	589	32 797	12 060	415	35 880	211 307	25 952
2013	1 573	262 964	35 300	2 133	101 765	1 108	29 628	10 783	569	33 334	375 512	36 977
2014	1 274	131 331	29 270	1 411	73 298	584	28 260	13 469	837	30 945	218 098	30 691
2015	1 910	433 904	55 972	2 237	127 748	580	32 062	26 591	14 764	36 209	588 243	71 316
2016	2 231	351 925	39 052	4 668	288 543	1 619	46 239	49 972	20 818	53 138	690 440	61 489
2017	3 975	484 885	33 148	7 094	511 638	3 142	48 376	47 271	5 759	59 445	1 043 794	42 049
2018	5 155	787 112	64 961	7 968	674 503	2 894	56 608	71 534	4 177	69 731	1 533 149	72 032
2019	7 594	1 237 808	98 414	8 199	738 314	3 761	64 944	122 530	8 128	80 737	2 098 652	110 303
2020	9 763	1 381 935	40 676	6 138	581 242	3 307	44 573	112 278	5 024	60 474	2 075 455	49 007
2021	7 051	1 641 874	24 129	7 058	759 030	4 330	66 233	185 841	9 675	80 342	2 586 745	38 134
2022	10 939	3 307 172	115 057	8 980	1 105 734	4 074	102 987	323 930	16 834	122 906	4 736 836	135 965
2023	16 235	2 498 908	103 724	10 204	1 296 165	17 306	150 644	492 209	17 994	177 083	4 287 282	139 024
Total	**936 869**	**13 819 411**	**762 958**	**183 269**	**9 974 533**	**71 241**	**1 077 589**	**1 611 144**	**120 326**	**2 197 727**	**25 405 088**	**954 525**

(thousand of Euros)

	2022											
	Corporate			Mortgage			Other loans to Individuals			Total		
Reference year	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and previous	3 823	201 587	18 281	58 261	987 666	8 872	739 976	12 245	12 765	802 060	1 201 498	39 918
2005	717	31 474	3 122	7 553	285 777	2 126	9 649	6 746	236	17 919	323 997	5 484
2006	890	153 885	31 646	12 611	538 293	3 735	11 937	7 053	325	25 438	699 231	35 706
2007	1 129	206 228	41 288	18 686	803 616	5 964	18 474	9 560	561	38 289	1 019 404	47 813
2008	1 031	349 863	14 284	12 704	570 092	4 103	17 723	7 470	263	31 458	927 425	18 650
2009	761	133 985	13 975	8 133	390 247	2 582	10 428	16 487	8 835	19 322	540 719	25 392
2010	818	119 542	15 204	7 666	408 947	3 112	16 191	20 681	603	24 675	549 170	18 919
2011	867	98 217	14 951	3 974	177 536	955	18 495	13 517	279	23 336	289 270	16 185
2012	1 057	161 198	30 331	2 118	76 338	803	23 971	12 122	418	27 146	249 658	31 552
2013	1 422	324 476	57 217	2 547	116 007	1 342	22 980	11 558	580	26 949	452 041	59 139
2014	1 426	208 148	52 871	1 608	83 848	658	20 653	17 850	768	23 687	309 846	54 297
2015	2 048	503 622	74 436	2 483	145 657	739	23 505	55 135	38 538	28 036	704 414	113 713
2016	2 778	464 764	53 392	5 133	331 037	1 477	37 488	61 110	19 313	45 399	856 911	74 182
2017	4 922	661 124	46 925	7 897	595 054	3 115	41 169	66 104	6 137	53 988	1 322 282	56 177
2018	6 237	1 035 429	82 184	9 037	790 378	3 541	50 261	100 228	5 409	65 535	1 926 035	91 134
2019	8 594	1 811 417	149 236	9 290	869 666	3 412	56 631	167 640	10 116	74 515	2 848 723	162 764
2020	10 301	1 910 110	58 482	6 879	668 607	3 006	38 094	146 449	6 205	55 274	2 725 166	67 693
2021	7 477	2 152 348	38 054	7 574	826 242	3 821	55 181	247 761	8 744	70 232	3 226 351	50 619
2022	15 028	3 700 255	80 631	9 119	1 164 375	1 472	79 102	415 431	14 952	103 249	5 280 061	97 055
Total	**71 326**	**14 227 672**	**876 510**	**193 273**	**9 829 383**	**54 835**	**1 291 908**	**1 395 147**	**135 047**	**1 556 507**	**25 452 202**	**1 066 392**

Collaterals

In order to mitigate credit risk, credit operations have associated guarantees, namely mortgages or pledges. The fair value of these guarantees is determined at the time of granting the credit, being revaluated periodically. The gross value of the credits and the respective fair value of the collaterals, limited to the value of the associated credit, is presented below:

(thousand of Euros)

	2023				2022			
	Amount of loans	Impairment	Net Value	Fair value of collateral	Amount of loans	Impairment	Net Value	Fair value of collateral
Mortgage loans	**9 974 533**	**(71 241)**	**9 903 292**	**9 963 237**	**9 829 383**	**(54 835)**	**9 774 548**	**9 726 694**
Stage 1								
Mortgages	8 686 828	(3 317)	8 683 511	8 770 123	8 636 253	(3 391)	8 632 862	8 636 253
Pledges	347 969	(103)	347 866	341 448	221 446	(74)	221 372	213 902
Not collateralized	67 620	(476)	67 144	-	81 906	(130)	81 776	-
Stage 2								
Mortgages	713 197	(19 470)	693 727	712 156	752 170	(18 919)	733 251	750 649
Pledges	46 859	(940)	45 919	45 759	22 138	(722)	21 416	20 561
Not collateralized	15 599	(17 155)	(1 556)	-	6 772	(1 317)	5 455	-
Stage 3								
Mortgages	91 484	(24 411)	67 073	91 114	105 800	(28 744)	77 056	105 296
Pledges	2 792	(997)	1 795	2 637	33	(12)	21	33
Not collateralized	2 185	(4 372)	(2 187)	-	2 865	(1 526)	1 339	-
Total								
Mortgages	9 491 509	(47 198)	9 444 311	9 573 393	9 494 223	(51 054)	9 443 169	9 492 198
Pledges	397 620	(2 040)	395 580	389 844	243 617	(808)	242 809	234 496
Not collateralized	85 404	(22 003)	63 401	-	91 543	(2 973)	88 570	-
Other Loans to individuals	**1 611 144**	**(120 326)**	**1 490 818**	**582 074**	**1 395 147**	**(135 047)**	**1 260 100**	**448 673**
Stage 1								
Mortgages	304 186	(195)	303 991	303 940	248 227	(345)	247 882	247 789
Pledges	139 185	(850)	138 335	136 637	134 587	(1 171)	133 416	131 725
Not collateralized	734 905	(12 834)	722 071	-	708 105	(13 396)	694 709	-
Stage 2								
Mortgages	111 574	(3 329)	108 245	111 342	44 899	(1 118)	43 781	44 543
Pledges	11 686	(783)	10 903	11 520	5 145	(243)	4 902	4 930
Not collateralized	198 449	(23 310)	175 139	-	127 346	(17 087)	110 259	-
Stage 3								
Mortgages	7 289	(2 574)	4 715	6 780	6 529	(2 521)	4 008	5 975
Pledges	39 082	(36 940)	2 142	11 855	67 318	(62 162)	5 156	13 711
Not collateralized	64 788	(39 511)	25 277	-	52 991	(37 004)	15 987	-
Total								
Mortgages	423 049	(6 098)	416 951	422 062	299 655	(3 984)	295 671	298 307
Pledges	189 953	(38 573)	151 380	160 012	207 050	(63 576)	143 474	150 366
Not collateralized	998 142	(75 655)	922 487	-	888 442	(67 487)	820 955	-
Corporate loans	**13 819 411**	**(762 958)**	**13 056 453**	**4 625 416**	**14 227 672**	**(876 510)**	**13 351 162**	**4 160 524**
Stage 1								
Mortgages	2 630 228	(11 226)	2 619 002	2 448 230	2 075 009	(12 988)	2 062 021	1 857 873
Pledges	1 703 697	(5 305)	1 698 392	791 694	1 704 798	(5 945)	1 698 853	713 852
Not collateralized	5 909 108	(26 157)	5 882 951	-	6 407 256	(24 571)	6 382 685	-
Stage 2								
Mortgages	837 045	(75 561)	761 484	741 278	901 315	(89 074)	812 241	811 303
Pledges	540 518	(75 003)	465 515	238 995	585 543	(93 760)	491 783	305 654
Not collateralized	1 273 447	(121 471)	1 151 976	-	1 412 877	(78 532)	1 334 345	-
Stage 3								
Mortgages	374 053	(152 507)	221 546	332 916	467 644	(225 737)	241 907	372 476
Pledges	152 614	(80 923)	71 691	72 303	192 799	(84 122)	108 677	99 366
Not collateralized	398 701	(214 805)	183 896	-	480 431	(261 781)	218 650	-
Total								
Mortgages	3 841 326	(239 294)	3 602 032	3 522 424	3 443 968	(327 799)	3 116 169	3 041 652
Pledges	2 396 829	(161 231)	2 235 598	1 102 992	2 483 140	(183 827)	2 299 313	1 118 872
Not collateralized	7 581 256	(362 433)	7 218 823	-	8 300 564	(364 884)	7 935 680	-
Total	**25 405 088**	**(954 525)**	**24 450 563**	**15 170 727**	**25 452 202**	**(1 066 392)**	**24 385 810**	**14 335 891**

The difference between the value of the credit and the fair value of the collateral represents the total credit exposure that exceeds the value of the collateral, with this value not being impacted by collaterals with a fair value higher than the credit to which they are associated.

The detail of the collaterals – mortgages is presented as follows:

(thousand of Euros)

Collateral ranges a)	2023							
	Mortgage loans		Other loans to individuals		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
less than 0.5M€	175 442	9 168 900	10 644	403 242	8 988	453 606	195 074	10 025 748
greater than 0.5M€ and less than 1.0M€	448	283 743	18	10 460	2 320	237 508	2 786	531 711
greater than 1.0M€ and less than 5.0M€	80	120 750	5	8 360	6 006	737 310	6 091	866 420
greater than 5.0M€ and less than 10.0M€	-	-	-	-	1 354	685 934	1 354	685 934
greater than 10.0M€ and less than 20.0M€	-	-	-	-	1 474	717 152	1 474	717 152
greater than 20.0M€ and less than 50.0M€	-	-	-	-	4 128	476 884	4 128	476 884
greater than 50M€	-	-	-	-	1 609	214 030	1 609	214 030
	175 970	**9 573 393**	**10 667**	**422 062**	**25 879**	**3 522 424**	**212 516**	**13 517 879**

a) The allocation by intervals was carried out based on the total value of collateral per credit contract.

(thousand of Euros)

Collateral ranges a)	2022							
	Mortgage loans		Other loans to individuals		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
less than 0.5M€	187 451	9 170 509	6 846	281 122	19 163	466 692	213 460	9 918 323
greater than 0.5M€ and less than 1.0M€	367	228 517	13	8 659	2 393	241 638	2 773	478 814
greater than 1.0M€ and less than 5.0M€	65	93 172	4	8 526	9 833	722 959	9 902	824 657
greater than 5.0M€ and less than 10.0M€	-	-	-	-	1 904	539 832	1 904	539 832
greater than 10.0M€ and less than 20.0M€	-	-	-	-	134	399 451	134	399 451
greater than 20.0M€ and less than 50.0M€	-	-	-	-	5 717	401 813	5 717	401 813
greater than 50M€	-	-	-	-	1 567	269 267	1 567	269 267
	187 883	**9 492 198**	**6 863**	**298 307**	**40 711**	**3 041 652**	**235 457**	**12 832 157**

a) The allocation by intervals was carried out based on the total value of collateral per credit contract.

The values of collaterals - mortgages, presented above, represent the maximum coverage value of the covered assets, that is, they compete up to the gross value of the individual covered credits.

In assessing the risk of an operation or set of operations, the elements of credit risk mitigation associated with them are taken into account, in accordance with internal rules and procedures.

Relevant collateral is essentially the following:

- Real estate, where the value considered is the corresponding to the last available assessment;
- Financial pledges, where the value considered corresponds to the quotation of the last day of the month, if it is a listed security, or the value of the pledge, if it is cash.

Accepting collateral as security for credit operations refers to the need to define and implement techniques to mitigate the risks to which said collateral is exposed. Thus, and as an approach to this matter, the Group has established a set of procedures applicable to collateral (particularly financial and real estate), which cover, among others, the volatility of the collateral value, its liquidity and an indication of the recovery rates associated with each type of collateral.

The internal credit power rules thus have a specific chapter on this point, "Acceptance of collateral - techniques to mitigate the risks to which collateral is exposed, namely liquidity and volatility risks".

The revaluation process of real estate is carried out by appraisers registered with the CMVM, based on the valuation methods described in Note 8.6.

Restructured Credit

The Group proceeds to the identification and marking of restructured credit contracts due to the customer's financial difficulties whenever there are changes to the terms and conditions of a contract in which the customer has defaulted, that is, it is foreseeable that it will default, with a financial obligation. It is considered that there is a change to the terms and conditions of the contract when:

(i) there are contractual changes in favour of the client, such as extension of term, introduction of grace periods, reduction of rate or partial debt forgiveness;
(ii) there is the contracting of a new credit operation to settle the existing debt (total or partial); or
(iii) the new terms of the contract are more favourable than those applied to other clients with the same risk profile.

Unmarking of a restructured credit due to the customer's financial difficulties can only occur after a minimum period of two years from the date of restructuring, provided that the following conditions are cumulatively verified:

(i) regular payment of principal and interest;
(ii) the customer has no matured principal or interest; and
(iii) there has been no debt restructuring mechanisms by the client during this period.

The values of credit restructured due to the client's financial difficulties on December 31, 2023 and 2022 are the following:

(thousand of Euros)

	2023	2022
Corporate Loans	1 052 727	1 179 166
Mortgage Loans	177 851	184 859
Other Loans to Individuals	57 273	82 298
Total	**1 287 851**	**1 446 323**

Loans marked as restructured due to financial difficulties include loans that are currently performing, classified in stage 2, and that are in the curing period.

The detail of the restructuring measures applied to restructured credits on December 31, 2023 and 2022 is presented below:

(thousand of Euros)

Issue	2023								
	Performing			Non Performing			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Forgiveness of capital or interest	39	9 441	471	52	73 130	46 122	91	82 571	46 593
Assets received for partial credit settlement	22	1 027	164	7	6 450	5 184	29	7 477	5 348
Interest capitalization	15	5 010	824	112	48 582	32 057	127	53 592	32 881
New credit for total or partial settlement of existing debt	1 158	191 527	15 457	577	134 001	69 788	1 735	325 528	85 245
Extension of repayment term	1 399	225 266	35 487	444	253 541	107 043	1 843	478 807	142 530
Introduction of grace period for capital or interest	913	138 625	13 303	116	38 770	21 040	1 029	177 395	34 343
Reduction of interest rates	414	69 762	4 571	87	22 966	9 186	501	92 728	13 757
Change of lease payment plan	105	13 554	459	63	5 829	2 533	168	19 383	2 992
Change in the periodicity of interest payments	6	1 840	257	3	388	243	9	2 228	500
Others	1 429	40 593	790	289	7 549	2 681	1 718	48 142	3 471
Total	**5 500**	**696 645**	**71 783**	**1 750**	**591 206**	**295 877**	**7 250**	**1 287 851**	**367 660**

(thousand of Euros)

Issue	2022								
	Performing			Non Performing			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Forgiveness of capital or interest	41	13 990	901	64	100 870	57 886	105	114 860	58 787
Assets received for partial credit settlement	23	1 068	164	8	146	129	31	1 214	293
Interest capitalization	16	4 965	923	87	52 218	29 659	103	57 183	30 582
New credit for total or partial settlement of existing debt	1 056	192 245	14 193	528	179 421	80 151	1 584	371 666	94 344
Extension of repayment term	1 374	262 543	50 340	635	236 658	150 998	2 009	499 201	201 338
Introduction of grace period for capital or interest	818	115 453	6 867	172	71 851	27 533	990	187 304	34 400
Reduction of interest rates	482	40 604	461	40	76 768	29 642	522	117 372	30 103
Change of lease payment plan	120	16 763	1 639	62	12 183	6 139	182	28 946	7 778
Change in the periodicity of interest payments	6	2 014	207	3	674	198	9	2 688	405
Others	1 513	52 391	1 323	431	13 498	5 343	1 944	65 889	6 666
Total	**5 449**	**702 036**	**77 018**	**2 030**	**744 287**	**387 678**	**7 479**	**1 446 323**	**464 696**

The movement of restructured credits during the exercises 2023 and 2022 was as follows:

(thousand of Euros)

	2023	2022
Opening balance	**1 446 323**	**1 561 788**
Restructured loans in the period	444 618	374 775
Reclassified loans to "normal"	(62 023)	(38 668)
Written off loans	(108 249)	(127 276)
Others	(432 818)	(324 296)
Closing balance	**1 287 851**	**1 446 323**

Note 23 – Derivatives - Hedge Accounting and Fair Value Variation of Hedged Items

As of December 31, 2023, and 2022, the fair value of hedging derivatives on the balance sheet is analysed as follows:

(thousand of Euros)

	2023	2022
Hedging derivatives	**558 334**	**443 267**
Assets	683 063	562 845
Liabilities	(124 729)	(119 578)
Fair value component of the assets and liabilities hedged for interest rate risk	**(86 052)**	**(395 677)**
Financial assets at amortised cost	**(143 082)**	**(383 689)**
Securities	(59 584)	(218 545)
Loans and advances to customers	(83 498)	(165 144)
Financial assets at fair value through other comprehensive income	**(5 019)**	**(11 988)**
Securities (*)	(5 019)	(11 988)
Financial Liabilities	**62 049**	**-**
Due to customers	62 049	-

* Amount recorded in fair value reserves transferred to results

The fair value changes associated with the above-described assets and liabilities and their respective derivatives are recorded in the financial year's results under the Gains or losses from hedge accounting line (see Note 12).

The Group proceeds with the calculation of the "Credit Valuation Adjustment" (CVA) for derivative instruments according to the methodology described in Note 40 - Fair value of financial assets and liabilities.

Fair value hedging

The fair value hedge operations on December 31, 2023, and 2022 can be analysed as follows:

(thousand of Euros)

2023							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives (2)	Change in fair value of derivative in period	Fair value component of hedged item (1)	Change in fair value component of hedged item in period (1)
Interest Rate Swap	Securities at amortized cost	Interest rate	3 572 250	256 814	(153 096)	(59 584)	158 961
Interest Rate Swap/ CIRS	Loans and advances to customers	Interest rate and exchange rate	1 733 053	96 273	(75 240)	(83 498)	81 590
Interest Rate Swap	Securities at fair value through other comprehensive income	Interest rate	130 000	12 480	(6 537)	(5 019)	6 969
Interest Rate Swap	Due to customers	Interest rate	1 500 000	56 920	59 482	62 049	(62 049)
			6 935 303	**422 487**	**(175 391)**	**(86 052)**	**185 471**

1) Attributable to the covered risk. The component of the securities at the amortized cost is recorded together with the balance sheet value of the securities

(2) Includes accrued interest

(thousand of Euros)

2022							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives (2)	Change in fair value of derivative in period	Fair value component of hedged item (1)	Change in fair value component of hedged item in period (1)
Interest Rate Swap	Securities at amortized cost	Interest rate	2 278 250	359 089	214 274	(218 545)	(215 410)
Interest Rate Swap/ CIRS	Loans and advances to customers	Interest rate and exchange rate	1 650 352	166 110	192 999	(165 144)	(198 940)
Interest Rate Swap	Securities at fair value through other comprehensive income	Interest rate	100 000	19 140	27 272	(11 988)	(27 299)
			4 478 602	**544 339**	**434 545**	**(395 677)**	**(441 649)**

1) Attributable to the covered risk. The component of the securities at the amortized cost is recorded together with the balance sheet value of the securities

(2) Includes accrued interest

As of December 31, 2023, the ineffective portion of fair value hedge operations, which resulted in a gain of 10.1 million euros, was recorded by offsetting the results (December 31, 2022: cost of 7.1 million euros). The Group periodically carries out effectiveness tests of existing hedge relationships.

Cash flow hedging

(thousands of euros)

2023					
Hedged item	Asset book value	Notional	Derivative book value	Cash flow hedge reserve	Ineffectiveness value - accounted in net income
Loans to individuals	6 732 000	6 732 000	135 847	92 557	10 269
	6 732 000	**6 732 000**	**135 847**	**92 557**	**10 269**

(thousands of euros)

2022					
Hedged item	**Asset book value**	**Notional**	**Derivative book value**	**Cash flow hedge reserve**	**Ineffectiveness value - accounted in net income**
Loans to individuals	4 732 583	4 732 000	(101 072)	(100 418)	(881)
	4 732 583	**4 732 000**	**(101 072)**	**(100 418)**	**(881)**

Note 24 - Investments in Subsidiaries, Joint Ventures and Associates

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

(thousands of Euros)

	Acquisition cost		Economic interest (b)		Gross Book Value		Impairment		Net Book Value		Profit / (losses) attributable to the Group	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
LOCARENT	2 967	2 967	50,00%	50,00%	24 283	23 231	-	-	24 283	23 231	1 814	1 326
LINEAS a)	-	146 769	-	40,00%	-	68 438	-	(7 406)	-	61 032	-	-
EDENRED	4 984	4 984	50,00%	50,00%	3 851	2 932	-	-	3 851	2 932	1 673	967
UNICRE b)	11 497	11 497	17,50%	17,50%	30 313	31 506	-	-	30 313	31 506	3 639	4 660
Outras	2 119	2 119			1 064	1 043	-	-	1 064	1 043	89	1 401
	21 567	**168 336**			**59 511**	**127 150**	**-**	**(7 406)**	**59 511**	**119 744**	**7 215**	**8 354**

a) Reclassified to discontinued operations (See Note 30)
b) 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.

The financial data related to the most relevant associate companies are presented in the following table:

(thousands of Euros)

	Assets		Liabilities		Equity		Income		Profit / (loss) for the exercise	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
LOCARENT	339 602	302 057	291 651	256 207	47 951	45 850	37 602	35 080	3 628	2 651
LINEAS a)	-	165 608	-	77 396	-	88 212	-	52 870	-	51 869
EDENRED	110 315	88 605	96 391	76 520	13 924	12 085	9 310	7 528	3 345	1 934
UNICRE b)	506 267	452 219	333 049	272 185	173 218	180 034	188 696	206 048	20 796	26 631

Note: Data adjusted for consolidation purposes

a) Reclassified to discontinued operations (See Note 30)
b) Although the Group's economic interest is less than 20%, this entity was included in the balance sheet consolidated by the equity method as the Group has a significant influence on its activities.

The movement verified in this line item for the exercises ended December 31, 2023 and 2022 is as follows:

(thousands of Euros)

	2023	2022
Balance at the beginning of the exercise	**119 744**	**94 590**
Share of profits / (losses) of associated companies	7 215	8 353
Impairment in associated companies	7 406	21 546
Fair value reserves of investments in associated companies	270	332
Dividends received	(15 299)	(4 679)
Foreign exchange differences and other a)	(59 825)	(398)
Balance at the end of the exercise	**59 511**	**119 744**

a) As at 31 December 2023, includes 59,190 thousand euros relating to the reclassification of Lineas for discontinued operations

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

		(thousands of Euros)
	2023	**2022**
Balance at the beginning of the exercise	**7 406**	**41 751**
Write-off	-	(9 939)
Reversals	(7 406)	(21 546)
Foreign exchange differences	-	(2 860)
Balance at the end of the exercise	**-**	**7 406**

Note 25 – Property, Plant and Equipment

This line item on December 31, 2023, and 2022 is analyzed as follows:

		(thousand of Euros)
	2023	**2022**
Real estate properties	**276 994**	**261 231**
For own use	191 116	175 117
Improvement in leasehold properties	85 878	86 114
Equipment	**227 463**	**236 555**
Computer equipment	126 440	118 739
Fixtures	25 928	34 571
Furniture	51 497	56 890
Security equipment	13 604	17 471
Transport equipment	9 360	8 215
Right of use assets	583	583
Other	51	86
Assets under right of use	**84 626**	**70 656**
Real estate properties	61 982	58 898
Equipment	22 644	11 758
Work in progress	**63 067**	**62 130**
Improvements in leasehold properties	9 493	32 004
Real estate properties	53 282	29 827
Equipment	47	22
Others	245	277
	652 150	**630 572**
Accumulated impairment	**(10 449)**	**(11 445)**
Accumulated depreciation	**(277 947)**	**(319 863)**
	363 754	**299 264**

The movement in this line item was as follows:

(thousand of Euros)

	Real Estate Properties	Equipment	Right of Use Assets	Work in Progress	Total
Acquisition Cost					
Balance at 31 December 2021	**366 788**	**249 762**	**65 812**	**11 185**	**693 547**
Acquisitions	42 414	24 138	19 699	51 282	137 533
Disposals/write-offs **(b)**	(146 117)	(37 050)	(14 855)	(15)	(198 037)
Transfers **(a)**	(1 848)	(310)	-	(322)	(2 480)
Foreign exchange differences and other	(6)	15	-	-	9
Balance at 31 December 2022	**261 231**	**236 555**	**70 656**	**62 130**	**630 572**
Acquisitions	4 250	15 197	20 815	47 814	88 076
Disposals/write-offs	(42 056)	(24 291)	(6 844)	-	(73 191)
Transfers	45 145	(1)	-	(46 870)	(1 726)
Foreign exchange differences and other	8 424	3	(1)	(7)	8 419
Balance at 31 December 2023	**276 994**	**227 463**	**84 626**	**63 067**	**652 150**
Depreciation					
Balance at 31 December 2021	**204 112**	**208 392**	**28 877**	**-**	**441 381**
Depreciation	5 348	13 045	10 639		29 032
Disposals/write-offs **(b)**	(107 935)	(36 589)	(7 138)		(151 662)
Transfers **(a)**	(771)	(309)	-		(1 080)
Foreign exchange differences and other	2 106	86	-		2 192
Balance at 31 December 2022	**102 860**	**184 625**	**32 378**	**-**	**319 863**
Depreciation	6 006	12 811	11 343	-	30 160
Disposals/write-offs	(42 061)	(24 287)	(5 868)	-	(72 216)
Transfers	(879)	(1)	-	-	(880)
Foreign exchange differences and other	1 038	197	(215)	-	1 020
Balance at 31 December 2023	**66 964**	**173 345**	**37 638**	**-**	**277 947**
Impairment					
Balance at 31 December 2021	**13 221**	**-**	**-**	**-**	**13 221**
Impairment loss	46	-	-	-	46
Reversal of impairment losses	(1 822)	-	-	-	(1 822)
Balance at 31 December 2022	**11 445**	**-**	**-**	**-**	**11 445**
Reversal of impairment losses	(996)	-	-	-	(996)
Balance at 31 December 2023	**10 449**	**-**	**-**	**-**	**10 449**
Net book value at 31 December 2023	**199 581**	**54 118**	**46 988**	**63 067**	**363 754**
Net book value at 31 December 2022	**146 926**	**51 930**	**38 278**	**62 130**	**299 264**

(a) includes 3,471 thousand euros of fixed assets (real estate and equipment) and 1,650 thousand euros of accumulated depreciation sums for discontinued counters that have been transferred at net value to the appropriate balance sheet items.

(c) Includes 106,395 thousand euros of fixed assets (real estate and equipment) and 68,164 thousand euros of accumulated depreciation stemming from the Head Office building that was sold in 2022.

In September 2022, the sale of the headquarters building was finalized for the amount of 112.2 million euros, the gross book value was 106.4 million euros (38.2 million euros net of accumulated depreciations) resulting in a capital gain of 67 million euros, net of costs related to the sale process. Until the completion of the construction of the new headquarters, the Bank will continue to use the building, having signed a lease agreement for this purpose.
Real Estate in progress in progress include the value of 46,848 euros relating to the construction project of the new building for the Bank's headquarters. Construction is expected to be completed and use of this asset will begin in 2024.

Note 26 - Investment Properties

The movement in the investment properties line item is presented as follows:

(thousands of Euros)	2023	2022
Balance at the beginning of the exercise	**499 567**	**625 187**
Acquisitions	611	16 464
Disposals	(115 049)	(242 068)
Improvements	2 707	10 139
Changes in fair value	16 526	91 133
Other	(10 567)	(1 288)
Balance at the end of the exercise	**393 795**	**499 567**

According to the accounting policy described in Note 7.15, the carrying value of investment properties corresponds to their fair value as determined by a registered and independent appraiser with recognized professional qualifications and experience in the respective category and location of the property. For determining the fair value of these assets, generally accepted criteria and methodologies are used, including analyses by the income method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 40).

Investment properties are a group of assets held by Real Estate Funds and Companies and include commercial properties leased to third parties to generate income or properties for capital appreciation. Most of the rental contracts do not have a specific term, allowing the tenant to cancel them at any time. However, for a small portion of these commercial properties leased to third parties, there is a non-cancellation clause of approximately 10 years initially. Subsequent rents are negotiated with the tenant.

During 2023, the increase in the fair value of investment properties, amounting to 16.5 million euros (December 31, 2022: increase of 91.1 million euros) (see Note 14), and the rents registered in the lease of investment properties, amounting to 14.4 million euros (December 31, 2022: 17.1 million euros), are recorded in Other operating income and expenses.

Note 27 - Intangible Assets

This line item on December 31, 2023, and 2022 is analysed as follows:

	(thousands of Euros) 2023	2022
Net Goodwill	**-**	**-**
Goodwill	13 907	13 907
Impairment losses	(13 907)	(13 907)
Other intangible assets	**86 748**	**69 832**
Internally developed	**69 512**	**69 512**
Software - Automatic data processing system	69 511	69 511
Other	1	1
Acquired from third parties	**412 162**	**374 108**
Software - Automatic data processing system	412 162	374 108
Work in progress	**18 140**	**31 986**
Impairment losses	**(18)**	**-**
Accumulated amortization	**(413 048)**	**(405 774)**
	86 748	**69 832**

The movement in this item was as follows:

(thousands of Euros)

	Goodwill	Software	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2021	**13 907**	**456 870**	**13 455**	**484 232**
Acquisitions				
Acquired from third parties	-	6 560	18 746	25 306
Disposals / write-offs	-	(20 030)		(20 030)
Transfers	-	216	(216)	-
Exchange variation and other movements	-	4	1	5
Balance as at 31 December 2022	**13 907**	**443 620**	**31 986**	**489 513**
Acquisitions				
Acquired from third parties	-	663	29 700	30 363
Disposals / write-offs	-	(6 155)	-	(6 155)
Transfers	-	43 546	(43 546)	-
Balance as at 31 December 2023	**13 907**	**481 674**	**18 140**	**513 721**
Amortizations				
Balance as at 31 December 2021	**-**	**402 339**	**-**	**402 339**
Amortization for the period	-	23 461	-	23 461
Disposals / write-offs	-	(20 026)	-	(20 026)
Balance as at 31 December 2022	**-**	**405 774**	**-**	**405 774**
Amortization for the period	-	13 428	-	13 428
Disposals / write-offs	-	(6 155)	-	(6 155)
Exchange variation and other movements	-	1	-	1
Balance as at 31 December 2023	**-**	**413 048**	**-**	**413 048**
Impairment				
Balance as at 31 December 2021	**13 907**	**-**	**-**	**13 907**
Balance as at 31 December 2022	**13 907**	**-**	**-**	**13 907**
Impairment losses	-	18	-	18
Balance as at 31 December 2023	**13 907**	**18**	**-**	**13 925**
Net balance at 31 December 2023	**-**	**68 608**	**18 140**	**86 748**
Net balance at 31 December 2022	**-**	**37 846**	**31 986**	**69 832**

Goodwill is recorded in accordance with the accounting policy described in Note 6, and is analysed as follows:

(thousands of Euros)

	2023	2022
Subsidiaries	**13 907**	**13 907**
Righthour	13 526	13 526
GNB Concessões	381	381
Impairment losses	**(13 907)**	**(13 907)**
Righthour	(13 526)	(13 526)
GNB Concessões	(381)	(381)
	-	**-**

Note 28 – Taxes

The tax assets and liabilities recognized in the balance sheet on December 31, 2023, and 2022 can be analyzed as follows:

(thousands of Euros)

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Current tax	**29 376**	**10 808**	**32 570**	**7 582**
Corporate tax recoverable	4 327	10 657	1 793	7 248
Other	25 049	151	30 777	334
Deferred tax	**901 660**	**-**	**923 430**	**845**
	931 036	**10 808**	**956 000**	**8 427**

The deferred tax assets and liabilities recognized in balance as of December 31, 2023 and 2022 are detailed as follows:

(thousands of Euros)

	Assets		Liabilities		Net	
	2023	2022	2023	2022	2023	2022
Financial instruments	96 519	94 830	(53 817)	(14 637)	42 702	80 193
Credit impairment (not covered by the special regime)	280 414	331 523	-	-	280 414	331 523
Credit impairment (covered by the special regime)	296 986	295 310	-	-	296 986	295 310
Other tangible assets	-	-	(14)	(76)	(14)	(76)
Provisions	102 239	100 914	-	-	102 239	100 914
Pensions	44 932	51 049	-	-	44 932	51 049
Longevity premiums	85	20	-	-	85	20
Others	810	991	-	(845)	810	146
Reportable tax losses	133 506	63 506	-	-	133 506	63 506
Deferred tax asset / (liability)	**955 491**	**938 143**	**(53 831)**	**(15 558)**	**901 660**	**922 585**
Asset / liability set-off for deferred tax purposes	(53 831)	(14 713)	53 831	14 713	-	-
Net Deferred tax asset / (liability)	**901 660**	**923 430**	**-**	**(845)**	**901 660**	**922 585**

As of December 31, 2023, the deferred tax related to the majority of temporary differences was calculated based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Tax rate of 1.5% and an average State Tax rate of 8.5%.

On September 4, 2019, Law No. 98/2019 was published, which amended the IRC Code in terms of the tax treatment of impairments of credit institutions, creating rules applicable to impairment losses recorded in the tax periods that began prior to January 1, 2019, which are not yet fiscally accepted. This law established a period of adaptation for the aforementioned tax regime, which allows taxpayers in the five tax periods starting on or after January 1, 2019, to continue applying the tax regime in force before the publication of this law, except if they exercise "opt in" by the end of October of each tax period of the adaptation regime. Therefore, as of December 31, 2023, the Group continued to apply the Regulatory Decree No. 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework resulting from Notice No. 3/95 of the Bank of Portugal.

As of December 31, 2023, and 2022, the Novobanco Group maintains registered deferred tax assets associated with impairments not fiscally accepted for credit operations, which have already been deducted from the asset, taking into account the expectation that they will contribute to the formation of taxable profit in the tax periods in which the conditions required for their tax deductibility are met. As of December 31, 2023, the amounts maintained by the Novobanco Group referring to this situation amount to about 55 million euros (December 31, 2022: 57 million euros).

The movements in the balance sheet's deferred tax items had the following counterparts:

		(thousands of Euros)
	2023	**2022**
Balance at the beginning of the exercise	922 585	741 204
Recognised in net income	9 365	63 349
Recognised in Fair value reserves	(38 658)	81 804
Conversion of Deferred taxes into Tax credits	7 746	33 640
Foreign exchange differences and other	622	2 588
Balance at the end of the exercise (Assets / (Liabilities))	**901 660**	**922 585**

The tax recognized in profits and reserves for the exercises ended in 2023 and 2022 had the following origins:

				(thousands of Euros)
	2023		**2022**	
	Recognised in net income	**Recognised in reserves**	**Recognised in net income**	**Recognised in reserves**
Financial instruments	(1 330)	38 658	15 777	(81 804)
Impairment losses on loans and advances to customers	57 179	-	13 170	-
Other tangible assets	(62)	-	(7 953)	-
Provisions	(1 320)	-	(18 673)	-
Pensions	6 053	-	(2 048)	-
Others	115	-	(867)	-
Tax losses carried forward	(70 000)	-	(62 755)	-
Deferred taxes	**(9 365)**	**38 658**	**(63 349)**	**(81 804)**
Current taxes	**15 134**	**-**	**10 048**	**-**
Total tax recognised (income) / (expense)	**5 769**	**38 658**	**(53 301)**	**(81 804)**

The reconciliation of the tax rate, regarding the amount recognized in results, can be analysed as follows:

(thousands of Euros)

	2023		2022	
	%	Amount	%	Amount
Income before tax		**753 988**		**532 643**
Tax rate of novobanco	21,0		21,0	
Income tax calculated based on the tax rate of novobanco		**158 337**		**111 855**
Tax-exempt dividends	(0,9)	(6 502)	(0,2)	(1 248)
Impairment on investments in subsidiaries or associated companies subject to Participation Exemption	0,1	464	(0,7)	(3 525)
Rate differential on the generation / reversal of timing differences	0,6	4 526	2,2	11 949
Profits / losses in units with a more favorable tax regime	(0,9)	(6 899)	(1,2)	(6 518)
Taxes of Bank Branches and tax withheld abroad	0,0	147	0,2	956
Impairments and provisions for loans	5,5	41 215	(4,2)	(22 476)
Impairment and fair value adjustments on securities	(0,4)	(2 665)	1,6	8 648
Provisions for other risks, costs and contingencies	(1,0)	(7 306)	(2,0)	(10 519)
Employees long term benefits	0,5	4 070	(0,4)	(2 163)
Deferred tax assets not recognized under tax losses for the exercise	-	-	7,7	40 811
Contribution and Solidarity additional contribution over the Banking Sector	1,0	7 409	1,3	7 168
Deferred taxes on tax losses from previous years	(9,3)	(69 755)	(11,8)	(62 755)
Capital gains/losses on asset sales	(11,6)	(87 449)	(19,1)	(101 924)
Other	(4,0)	(29 823)	(4,4)	(23 560)
Total income recognised	**0,8**	**5 769**	**(10,0)**	**(53 301)**

Recoverability analysis of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be used. The Group assessed the recoverability of its deferred taxes on the balance sheet based on the expectation of future taxable profits until 2028, considering that 5 years is a reasonable period for projecting future results. The recovery of deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable profits.

The evaluation of the recoverability of deferred tax assets is done annually. As of December 31, 2023, the exercise was carried out based on the average of the provisional version of the medium-term plan ("MTP") prepared for the 2024-2026 period and a stress scenario exercise, preliminarily appreciated by the General Supervisory Board in December 2023 and which, after including the final 2023 accounts, will be definitively approved.

In evaluating the expected generation of future taxable results in Portugal for the purposes of the recovery exercise above, the following effects were taken into account:

- In addition to detailed estimates until 2026, pre-tax results from 2026 are maintained;

- Interest rate benchmarks aligned with the macroeconomic outlook for the three-year period 2024-2026 and the ECB's monetary policy decisions;

- Evolution of the commercial banking product based on the expected evolution of interest rate references, combined with the prospect of growth in commercial volumes, as well as the development of new projects in terms of commission generated with means of payment and asset management;

- Maintenance of operating costs, despite the expected increase in inflation, based on the specific cost reduction plan and the implementation of a new distribution model and, generally, the simplification and increase in efficiency of processes, in particular the focus on the component digital; It is

- Provisions for credit impairments in line with the evolution of the Bank's activity and supported by macroeconomic projections, taking into account in particular the effort made in recent years in provisioning the credit portfolio and the progressive convergence towards gradually normalized risk costs.

Depending on the analysis mentioned above, as of December 31, 2023, the Group has recognised deferred tax assets associated with tax losses in the balance sheet in the amount of 133 million euros (31 December 2022: 63 million euros).

Based on the above analysis, the amount of unrecognized deferred taxes related to tax losses, by year of expiry, is as follows:

		(thousands of Euros)
	31.12.2023	**31.12.2022**
No expiry date	**921 359**	**933 178**
With expiry date	**439 651**	**478 545**
2025	92 332	91 728
2026	135 422	135 508
2029	170 236	170 236
2032	41 661	81 073
	1 361 010	**1 411 723**

Additionally, the Group became aware of the tax authority's position regarding adjustments arising from the application of fair value to units in real estate investment funds and venture capital. These adjustments resulting from the application of the fair value model to units in real estate investment funds and venture capital funds do not contribute to the formation of taxable profit in the tax period in which they are recognized in the accounts, only having tax relevance at the time of their realisation, namely in the transmission of units or liquidation of funds. The total amount of deferred tax assets relating to these temporary differences, not recognized in the balance sheet, as of December 31, 2023 amounts to 176 million euros (December 31, 2022: 229 million euros).

Special Regime applicable to deferred tax assets

In 2014, novoBanco and certain Group entities joined the special regime applicable to deferred tax assets, after approval by 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 that resulted from the non-deduction of expenses and negative asset variations related to impairment losses on credits and post-employment or long-term worker benefits.

The amendments to the above-mentioned regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above-mentioned expenses and negative asset changes, accounted for in tax periods that start on or after January 1, 2016, as well as the deferred taxes associated with them. Thus, the deferred taxes covered by this special regime correspond only to the expenses and negative asset changes determined until December 31, 2015.

The deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer registers a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency declared by court judgment.

Upon conversion into a tax credit (which is not due to liquidation or insolvency), a special reserve should be created by the value of the respective tax credit increased by 10%. The exercise of conversion rights results in an increase in the taxpayer's capital by incorporating the special reserve and issuing new ordinary shares. This special reserve cannot be distributed.

Following the determination of a negative net result in the 2020 financial year, the converted deferred tax assets, taking as a reference the eligible deferred tax assets at the closing date of that financial year, amount to 116,975 thousand euros. This amount has already been validated by the Tax Authorities

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into tax credits and the creation of the special reserve must be certified by an official auditor and confirmed by the Tax and Customs Authority, within the procedures for reviewing the determination of the taxable amount relating to the relevant tax periods.

Note 29 – Other Assets

The item of Other Assets as of December 31, 2023, and 2022, is analyzed as follows:

	(thousands of Euros)	
	2023	**2022**
Escrow accounts	221 467	251 225
Derivative products	*92 648*	*133 864*
Collateral CLEARNET and VISA	*38 942*	*41 423*
Collateral deposits relating to reinsurance operations	*61 067*	*71 387*
Other collateral deposits [b)]	*4 551*	*4 552*
Recoverable government subsidies on mortgage loans	21 216	18 714
Public sector	222 522	498 349
Contingent Capital Agreement	198 180	198 180
Other debtors	424 682	328 366
Shareholder loans and supplementary capital contributions	*64 178*	*64 178*
Sale of non-performing loans	*2 170*	*2 173*
Sale of real estate	*42 646*	*710*
Sale of restructuring funds	*20 881*	*20 881*
Others	*294 807*	*240 424*
Income receivable	32 711	127 771
Deferred costs	14 566	13 984
Retirement pensions and health benefits (see Note 16)	18 704	59 616
Precious metals, numismatics, medal collection and other liquid assets	10 551	10 440
Real estate properties a)	114 379	237 243
Equipment a)	1 795	3 013
Stock exchange transactions pending settlement	-	4 463
Other assets	18 124	122 153
	1 298 897	**1 873 517**
Impairment losses	**(181 639)**	**(255 033)**
Real estate properties a)	*(48 067)*	*(123 008)*
Equipment a)	*(1 039)*	*(2 195)*
Other debtors - Shareholder loans, supplementary capital contributions	*(68 005)*	*(76 968)*
Other	*(64 528)*	*(52 862)*
	1 117 258	**1 618 484**

a) Real estate properties and equipment received in settlement of loans and discontinued
b) Includes the amount of 4.5 million euros in the escrow account related to the sale of the Headquarter building

The escrow accounts item includes, among others, the deposits made by the Group as a surety to contract derivative products in an organized market (margin accounts) and over-the-counter market (Credit Support Annex – CSA). The CSAs take the form of a collateral agreement established between two parties that negotiate over-the-counter derivatives among themselves, with the main objective to provide protection against credit risk, establishing a set of rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have a minimum risk margin that can change according to the parties' ratings.

The decrease seen during the 2023 fiscal year in the Administrative Public Sector heading includes about 249.8 million euros related to the capital conversion of rights resulting from the Special Regime Applicable to Deferred Tax Assets (on December 31, 2022: 272.9 million euros), as detailed in Note 34.

Securities transactions to be regularized reflect transactions conducted with securities, registered on the trade date, as per the accounting policy described in Note 7.6, and awaiting settlement.

The item property and equipment refer to assets received by credit recovery and discontinued facilities, for which the Group aims for immediate sale.

The Group has implemented a plan aimed at the immediate sale of real estate registered in other assets, continuing to develop all efforts to carry out the established disposal program, highlighted by

(i) the existence of a website specifically dedicated to the sale of properties;
(ii) the development and participation in real estate events both in the country and abroad;
(iii) the signing of protocols with various real estate intermediaries; and
(iv) the promotion of regular auctions. Please note that the Group, despite maintaining the intention to sell these properties, regularly requests the Bank of Portugal under Article 114 of RGICSF, the extension of the property holding period acquired in reimbursement of its own credit.

During the 2023 fiscal year, there was registered a recovery of impairment of 25.0 million euros for the properties in the portfolio (December 31, 2022: recovery of impairment of 12.8 million euros).

Movements occurred in impairment losses are presented as follows:

		(thousands of Euros)
	2023	**2022**
Balance at the beginning of the exercise	**255 033**	575 441
Dotation for the exercise	22 756	18 458
Write off	(54 222)	(165 464)
Write-back for the exercise	(42 615)	(24 393)
Foreign exchange differences and other (a)	687	(149 009)
Balance at the end of the exercise	**181 639**	**255 033**

(a) In 2022 includes EUR 122,291 thousand of Fungere assets due to the merger in Fungepi.

The movements of the properties were as follows:

		(thousands of Euros)
	2023	**2022**
Balance at the beginning of the exercise	**237 243**	**589 390**
Additions	9 032	17 174
Disposals	(131 146)	(194 033)
Other movements (a)	(750)	(175 288)
Balance at the end of the exercise	**114 379**	**237 243**

(a) Includes 156,489 thousand euros of Fungere's assets which, with the merger in Fungepi, were transferred to Investment Properties during the financial year 2022.

As of December 31, 2023, the value of discontinued facilities included in the Property item amounts to 10,922 thousand euros (December 31, 2022: 9,970 thousand euros), with the Group having recorded an impairment for these assets in the total amount of 3,359 thousand euros (December 31, 2022: 2,954 thousand euros).

Note 30 – Non-current Assets and Groups Held for Sale and Liabilities Included in Groups Held for Sale

The detail of Non-current Assets and Liabilities classified as held for sale as of December 31, 2023, and 2022, net of consolidation adjustments, is as follows:

(thousands of Euros)

	2023			2022		
	Assets	Liabilities	Net Income	Assets	Liabilities	Net Income
Non-current assets and liabilities disposal groups classified as held for sale	**53 627**	**13 107**	**(412)**	**68 104**	**15 492**	**(270)**
International Investment Bank, S.A. (former BICV)	1 300	-	-	1 300	-	-
Banco Well Link (former NB Ásia)	-	-	-	2 175	-	-
Económico FI	3 060	-	-	3 060	-	-
Greendraive	793	1 213	(97)	1 596	2 028	(270)
Barrosinha/Compagris	37 436	11 397	-	30 788	5 749	-
Solago	-	-	(1 121)	17 387	6 882	-
Lineas	59 190	-	-	-	-	-
Ijar Leasing	9 051	-	-	9 051	-	-
Imbassaí	1 987	497	806	2 747	833	-
Impairment losses	**(23 003)**	**-**	**-**	**(8 517)**	**-**	**-**
Barrosinha/Compagris	(14 425)	-	-	-	-	-
Económico FI	(3 060)	-	-	(2 196)	-	-
Greendraive	(793)	-	-	(1 596)	-	-
Ijar Leasing	(4 725)	-	-	(4 725)	-	-
	89 814	**13 107**	**(412)**	**59 587**	**15 492**	**(270)**

The impairment movement for Non-current Assets and Liabilities held for sale classified as held for sale is presented as follows:

(thousands of Euros)

	2023	2022
Balance at the beginning of the exercise	**8 517**	**8 475**
Charges / (Write-backs)	14 486	(664)
Write-off	-	(3 837)
Foreign exchange differences and other	-	4 543
Balance at the end of the exercise	**23 003**	**8 517**

Compagris, Barrosinha and Solago

In December 2022, following the completion of the Restructuring Funds sale process, novobanco acquired 100% of the share capital of Compagris and Barrosinha and 84.16% of Solago's capital. Since the Group plans to sell these assets, they were classified as discontinued operations. In December 2023 the Group proceeded with the disposal of Solago, recognizing a loss of 1.2 million euros.

Lineas

In December 2023, following the signing of purchase and sale agreement for Lineas, this investment was reclassified from investments in associates to discontinued operations.

Note 31 – Financial Liabilities at amortised cost

This item as of December 31, 2023 and 2022, is analyzed as follows:

(thousands of Euros)

	2023			2022		
	Measured at amortised cost	Fair value changes *	Total	Measured at amortised cost	Fair value changes *	Total
Deposits from banks	5 745 326	-	5 745 326	9 705 154	-	9 705 154
Due to customers	29 984 273	62 049	30 046 322	29 277 858	-	29 277 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 107 585	-	1 107 585	1 628 897	-	1 628 897
Other financial liabilities	493 171	-	493 171	375 268	-	375 268
	37 330 355	**62 049**	**37 392 404**	**40 987 177**	**-**	**40 987 177**

* Variation in the fair value of the items covered by the interest rate hedging portfolio

31.1. Resources from central Banks and other credit institutions

The balance of the item Resources from Central Banks and other credit institutions is composed, as to its nature, as follows:

(thousands of Euros)

	2023	2022
Deposits from Central Banks	**1 128 807**	**6 327 198**
From the European System of Central Banks	1 128 807	6 327 198
Deposits	178 807	198
Other funds	950 000	6 327 000
Deposits from Other credit institutions	**4 616 519**	**3 377 956**
Domestic	**173 734**	**248 879**
Deposits	165 922	209 663
Other funds	7 812	39 216
Foreign	**4 442 785**	**3 129 077**
Deposits	131 721	459 328
Loans	375 610	479 880
Operations with repurchase agreements	3 867 053	2 150 824
Other resources	68 401	39 045
	5 745 326	**9 705 154**

As of December 31, 2023, the balance of the item Resources from the European System of Central Banks includes 950 million euros collateralized by the Group's financial assets, within the framework of the third series of extended term refinancing operations of the European Central Bank (TLTRO III), which will mature in December 2024.

In 2023, 5.4 billion euros of TLTRO III were repaid. To cope with the maturity of these lines, novobanco adopted, among others, the strategy of exiting TLTRO III through reducing the size of the balance sheet and increasing other stable financing instruments, mainly interbank operations collateralized by retained covered bonds. As a result, medium-term repurchase agreement collateralized financing increased by 2.6 billion euros in 2023, which added to the figure of 2.6 billion euros recorded in 2022 for this type of funding, to mitigate the impact of shortening the term and/or maturity of TLTRO III, totals 5.2 billion euros (including 1.4 billion euros from operations classified under Due to Customers in Note 31.2).

The balance of the repurchase agreement operations item corresponds to securities sale operations with repurchase agreement (repos), recorded according to the accounting policy described in Note 7.18.

31.2. Due to customers

The balance of Due to customers is composed, as to its nature, as follows:

(thousands of Euros)	2023	2022
Demand deposits	**10 906 642**	**13 169 335**
Corporate and other entities	5 641 369	7 101 102
Individuals	5 265 273	6 068 233
Time deposits	**17 233 415**	**15 242 710**
Corporate and other entities	6 419 641	5 076 475
Individuals	10 813 774	10 166 235
Other funds	**1 844 216**	**865 813**
Repurchase agreement	1 366 382	450 906
Other	477 834	414 907
	29 984 273	**29 277 858**
Value adjustments for interest rate risk hedging (see Note 23)	**62 049**	**-**
	30 046 322	**29 277 858**

31.3. Debt securities issued, Subordinated Liabilities and Financial Liabilities associated with transferred assets

This item breakdowns as follows:

(thousands of Euros)	2023	2022
Debt securities issued	**606 085**	**1 168 874**
Euro Medium Term Notes (EMTN)	586 254	563 517
Bonds	19 831	605 357
Subordinated debt	**501 500**	**415 572**
Euro Medium Term Notes (EMTN)	501 500	-
Bonds	-	415 572
Financial liabilities associated to transferred assets	**-**	**44 451**
Asset lending Operations	-	44 451
	1 107 585	**1 628 897**

The key features of these liabilities as of December 31, 2023, and 2022, are as follows:

(thousands of Euros)

Entity	ISIN	Description	Currency	Issue date	Unit price (€)	Maturity		Interest rate	Market	Carrying Book value 2023	Carrying Book value 2022
Bonds											
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0,07	2025	a)	Euribor 3m + 0,40%	XDUB	18 328	23 989
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1,00	2035	a)	Euribor 3m + 0,60%	XDUB	1 503	1 502
novobanco	PTNOBIOM0014	NB 3,5% 23/07/23	EUR	2021	-	2023		Fixed rate 3,5%	XDUB	-	303 992
novobanco	PTNOBJOM0005	NB 4,25% 09/23	EUR	2021	-	2023		Euribor 3M + 4,25%	XDUB	-	275 874
Euro Medium Term Notes											
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24	EUR	2022	100,00	2026		Fixed rate 5,5%	XDUB	105 475	99 989
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	2043		Fixed rate 3,5%	XLUX	43 958	43 363
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	2043		Fixed rate 3,5%	XLUX	100 110	99 065
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	2043		Fixed rate 3,5%	XLUX	65 655	64 774
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	2043		Fixed rate 3,5%	XLUX	48 260	47 641
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	2048		Zero coupon	XLUX	37 934	35 711
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	2049		Zero coupon	XLUX	46 650	43 694
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	2049		Zero coupon	XLUX	12 977	12 146
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	2051		Zero coupon	XLUX	17 822	16 672
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	2051		Zero coupon	XLUX	12 538	11 729
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	2048		Zero coupon	XLUX	43 072	40 180
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	2052		Zero coupon	XLUX	41 444	38 891
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	2046		Zero coupon	XLUX	8 264	7 710
NB Finance	XS0439764191	EMTN 57	EUR	2009	1,00	2044		Zero coupon	XLUX	2 095	1 952
Subordinated debt											
novobanco	PTNOBFOM0017	NB 06/07/2023	EUR	2018	-	2023		8,50%	XDUB	-	415 572
novobanco	PTNOBLOM0001	NB 9.875% 01/12/33	EUR	2023	100,00	2033		9,875%	XDUB	501 500	-
										1 107 585	**1 584 446**

a) Date of the next call option

The movement occurred in the 2023 and 2022 exercises in liabilities represented by securities, subordinated liabilities and financial liabilities associated with transferred assets was as follows:

(thousands of Euros)

	Responsabilidades representadas por títulos			Subordinated Liabilities			Financial liabilities associated to transferred assets	TOTAL
	Euro Medium Term Notes (EMTN)	Bonds	Total	Euro Medium Term Notes (EMTN)	Bonds	Total	Asset lending operations	
Balance as at 31 December 2021	**447 453**	**606 855**	**1 054 308**	**-**	**415 394**	**415 394**	**44 451**	**1 514 153**
Issues	100 000	6 000	106 000	-	-	-	-	106 000
Reimbursements	-	-	-	-	-	-	-	-
Net purchases	(500)	(13 798)	(14 298)	-	-	-	-	(14 298)
Other movements a)	16 564	6 300	22 864	-	178	178	-	23 042
Balance as at 31 December 2022	**563 517**	**605 357**	**1 168 874**	**-**	**415 572**	**415 572**	**44 451**	**1 628 897**
Issues	-	-	-	500 000	-	500 000	-	500 000
Reimbursements	-	(575 000)	(575 000)	-	(400 000)	(400 000)	-	(975 000)
Net purchases	(527)	(5 677)	(6 204)	-	-	-	-	(6 204)
Other movements	23 264	(4 849)	18 415	1 500	(15 572)	(14 072)	(44 451)	(40 108)
Balance as at 31 December 2023	**586 254**	**19 831**	**606 085**	**501 500**	**-**	**501 500**	**-**	**1 107 585**

a) The other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.

In terms of medium-term financing, in June 2023, the Bank issued a new Tier 2 bond of 500 million euros, maturing on December 1, 2033, with a purchase option 6 months from June 1, 2028, with the aim of replacing the existing Tier 2 bond with a lower spread by 150bps. Through the public offering, the Bank managed to repurchase 206 million euros of the existing Tier 2. The remaining amount was repaid on the call date, which only occurred on July 6, 2023.

The Group did not present any defaults of capital or interest concerning its issued debt in 2023 and 2022 exercises.

Under the Mortgage Bonds Issuance Program, whose maximum amount is 10,000 million euros, the Group has proceeded with issues that as of December 31, 2023, total 5,500 million euros (December 31, 2022: 5,500 million euros), with these issues fully repurchased by the Group. The characteristics of the live issues as of December 31, 2023, and 2022, are as follows:

(thousand of Euros)

Designation	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating		Nominal amount	Book Value	
						Moody's	DBRS		2023	2022
NB 2015 SR.1	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	1 000 000	-	-
NB 2015 SR.2	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	1 000 000	-	-
NB 2015 SR.3	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	1 000 000	-	-
NB 2015 SR.4	07/10/2015	07/10/2028	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	700 000	-	-
NB 2015 SR.5	22/12/2016	22/12/2028	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	500 000	-	-
NB 2019 SR.6	10/12/2019	10/06/2029	Quarterly	Euribor 3 Months + 0,25%	XMSM	Aaa	NR	750 000	-	-
NB 2019 SR.7	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0,25%	XMSM	Aaa	NR	550 000	-	-
								5 500 000	**-**	**-**

These bonds are secured by a set of housing loans and other assets that are segregated as autonomous property in the accounts of the novobanco Group, thus conferring special credit privileges to the holders of these securities over any other creditors. The conditions of these issues fall within Decree-Law No. 59/2006, Notices No. 5, 6 and 8 of 2006 and Instruction No. 13/2006 of the Bank of Portugal. The value of the credits which counter-guarantee these issues amount to 7,442.1 million euros as of December 31, 2023 (December 31, 2022: 6,078.4 million euros) (see Note 22).

Note 32 – Provisions

As of December 31, 2023, and 2022, the Provisions item presents the following movements:

(thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Other Provisions	Total
Balance as at 31 December 2021	**46 686**	**92 336**	**303 812**	**442 834**
Charges / (Write-backs)	1 332	(2 685)	40 598	39 245
Write-off	(28 870)	-	(37 618)	(66 488)
Exchange differences and others	-	246	(2 405)	(2 159)
Balance as at 31 December 2022	**19 148**	**89 897**	**304 387**	**413 432**
Charges / (Write-backs)	6 325	(628)	40 002	45 699
Write-off	(18 697)	-	(10 144)	(28 841)
Exchange differences and others	-	(5 289)	5 828	539
Balance as at 31 December 2023	**6 776**	**83 980**	**340 073**	**430 829**

To meet the financial needs of its customers, the Group assumes various irrevocable commitments and contingent liabilities, which consist of financial guarantees, letters of credit and other credit commitments, which may imply payment by the Group, on behalf of the customers, in the event of specific contractual events. Despite these commitments not being recorded in assets, they carry credit risk and are, therefore, part of the Group's overall risk exposure.

Regarding provisions for guarantees and commitments, the provision movement is detailed as follows:

(thousands of Euros)

	Stage 1	*Stage* 2	*Stage* 3	Total
Balance as at 31 December 2021	**8 019**	**11 148**	**73 169**	**92 336**
Transfers to stage 1	2 255	(2 255)	-	-
Transfers to stage 2	(1 139)	1 255	(116)	-
Transfers to stage 3	(13)	(1 207)	1 220	-
Increases due to changes in credit risk	2 047	2 525	22 308	26 880
Decreases due to changes in credit risk	(4 979)	(4 154)	(20 432)	(29 565)
Other movements	11	36	199	246
Balance as at 31 December 2022	**6 201**	**7 348**	**76 348**	**89 897**
Transfers to stage 1	5 454	(5 454)		-
Transfers to stage 2	(3 782)	4 390	(608)	-
Transfers to stage 3	(23)	(19)	42	-
Increases due to changes in credit risk	6 000	4 768	7 219	17 987
Decreases due to changes in credit risk	(6 828)	(3 776)	(8 011)	(18 615)
Other movements	1	(18)	(5 272)	(5 289)
Balance as at 31 December 2023	**7 023**	**7 239**	**69 718**	**83 980**

The transfers between stages that occurred in guarantees and commitments during the exercises of 2023 and 2022 are presented as follows:

(thousands of Euros)

2023	**Capitals**					
	Transfers between Stage 1 and Stage 2		**Transfers between Stage 2 and Stage 3**		**Transfers between Stage 1 and Stage 3**	
	To Stage 2 from Stage 1	***To Stage 1 from Stage 2***	***To Stage 3 from Stage 2***	***To Stage 2 from Stage 3***	***To Stage 3 from Stage 1***	***To Stage 1 from Stage 3***
Commitments and financial guarantees given	109 201	217 142	1 756	6 528	410	203

(thousands of Euros)

2022	**Capitals**					
	Transfers between Stage 1 and Stage 2		**Transfers between Stage 2 and Stage 3**		**Transfers between Stage 1 and Stage 3**	
	To Stage 2 from Stage 1	***To Stage 1 from Stage 2***	***To Stage 3 from Stage 2***	***To Stage 2 from Stage 3***	***To Stage 3 from Stage 1***	***To Stage 1 from Stage 3***
Commitments and financial guarantees given	44 418	40 470	45 480	2 234	1 775	181

The restructuring provisions were established within the framework of the commitments made to the European Commission arising from the sale and restructuring process of the Group. During the 2022 and 2023 exercises, a net increase of 1.3 million euros and 6.3 million euros was made, respectively, having used 28.9 million euros and 18.7 million euros, respectively.

The Other provisions, which amount to 340.1 million euros (December 31, 2022: 304.4 million euros), aim to cover certain identified contingencies, arising from the Group's activity, the most relevant of which are as follows:

- Contingencies associated with ongoing processes related to tax matters, for which the Group maintains provisions of 25.1 million euros (December 31, 2022: 27.4 million euros);
- Contingencies associated with legal procedures amounting to 8.3 million euros (December 31, 2022: 8.5 million euros);

- Contingencies associated with sales processes in the amount of 7.1 million euros (December 31, 2022: 7.1 million euros);
- Contingencies related to the undivided part of the Executive Commission's Pension Plan, in the amount of 8.8 million euros (December 31, 2022: 19.2 million euros), transferred from the headings of net liabilities of the Pension Fund assets' value (see Note 16);
- The State Budget Law for 2021 ("LOE 21"), amended the rules of the Property Transfer Tax ("IMT") and the Municipal Property Tax ("IMI"), with the broadening of the incidence scope of the increased IMI and IMT rate, and loss of exemptions, for properties held by taxpayers who are directly or indirectly controlled by an entity subject to a more beneficial tax regime, listed in an order approved by the Minister of Finance. As of this date, the calculation of the application of the increased IMI rates to all properties in the direct and indirect ownership of the novobanco Group amounts to approximately 203.3 million euros as of December 31, 2023 (December 31, 2022: 173.1 million euros);
- The remaining value of 60.5 million euros (December 31, 2022: 69.1 million euros), is intended to cover losses arising from the Group's activity, such as fraud, theft and robbery and ongoing legal procedures for contingencies related to asset sale processes, among others.

Note 33 – Other liabilities

The item Other liabilities as of December 31, 2023, and 2022 is analyzed as follows:

(thousand of Euros)

	2023	2022
Public sector	40 420	35 034
Creditors for supply of goods	74 257	71 102
Margin Accounts Derivative instruments	562 047	478 750
Other creditors	134 410	115 147
Non-controlling interests of open Investment Funds (see Note 35)	16 437	14 417
Career bonuses (see Note 16)	6 602	5 621
Other accrued expenses	103 693	83 275
Deferred income	1 715	1 950
Foreign exchange transactions pending settlement	611	-
Other transactions to be settled	65 654	34 623
	1 005 846	**839 919**

As of December 31, 2023, the item Creditors for supply of goods includes 49,863 thousand euros related to creditors of assets by right of use, under IFRS 16 (December 31, 2022: 44,474 thousand euros), whose maturity terms are presented as follows:

(thousand of Euros)

	2023	2022
Up to 3 months	179	262
From 3 months to 1 year	2 981	4 613
From 1 to 5 years	18 264	15 950
More than 5 years	28 439	23 649
	49 863	**44 474**

Note 34 – Share Capital

34.1. Ordinary shares

As of December 31, 2023, the share capital of the Bank, amounting to 6,567,843,862.91 euros, is represented by 11,130,841,957 registered shares with no par value and is fully subscribed and paid up by the following shareholders (December 31, 2022: share capital of 6,304,660,637.69 euros, is represented by 10,391,043,938 registered shares):

	% Capital	
	2023	**2022**
Nani Holdings, S.à.r.l.	75,00%	75,00%
Resolution Fund [1]	13,04%	19,31%
Directorate General for the Treasury and Finance	11,96%	5,69%
	100,00%	**100,00%**

(1) Under the commitments made between the Portuguese State and the European Commission, the Resolution Fund is inhibited from exercising its voting rights.

During the 2017 fiscal year and following the acquisition of 75% of the share capital of novobanco by Lone Star, two capital increases were made in the amount of 750 million euros and 250 million euros, in October and December, respectively.

In December 2021, a capital increase was made in the amount of 154,907 thousand euros through the conversion of conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the 2015 fiscal year, which conferred a 1.56% stake of the State in novobanco, and which resulted in the issuance of 154,907,314 new ordinary shares (see Note 35).

In November 2022, a capital increase was made in the amount of 249,753 thousand euros through the conversion of conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the 2016 and 2017 exercises, which conferred an additional 4.13% stake of the State in novobanco, and which resulted in the issuance of 436,136,627 new ordinary shares (see Note 35).

In April 2023, a capital increase was carried out in the amount of 263,183 thousand euros through the conversion of conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the 2018 and 2019 exercises, which conferred a 6.27% stake of the State in novobanco, and which resulted in the issuance of 739,798,019 new ordinary shares (see Note 35).

As mentioned in Note 28, novobanco adhered to the Special Regime Applicable to Deferred Tax Assets approved by Law No. 61/2014, of August 26. This regime applies to deferred tax assets resulting from the non-deduction, for Corporate Income Tax purposes, of expenses and negative net worth changes that were recorded up to December 31, 2015 with impairment losses on credits and post-employment benefits or long-term employee benefits. The mentioned regime provides that deferred tax assets may be converted into tax credits when the taxpayer records a negative annual net result.

The conversion of eligible deferred tax assets into tax credits is made according to the proportion between the amount of that net result and the total equity at an individual level. The special reserve is established in the same amount as the approved tax credit, increased by 10%. This special reserve is constituted in counterpart of the originating reserve and is intended to be incorporated into the share capital.

The conversion rights are securities that give the State the right to demand from novobanco the respective increase of the share capital, through the incorporation of the amount of the special reserve and consequent issuance and free delivery of ordinary shares representing 3.64% of the capital (with reference to the 2020 financial year), which will only dilute, in accordance with the sale contract, the Resolution Fund's participation, if the shareholders do not exercise their potestative right to acquire the conversion rights.

Note 35 – Other Comprehensive Income Accumulated, Retained Earnings, Other Reserves and Non-controlling Interests

The other comprehensive accumulated income, retained earnings, and other reserves of the Group are detailed as follows as of December 31, 2023, and 2022:

(thousands of Euros)

	2023	2022
Accumulated other comprehensive income	(1 070 125)	(1 234 573)
Retained earnings	(8 577 074)	(8 577 074)
Other reserves	6 736 004	6 439 418
	(2 911 195)	**(3 372 229)**

35.1. Accumulated other Comprehensive Income

The movements in accumulated other comprehensive income were as follows:

(thousands of Euros)

	Accumulated other comprehensive income							
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Cash flow hedging reserves	Other variations of other comprehensive income	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2021	**3 707**	**9 214**	**(43 296)**	**(201 263)**	**-**	**(14 799)**	**(799 052)**	**(1 045 489)**
Actuarial deviations	-	-	-	-	-	-	101 726	101 726
Fair value changes, net of taxes	-	-	-	(185 616)	-	-	-	(185 616)
Foreign exchange differences	-	-	-	-	-	(892)	-	(892)
Impairment reserves of securities at fair value through other comprehensive income	(3 052)	-	-	-	-	-	-	(3 052)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(1 165)	-	-	-	-	(1 165)
Other comprehensive income of associated companies	-	-	-	332	-	-	-	332
Cash flow hedging	-	-	-	-	(100 418)	-	-	(100 418)
Other movements	-	-	-	-	-	1	-	1
Balance as at 31 December 2022	**655**	**9 214**	**(44 461)**	**(386 547)**	**(100 418)**	**(15 690)**	**(697 326)**	**(1 234 573)**
Actuarial deviations	-	-	-	-	-	-	(27 294)	(27 294)
Fair value changes, net of taxes	-	-	-	283 614	-	-	-	283 614
Foreign exchange differences	-	-	-	-	-	(45)	-	(45)
Impairment reserves of securities at fair value through other comprehensive income	(421)	-	-	-	-	-	-	(421)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(283 797)	-	-	-	-	(283 797)
Other comprehensive income of associated companies	-	-	-	(583)	-	-	-	(583)
Cash flow hedging	-	-	-	-	192 974	-	-	192 974
Balance as at 31 December 2023	**234**	**9 214**	**(328 258)**	**(103 516)**	**92 556**	**(15 735)**	**(724 620)**	**(1 070 125)**

Fair Value Reserves

The fair value reserves represent the potential gains and losses relative to the portfolio of financial assets at fair value through other comprehensive income, net of impairment. The value of this reserve is presented net of deferred tax and non-controlling interests.

The movement of the fair value reserves net of deferred taxes and impairment reserves can be analyzed as follows:

(thousands of Euros)

	2023 Fair value reserves			2022 Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the exercise	**(424 998)**	**38 451**	**(386 547)**	**(157 910)**	**(43 353)**	**(201 263)**
Changes in fair value	14 384	-	14 384	(331 887)	-	(331 887)
Foreign exchange differences	(5 524)	-	(5 524)	2 006	-	2 006
Disposals in the exercise	312 830	-	312 830	43 394	-	43 394
Impairment in the exercise	-	-	-	19 399	-	19 399
Deferred taxes recognized in the exercise in reserves	-	(38 659)	(38 659)	-	81 804	81 804
Balance at the end of the exercise	**(103 308)**	**(208)**	**(103 516)**	**(424 998)**	**38 451**	**(386 547)**

The fair value reserve can be explained as follows:

(thousands of Euros)

	2023	2022
Amortised cost of financial assets at fair value through other comprehensive income	946 963	2 769 674
Market value of financial assets at fair value through other comprehensive income	838 523	2 331 099
Unrealised gains / (losses) recognized in fair value reserve	**(108 440)**	**(438 575)**
Fair value reserve transferred to net income (1)	(5 019)	(11 988)
Potential gains / (losses) recognized in the fair value reserve	(103 421)	(426 587)
Fair value reserves from equity method	414	997
Non-controlling Interests	(301)	592
Total fair value reserve	**(103 308)**	**(424 998)**
Deferred Taxes	(208)	38 451
Fair value reserve attributable to shareholders of the Bank	**(103 516)**	**(386 547)**

(1) In the context of fair value hedge operations (see Note 23)

The movement in cash flow hedge reserves is presented as follows:

(thousands of Euros)

	2023	2022
Balance at the beginning of the exercise	**(100 418)**	**-**
Change in the fair value of the covered item recognized in other comprehensive income	203 243	(101 299)
Reclassification of other comprehensive income for results	(10 269)	881
Balance at the end of the exercise	**92 556**	**(100 418)**

35.2. Other reserves and retained earnings

Legal reserve

The legal reserve can only be used to cover accumulated losses or to increase capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law No. 298/92, of December 31st) requires that the legal reserve be credited annually with at least 10% of the net profit, up to a limit equal to the value of share capital or the sum of free reserves and retained earnings, whichever is higher.

Special reserve

As referred to in Note 28, the special reserve was established as a result of novobanco's adherence to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of August 26, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous constitution of a special reserve.

Following the determination of a negative net result for the financial years 2015 to 2020, with reference to the eligible deferred tax assets at the closing dates of these years, as a result of the application of the aforementioned special regime applicable to deferred tax assets, novobanco registered a special reserve, in the same amount as the determined tax credit, increased by 10%, which is broken down as follows:(

		(thousands of Euros)
	2023	**2022**
2019 (net loss of 2018)	-	146 367
2020 (net loss of 2019)	-	116 817
2021 (net loss of 2020)	128 673	137 193
	128 673	**400 377**

Contingent Capitalization Mechanism

Following the conditions agreed upon in the novobanco sale process, a Contingent Capitalization Mechanism was created according to which, if capital ratios fall below a certain level and, cumulatively, losses are registered in a defined portfolio of assets, the Resolution Fund makes a payment equivalent to the lesser value between the recorded losses and the amount necessary to restore the capital ratios to the relevant level, up to a maximum limit of 3,890 million euros (see Note 36 – Contingent liabilities and commitments). The capital corresponds to a pre-defined asset perimeter, with an initial book value (June 2016) of about 7.9 billion euros. As of December 31, 2023, these assets had a net value of 0.9 billion euros, essentially as a result of collections and recoveries and the registration of losses (December 31, 2022: net value of 1.1 billion euros).

Given the losses presented by novobanco on December 31, 2020, 2019, 2018, and 2017, the conditions were met for the Resolution Fund to pay 429,013 thousand euros, 1,035,016 thousand euros, 1,149,295 thousand euros, and 791,695 thousand euros in 2021, 2020, 2019, and 2018, respectively.

The value related to the Contingent Capitalization Mechanism recorded in 2020, as receivable from the Resolution Fund (598,312 thousand euros), differs from the paid value due to 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 receivable, the Bank deducted, as of 31 December 2023 and 2022, from the regulatory capital calculation (165,442 thousand euros). Additionally, the amount of variable remuneration of the Executive Board of Directors for the 2019 and 2020 exercises was also deducted (3,857 thousand euros).

In 2021 a value was recorded as receivable from the Resolution Fund of 209,220 thousand euros related to the Contingent Capitalization Mechanism, accounted for in Other Reserves and which results, at each balance sheet date, from the losses incurred and the regulatory ratios in force at the time of its determination. Consequently, as mentioned above and in line with regulatory guidelines, on December 31, 2023, and 2022, this value was also deducted from the calculation of regulatory capital.

Novobanco considers this value as due under the Contingent Capitalization Mechanism, and is triggering the legal and contractual mechanisms at its disposal to ensure its receipt (see Note 36).

35.3. Non-controlling Interests

The details of the Non-controlling Interests for each subsidiary are as follows:

(thousands of Euros)

	2023			2022		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
NB Património [a)]	-	108	3,66%	-	20 104	3,75%
novobanco Açores	23 861	4 488	42,47%	21 975	1 941	42,47%
Amoreiras	-	545	4,76%	-	332	4,76%
Other	(1 170)	(10)		(3 631)	2 725	
	22 691	**5 131**		**18 344**	**25 102**	

a) Non-controlling interests relating to open real estate investment funds are recorded as Other liabilities (see Note 33)

The movement of non-controlling interests can be analyzed as follows:

(thousands of Euros)

	2023	2022
Non-controlling interests at the beginning of the exercise	**18 344**	**31 035**
Changes in consolidation perimeter and control percentages	2 469	(7 935)
Dividends paid	(2 891)	-
Changes in fair value reserves	674	(1 364)
Others	(1 036)	(28 494)
Net profit / (loss) for the exercise	5 131	25 102
Non-controlling interests at the end of the exercise	**22 691**	**18 344**

Note 36 – Contingent Liabilities and Commitments

In addition to derivative financial instruments, as of December 31, 2023, and 2022, the following off-balance-sheet balances existed:

(thousands of Euros)

	2023	2022
Contingent liabilities	**11 107 879**	**14 469 198**
Guarantees and endorsements	2 354 035	2 269 796
Financial assets pledged as collateral	8 456 619	11 949 619
Open documentary credits	187 024	169 410
Others	110 201	80 373
Commitments	**5 983 312**	**5 965 223**
Revocable commitments	5 328 531	5 405 228
Irrevocable commitments	654 781	559 995

The guarantees and endorsements made are banking operations that do not result in a mobilization of funds by the Group.

As of December 31, 2023, the item financial assets given as collateral includes:

- The Market value of financial assets at the European Central Bank collateral pool, to be used as collateral to obtain funding in the context of liquidity lending operations, amounting to 7.9 billion euros (December 31, 2022:11.2 billion euros), of which 2.1 billion euros is encumbered (December 31, 2022: 9.3 billion euros);

- Securities given as collateral to the Securities Market Commission, in the context of the Investor Compensation System, amounting to 10.5 million euros (December 31, 2022: 8.0 million euros);

- Securities given as collateral to the Deposit Guarantee Fund amounting to 65.6 million euros as of December 31, 2022. As of December 31, 2023, following the full payment of the commitments assumed to the Deposit Guarantee Fund, as mentioned in Note 18, there are no securities given as collateral;

- Securities given as collateral to the European Investment Bank amounting to 468.5 million euros (December 31, 2022: 648.1 million euros);

- Securities delivered as collateral in the context of derivatives trading with a central counterparty amounting to 74.0 million euros (December 31, 2022: 110.0 million euros);

- Deposits provided as collateral to guarantee the responsibilities assumed by issuing guarantees in the amount of 18.9 million euros (31 December 2022: 29.7 million euros).

These financial assets given as collateral are recorded in various asset categories on the Group's balance sheet and can be executed in case of non-compliance with the contractual obligations assumed by the Group, under the terms and conditions of the contracts signed. The increase in the value of securities given as collateral to the European Investment Bank is due to an increase in collateral due to a change in the minimum value requirements.

Documentary credits are irrevocable commitments of the Group, on behalf of its customers, to pay / order the payment of a fixed amount to the supplier of a given commodity or service, within a stipulated period of time, against the presentation of documents referring to the shipment of the goods or provision of the service. The irrevocable condition consists of the fact that its cancellation or alteration is not viable without the express agreement of all parties involved.

The commitments, revocable and irrevocable, represent contractual agreements to provide credit to the Group's clients (e.g. unused credit lines) which, generally, are contracted for fixed terms or with other expiration requirements and usually require the payment of a fee. Substantially all credit commitments in force require that clients maintain certain requirements verified at the time of their contracting.

Despite the particularities of these contingent liabilities and commitments, the assessment of these operations obeys the same basic principles of any other commercial operation, namely the solvency of both the client and the business that underlies them, with the Group requiring that these operations be properly collateralized when necessary. Since it is expected that most of them will expire without having been used, the amounts indicated do not necessarily represent future cash needs.

Additionally, the responsibilities evidenced in off-balance-sheet accounts related to the provision of banking services are as follows:

(thousands of Euros)

	2023	2022
Deposit and custody of securities and other items	35 067 578	30 936 968
Amounts received for subsequent collection	192 196	206 387
Securitized loans under management (servicing)	469 370	544 136
Other responsibilities related with banking services	932 756	372 762
	36 661 900	**32 060 253**

Under the terms of the resolution measure applied to BES by the decision of the Bank of Portugal on August 3, 2014 (item 1., paragraph b), subparagraph (vii) of Annex 2), as amended by the decision of the Bank of Portugal of August 11, 2014, part of the "excluded liabilities" of transfer to Novobanco include "any obligations, guarantees, liabilities, or contingencies assumed in the marketing, financial intermediation, and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (...)".

Under the above item and subparagraph and subpoint (v), also part of the excluded liabilities are "any liabilities or contingencies, namely those resulting from fraud or violation of regulatory, penal, or administrative provisions".

On December 29, 2015, the Bank of Portugal adopted a new decision on "Clarification and transmission of responsibilities and contingencies defined as excluded liabilities in subparagraphs (v) to (vii) of paragraph (b) of item 1 of Annex 2 to the Decision of the Bank of Portugal of August 3, 2014 (20:00), as amended by the Decision of the Bank of Portugal of August 11, 2014 (17:00)". In terms of this decision, the 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

(ii) Clarify that the following BES liabilities have not been transferred from BES to novobanco:

a. All credits relating to preferred shares issued by vehicle companies established by BES and sold by BES;
b. All credits, compensations, and expenses related to real estate assets that were transferred to Novobanco;
c. All compensations related to breach of contracts (purchase and sale of real estate assets and others) signed and concluded before 8p.m. on August 3, 2014;
d. All compensations related to life insurance contracts in which the insurer was BES - Companhia de Seguros de Vida, S.A.;
e. All credits and compensations related to the alleged annulment of certain loan contract clauses in which BES was the lender;
f. All compensations and credits resulting from the annulment 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 Annex I to that deliberation.

(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 consolidated financial statements for 31 December 2023 (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 captions and assets under BES management, as well as the decisions of Bank of 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 neutralising, 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 29 December 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 captions 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 37 million U.S. Dollars and 335 million U.S. Dollars, 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 96 milion U.S. Dollars and 871 million U.S. Dollars, respectively). These main actions are still pending before the Supreme Court of Justice of Venezuela.

In the preparation of novobanco 's individual and consolidated financial statements of 31 December 2023 (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 29 December 2015. In this context, these financial statements, namely regarding provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet captions 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 18 October 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.

36.1. Relevant litigation

For the purposes of contingent liabilities, and notwithstanding the information contained in these notes to the accounts, particularly regarding the compliance of the provisions policy with the resolution measure and subsequent decisions by the Bank of Portugal (and criteria for the apportioning of responsibilities and contingencies arising therefrom), the following lawsuits should be identified, the effects or impacts on the financial statements of Group Novobanco being, at present date, unable to determine or quantify:

(i) Lawsuit filed by Partran, SGPS, S.A., the Insolvent Estate of Espírito Santo Financial Group, S.A. and the Insolvent Estate of Espírito Santo Financial (Portugal), S.A. against Novobanco and Calm Eagle Holdings, S.A.R.L. in which it is sought the declaration of nullity of the pledge constituted over the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its inefficacy, in which only appears as plaintiff the Insolvent Estate of ESF (Portugal) following the withdrawal of the others;

(ii) Lawsuits filed following the signing of the contract for the purchase and sale of the share capital of Novobanco, signed between the Resolution Fund and Lone Star on March 31, 2017, related to the conditions of the sale, notably the administrative action filed by Banco Comercial Português, S.A. against the Resolution Fund, of which Novobanco is not part and, within the framework of which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, it is requested the legal appreciation of the contingent capitalization obligation assumed by the Resolution Fund within the framework of the Contingent Capitalization Mechanism.

With respect to the amount requested from the Resolution Fund, for the 2020 financial year, divergences remain between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) valuation of participation units, which are the subject of ongoing arbitration. novobanco considers these amounts (165 million euros) as due under the Contingent Capitalization Mechanism and has initiated an arbitration action to claim payment of these amounts. There is also another disagreement regarding the application, by novobanco, at the end of 2020, of the dynamic option of the IFRS 9 transitional regime, which is also under consideration in the same arbitration action. Additionally, the Resolution Fund did not pay the amount requested for the 2021 financial year. novobanco considers the amounts claimed and not paid as due under the Contingent Capitalization Mechanism, having triggered the legal and contractual mechanisms at its disposal in order to ensure the receipt of the same, which are recorded as amounts receivable and are subject to favorable arbitration decisions.

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 of 31 December 2023, the Group's periodic contribution amounted to 7,101 thousand euros (31 December 2022: 16,364 thousand euros).

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 4,900 million euros, of which 365 million euros corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of 635 million euros, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (3,900 million euros) 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 150 million euros, 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 2,255 million euros, which aimed at covering future contingencies, financed at 489 million euros by the Resolution Fund and 1,766 million euros 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 formalised, 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 750 million euros, which was followed by a new a capital contribution of 250 million euros, 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 materialising, 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 3,890 million euros;

- 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 37 – Disintermediation

According to the current legislation, the managing companies, together with the depositary bank, are jointly liable to the fund's participants for non-compliance with the obligations undertaken under the law and the rules of the managed funds.

As of December 31, 2023, and 2022, the value of disintermediated resources managed by the Group's companies is analyzed as follows:

		(thousands of Euros)
	2023	**2022**
Investment funds	732 604	1 095 611
Real estate investment funds	41 147	40 124
Pension funds	2 320 443	2 180 753
Discretionary management	676 152	616 060
	3 770 346	**3 932 547**

The values included in these items are valued at fair value determined on the balance sheet date.

Note 38 –Related Parties Balances and Transaction

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).

During 2023, the following transactions were carried out with the Related Parties identified on December 31, 2023 (credit and other transactions):

(i) Credit Operations:

Entities / Individuals	Category	Operation	Amount (euros)
APB - Associação Portuguesa de Bancos	Entities for which there is a relationship of economic interdependence	Credit Card Limits (raise)	1 500
EDENRED - Portugal S.A.	Entities for which there is a relationship of economic interdependence	Direct Debits Limits (RCE) (renewal)	1 000 000
		Credit Card Limits (renewal)	24 000
Members of theExecutive Board of Directors and Supervisory bodies and related persons	Members of theExecutive Board of Directors and Supervisory bodies and related persons (1.)	Credit Card Limits (raise)	22 500
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.	Entities for which there is a relationship of economic interdependence Entity dominated by members of the Administration / Supervision	Credit Card Limits (renewal)	10 000
		Current-Account Loan Account (renewal)	2 500 000
		Trading Room Operations (RCE)	3 000 000
		Direct Debits Limits (RCE) (renewal)	4 000 000
		Leasing (renewal with changes)	68 250 000
		Commercial Paper (renewal with change)	25 000 000
NACIONAL CONTA – Contabilidade, Consultadoria e Administração, Lda.	Entity dominated by members of the Administration / Supervision	Current-Account Loan Account (renewal)	100 000
		Credit Card Limits (renewal)	1 000
Novobanco dos Açores	Entities for which there is a relationship of economic interdependence Entity dominated by members of the Administration / Supervision	Extension of the maturity of the Senior Debt Securities (non-preferential) of novobanco dos Açores until Dec/2026	5 000 000
Novo Banco Group (BEST, NB Açores e NB Finance)	Entities for which there is a relationship of economic interdependence Entity dominated by members of the Administration / Supervision	• Interbank Limits (Trading Room Operations) • Commercial Limits	317 900 000
Pedro Santos Reis	Persons or entities whose relationship with the institution potentially influences their management	Housing Credit	360 000
Unicre - Cartão Internacional de Crédito S.A.	Entities for which there is a relationship of economic interdependence Entity dominated by members of the Administration / Supervision	Current-Account Loan Account	15 000 000

1. Notice 3/2020, artº33 - 3 b) and Notice 3/2020, artº33 - 3 c)

(ii) Services rendered and other signed contracts:

Entities / Individuals	Category	Operation	Amount (euros)
BEST Banco Electrónico de Serviço Total SA	Entities for which there is a relationship of economic interdependence	Lease Agreement	na
Novobanco dos Açores	Entities for which there is a relationship of economic interdependence Entity dominated by members of the Administration / Supervision	Amendment to the Distribution Agreement	na
NANI Holdings S.à R.L. / LSF NANI Investments S.à R.L.	Shareholder and/or Entities related to the Shareholder	Service Providing Contract	na

The Group's balance sheet balances with related parties as of December 31, 2023 and 2022, as well as the respective recognized costs and revenues, are summarized as follows:

(thousands of Euros)

	2023					2022				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders	**198 180**	**106 129**	**-**	**416**	**7 101**	**198 180**	**54 253**	**-**	**389**	**16 364**
NANI HOLDINGS	-	271	-	416	-	-	152	-	389	-
FUNDO DE RESOLUÇÃO	198 180	105 858	-	-	7 101	198 180	54 101	-	-	16 364
Associated companies	**155 123**	**114 112**	**335**	**4 322**	**4 789**	**179 676**	**106 222**	**335**	**4 614**	**3 204**
LINEAS	-	3 027	-	-	15	-	3 176	-	-	-
LOCARENT	137 886	1 987	-	43	3 426	139 286	3 218	-	1 727	3 163
ESEGUR	-	-	-	-	-	-	-	-	-	-
UNICRE	15 220	29	-	1 641	-	38 365	76	-	919	-
MULTIPESSOAL	2 010	32	273	-	-	2 023	35	273	-	-
EDENRED	7	109 036	62	2 638	1 348	2	99 716	62	1 968	41
YUNIT	-	1	-	-	-	-	1	-	-	-
Other	**241**	**4**	**-**	**-**	**4 726**	**324**	**5**	**-**	**-**	**4 638**
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 726	-	-	-	-	4 638
NACIONAL CONTA LDA	241	4	-	-	-	324	5	-	-	-

The value of assets to be received from the Resolution Fund corresponds to the amount of activation of the Contingent Capitalisation Mechanism for the 2021 financial year. The liability corresponds to the value to be delivered to the Resolution Fund resulting from an addendum made in May 2021 to the contract for the Contingent Capitalisation Mechanism.

In June 2018, a contract was signed between NANI HOLDINGS, SGPS, S.A. (currently Nani Holdings S.à.r.l.), LSF NANI INVESTMENTS S.à.r.l. and Novobanco, for the provision of support services to the preparation of consolidated information and regulatory reports.

The balance sheet assets related to associate companies included in the table above mainly refer to credit granted, supplies, or debt securities acquired in the context of the Group's activity. The liabilities essentially refer to bank deposits taken.

The guarantees related to associated companies included in the above table essentially refer to guarantees provided.

Transactions with Related Parties were carried out under market conditions (at arm's lenght), in similar terms and conditions when compared to others signed with unrelated parties, and when this has not occurred, such exceptions were justified in terms of the Bank's Policy on Transactions with Related Parties. Every year, novobanco, together with consultants, analyses and prepares the Transfer Pricing Dossier, which contains information that shows that transactions with related parties respect the principle of Full Competition, which is delivered to the Tax and Customs Authority within the legal deadline.

All credits granted to related entities are included in the impairment model and are subject to determination of impairment in the same way as commercial credits granted by the Group. The assets applied with related entities accrue interest at rates varying between 0% and 9.60% (the rates indicated correspond to the rates applied according to the original currency of the asset).

The costs of remuneration and other benefits awarded to the Key Management Personnel of novobanco in 2023 and 2022 are presented as follows:

(thousands of Euros)

	2023			2022		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	3 557	1 494	5 051	3 092	1 257	4 349
Post-employment benefits	2	-	2	2	-	2
Other long-term benefits	27	3	30	197	38	235
	3 586	**1 497**	**5 083**	**3 291**	**1 295**	**4 586**

In 2023 and 2022, the value of variable remunerations for the Management Bodies amounted to 1,878 thousand and 1,931 thousand euros, respectively, which constitutes remunerations that are not vested rights of the members until after the end of the restructuring period, its payment is subject to deferment and verification of certain conditions. Additionally, in the financial year of 2023, costs of 150 thousand euros were registered as sign-on bonuses resulting from the appointment of a new Executive Director (2022: costs of 260 thousand euros were registered as sign-on bonuses resulting from the appointment of two new Executive Directors and compensation for termination of mandates of two Executive Directors were registered amounting to 460 thousand euros).

On December 31, 2023 and 2022, the value of credit granted and deposits of members of novobanco's Key Management Personnel were as follows:

Loans granted
- (i) to members of the Executive Administration Board and their direct relatives was 195 thousand euros (December 31, 2022: 351 thousand euros); and
- (ii) the members of the General and Supervisory Board and their direct relatives had no credit liabilities (December 31, 2022: no exposure).

Deposits
- (i) of members of the Executive Administration Board and their direct relatives was 2,552 thousand euros (December 31, 2022: 1,138 thousand euros); and
- (ii) of members of the General and Supervisory Board and their direct relatives was 820 thousand euros (December 31, 2022: 1,544 thousand euros).

Note 39 – Securitisation of Assets

As at 31 December 2023 and 2022, the outstanding securisation transactions made by the Group were as follows:

(thousand od Euros)

Issue	Start Date	Original Amount	Current amount		Securitized Asset
			2023	2022	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	183 022	214 061	Mortgage Loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	286 348	330 075	Mortgage Loans (general regime)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	280 627	317 612	Mortgage Loans (general regime)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	733 445	817 287	Mortgage Loans (general regime)

According to the consolidation rules established in IFRS 10, Lusitano Mortgages No.6 plc and Lusitano Mortgages No. 7 plc have been fully consolidated from the date of their formation (see Note 1). We present below the main impacts of the consolidation of these entities on the Group's accounts:

	(milhares de euros)	
	2023	**2022**
Cash, cash balances at Central Banks and other demand deposits	99 666	124 031
Customer Loans (net of impairment)	1 008 663	1 127 628
Liabilities represented by securities (a)	19 831	25 491

(a) see Note 31

Additionally, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated as they do not fall within the rules defined by IFRS 10, mainly because the Group's retained interest is residual.

The main characteristics of these operations, referring to December 31, 2023 and 2022, can be analysed as follows:

(thousand of Euros)

2023														
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	139 110	-	-	December 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Class B	22 800	9 208	-	-	December 2048	AA	Aa2	AA	-	A-	A1	AA+	-
	Class C	19 200	7 754	-	-	December 2048	A+	A1	A+	-	BB+	Baa3	AA	-
	Class D	24 000	9 693	-	-	December 2048	BBB+	Baa1	BBB-	-	B+	B2	BB+	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	212 384	-	-	December 2059	AAA	Aaa	AAA	-	AA+	Aa2	AA+	-
	Class B	26 600	17 384	-	-	December 2059	AA	Aa2	AA	-	A+	A3	AA+	-
	Class C	22 400	14 639	-	-	December 2059	A	A1	A	-	BBB+	Ba1	BBB	-
	Class D	28 000	18 299	-	-	December 2059	BBB+	Baa2	BBB	-	CCC	Caa2	B	-
	Class E	11 900	5 950	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	116 039	97 882	94 913	March 2060	AAA	Aaa	AAA	-	AA+	Aa2	A	-
	Class B	65 450	65 450	63 950	58 568	March 2060	AA	Aa3	AA	-	AA+	Aa2	A	-
	Class C	41 800	41 800	41 800	34 496	March 2060	A	A3	A	-	BBB	A1	A	-
	Class D	17 600	17 600	17 600	13 356	March 2060	BBB	Baa3	BBB	-	CCC	Ba3	BB	-
	Class E	31 900	31 900	31 900	21 291	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	260 940	260 939	247 653	October 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Class B	294 500	294 500	294 500	260 109	October 2064	-	-	BBB-	-	-	-	AA+	-
	Class C	180 500	180 500	180 500	65 973	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

(thousand of Euros)

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	163 785	-	-	December 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Class B	22 800	10 842	-	-	December 2048	AA	Aa2	AA	-	A-	A2	AA-	-
	Class C	19 200	9 130	-	-	December 2048	A+	A1	A+	-	BB+	Baa3	A-	-
	Class D	24 000	11 412	-	-	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	245 724	-	-	December 2059	AAA	Aaa	AAA	-	A+	Aa2	AA+	-
	Class B	26 600	20 113	-	-	December 2059	AA	Aa2	AA	-	BBB+	Baa2	AA+	-
	Class C	22 400	16 937	-	-	December 2059	A	A1	A	-	B+	Ba3	BBB	-
	Class D	28 000	21 172	-	-	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	152 014	128 051	124 100	March 2060	AAA	Aaa	AAA	-	AA+	Aa2	A-	-
	Class B	65 450	65 450	63 950	55 286	March 2060	AA	Aa3	AA	-	AA	Aa2	A-	-
	Class C	41 800	41 800	41 800	31 303	March 2060	A	A3	A	-	BB+	A3	A-	-
	Class D	17 600	17 600	17 600	12 414	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	20 017	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	345 770	345 770	326 254	October 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Class B	294 500	294 500	294 500	242 031	October 2064	-	-	BBB-	-	-	-	AA+	-
	Class C	180 500	180 500	180 500	59 141	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

In December 2022, Novobanco entered into a transaction to transfer part of the credit risk of a portfolio of loans to companies worth around one billion euros through a synthetic securitisation, with a maturity date of February 2031 (and the possibility of a call option in September 2025). Given the nature of this operation, there was no derecognition of loans in the balance sheet, and the received guarantee was recorded, which will be updated according to the activation triggers defined in the contract.

Note 40 - Fair Value of Financial Assets and Liabilities

The governance model for valuing the Group's financial instruments is defined in internal rules, which establish the policies and procedures to be followed in identifying and valuing financial instruments, control procedures, and defining the responsibilities of the participants in this process.

40.1. Assets and liabilities at fair value

The fair value of quoted financial assets is determined based on the closing quote (bid-price), the price of the last transaction carried out, or the value of the last known quote (bid). In the absence of a quote, the Group estimates fair value using

(i) valuation methodologies, such as using prices for recent transactions, which are similar and carried out under market conditions, techniques for discounted cash flows and customised option valuation models to reflect the peculiarities and circumstances of the instrument, and
(ii) valuation assumptions based on market information.

For assets included in fair value hierarchy 3, whose quote is provided by a third party using parameters not observable in the market, the Group proceeds, where applicable, to a detailed analysis of the historical performance and liquidity of these assets. This may imply an additional adjustment to their fair value, as well as from additional internal or external evaluations.

The valuation models used by the type of instrument are presented below:

Money market operations and loans advance to customers: fair value is determined by the discounted cash flow method, with the future cash flow discounted considering the yield curve of the currency plus the credit risk of the entity that will contractually settle this flow.

Commercial paper and loans to customers: their fair value is determined by discounting future cash flows to the yield curve of the currency plus the credit risk of the issuer determined in the programme of the issue.

Debt instruments (bonds) with liquidity: the 'Best Price' valuation selection methodology is used based on observations available on Bloomberg, where all available valuations are requested, but only inputs from previously validated sources are considered as input, with the model also considers the exclusion of prices due to age and outliers. Specifically for Portuguese public debt, and resulting from the market-making activity and materiality of the Group's positions, the valuations of the CBBT source are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices and highly liquid).

Debt instruments (bonds) with low liquidity: the models considered for the valuation of bonds with low liquidity without observable market valuations are determined considering the information available about the issuer and instrument. The following models can be considered: (i) discounted cash flows - the cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks underlying the instrument; or (ii) valuations provided by external counterparts. These are considered in the impossibility of determining the fair value of the instrument. Reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments under analysis are always selected.

Convertible bonds: the cash flows are discounted taking into account the interest rate risk, the credit risk of the issuer and any other risks that may be associated with the instrument, plus the net present value (NPV) of the convertibility options embedded in the instrument.

Quoted shares and funds: for listed capital products, the quote presented by the respective stock exchange is considered.

Unlisted shares: the valuation is carried out through external valuations made to the companies where the shareholding position is held. If there is no justification for requesting an external valuation due to the immateriality of the holding in the balance sheet, the holding is revalued considering the book value of the entity.

Unlisted funds: the valuation provided by the fund manager is considered, which takes into account assumptions not observable in the market. In case of capital calls after the reference date of the last valuation provided, the valuation is recalculated considering the capital calls subsequent to the reference date to the value that they have been made, until a new valuation is provided by the manager that incorporates the capital calls made. It should be noted that although the valuations provided by the fund managers are accepted, whenever it applies according to the fund regulations, the Bank requests the legal certification of accounts issued by independent auditors, in order to obtain the necessary additional comfort to the information provided by the manager. In addition, and for the major assets held by real estate investment funds, and according to an annual work plan previously approved by the Executive Administration Board, a challenge process is carried out to the valuations of these assets, which consists of a detailed technical analysis of the key assumptions considered in the valuations. This process may result that new valuations may be necessary and adjusts the fair value of these assets.

In the specific case of Restructuring Funds ("Valued Assets"), they were the subject of a detailed valuation carried out during the exercise of 2022 by an independent external international entity ("Valuator"), which hired renowned real estate valuation companies to determine the fair value of real estate assets that represent a significant part of the funds' portfolio.

The estimated fair value of the Evaluated Assets requires a multistage approach, taking into consideration the following: (i) the fair value of the assets invested by each fund (the "Underlying Assets"); (ii) the nature of the respective Fund's interest in each of the Underlying Assets; (iii) other assets and liabilities in the Fund's balances; (iv) the nature of novobanco's interest in each of the funds; and (v) the consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using the three valuation approaches (market, income, and cost), depending, among other things, on the specific nature of each asset, its development status, available information, and the date of the initial investment. The other assets and liabilities on the fund's balance sheet would usually be valued using the cost approach, with potential market-based adjustments, and the consideration of discounts and premiums, usually assessed using market data and benchmarks.

Underlying Assets are mainly divided into Non-Real Estate Assets and Real Estate Assets (which can, in turn, be subdivided into Hotels and Other Real Estate Assets). For Non-Real Estate Assets, the Valuator 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 valuator used the market approach or the income approach, depending on the status of each asset. In the case of hotels, the main value-determining assumptions considered were the average room rate, occupancy rate, GOP margin, EBITDA margin, Capex needs, and discount rate. Regarding Other Real Estate Assets, the main value determining assumptions were the sale prices, construction costs, timeline (both in development and in sales), and Discount Rates. Each of the assumptions described above, used in the valuation of real estate assets, were determined on an asset-by-asset basis (total of 80 large assets subdivided into a total of more than 500 assets), depending on the status of the asset, historical performance of the asset, location and market competitors.

Regarding the 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			Shopping Centers			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	55	197	650	133	177	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	62%	80%	60%	70%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/m2	n.a.	n.a.	n.a.	30	1 518	3 150	800	2 594	6 750	960	1 085	1 180	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.	2 800	13 270	20 200
Discount rate	8.5%	9.4%	10.1%	8.0%	12.3%	16.0%	4.5%	6.4%	10.0%	10.0%	10.3%	10.8%	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:
- (i) All the above assumptions were calculated based on the averages of the values considered by external evaluators per valued property
- (ii) The average presented was calculated at the property-weighted average in the sum of the value of the underlying assets by category presented
- (iii) Hotel - Includes hotels and aparthotels currently in operation (Hotels in development or project are incorporated in Real Estate in Development together with their respective property)
- (iv) €/m2 considering the gross construction area

In addition, the additional assumptions considered in the fair value measurement of the financial holdings held in the restructuring funds are presented below.

Type of Fund	Discount based on P/BV observable market data
Real estate and Tourism	16.6%
Real estate and Tourism/Other	15.3%
Other	12.0%

Derivative instruments: if they are traded on organized markets, valuations are observable in the market; otherwise, they are valued using standard models with observable market variables, highlighting:

- Foreign exchange options: these 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 exchange swaps: these instruments are valued through the front office system, where the cash flows from the fixed leg of the instrument are discounted from the yield curve of the respective currency, and the cash flows from the variable leg are projected considering the forward curve and discounted also considering both the discount factors and forward rates from 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 according to the following methodology:

(i) Portfolio perspective - the calculation of the CVA results from the application, to the aggregated exposure of each counterparty, of an expected loss and a recovery rate, considering the estimated average duration for each exposure;

(ii) Individual perspective - it is based on the calculation of the exposure using stochastic methods (Expected Positive Exposure) that translates into the calculation of the expected fair value exposure that each derivative should assume in the remaining lifetime. Subsequently, an expected loss and a recovery rate are applied to the determined exposure.

The Group chooses not to register the "Debt Valuation Adjustment" (DVA), which represents the market value of the Group's own credit risk of a specific negative exposure to a counterparty, reflecting a prudent view of applying this regulation. It should be noted that the potential exposure subject to DVA is controlled monthly and has assumed immaterial values.

Investment properties: their fair value is determined based on periodic evaluations carried out by independent entities specializing in this type of service, however, given the subjectivity of some assumptions used in the evaluations, the Group performs internal analyses on the assumptions used which could imply additional adjustments to its fair value, supported by additional internal or external evaluations (see accounting policy in Note 7.15). The market value of the properties for which a purchase and sale promise contract has been signed corresponds to the value of that contract.

The validation of the valuation of financial instruments is carried out by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for carrying out the independent verification of prices for market price valuations (mark-to-market), for model-based valuations (mark-to-model) it validates the models used and changes to them, whenever they exist. For prices provided by external entities, the validation consists of confirming the use of correct prices.

The balance sheet value of the financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Group is as follows:

(thousands of Euros)

	At Fair Value			
	Quoted market prices	Valuation models based on observable market parameters	Valuation models based on unobservable market parameters	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
31 December 2023				
Financial assets held for trading	**318 528**	**117 620**	**-**	**436 148**
Securities held for trading - Bonds issued by public entities	318 528	-	-	318 528
Derivatives held for trading	-	117 620	-	117 620
Exchange rate contracts	-	*11 227*	-	*11 227*
Interest rate contracts	-	*101 085*	-	*101 085*
Others	-	*5 308*	-	*5 308*
Financial assets mandatorily at fair value through profit or loss - securities	**18 021**	**20 913**	**225 978**	**264 912**
Bonds issued by other entities	*11 368*	*50*	-	*11 418*
Shares	*6 626*	-	*135 656*	*142 282*
Other variable income securities	*27*	*20 863*	*90 322*	*111 212*
Financial assets at fair value through other comprehensive income	**741 384**	**28 380**	**68 759**	**838 523**
Bonds issued by public entities	*371 675*	-	-	*371 675*
Bonds issued by other entities	*368 610*	*20 584*	-	*389 194*
Shares	*1 099*	*7 796*	*68 759*	*77 654*
Derivatives - Hedge Accounting - interest rates contracts	**-**	**683 063**	**-**	**683 063**
Investment properties	**-**	**-**	**393 795**	**393 795**
Assets at fair value	**1 077 933**	**849 976**	**688 532**	**2 616 441**
Financial liabilities held for trading - Derivatives held for trading	**-**	**98 989**	**1 650**	**100 639**
Exchange rate contracts	-	*11 413*	-	*11 413*
Interest rate contracts	-	*82 247*	*1 650*	*83 897*
Credit	-	*104*	-	*104*
Other	-	*5 225*	-	*5 225*
Derivatives - Hedge Accounting - Interest rate contracts	**-**	**124 729**	**-**	**124 729**
Liabilities at fair value	**-**	**223 718**	**1 650**	**225 368**

(thousands of Euros)

	At Fair Value			
	Quoted market prices	Valuation models based on observable market parameters	Valuation models based on unobservable market parameters	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
31 December 2022				
Financial assets held for trading	**36 428**	**135 382**	**-**	**171 810**
Securities held for trading - Bonds issued by public entities	36 428	-	-	36 428
Derivatives held for trading	-	135 382	-	135 382
Exchange rate contracts	-	*23 141*	-	*23 141*
Interest rate contracts	-	*103 673*	-	*103 673*
Others	-	*8 568*	-	*8 568*
Financial assets mandatorily at fair value through profit or loss	**16 566**	**21 730**	**275 406**	**313 702**
Bonds issued by other entities	*11 045*	*50*	*2 378*	*13 473*
Shares	*5 464*	-	*135 655*	*141 119*
Other variable income securities	*57*	*21 680*	*137 355*	*159 092*
Loans to customers	-	-	18	18
Financial assets at fair value through profit or loss - Bonds from other issuers	**-**	**-**	**13**	**13**
Financial assets at fair value through other comprehensive income	**2 229 304**	**30 528**	**71 267**	**2 331 099**
Bonds issued by public entities	*1 764 578*	-	-	*1 764 578*
Bonds issued by other entities	*458 913*	*20 493*	-	*479 406*
Shares	*5 813*	*10 035*	*71 267*	*87 115*
Derivatives - Hedge Accounting - interest rates contracts	**-**	**562 845**	**-**	**562 845**
Investment properties	**-**	**-**	**499 567**	**499 567**
Assets at fair value	**2 282 298**	**750 485**	**846 253**	**3 879 036**
Financial liabilities held for trading - Derivatives held for trading	**-**	**96 780**	**2 606**	**99 386**
Exchange rate contracts	-	*22 069*	-	*22 069*
Interest rate contracts	-	*71 807*	*2 606*	*74 413*
Other	-	*2 904*	-	*2 904*
Derivatives - Hedge Accounting - Interest rate contracts	**-**	**119 578**	**-**	**119 578**
Liabilities at fair value	**-**	**216 358**	**2 606**	**218 964**

The movement of financial assets and liabilities valued using methods with parameters not observable in the market (level 3 of the fair value hierarchy) during the exercises of 2023 and 2022, can be analyzed as follows:

(thousands of Euros)

	2023							
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	Total assets	Financial liabilities held for trading	Total liabilities
	Securities	Loans to customers					Derivatives held for trading	
Balance as at 31 December 2022	**275 388**	**18**	**13**	**71 267**	**499 567**	**846 253**	**2 606**	**2 606**
Acquisitions	338	-	-	1 086	611	2 035	-	-
Maturity	(13 189)	-	-	-	-	(13 189)	-	-
Settlements	(24 717)	-	-	(9 867)	-	(34 584)	-	-
Disposals	-	-	-	-	(131 897)	(131 897)	-	-
Changes in fair value	(11 842)	(18)	(13)	6 273	19 233	13 633	(956)	(956)
Other movements	-	-	-	-	6 281	6 281	-	-
Balance as at 31 December 2023	**225 978**	**-**	**-**	**68 759**	**393 795**	**688 532**	**1 650**	**1 650**

(thousands of Euros)

	2022							
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	Total assets	Financial liabilities held for trading	Total liabilities
	Securities	Loans to customers					Derivatives held for trading	
Balance as at 31 December 2021	**586 450**	**-**	**-**	**43 224**	**625 187**	**1 254 861**	**1 950**	**1 950**
Acquisitions	45 390	-	-	3 520	16 464	65 374	-	-
Maturity	(177 720)	-	-	-	-	(177 720)	-	-
Settlements	(115 754)	-	-	(762)	-	(116 516)	-	-
Disposals	-	-	-	-	(242 068)	(242 068)	-	-
Changes in fair value	(62 978)	18	13	25 285	101 237	63 575	656	656
Other movements	-	-	-	-	(1 253)	(1 253)	-	-
Balance as at 31 December 2022	**275 388**	**18**	**13**	**71 267**	**499 567**	**846 253**	**2 606**	**2 606**

In the exercises of 2023 and 2022, there were no significant transfers of value between the different levels of the fair value hierarchy.

The potential gains and losses of financial instruments and investment properties classified at level 3 of the fair value hierarchy are recorded in income for the year or revaluation reserves, according to the respective accounting policy of the assets. The amounts determined as of December 31, 2023 and 2022 were as follows:

(thousands of Euros)

	2023			2022		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Trading derivatives	-	955	955	-	(655)	(655)
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	(58 545)	(58 545)
Financial assets mandatorily at fair value through profit or loss	55 904	-	55 904	25 584	-	25 584
Investment properties	-	16 526	16 526	-	91 133	91 133
	55 904	**17 481**	**73 385**	**25 584**	**31 933**	**57 517**

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 the change in the main variables used in their valuation, when applicable:

(millions of Euros)

Assets classified under level 3	2023						
	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			**226,0**		**-**		**-**
Shares			135,7		-		-
	Discounted cash flow model	*(b)*	*135,7*		-		-
Other variable income securities			90,3		-		-
	Valuation of the management company (adjusted)	*(b)*	*76,3*		-		-
	Valuation of the management company	*(c)*	*14,0*		-		-
Financial assets at fair value through other comprehensive income			**68,8**		**(3,0)**		**0,1**
Shares			68,8		(3,0)		0,1
	Discounted cash flows	*Renewable Energy Tariff*	*16,6*		*(3,0)*		*0,1*
	Others	*(a)*	*52,2*		-		-
Total			**294,7**		**(3,0)**		**0,1**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) Given that the Restructuring Funds were not revalued in 2023, a sensitivity analysis was also not carried out on them

(c) In the specific case of units valued according to the quotation provided by the respective management company, it is not reasonable to analyze the impact of the change in variables underlying the determination of the quotation by that entity

(millions of Euros)

Assets classified under level 3	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			**275,4**		**(2,4)**		**10,8**
Bonds issued by other entities	*Discounted cash flow model*	*Specific Impairment*	2,4	-50%	(2,4)	+50%	10,8
Shares			135,7		-		-
	Valuation of the management company (adjusted)	*(b)*	*135,7*		-		-
Other variable income securities			137,4		-		-
	Valuation of the management company (adjusted)	*(b)*	*117,6*		-		-
	Valuation of the management company (adjusted)	*(c)*	*19,8*		-		-
Financial assets at fair value through other comprehensive income			**71,3**		**(2,9)**		**0,1**
Shares			71,3		(2,9)		0,1
	Discounted cash flows	*Renewable Energy Tariff*	*16,2*		*(2,9)*		*0,1*
	Others	*(a)*	*55,1*		-		-
Total			**346,7**		**(5,3)**		**10,9**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent about 90% of the underlying assets of the Funds, a variation of +10% and -10% was considered in the fair value of the main real estate assets of each Fund, which leads to an impact of +5.2% and -5.2% in the fair value of the restructuring funds.

(c) In the specific case of units valued according to the quotation provided by the respective management company, it is not reasonable to analyze the impact of the change in variables underlying the determination of the quotation by that entity

The main parameters used, on December 31, 2023 and 2022, in the valuation models were as follows:

Interest Rate Curves

The short term rates presented reflect the indicative values practiced in the money market, and for the long term, the values presented represent the quotes for interest rate swaps for the respective terms:

(%)

	2023			2022		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	4,0325	5,3650	5,0850	1,9501	4,3650	3,5750
1 month	3,8450	5,4200	5,2900	1,8840	4,4200	3,6500
3 months	3,9090	5,5300	5,5000	2,1320	4,7700	3,8000
6 months	3,8610	5,5000	5,3500	2,6930	5,1500	4,3350
9 months	3,6870	5,4100	5,2750	2,9920	5,2350	4,5250
1 year	3,5130	5,0470	4,9670	3,2910	5,1130	4,6768
3 years	2,5665	4,0319	3,9400	3,3005	4,3010	4,6088
5 years	2,4360	3,8117	3,6544	3,2390	4,0110	4,3280
7 years	2,4420	3,7571	3,5548	3,2020	3,8780	4,1350
10 years	2,4940	3,7541	3,5682	3,2020	3,8220	3,9920
15 years	2,5580	3,7785	3,6300	3,1410	3,7970	3,9377
20 years	2,5150	3,7585	3,6570	2,9310	3,7260	3,8647
25 years	2,4120	3,6768	3,6470	2,7150	3,6170	3,7967
30 years	2,3260	3,5910	3,6403	2,5320	3,4720	3,7257

Credit Spreads

The credit spreads used by the Group in the evaluation of credit derivatives are disclosed daily by Markit, representing observations comprised of about 85 renowned international financial institutions. The evolution of the main indices, which is considered representative of the behavior of credit spreads in the market throughout the year, is presented next:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2023						
CDX USD Main	**41**	-	33,64	56,70	78,74	98,19
iTraxx Eur Main	**40**	14,64	33,08	58,21	78,97	98,68
iTraxx Eur Senior Financial	**40**	-	-	67,02	-	-
31 December 2022						
CDX USD Main	**39**	-	56,87	82,02	101,74	117,73
iTraxx Eur Main	**38**	35,05	66,40	90,60	106,87	122,66
iTraxx Eur Senior Financial	**38**	-	-	99,29	-	-

Interest Rate Volatilities

The values presented below refer to the implied volatilities (at the money) that served as a basis for the valuation of interest rate options:

(%)

	2023			2022		
	EUR	USD	GBP	EUR	USD	GBP
1 year	87,29	94,80	99,70	99,28	23,33	55,24
3 years	110,08	125,00	142,10	124,23	38,10	49,59
5 years	105,67	121,30	140,10	124,77	40,72	47,00
7 years	101,82	116,10	134,00	121,60	39,38	45,73
10 years	97,50	108,90	124,60	115,66	35,95	42,81
15 years	91,56	99,00	113,10	107,02	-	-

Foreign Exchange Rates and Volatilities

The following are the exchange rates (European Central Bank) at the balance sheet date and the implied volatilities (at the money) for the main currency pairs, used in the valuation of derivatives:

Foreign exchange rate	2023	2022	Volatility (%)				
			1 month	3 months	6 months	9 months	1 year
EUR/USD	1,1050	1,0666	6,98	6,64	6,57	6,54	6,70
EUR/GBP	0,8691	0,8869	4,96	5,14	5,50	5,75	5,95
EUR/CHF	0,9260	0,9847	6,76	6,13	5,99	5,94	5,91
EUR/NOK	11,2405	10,5138	9,81	9,54	9,56	9,60	9,61
EUR/PLN	4,3395	4,6808	6,99	7,04	7,13	7,19	7,24
EUR/RUB	117,2010	117,2010	29,28	31,71	34,65	36,12	32,92
USD/BRL [a)]	4,8523	5,2865	12,71	13,09	13,60	13,95	14,29
USD/TRY [b)]	29,5503	18,7183	8,47	13,41	17,98	21,13	23,43

a) Calculated on the basis of the EUR/USD and EUR/BRL exchange rates

b) Calculated on the basis of the EUR/USD and EUR/TRY exchange rates

Regarding exchange rates, the Group uses the spot rate observed in the market at the time of valuation in its valuation models.

Quotation Indexes

The following table summarizes the evolution of the main quotation indices and their volatilities used in the valuations of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	2023	2022	% Change	1 month	3 months	
DJ Euro Stoxx 50	4 522	3 794	19%	13,65	15,89	11,00
PSI 20	6 396	5 726	12%	12,29	13,99	-
IBEX 35	10 102	8 229	23%	12,13	17,15	-
FTSE 100	7 733	7 452	4%	10,97	13,37	9,28
DAX	16 752	13 924	20%	12,94	15,16	11,03
S&P 500	4 770	3 840	24%	11,61	13,75	10,93
BOVESPA	134 185	109 735	22%	15,90	18,48	19,74

40.2. Assets and liabilities at Amortized Cost

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 amortized cost

The fair value of securities recorded at amortized cost is estimated according to the methodologies used to value the securities that are recorded at fair value, as described at the beginning of this Note.

Customer loans

The fair value of customer loans is estimated based on the updating of expected capital and interest cash flows, assuming that the installments are paid on the dates contractually defined. The future expected cash flows of homogeneous credit portfolios, such as mortgages, are estimated on a portfolio basis. The discount rates used are the current rates practiced for loans with similar characteristics.

Resources from Central Banks and other credit institutions

The fair value of resources from central banks and other credit institutions is estimated based on the updating of expected capital and interest cash flows.

Due to Customers

The fair value of these financial instruments is estimated based on the updating of expected capital and interest cash flows. The discount rate used is the one that reflects the rates practiced for deposits with similar characteristics at the balance sheet date. Considering that the applicable interest rates are renewed for periods of less than one year, there are no materially relevant differences in their fair value.

Liabilities represented by securities, Subordinated Liabilities, and Liabilities associated with transferred assets

The fair value of these instruments is based on market quotations when available; if not, it is estimated based on the updating of expected future cash flows of capital and interest for these instruments.

Other financial liabilities

These liabilities are short-term, so the balance value is a reasonable estimate of their fair value.

The fair value of financial assets and liabilities recorded on the balance sheet at amortized cost is analyzed as follows, having been estimated based on the main methodologies and assumptions described above:

(thousand 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 2023					
Cash, cash balances at central bank and other demand deposits	5 867 189	-	5 867 189	-	5 867 189
Financial assets at amortised cost					
Debt securities	7 870 536	6 340 702	216 753	1 160 823	7 718 278
Loans and advances to banks	47 940	-	47 940	-	47 940
Loans and advances to customers	24 534 061	-	-	24 892 480	24 892 480
Financial assets	**38 319 726**	**6 340 702**	**6 131 882**	**26 053 303**	**38 525 887**
Financial liabilities measured at amortised cost					
Deposits from banks	5 745 326	-	5 745 326	-	5 745 326
Due to customers	29 984 273	-	-	29 984 273	29 984 273
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 107 585	1 240 258	-	12 136	1 252 394
Other financial liabilities	493 171	-	-	493 171	493 171
Financial liabilities	**37 330 355**	**1 240 258**	**5 745 326**	**30 489 580**	**37 475 164**

(thousand of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices	Valuation models based on observable market parameters	Valuation models based on unobservable market parameters	Total fair value
		(Level 1)	(Level 2)	(Level 3)	
31 December 2022					
Cash, cash balances at central bank and other demand deposits	6 599 078	-	6 599 078	-	6 599 078
Financial assets at amortised cost					
Debt securities	7 964 664	6 322 522	270 317	1 002 725	7 595 564
Loans and advances to banks	43 548	-	43 548	-	43 548
Loans and advances to customers	24 550 936	-	-	25 072 152	25 072 152
Financial assets	**39 158 226**	**6 322 522**	**6 912 943**	**26 275 167**	**39 510 632**
Financial liabilities measured at amortised cost					
Deposits from banks	9 705 154	-	9 696 251	-	9 696 251
Due to customers	29 277 858	-	-	29 277 858	29 277 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 628 897	1 696 133	-	68 964	1 765 097
Other financial liabilities	375 268	-	-	375 268	375 268
Financial liabilities	**40 987 177**	**1 696 133**	**9 696 251**	**29 722 090**	**41 114 474**

Note 41 - Transfer of Assets

In the context of the restructuring process of the Portuguese real estate sector, several initiatives were launched to create financial, operational, and management conditions that could revitalize that sector. In this regard, the Government, in close connection with companies and the financial sector, including the former BES, encouraged the creation of societies and specialized funds that, through concentration, aggregation, merger, and integrated management operations, would allow the attainment of the synergies needed for the recovery of the companies. With these objectives in mind, companies (parent companies) were established, with a minority participation of the Originating Bank, which in turn came to hold almost all of the capital of certain subsidiaries (subsidiaries of these parent companies) with the aim of acquiring certain real estate bank loans.

A set of operations for the transfer of financial assets (namely customer credit) to those last entities (subsidiaries of the parent companies) was carried out. These entities are responsible for managing the assets received as collateral that, after the transfer of credits, aim to implement a plan to enhance them. Almost all of the financial assets transferred in these operations were derecognized from the Group's balance sheet, as the substantial share of the risks and benefits associated with them, as well as their control, was transferred to the aforementioned third-party entities.

The aforementioned acquiring entities have a specific management structure, completely autonomous from the lending banks, which is selected at the time of their constitution and has the main responsibilities of:

- defining the purpose of the entity;
- manage and exclusively and independently manage the acquired assets, determine the objectives and investment policy and the manner of conduct of the management and business of the entity.

The acquiring entities are financed, predominantly, through the issuance of senior capital instruments that are fully subscribed by the parent companies. The value of the capital represented by senior securities equals the fair value of the transferred asset, determined by a negotiation process based on evaluations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, financing can be supplemented by banks subscribing to junior capital instruments by the difference between the book value of the transferred credits and the fair value that was based on the valuation of the senior security. These junior instruments, when subscribed by the Group, will entitle to a contingent positive value, if the value of the transferred assets exceeds the amount of senior installments plus their remuneration, and is usually limited to a maximum of 25% of the total value resulting from senior securities and junior securities issued.

Considering that these junior securities reflect a differential valuation of the transferred assets, based on evaluations made by independent entities and a negotiation process between the parties, they are fully provisioned in the Group's balance sheet.

Thus, following the asset transfer operations, the Group subscribed:

- capital-senior instruments, representing the capital of the parent companies in which the cash flows that will allow their recovery come from a wide range of assets transferred by the various Banks. These securities are recorded in the portfolios of financial assets necessarily at fair value through the results being evaluated at market, with valuation regularly disclosed by the mentioned companies whose accounts are audited at the end of each year;
- junior instruments, issued by the companies that acquire the credits that are being fully provisioned as they reflect the best estimate of the impairment of the transferred financial assets.

From these subscriptions by the novobanco Group resulted a clearly minority position in the capital of the mentioned entities.

In this context, not having control but remaining with some risk and benefit, the Group novobanco, under the terms of IFRS 9 3.2.7, conducted an analysis of the exposure to variability of risks and benefits in the transferred assets, before and after the operation, concluding that it did not retain a substantial part of the risks and benefits. Additionally, and considering that it also does not have control, it proceeded under the terms of IFRS 9 3.2.6c, (i) to the derecognition of the transferred assets and (ii) to the recognition of the assets received as consideration, as shown in the following table:

(thousand 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
Fundo Recuperação Turismo, FCR	293 187	293 187	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	336 896	337 981	1 085	325 527	23 247	348 773	(23 247)	325 527
Discovery Portugal Real Estate Fund	227 155	218 609	(8 546)	211 780	-	211 780	-	211 780
Fundo Vallis Construction Sector	98 981	98 981	-	98 349	25 181	123 529	(25 181)	98 349
Fundo Recuperação, FCR	200 019	204 317	4 299	164 078	36 182	200 261	(23 000)	177 261
Fundo Reestruturação Empresarial	73 225	73 225	-	103 481	-	103 481	-	103 481
Fundo Aquarius	144 830	143 770	(1 060)	145 435	-	145 435	-	145 435
	1 374 292	**1 370 070**	**(4 222)**	**1 305 541**	**119 516**	**1 425 057**	**(106 333)**	**1 318 724**

During 2022, as part of the Crow project, the Group proceeded to sell all the participation units of the Tourism Recovery Fund and the FLIT SICAV, and to partially sell the participation units of the Recovery Fund FCR (see note 13), so as of December 31, 2023, the Group's total exposure in securities related to credit transfer operations amounted to a value of 220.9 million euros (December 31, 2022: 253.2 million euros). The details are as follows:

(thousand of Euros)

	2023				2022			
	Securities			Unrealised Subscribed Capital	Securities			Unrealised Subscribed Capital
	Participation units subscribed (no.)	Book value	NAV		Participation units subscribed (no.)	Book value	NAV	
FLIT SICAV	-	-	-	-	25 000	-	-	-
Discovery Portugal Real Estate Fund	259 527	135 655	267 043	3 950	259 527	135 655	269 119	3 950
Fundo Recuperação, FCR	171 846	19 172	39 795	5 209	186 602	21 567	51 836	17 569
Fundo Reestruturação Empresarial	-	-	-	-	80 719	21 798	29 337	5 680
Fundo Aquarius	147 148	57 099	152 654	18 502	166 861	74 202	133 629	20 980
Fundo Turismo Algarve	47 188	9 000	46 101	944	47 188	9 773	46 232	-
	625 709	**220 926**	**505 593**	**28 605**	**765 897**	**262 995**	**530 153**	**48 179**

* quote as at 30 June 2023

Note 42 - Risk Management

The "Institutional" area of Novo Banco, S.A.'s website presents information for the investor, particularly the Market Discipline Report of Novo Banco, S.A., which aims to comply with the obligation to publicly disclose information as set out in Part VIII of Regulation No. 575/2013 of the European Parliament and the Council of 26 June 2013 (CRR) and the guidelines issued by the EBA, incorporated into the Portuguese regulatory framework through Banco de Portugal's Instruction 5/2018.

In cases where the information from this Annual Report supports the information in the Market Discipline Report, this information is identified through references to this Report, systematized in Annex VI of the Market Discipline Report.

42.1. Framework

Risk is implicit in banking business and, as such, the novobanco Group is naturally exposed to various categories of risks that arise from external and internal factors, and which emerge depending on the characteristics of the markets in which the Bank operates and the activities it carries out.

Therefore, the risk management and control of the novobanco Group is based on the following premises:

- Independence from other group units, particularly risk-taking units;
- Universality by application throughout novobanco Group;
- Integrity of risk culture, through a holistic view and anticipation of its materialization;
- 3 Lines of Defense Model, with the aim of adequately detecting, measuring, monitoring, and controlling the materially relevant risks to which novobanco Group is subject. This Model implies that all employees, in their sphere of action, are responsible for managing and controlling risks.

42.2. Governance and Risk management structure

Risk Management, being vital for the development of novobanco Group's activity, is centralized in the Risk Management Function, assumed by the Global Risk Department (DRG), which defines in a holistic way the principles of risk management and control, in close coordination with the other 2nd line units of the novobanco Group, as well as with the Internal Audit Department.

All materially relevant risks are reported to the respective Management and Supervisory Bodies (EBD, GSB and both Risk Committees and specialized Committees), which assume the responsibility to supervise, monitor, evaluate and define the Risk Appetite and the control principles implemented.

The person responsible for the Risk Management Function of the novobanco Group is the head of the DRG. In order to guarantee greater efficiency in coordination with the DRG, a local Risk Function Manager was appointed for each relevant entity of the novobanco Group. The intervention of the DRG is direct or of coordination in alignment with the units that assume the local Risk Management Function.

Risks identified as relevant and material are quantified through the Internal Capital Adequacy Assessment Process (ICAAP), with the most relevant being:

- credit risk that includes *default*, counterparty and concentration
- market risk;
- liquidity risk;
- information and communication and Security, compliance risk, and reputational risk, and
- business risk.

We highlight ESG (Environmental, Social and Governance) risk - particularly the subcategories of climate and environmental risk and other environmental risks - as risks of increasing relevance, and whose impact is estimated to be materialized in the medium and long term (that is, over a horizon longer than the other risk categories).

ESG risk is part of the Group's risk management framework, in close coordination between the DRG and the ESG Office, which contributes with specific knowledge for the identification of climate and environmental risk factors and social risk factors.

Thus, it is formally defined in novobanco's risk taxonomy as exposure to adverse events resulting from inadequacies or failures in procedures, systems or policies related to the environment (adaptation or mitigation of climate change, sustainable use and protection of water or marine resources, transition to a circular economy, waste prevention and recycling, pollution control and protection of ecosystems) and natural resources (Biodiversity), Social (equality, social cohesion, social integration, labor relations) and Governance (adequate management structures, labor relations, employee remuneration and tax obligations compliance).

The assessment of the materiality of its impacts is analysed cross-sectionally, as ESG factors are intrinsically present in the other risk categories provided for in the Group's risk taxonomy.

In this regard, we highlight the factors that have received greater specialization from the Group, in terms of its risk assessment and control methodologies and their integration into business processes:

- Climate transition risks: defined as the impacts associated with the transition to a low-carbon economy. In other words, these risks are caused by legislation/regulation, technology, and market changes resulting from the requirements associated with climate change. Depending on each economic sector's (and each company's) response to the need for transition, different scenarios (and severities of transition risk factors) can be envisioned, and as a result, different risks and risk levels can be identified and assessed.
- Physical risks: defined as the impacts associated with the physical effects of climate change. These risks can result from factors that arise based on an extreme event - acute risk - or through a medium or long-term factor - chronic risk (for example, the negative effect that global warming, resulting from the continuous increase in temperatures, can have on the productive cycles of some sectors). Physical risks can have as a consequence internal financial impacts (damage to own assets) or external financial impacts (disruption of the productive cycles of customers/counterparts or the impact on the Group's real estate collaterals).

Next are the main guidelines for managing the risks identified above:

- Credit risk: the management and control of this type of risk are supported by the use of an internal system for identifying, assessing and quantifying risks, as well as internal rating and scoring processes for the portfolios and their continuous monitoring in specific decision-making forums;
- Market risk: there is a specialized team that centralizes the management and control of market risk and the Group's balance sheet interest rate risk (IRRBB), aligned with regulation and good risk practices;
- Liquidity risk: based on the measurement of liquidity outflows from contractual and contingent positions in normal or in 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, in the medium and long term, stable financing sources;
- non-financial risks: the management of this risk is based on the definition of a framework for the management and control of non-financial risks and specific policies; and on the compliance function and the Information Security Office playing a relevant role in the definition of other specific risk policies.

42.3. Credit risk

Credit risk arises from the possibility of financial loss due to customer or counterparty defaults on contractual obligations established with the Group as part of its credit activity. Credit risk is primarily present in traditional banking products - loans, guarantees, and other contingent liabilities and derivatives. In credit default swaps (CDS), the net exposure between selling and buying protection positions on each entity underlying the operations constitutes credit risk for the novobanco Group. CDSs are recorded at their fair value as per the accounting policy described in Note 7.6.6.

Continuous management of credit portfolios is carried out, favouring interaction between the various teams involved in risk management throughout the successive phases of the credit process. This approach is complemented by introducing continuous improvements in both risk assessment and control methodologies and tools, as well as decision-making procedures and circuits.

Monitoring the Group's credit risk profile, particularly in terms of the evolution of credit exposures and monitoring of credit losses, is carried out on a regular basis in the Risk Committees of the Executive Board and the General and Supervisory Board.

Main events in 2023 exercise

During 2023, we highlight below the main events related to impairment, namely:

(i) Constitution of impairments for contingencies resulting from adverse market conditions;
(ii) Introduction of new triggers to stage 2 related to exposures without a risk rating;
(iii) Update of macroeconomic scenarios.

Regarding the impairment boosts mentioned in points 1. above, taking into account the current economic context of high interest rates, with the prospect of maintenance during 2024, to face contingencies of these adverse market conditions, a sensitivity analysis was carried out on the corporate and housing portfolio.

Therefore, novobanco estimated and accounted for these portfolios, in an appropriate and timely manner, more than 40 million euros in unallocated impairment in addition to the cost of risk observed in its portfolio.

Regarding the introduction of new triggers to stage 2, in this case, all exposures with a persistent situation of not having a valid risk rating are now considered in stage 2. The introduction of this measure in the collective impairment calculation model had no impact in 2023 as novobanco had already taken precautions.

In relation to point (iii) above, the impact of updating the macroeconomic scenarios underlying novobanco's impairment calculation model was estimated slightly below 30 million euros of impairment, an amount also recorded as unallocated impairment.

The climate and environmental risk component

The ESG risk materiality analysis seeks to identify the impact that this risk will have on other risks, particularly credit risk, since it is the main risk faced by novobanco. In order to monitor the portfolio's credit risk from an ESG perspective, various metrics (KRI) were created which are monitored on a monthly basis, seeking to analyze the evolution of the portfolio's risk and anticipate any adverse impacts on credit risk resulting from factors associated with climate and environmental risk.

From a portfolio perspective, the assessment of credit risk in sectors relevant to climate risk policy is used by the novobanco to prioritize, assess and monitor transition risk, with a focus on negatively affected sectors or those with an uncertain impact. This methodology takes into account the following factors: direct and indirect contribution to GHG emissions (greenhouse gas, such as the production and distribution of fossil fuels or renewable energies), relevance to climate policy (such as the sensitivity of the cost structure to regulatory or fiscal changes based on GHG emissions) and importance in the energy value chain (production, use, consumption).

In this respect, novobanco is developing its transition plan with the aim of reducing its indirect carbon footprint, reducing the risk of its portfolio and contributing to meeting the Paris objectives. In 2023 it took a major step forward, approving targets for reducing financed GHG emissions for 3 business sectors (Electricity Generation, Concrete and Commercial Mortgages). These targets were calculated based on scientific methodologies recommended by sector by the Science Based Targets Initiative (SBTi).

In order to allow for a top-down analysis, novobanco has developed an ESG sectoral scoring system that allows for the identification of clients who will be the target of credit risk analysis from an ESG perspective, by prioritizing the sectors with the greatest concerns in terms of climate risk, namely the sectors classified in the ESG scoring with high and severe risk. Novobanco is developing specific guidelines adapted to the risks that each relevant sector faces or will face.

To ensure that novobanco has access to its clients' ESG information, new contractual provisions have been introduced in credit agreements regarding the provision of non-financial information by clients, minimum social and governance safeguards, as well as sectoral provisions for sectors subject to minimum financing safeguards, where applicable. For reference, the sectors subject to exclusion or minimum safeguards are described in the novobanco's Financing Principles - Sector/activity exclusions and minimum safeguards.

During 2023, special emphasis was also placed on obtaining Energy Performance Certificates (EPC) for real estate guarantees already in the bank's portfolio. For new operations, regardless of the purpose and type of property, the energy certificate is mandatory.

Finally, novobanco was selected to take part in the Fit-for-55 Climate Stress Test, a regulatory exercise that seeks to identify the resilience of financial institutions to meet climate objectives. The exercise began in 2023 and will conclude in 2024. This exercise will enable a benchmark to be made between the various institutions and will allow the regulator to identify market best practices.

42.3.1. Exposure to credit risk

Next, the information related to the novobanco Group's maximum exposure to credit risk is presented:

(thousand of Euros)

	2023			2022		
	Gross value	Impairment	Net Value	Gross value	Impairment	Net Value
Deposits with and loans and advances to banks	362 002	(714)	361 288	518 014	(780)	517 234
Derivatives for trading and fair value option derivatives	117 620	-	117 620	135 382	-	135 382
Securities held for trading	318 528	-	318 528	36 428	-	36 428
Securities at fair value through profit/loss	-	-	-	13	-	13
Securities at fair value through profit/loss - mandatory	11 418	-	11 418	13 473	-	13 473
Securities at fair value through other comprehensive income	760 869	(239)	760 630	2 243 984	(660)	2 243 324
Securities at amortised cost	8 194 848	(324 312)	7 870 536	8 256 195	(291 531)	7 964 664
Loans and advances to customers	25 405 088	(954 525)	24 450 563	25 452 202	(1 066 392)	24 385 810
Derivatives - hedge accounting	683 063	-	683 063	562 845	-	562 845
Other assets	523 511	(132 533)	390 978	551 797	(129 830)	421 967
Guarantees and standby letters provided	2 354 035	(74 686)	2 279 349	2 397 867	(82 547)	2 315 320
Documentary credits	187 024	-	187 024	169 410	-	169 410
Revocable and irrevocable commitments	5 983 312	9 294	5 992 606	6 206 048	7 350	6 213 398
Credit risk associated with the reference entities of credit derivatives	-	-	-	-	-	-
	44 901 318	**(1 477 715)**	**43 423 603**	**46 543 658**	**(1 564 390)**	**44 979 268**

For financial assets recognized in the Balance Sheet, the maximum exposure to credit risk is represented by the net book value of impairment. For off-balance-sheet items, the maximum exposure of guarantees is the maximum amount the Group would have to pay if the guarantees were executed, and for loan commitments and other irrevocable credit-related commitments, it is the total amount of commitments assumed.

Impairment is calculated on a collective or individual basis according to the accounting policy defined in Note 7.12. In cases where the value of collateral, after applying haircuts (differentiated by collateral type), equals or exceeds exposure, individual impairment may be null. Thus, the novobanco Group has no overdue financial assets for which it has not performed an analysis regarding its recovery and subsequent recognition of the respective impairment when verified.

42.3.2. Scenarization in impairment models

As prescribed in IFRS 9 regulation, the Group's impairment calculation reflects different macroeconomic evolution expectations, that is, it incorporates multiple scenarios. To incorporate the effects of future macroeconomic behavior on loss estimates, macroeconomic forward-looking estimates are included in some of the risk parameters used for impairment calculation. Accordingly, different possible scenarios are considered, which result in the same number of impairment outcomes.

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

- Representative scenarios that capture existing nonlinearities (e.g., a base scenario, a scenario with more favorable macroeconomic prospects, and a scenario with less favorable macroeconomic prospects);
- The base scenario is consistent with the inputs used in other exercises in the Group, as it uses the same methodology that the Group uses in internal and regulatory planning exercises for impairment calculation purposes;
- Alternative scenarios to the base scenario incorporate a favorable and an adverse scenario;
- The correlation between projected variables is realistic with the economic reality (e.g., if GDP is increasing, it is expected that unemployment is decreasing).

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

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, reaching GDP through the identity GDP = Consumption + Investment + Exports - Imports. The chosen econometric specifications 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 a single forecast (the risk of errors and biases associated with specific methods and variables is minimized).

Forecasts for prices (consumption and real estate) and unemployment follow a similar methodology: own forecasts from an estimated model, weighted with forecasts from external institutions, if these are available. In a base scenario, the projections for interest rates start from market expectations (provided by Bloomberg), with possible adjustments according to 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 the behaviour of GDP (expansion and contraction cycles), the reference of EBA recommendations for extreme adverse scenarios, the stylized facts of economic cycles, with regard to expenditure components, prices, unemployment, etc., and estimates.

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

Currently, 3 scenarios are considered for the calculation of collective impairment: central, less favourable (or adverse) and more favourable. The considered scenarios and the evolution of the main macroeconomic variables are described in the tables below:

A – Base Scenario, with a relative weight of 72,5%

	Unit	2023	2024	2025	2026
PIB	Real growth %	1,4	2,0	2,2	2,2
Private Consumption	Real growth %	0,8	1,3	1,7	1,7
Public Expenditure	Real growth %	1,2	1,3	1,4	1,4
Investment	Real growth %	4,7	5,1	4,2	4,2
Exports	Real growth %	2,0	3,9	6,4	6,4
Imports	Real growth %	3,4	4,0	6,3	6,3
Internal Demand	Real growth %	1,6	2,0	2,2	2,2
Prices					
CPI	%	2,9	2,2	2,0	2,0
Real Estate (Residential)	%	0,2	1,5	3,3	3,3
Real Estate (Commercial)	%	0,1	0,6	1,6	1,6
Equity prices (incremental change)	%	0,0	0,0	0,0	0,0
Unemployment	% workforce	6,7	6,9	6,8	6,8
Euribor (average)					
3-months	%	3,58	3,02	2,84	2,84
End of the period	%	*3,19*	*2,85*	*2,83*	*2,83*
6-months	%	3,52	2,99	2,87	2,87
End of the period	%	*3,11*	*2,87*	*2,86*	*2,86*
12-months	%	3,40	2,97	2,91	2,91
End of the period	%	*3,03*	*2,90*	*2,92*	*2,92*
Sovereign Yields (average)					
Bund 10Y	%	2,81	2,87	<	2,98
End of the period	%	*2,81*	*2,92*	*3,04*	*3,04*
PGB 10Y	%	3,71	3,89	4,11	4,11
End of the period	%	*3,78*	*4,00*	*4,21*	*4,21*
PGB 2Y	%	2,89	2,92	3,18	3,18
End of the period	%	*2,79*	*3,05*	*3,31*	*3,31*
10Y PGB-Bund spread					
Annual average	bps	90	103	113	113
End of the period	bps	*97*	*108*	*117*	*117*
10Y-2Y PGB Spread					
Annual average	bps	82	97	93	93
End of the period	bps	*99*	*95*	*90*	*90*

After GDP growth of 6.8% in 2022, the base scenario assumes a slowdown in activity in 2023, to growth of around 2.1%, supported by net external demand, given the strong growth in exports at the beginning of the year (in particular from tourism), and the resilience of private consumption. The decline in GDP growth is explained by the adverse impact on domestic demand of high inflation and rising interest rates. For 2024, it is assumed that GDP growth will decline to 1.4%, with additional lagged impacts from a restrictive monetary policy (increase in debt service), a slight rise in unemployment and a slowdown in exports. The decline in growth is mitigated by the decline in inflation, budgetary support and an acceleration of investment (mainly public investment) within the scope of the Recovery and Resilience Plan. In 2025-26, GDP growth is assumed to converge to trend (annual growth around 2%-2.2%).

After reaching a peak of 7.8% in 2022, average annual inflation remains high in 2023, at around 4.6% (mainly with the contribution of services). A more visible slowdown in consumer prices is assumed for 2024-26, towards the 2% target. In any case, persistent inflation in 2022-24 supports the scenario of higher key interest rates. In the base scenario, these reach their peak in the 4th quarter of 2023. The annual average Euribor in months is seen to increase from 0.35% in 2022 to 3.43% in 2023 and to 3.58% in 2024, before to gradually decrease to 2.84% in 2026 (the rate is expected to peak at around 4% in the 4th quarter of 2023). The PGB-Bund spread is expected to remain contained, below or around 100 basis points in 2024 and 2025.

The household savings rate is expected to increase from 6.5% in 2022 to 7.3% in 2025 and 2026, as private consumption slows, following the post-Covid boom and with the effects of higher interest rates and more restrictive financing conditions. The unemployment rate remains contained, at around 6.5%-6.8% of the active population.

B – Less favourable / adverse scenario, with a relative weight of 17,5%

	Unit	2023	2024	2025	2026
PIB	Real growth %	-3,2	-1,5	1,6	1,6
Private Consumption	Real growth %	-3,9	-2,6	1,4	1,4
Public Expenditure	Real growth %	0,1	0,1	0,8	0,8
Investment	Real growth %	1,2	1,0	3,7	3,7
Exports	Real growth %	-3,2	0,4	6,3	6,3
Imports	Real growth %	-0,3	0,5	6,5	6,5
Internal Demand	Real growth %	-2,3	-1,4	1,8	1,8
Prices					
CPI	%	4,7	1,9	1,8	1,8
Real Estate (Residential)	%	-10,1	-4,8	0,8	0,8
Real Estate (Commercial)	%	-15,2	-6,5	0,4	0,4
Equity prices (incremental change)	%	-50,0	-45,0	-35,0	-35,0
Unemployment	% workforce	8,9	13,1	10,6	10,6
Euribor (average)					
3-months	%	4,37	2,96	2,25	2,25
End of the period	%	*3,98*	*2,45*	*2,05*	*2,05*
6-months	%	4,66	2,84	2,15	2,15
End of the period	%	*3,87*	*2,33*	*1,96*	*1,96*
12-months	%	4,65	2,72	2,08	2,08
End of the period	%	*3,75*	*2,21*	*1,94*	*1,94*
Sovereign Yields (average)					
Bund 10Y	%	2,93	1,98	1,80	1,80
End of the period	%	*2,21*	*1,75*	*1,85*	*1,85*
PGB 10Y	%	4,31	3,48	3,08	3,08
End of the period	%	*3,78*	*3,17*	*2,99*	*2,99*
PGB 2Y	%	3,69	2,68	2,24	2,24
End of the period	%	*2,99*	*2,36*	*2,11*	*2,11*
10Y PGB-Bund spread					
Annual average	bps	138	150	128	128
End of the period	bps	*157*	*142*	*114*	*114*
10Y-2Y PGB Spread					
Annual average	bps	62	80	85	85
End of the period	bps	*79*	*81*	*88*	*88*

The adverse scenario is based on the assumption that inflation will become more persistent than expected. This could be due to an energy shock, with new impacts from the wars in Ukraine and the Middle East. The ECB responds by further increasing policy rates in late 2023 and 2024. This leads to sharply restrictive financial conditions and a recession in 2024-2025.

In the Portuguese economy, GDP growth falls by 3.2% in 2024 and 1.5% in 2025, mainly as a result of a significant contraction in private consumption, which is negatively impacted by the increase in interest rates, the fall in purchasing power purchase and a significant increase in unemployment. Private investment by families and non-financial corporations also falls in real terms. However, total investment still increases, as a result of the public component, reflecting the implementation of the Recovery and Resilience Plan funds. It is assumed that net external demand will have a negative contribution to growth (decrease in exports, including services).

Average annual inflation is expected to remain well above the target in 2024 (around 4.7% in Portugal). But tighter financial conditions, with higher policy and market interest rates, contribute to the recession in 2024-25, which is assumed to be disinflationary in nature. Inflation falls quickly to levels below 2% in 2025-26, leading the ECB to cut key rates in that period, which translates into a fall in market interest rates, to levels below those observed in the base scenario.

The unemployment rate rises to 8.9% in 2024 and to 13.1% in 2025. The fall in private consumption and the need to compensate for the erosion caused by inflation result in an increase in the household savings rate, to 9. 9% of disposable income in 2025, above pre-Covid levels.

C – More favorable scenario, with a relative weight of 10%

	Unit	2023	2024	2025	2026
PIB	Real growth %	2,3	2,1	2,4	3,1
Private Consumption	Real growth %	1,3	1,8	2,4	3,5
Public Expenditure	Real growth %	1,2	1,2	1,5	1,4
Investment	Real growth %	1,5	5,5	6,1	5,0
Exports	Real growth %	4,2	3,1	4,7	6,9
Imports	Real growth %	1,3	4,6	5,9	7,7
Internal Demand	Real growth %	1,3	2,4	3,0	3,5
Prices					
CPI	%	4,6	3,0	2,4	2,1
Real Estate (Residential)	%	7,5	1,8	2,5	3,7
Real Estate (Commercial)	%	2,5	0,6	0,8	1,2
Equity prices (incremental change)	%	2,0	15,0	20,0	25,0
Unemployment	% workforce	6,4	6,5	6,4	5,9
Euribor (average)					
3-months	%	3,44	3,83	3,52	3,17
End of the period	%	*3,96*	*3,69*	*3,35*	*2,99*
6-months	%	3,70	3,76	3,42	3,11
End of the period	%	*3,92*	*3,60*	*3,24*	*2,97*
12-months	%	3,88	3,65	3,33	3,04
End of the period	%	*3,77*	*3,52*	*3,13*	*2,95*
Sovereign Yields (average)					
Bund 10Y	%	2,53	2,87	3,05	3,28
End of the period	%	*2,85*	*2,88*	*3,21*	*3,35*
PGB 10Y	%	3,33	3,65	3,76	3,91
End of the period	%	*3,64*	*3,66*	*3,86*	*3,96*
PGB 2Y	%	2,96	2,91	2,92	3,00
End of the period	%	*2,99*	*2,83*	*3,01*	*2,99*
10Y PGB-Bund spread					
Annual average	bps	80	79	72	63
End of the period	bps	*79*	*78*	*65*	*61*
10Y-2Y PGB Spread					
Annual average	bps	37	74	84	91
End of the period	bps	*65*	*83*	*85*	*97*

The favorable scenario assumes that the increase in inflation in 2023 proves to be transitory. After recording 4.6%, price growth converges, in the remaining projection horizon, to values close to 2%. This development could be associated with a rapid resolution of conflicts in Ukraine and/or the Middle East and a strong reduction in energy and food prices. Short-term market interest rates decline in 2025-2026 but remain clearly above pre-Covid levels. Long-term interest rates rise throughout the projection horizon, but with the 10-year PGB-Bund spread retreating and evolving at low levels. In this context, it is assumed that economic activity will expand at an above-trend pace for most of the projection horizon and accelerating until 2026. GDP growth benefits from positive investment performance (with the implementation of funds from the PRR), private consumption and exports. Strong external demand and favorable financing conditions support house price growth, albeit in single digits. The unemployment rate is seen falling to close to 5% of the active population.

42.3.3. Impairment models

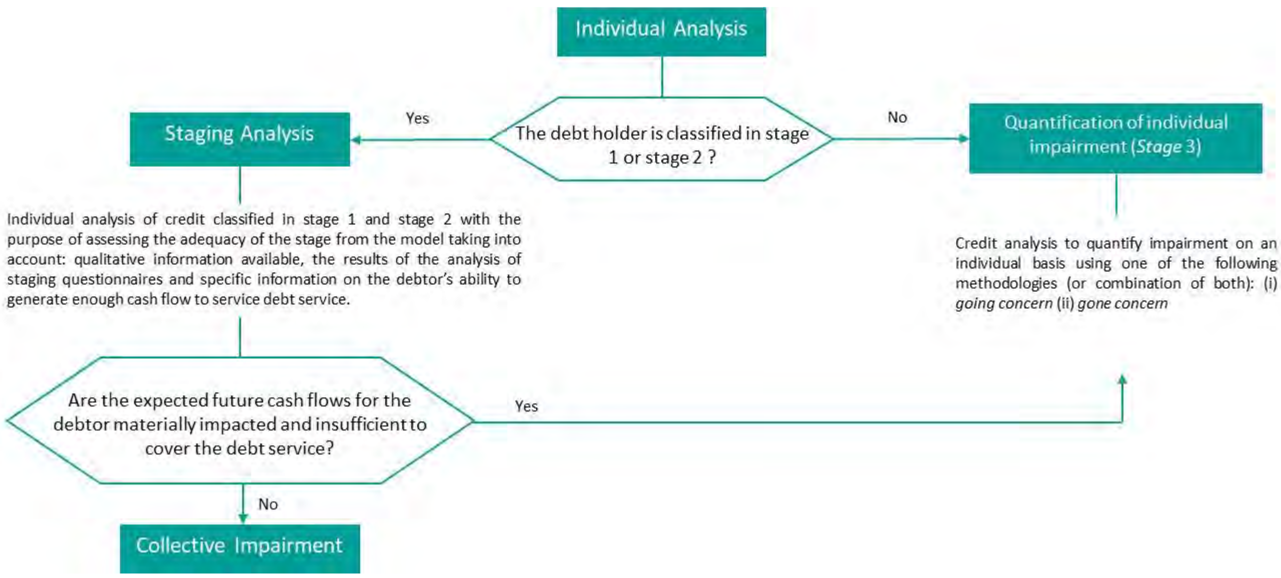
42.3.3.1. Individual Credit Analysis

The Individual Impairment Analysis aims to determine the most appropriate impairment rate for individually significant clients, regardless of the value resulting from the Collective Impairment Model. The identification of individually significant customers is carried out based on the criteria defined in the standard.

The Individual Analysis of individually significant clients is carried out based on the information provided by the Commercial Structures and DRCE (Corporate Credit Recovery Department) regarding the client/Group framework, historical cash flows (wherever possible, at least 3 years) and forecasts (when available) and existing collateral.

In the analysis of quantifying impairment on an individual basis, possible scenarios are established for credit recovery, either through the continuity of the client's business, through the giving/execution of collateral or through the sale of the credit, weighted by the respective probability of occurrence. If the analysis results in no specific impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model.

The scheme below illustrates the individual credit analysis to be carried out to conclude on the classification in terms of staging of debtors:



Selection Criteria

The Group considers as the target of an Individual Analysis process (staging analysis and, when applicable, individual impairment quantification), customers who:

- Register exposure in stage 3 and liability equal to or greater than 1 million euros (or equal to or greater than 250 thousand euros if they are DRCE clients);
- Are identified by the Committee itself based on another justified criterion (e.g. sector of activity);
- In the past, they have been assigned specific impairment;
- In the event of any new evidence that may have repercussions on the calculation of impairment, they are proposed for analysis by one of the participants of the Impairment Committee or by another Body/Forum, namely GARC (e.g.: Reclassification in stage 3 within the scope of GARC).

The identification of customers targeted for Individual Analysis will be updated monthly, in order to take into account any changes that may occur throughout the year.

Quantification of Impairment on an Individual Basis

The impairment calculation on an individual basis may take into account different recovery strategies, which must include different possible scenarios, weighted by the respective probability of occurrence, and they must include information on past and current events and forecasts of future economic conditions (forward scenarios -looking).

It is understood that there are two methods of estimating the amount to be recovered by the Bank:

- Going Concern approach ("business continuity" method): estimation of cash flows through the client's activity;
- Gone Concern approach ("cessation of activity" method): presupposes the cessation of the Client's activity, whereby the recoverable value is determined based on scenarios of execution/granting of guarantees provided, the Client's liquidation/insolvency and/or of the respective guarantors/guarantors, and/or the sale of credits to third parties.

Going Concern

This scenario involves a situation of recovery of outstanding amounts through the cash flows generated by the client's business.

The going concern scenario is considered to be applicable when:

- There is updated and reliable financial information about the debtor so that it is possible to reliably estimate the future cash flows that will be channeled to fulfill the debt service (e.g.: financial information aged less than or equal to 1 year and/or reports audits that do not recurrently present reservations);
- The available information suggests that the debtor will have the capacity to generate cash flows from its operational activities.

This analysis can be carried out using the following approaches:

- "Discounted Cash Flow" approach supported by a reliable business plan and adjusted to the expectations of the evolution of the debtor's activity;
- "Twostep Discounted Cash Flow" - approach supported by a Discounted Cash Flow (Step 1), complemented with a Terminal value (Step 2);
- "Steady state" in the absence of a reliable business plan, the latest available financial statements may be used, and the Group must make any adjustments it deems necessary to determine the operational cashflow that will be generated to cover debt service.

Gone Concern

In the gone concern approach, the recovery of amounts owed will be materialized through a scenario of payment in kind and/or the execution of collateral allocated to the credit granted. This approach therefore considers the scenario of cessation of the company's activity and the preparation of estimates of the flows that result from the execution and sale of collateral allocated to credit.

The consideration of a scenario of donation or execution of collateral must, in a first phase, take into account the eligibility of the collateral for recovery of the amounts owed, i.e., the verification that the asset meets the necessary conditions to be considered for consideration. effects of calculating the recoverable value (e.g.: registration of mortgages, lack of seizure of assets, among others). By way of example, if another creditor has a preferential mortgage on the collateral that is greater than the recoverable value of the asset, then the Group should not consider any amount recoverable from that collateral.

Subsequently, the recoverable value must be determined in accordance with the rules described in Circular Letter no. CC/2018/0000006, particularly with regard to the deadlines for receiving collateral, sales costs, maintenance costs, haircuts to be applied in accordance with the age of the evaluation, among others.

42.3.3.2. Collective analysis adjustments to the automatic result of the model

After processing the calculation of collective impairment and validating the consistency of the results obtained, all situations that may require an adjustment to the calculated impairment value are evaluated. These adjustments are reflected, where possible, directly in the exposures and are assigned a specific validity period. At the end of this period, the necessity for adjustment is re-evaluated and its renewal, alteration and/or extinction are decided.

When this is not possible, the determined impairment value is accounted for without being allocated to specific exposures. For this purpose, each amount must have associated the stage and type of credit to which it refers. Considering the temporary nature of the impairment constituted without allocation as a principle, the impairment amounts constituted in this way will, as soon as conditions allow, be fully distributed among the exposures in which their allocation is determined.

In terms of governance model, both the adjustments in specific exposures and the impairment amounts constituted in non-allocated form must be validated and supported by an approval from a competent body - the Expanded Impairment Committee.

42.3.4. Credit risk monitoring

42.3.4.1. Internal rating models for corporate, institutional and equity portfolios

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

A synthesis table is presented below pertaining to the types of risk models adopted in the internal assignment of risk ratings:

The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Sole Proprietors (ENIs); Small Businesses; Medium Businesses; Large Businesses; Real Estate and Rental Real Estate; Large Business Holding; Financial Institutions; Municipalities and Institutions; Countries; Project Finance; Object Finance, Commodity and Acquisition Finance; Financial Holding.

The segments for which rating assignment models are not available are:

- Insurance and Pension Funds;
- Churches, political parties and non-profit associations with turnover less than 500,000 euros.

Regarding the credit portfolios of large companies, Financial Institutions, Institutions, Local and Regional Administrations and Specialized Loans - namely Project Finance; Object Finance, Commodity and Acquisition Finance - the risk ratings are assigned by the Group novobanco's Rating Desk. This structure consists of 7 multisectoral teams comprising a team leader and several specialized technical analysts. The assignment of internal risk ratings by this team to these risk segments, classified as low default portfolios, is based on the use of "expert-based" rating models (templates) that are based on qualitative and quantitative variables, closely correlated with the sector or sectors of activity in which the customers under analysis operate. With the exception of rating assignment to specialized loans, the methodology used by the Rating Desk is also governed by a risk analysis at the level of the maximum consolidation perimeter and by the identification of the status of each company participating in the respective economic group. The internal risk ratings are validated daily in a Rating Committee composed of members of the Rating Department's Directorate and the various specialized teams.

For the medium business segment, statistical rating models are used, combining financial data with qualitative and behavioural information. The publication of risk ratings, however, requires the execution of a prior validation process that is carried out by a technical team of risk analysts, who also take into account behavioural variables. In addition to rating assignment, these teams also monitor the credit portfolio of novobanco Group clients through the preparation of risk analysis reports, provided for in internal regulations, according to the current responsibilities/rating client binomial, which may include specific recommendations on the credit relationship with a particular client, as well as technical opinions on investment support operations, restructuring, or other operations subject to credit risk.

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

Scoring models specifically aimed at quantifying the risk of start-ups (companies established less than 2 years ago) and sole proprietors (ENI) are also implemented. These clients, along with small-sized businesses, depending on the exposure value, are included in the regulatory retail portfolios.

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

As for the risk positions equivalent to equities held by the novobanco Group, directly or indirectly through the holding of investment funds, as well as advances and accessory benefits, all included in the equity risk class for the purpose of calculating risk-weighted assets, are classified in various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented earlier. These segmentation criteria determine the type of rating model to be applied to the issuers of the stocks (or borrowers of the advances / accessory benefits) and, therefore, to them.

42.3.4.2 - Relationships between internal and external ratings

The assignment of internal rating to entities with an assigned external rating is done using the Market Template available in the Rating Calculation application. The Market Template gathers the external ratings that have been assigned to a particular entity by rating agencies Standard & Poor's (S&P), Moody's and Fitch.

Specifically, the S&P's external rating provision feature - XpressFeed, feeds the External Ratings application daily, which in turn allows the external ratings published by these agencies for a specific entity to be filled in the Market Template. External ratings assigned by Moody's and Fitch are not automatically obtained, and must be manually entered in the Market Template, after consulting the respective websites.

The internal rating results, in the vast majority of cases, from the equivalent S&P external rating and, in rare cases, from the equivalent S&P external rating plus an internal adjustment, which must always be accompanied by explanatory comments drafted by the analyst.

Note that the equivalent S&P external rating is obtained by correlating the available external ratings with the rating scales of the aforementioned financial rating agencies. The internal ratings produced by the Market Template and that have had adjustments have to be approved and validated in the Rating Committee.

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

S&P	Moody's	Fitch	Equivalent External Rating S&P	Rating agreggating classes*
AAA	Aaa	AAA	AAA	*Prime Grade*
AA+	Aa1	AA+	AA+	
AA	Aa2	AA	AA	*High grade*
AA-	Aa3	AA-	AA-	
A+	A1	A+	A+	
A	A2	A	A	*Upper medium grade*
A-	A3	A-	A-	
fBBB+	Baa1	BBB+	BBB+	
BBB	Baa2	BBB	BBB	*Lower medium grade*
BBB-	Baa3	BBB-	BBB-	
BB+	Ba1	BB+	BB+	
BB	Ba2	BB	BB	*Non investment grade speculative*
BB-	Ba3	BB-	BB-	
B+	B1	B+	B+	
B	B2	B	B	*Highly speculative*
B-	B3	B-	B-	
CCC+	Caa1	CCC+	CCC+	
CCC	Caa2	CCC	CCC	
CCC-	Caa3	CCC-	Lower than CCC	*Others*
CC	Ca	CC		
SD	C	C		
D		RD/D		

* for explanatory notes disclosure information purposes

42.3.4.3 - Internal scoring models for individuals' portfolios

Regarding scoring models for individuals' portfolios, the novobanco Group has origination/concession and behavioral scoring models (applied to operations with a seniority greater than 6 months).

These models are automatic, based on statistical models developed with internal information, considering sociodemographic information, loan characteristics, behavioral information and automatic penalties (in case there are warning signs). In the case of behavioral models, information about the rest of the loans of the contract holders is also considered.

The Group is authorized by the Bank of Portugal to use internal models in calculating regulatory capital requirements for the main individual portfolios: Mortgage and Individual Credit. Additionally, it has origination and behavioral scorings for Credit Card products, Overdrafts and Loan Accounts, which it uses for the purpose of design and monitoring of credit quality although these are not IRB portfolios.

42.3.4.4. Other specific disclosures

Forward Looking Models

Collective impairment models incorporate forward looking information through macroeconomic models, which estimate the evolution of risk parameters through the evolution of macroeconomic variables.

Regarding the PD model, the forward looking adjustment is carried out for the segments of Large and Medium-sized Companies, Small Companies and Start-ups, Home Credit and Other Consumer Credit. For LGD models, there is a specific macroeconomic adjustment for the Housing, Consumer and Corporate Credit segments.

The aforementioned models are based on the historical series of defaults and, on the other hand by the historical series of the main macroeconomic variables (GDP, inflation, interest rate, unemployment rate and property prices), having been used quarterly historical data since 2010. The definition of the final models depends on the economic sense and their statistical performance.

42.3.5. Delinquency

The following table shows the assets that are impaired, overdue but not impaired, and neither overdue nor impaired:

(thousands of euros)

	2023					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	362 002	-	-	362 002	(714)	361 288
Securities held for trading	318 528	-	-	318 528	-	318 528
Bonds issued by government and other public entities	318 528	-	-	318 528	-	318 528
Bonds issued by other entities	-	-	-	-	-	-
Securities at fair value through profit/loss	-	-	-	-	-	-
Bonds issued by government	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	-	-
Securities at fair value through profit/loss - mandatory	11 418	-	-	11 418	-	11 418
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	11 418	-	-	11 418	-	11 418
Securities at fair value through other comprehensive income	740 285	-	20 584	760 869	(239)	760 630
Bonds issued by government and other public entities	371 675	-	-	371 675	(49)	371 626
Bonds issued by other entities	368 610	-	20 584	389 194	(190)	389 004
Securities at amortised cost	7 754 579	-	440 269	8 194 848	(324 312)	7 870 536
Bonds issued by government and other public entities	4 421 480	-	-	4 421 480	(588)	4 420 892
Bonds issued by other entities	3 333 099	-	440 269	3 773 368	(323 724)	3 449 644
Loans and advances to customers	24 256 771	15 665	1 132 652	25 405 088	(954 525)	24 450 563

(thousands of euros)

	2022					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	518 014	-	-	518 014	(780)	517 234
Securities held for trading	36 428	-	-	36 428	-	36 428
Bonds issued by government and other public entities	36 428	-	-	36 428	-	36 428
Securities at fair value through profit/loss	13	-	-	13	-	13
Bonds issued by other entities	13	-	-	13	-	13
Securities at fair value through profit/loss - mandatory	13 473	-	-	13 473	-	13 473
Bonds issued by other entities	13 473	-	-	13 473	-	13 473
Securities at fair value through other comprehensive income	2 218 736	-	25 248	2 243 984	(660)	2 243 324
Bonds issued by government and other public entities	1 764 578	-	-	1 764 578	(453)	1 764 125
Bonds issued by other entities	454 158	-	25 248	479 406	(207)	479 199
Securities at amortised cost	7 846 101	-	410 094	8 256 195	(291 531)	7 964 664
Bonds issued by government and other public entities	4 610 412	-	-	4 610 412	(1 722)	4 608 690
Bonds issued by other entities	3 235 689	-	410 094	3 645 783	(289 809)	3 355 974
Loans and advances to customers	24 070 168	5 625	1 376 409	25 452 202	(1 066 392)	24 385 810

Impaired exposures correspond to (i) exposures with objective evidence of loss ("Exposure in default", according to the internal definition of default - which corresponds to Stage 3); and (ii) exposures classified as having specific impairment after individual impairment assessment.

Exposures classified as not impaired refer to (i) all exposures that show no signs of significant deterioration in credit risk - exposures classified in Stage 1; (ii) exposures that, showing signs of significant deterioration in credit risk, have no objective evidence of loss nor specific impairment after individual impairment assessment.

The following table presents assets that are impaired or overdue but not impaired, disaggregated by their maturity or age (if they are overdue):

(thousands of euros)

	2023					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue	**-**	**102 968**	**-**	**-**	**15 665**	**349 779**
Up to 3 months	-	-	-	-	12 539	13 329
From 3 months to 1 year	-	-	-	-	1 303	122 304
From 1 to 3 years	-	-	-	-	1 073	127 565
From 3 to 5 years	-	1 746	-	-	711	17 854
More than 5 years	-	101 222	-	-	39	68 727
Due	**-**	**357 885**	**-**	**-**	**-**	**782 873**
Up to 3 months	-	13 510	-	-	-	56 622
From 3 months to 1 year	-	344 284	-	-	-	112 464
From 1 to 3 years	-	-	-	-	-	89 705
From 3 to 5 years	-	91	-	-	-	189 162
More than 5 years	-	-	-	-	-	334 920
	-	**460 853**	**-**	**-**	**15 665**	**1 132 652**

(thousands of euros)

	2022					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue	**-**	**102 968**	**-**	**-**	**5 625**	**324 981**
Up to 3 months	-	-	-	-	3 258	15 607
From 3 months to 1 year	-	-	-	-	1 467	102 758
From 1 to 3 years	-	-	-	-	824	78 713
From 3 to 5 years	-	6 696	-	-	55	38 988
More than 5 years	-	96 272	-	-	21	88 915
Due	**-**	**332 374**	**-**	**-**	**-**	**1 051 428**
Up to 3 months	-	327 619	-	-	-	49 933
From 3 months to 1 year	-	-	-	-	-	176 350
From 1 to 3 years	-	-	-	-	-	228 510
From 3 to 5 years	-	4 755	-	-	-	83 834
More than 5 years	-	-	-	-	-	512 801
	-	**435 342**	**-**	**-**	**5 625**	**1 376 409**

The following table presents the assets that are impaired or overdue, but not impaired, disaggregated by their respective impairment Stage:

(thousands of Euros)

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits with and loans and advances to banks	-	-	-	-	-	-	-	-
Securities at fair value through other comprehensive income	-	-	20 584	20 584	-	-	25 248	25 248
Securities at amortised cost	-	-	440 269	440 269	-	-	410 094	410 094
Loans and advances to customers	11 273	4 392	1 132 652	1 148 317	911	4 714	1 376 409	1 382 034
	11 273	**4 392**	**1 593 505**	**1 609 170**	**911**	**4 714**	**1 811 751**	**1 817 376**

Distribution of credit risk by rating level

Regarding assets that are neither overdue nor impaired, the distribution by rating level is presented below. For debt instruments, the rating assigned by the Rating Agencies is considered, for customer credit and availabilities and applications in credit institutions, internal rating and scoring models are used, with which a risk rating is assigned, which is reviewed periodically. For the purposes of presenting the information, the ratings have been aggregated into five major risk groups, with "others" including exposures without a rating.

(thousand of Euros)

	2023					
	Prime +High grade	Upper Medium Grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Others	Total
Deposits with and loans and advances to banks	3	3 088	6 408	19 830	332 673	362 002
Securities held for trading	-	-	-	-	318 528	318 528
Bonds issued by government and other public entities	-	-	-	-	318 528	318 528
Bonds issued by other entities	-	-	-	-	-	-
Securities at fair value through results	-	-	-	-	-	-
Debt instruments from other public entities	-	-	-	-	-	-
Debt instruments - other issuers	-	-	-	-	-	-
Securities at fair value through profit/loss - mandatory	-	-	-	-	11 418	11 418
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	11 418	11 418
Securities at fair value through other comprehensive income	166 210	257 287	262 421	-	54 367	740 285
Bonds issued by government and other public entities	166 210	133 694	71 771	-	-	371 675
Bonds issued by other entities	-	123 593	190 650	-	54 367	368 610
Securities at amortised cost	2 270 897	1 833 359	1 577 272	551 373	1 521 678	7 754 579
Bonds issued by government and other public entities	2 236 452	1 375 992	520 538	-	288 498	4 421 480
Bonds issued by other entities	34 445	457 367	1 056 734	551 373	1 233 180	3 333 099
Loans and advances to customers	6 292 784	6 543 851	2 676 788	7 785 787	957 560	24 256 771

(thousand of Euros)

	2022					
	Prime +High grade	Upper Medium Grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Others	Total
Deposits with and loans and advances to banks	3	4 967	41 908	39 031	432 105	518 014
Securities held for trading	-	-	-	-	36 428	36 428
Bonds issued by government and other public entities	-	-	-	-	36 428	36 428
Bonds issued by other entities	-	-	-	-	-	-
Securities at fair value through results	-	-	-	-	13	13
Debt instruments from other public entities	-	-	-	-	-	-
Debt instruments - other issuers	-	-	-	-	13	13
Securities at fair value through profit/loss - mandatory	-	-	-	-	13 473	13 473
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	13 473	13 473
Securities at fair value through other comprehensive income	718 692	721 320	729 815	-	48 909	2 218 736
Bonds issued by government and other public entities	704 803	687 433	372 342	-	-	1 764 578
Bonds issued by other entities	13 889	33 887	357 473	-	48 909	454 158
Securities at amortised cost	2 935 513	2 037 825	1 068 575	553 872	1 250 316	7 846 101
Bonds issued by government and other public entities	2 252 149	1 668 779	355 594	-	333 890	4 610 412
Bonds issued by other entities	683 364	369 046	712 981	553 872	916 426	3 235 689
Loans and advances to customers	6 583 527	6 391 723	2 597 044	7 744 731	753 143	24 070 168

42.3.6. Concentration of credit risk

The breakdown by business sectors at December 31, 2023, and 2022 is presented as follows:

(thousand of Euros)

	2023												
	Loans to customers		Securities held for trading	Derivatives held for trading and economic hedging	Securities at fair value through profit or loss	Securities mandatorily at fair value through profit or loss	Derivatives - Hedge accounting	Securities at fair value through other comprehensive income		Securities at amortized cost		Guarantees and endorsements provided	
	Gross Value	Impairment						Gross Value	Impairment	Gross Value	Impairment	Gross Value	Impairment
Agriculture, Forestry, and Fishing	325 205	(6 657)	-	-	-	-	-	8 363	-	5 766	(6)	7 664	(107)
Extractive Industries	57 469	(3 269)	-	-	-	-	-	14 764	(7)	18 697	(5)	9 518	(304)
Food, Beverage and Tobacco Industries	478 545	(9 525)	-	1 084	-	-	-	19 620	(6)	108 794	(304)	33 720	(83)
Textiles and Clothing	340 946	(11 489)	-	106	-	-	-	-	-	7 103	(77)	6 089	(2 140)
Tanneries and Footwear	58 155	(1 197)	-	-	-	-	-	-	-	5 024	-	1 445	(115)
Wood and Cork	106 711	(819)	-	256	-	-	-	-	-	42 486	(410)	9 527	(245)
Paper and Graphic Industries	86 567	(4 216)	-	325	-	-	-	-	-	29 181	(138)	5 066	(17)
Oil Refining	15 448	(4 747)	-	-	-	-	-	13 429	(2)	60 341	(11)	11 910	(2)
Chemical and Rubber Product	331 954	(7 431)	-	116	-	-	-	-	-	258 791	(127)	9 246	(383)
Non-Metallic Mineral Products	210 249	(3 305)	-	9	-	-	-	-	-	123 274	(63)	13 298	(164)
Basic Metallurgical Industries and metal products	341 000	(14 121)	-	804	-	-	-	184	-	88 643	(346)	41 467	(374)
Manufacture of Machines, Equipment and Electrical Appliances	182 346	(3 380)	-	384	-	-	-	36 493	(18)	212 288	(49)	19 816	(3 974)
Manufacture of Transport Materials	156 165	(9 988)	-	-	-	-	-	-	-	101 074	(78)	12 410	(39)
Other Manufacturing Industries	143 745	(4 871)	-	-	-	-	-	-	-	20 378	(16)	15 123	(2 045)
Electricity, Gas and Water	352 627	(1 598)	-	5 329	-	-	-	-	-	243 643	(243)	35 802	(31)
Construction and Public Works	1 279 767	(127 703)	-	14 485	-	-	-	12 710	(33)	214 382	(137 557)	780 992	(40 872)
Wholesale and Retail Trade	1 480 191	(49 279)	-	3 714	-	-	-	18 032	(9)	106 859	(77)	183 350	(3 482)
Tourism	1 134 499	(50 882)	-	738	-	-	-	145	-	-	-	44 871	(646)
Transport and Communications	881 127	(29 187)	-	12 088	-	-	-	34 582	(6)	340 776	(234)	428 881	(1 416)
Financial Activities	1 015 087	(80 028)	-	72 148	-	264 707	683 063	162 744	(21)	740 573	(579)	184 579	(77)
Real Estate Activities	1 805 272	(140 473)	-	4 672	-	-	-	34 258	(77)	178 027	(86 951)	82 207	(4 121)
Services Provided to Companies	1 989 561	(141 837)	-	1 359	-	205	-	86 796	(7)	704 318	(95 482)	338 845	(12 886)
Administration and Public Services	458 559	(25 595)	318 528	-	-	-	-	371 675	(49)	4 438 660	(600)	21 098	(84)
Other collective service activities	406 725	(21 243)	-	-	-	-	-	24 728	(4)	145 770	(959)	40 879	(788)
Mortgage Loans	10 058 031	(71 241)	-	-	-	-	-	-	-	-	-	-	-
Loans to Individuals	1 611 145	(120 326)	-	-	-	-	-	-	-	-	-	-	-
Others	97 992	(10 118)	-	3	-	-	-	-	-	-	-	16 232	(291)
TOTAL	**25 405 088**	**(954 525)**	**318 528**	**117 620**	**-**	**264 912**	**683 063**	**838 523**	**(239)**	**8 194 848**	**(324 312)**	**2 354 035**	**(74 686)**

(thousand of Euros)

	2023												
	Loans to customers		Securities held for trading	Derivatives held for trading and economic hedging	Securities at fair value through profit or loss	Securities mandatorily at fair value through profit or loss	Derivatives - Hedge accounting	Securities at fair value through other comprehensive income		Securities at amortized cost		Guarantees and endorsements provided	
	Gross Value	Impairment						Gross Value	Impairment	Gross Value	Impairment	Gross Value	Impairment
Agriculture, Forestry, and Fishing	336 749	(6 673)	-	-	-	-	-	8 616	-	5 788	(15)	11 893	(5 902)
Extractive Industries	65 487	(5 033)	-	-	-	-	-	14 277	(7)	18 445	(8)	8 983	(361)
Food, Beverage and Tobacco Industries	455 764	(11 179)	-	4 302	-	-	-	19 152	(9)	113 036	(188)	35 923	(260)
Textiles and Clothing	407 303	(21 411)	-	298	-	-	-	-	-	9 690	(9)	7 026	(958)
Tanneries and Footwear	71 976	(1 253)	-	-	-	-	-	-	-	5 522	(1)	1 518	(117)
Wood and Cork	136 226	(2 493)	-	609	-	-	-	-	-	53 959	(114)	7 563	(255)
Paper and Graphic Industries	95 930	(5 905)	-	629	-	-	-	-	-	28 906	(139)	5 780	(22)
Oil Refining	16 314	(114)	-	1	-	-	-	13 718	(2)	61 925	(16)	2 264	-
Chemical and Rubber Product	289 130	(7 071)	-	357	-	-	-	-	-	221 901	(186)	15 775	(135)
Non-Metallic Mineral Products	187 993	(2 763)	-	4	-	-	-	14 839	(5)	96 002	(105)	35 523	(174)
Basic Metallurgical Industries and metal products	390 928	(16 069)	-	145	-	-	-	433	-	48 658	(75)	34 232	(390)
Manufacture of Machines, Equipment and Electrical Appliances	229 425	(10 750)	-	42	-	-	-	41 511	(25)	193 710	(64)	21 848	(3 559)
Manufacture of Transport Materials	176 541	(4 941)	-	-	-	-	-	-	-	59 963	(65)	12 856	(290)
Other Manufacturing Industries	146 243	(4 877)	-	-	-	-	-	-	-	39 244	(22)	18 174	(2 452)
Electricity, Gas and Water	238 741	(3 466)	-	4 916	-	-	-	6 435	-	173 789	(2 675)	34 245	(94)
Construction and Public Works	1 408 447	(133 850)	-	16 597	-	-	-	14 533	(6)	229 922	(117 563)	841 796	(45 720)
Wholesale and Retail Trade	1 491 507	(48 880)	-	7 371	-	-	-	17 373	(10)	89 653	(58)	181 761	(3 301)
Tourism	1 186 040	(84 091)	-	-	-	-	-	124	-	-	-	48 625	(1 056)
Transport and Communications	916 930	(28 617)	-	7 345	-	-	-	46 531	(20)	228 236	(304)	398 424	(1 773)
Financial Activities	702 846	(65 729)	-	91 076	-	311 177	562 845	210 520	(92)	1 196 010	(446)	150 889	(128)
Real Estate Activities	1 750 110	(162 449)	-	1 428	-	-	-	29 699	(11)	151 982	(73 610)	90 391	(3 537)
Services Provided to Companies	2 272 827	(148 975)	-	98	13	129	-	89 798	(11)	694 125	(93 479)	354 904	(10 737)
Administration and Public Services	421 680	(25 288)	36 428	-	-	-	-	1 764 802	(453)	4 610 412	(1 722)	21 623	(110)
Other collective service activities	429 360	(42 418)	-	145	-	2 378	-	24 849	(9)	93 600	(663)	38 047	(958)
Mortgage Loans	9 829 383	(54 835)	-	-	-	-	-	-	-	-	-	-	-
Loans to Individuals	1 395 147	(135 047)	-	-	-	-	-	-	-	-	-	-	-
Others	403 175	(32 215)	-	19	-	-	-	13 889	-	50 262	(4)	17 804	(258)
TOTAL	**25 452 202**	**(1 066 392)**	**36 428**	**135 382**	**13**	**313 684**	**562 845**	**2 331 099**	**(660)**	**8 474 740**	**(291 531)**	**2 397 867**	**(82 547)**

42.4. Market risk

Market Risk generally represents potential losses resulting from an adverse change in the value of a financial instrument as a result of variations in interest rates, exchange rates, stock prices, commodity prices, volatility, and credit spread.

Market risk management is integrated with balance sheet management through the CALCO (Capital Asset and Liability Committee) structure established at the highest level of the institution. This body is responsible for defining balance sheet allocation and structuring policies as well as controlling exposure to interest rate, exchange rate, and liquidity risks.

In terms of market risk, the main element of risk measurement consists of estimating potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. The novobanco Group uses a VaR using Monte Carlo simulation, with a 99% confidence interval and an investment period of 10 days. Volatilities and correlations are historical based on a one-year observation period. Validation of the suitability of the VaR model is carried out daily through the backtesting process (theoretical and real). Additionally, on a monthly basis, market risk monitoring includes the reporting of additional metrics within the scope of the stress testing framework, namely Stressed VaR (SVaR), historical stress scenarios and sensitivity analyzes to the main risk factors. Additionally, the market risk control framework incorporates a monthly process of monitoring portfolio positions within the scope of controlling the boundary between the trading book and the banking book, as well as independent validation (2nd line of defense) of the valuation of financial instruments at fair value.

(thousand of Euros)

	2023				2022			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	763	653	1 358	411	340	1 375	4 379	340
Interest rate risk	1 096	1 752	4 707	422	586	7 445	47 720	586
Shares and commodities	0	21	250	0	0	0	3	-
Volatility	0	60	312	0	1	348	2 117	1
Credit spread	317	607	2 271	234	415	934	2 386	229
Diversification effect	(1 058)	(821)	(1 989)	(95)	(444)	(1 941)	(7 819)	(259)
Total	**1 118**	**2 273**	**6 910**	**972**	**898**	**8 162**	**48 787**	**898**

Novobanco Group presents a value at risk (VaR) of 1,118 thousand euros (December 31, 2022: 898 thousand euros) for its trading positions.

42.4.1. Interest rate risk

Following the recommendations of the European Banking Authority explained in the set of guidelines published in 2022 (EBA/GL/2022/14, EBA/RTS/2022/09 and EBA/RTS/2022/10) novobanco Group calculates its exposure to risk balance sheet interest rate based on prescribed shocks, classifying notional and interest amounts by repricing or key rate duration brackets, of all asset, liability and off-balance sheet items sensitive to interest rates, which do not belong to the trading portfolio . The calculation of balance sheet interest rate risk is also measured through internal shocks defined by the bank, namely through VaR metrics.

In this context, novobanco Group has implemented a stress testing approach to interest rate risk based on three pillars: interest rate shock scenarios, sensitivity analyzes and reverse stress testing.

The interest rate risk control framework allows novobanco Group to monitor and measure the impact of different interest rate scenarios, both from an economic value perspective and from a financial margin perspective, changing and adapting its risk profile in in line with the defined risk management strategy. Given the recent scenario of a significant increase in interest rates starting in the second half of 2022, this monitoring and control has become even more relevant, in order to guarantee the protection of economic value and financial margin in the face of interest rate volatility.

As a result of novobanco Group's risk profile, with variable rate assets predominating and an essentially fixed rate liability structure, the rise in interest rates translated into a significant increase in financial margin, as a result of the favorable interest rate environment and the careful management of asset interest rates and financing costs. In addition, and taking into account the EBA's new regulatory shock on net interest income, whose regulatory limit is 5% of Tier 1 (on December 31, 2023 this limit was still indicative), the Bank adopted management measures in order to be able to fit the sensitivity of net interest income in a scenario of falling interest rates within the (indicative) limit established.

Following the recommendations of Basel II (Pilar 2) and Instruction No. 19/2005, of the Bank of Portugal, novobanco Group calculates its exposure to balance sheet interest rate risk based on the Bank of International Settlements (BIS) methodology. classifying all asset, liability and off-balance sheet items, which do not belong to the trading portfolio, by repricing levels.

(thousand of Euros)

	2023					
	Eligible amounts	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Assets		**21 230 624**	**5 635 071**	**3 048 590**	**5 954 460**	**4 244 381**
Loans to and deposits with banks	5 886 886	5 884 215	-	2 629	42	-
Loans and advances to customers	24 796 365	14 376 568	4 804 194	2 853 022	1 888 823	873 757
Securities	9 251 816	791 782	830 877	192 939	4 065 595	3 370 624
Other assets	178 059	178 059	-	-	-	-
Liabilities		**18 723 202**	**3 915 699**	**4 369 915**	**7 350 962**	**4 628 883**
Deposits from banks	5 680 440	5 436 226	4 252	14 962	225 000	-
Due to customers	30 126 590	12 487 953	3 859 934	4 274 711	6 449 899	3 054 093
Debt securities issued	2 209 018	23 895	11 418	(736)	599 651	1 574 790
Other liabilities	972 613	775 128	40 095	80 977	76 412	-
Balance sheet GAP (Assets - Liabilities)	1 124 465	2 507 422	1 719 372	(1 321 325)	(1 396 503)	(384 501)
Off-Balance sheet	0	(3 437 842)	(154 125)	(141 096)	4 051 530	(318 467)
Structural GAP	**1 124 465**	**(930 420)**	**1 565 247**	**(1 462 421)**	**2 655 027**	**(702 968)**
Accumulated GAP		**(930 420)**	**634 827**	**(827 594)**	**1 827 433**	**1 124 465**

(thousand of Euros)

	2022					
	Eligible amounts	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Assets		**21 997 489**	**5 502 398**	**5 132 116**	**4 788 815**	**5 158 137**
Loans to and deposits with banks	6 604 336	6 599 797	0	4 502	18	20
Loans and advances to customers	24 913 126	14 553 860	4 715 044	2 975 173	1 767 460	901 589
Securities	10 927 447	709 787	787 353	2 152 441	3 021 337	4 256 529
Other assets	134 045	134 045	-	-	-	-
Liabilities		**29 061 277**	**2 793 033**	**4 227 676**	**3 413 575**	**3 134 049**
Deposits from banks	9 695 523	9 279 092	36 913	89 518	-	290 000
Due to customers	29 460 793	18 739 506	2 743 146	3 828 237	3 286 384	863 520
Debt securities issued	2 681 999	301 876	6 000	299 964	99 788	1 974 371
Other liabilities	791 294	740 803	6 974	9 957	27 402	6 158
Balance sheet GAP (Assets - Liabilities)	(50 656)	(7 063 788)	2 709 364	904 440	1 375 240	2 024 088
Off-Balance sheet	1 045	(1 295 901)	1 306 840	(590 245)	807 031	(226 679)
Structural GAP	**(49 611)**	**(8 359 689)**	**4 016 204**	**314 194**	**2 182 271**	**1 797 409**
Accumulated GAP		**(8 359 689)**	**(4 343 486)**	**(4 029 291)**	**(1 847 020)**	**(49 611)**

Sensitivity analyses are carried out for the interest rate risk of the banking portfolio based on an approximation to the duration model, with various scenarios of shift of the yield curve being carried out in all interest rate brackets.

(thousand of Euros)

	2023					
	Parallel increase of 200 pb	**Parallel decrease of 200 pb**	***Short Rate Shock Up***	***Short Rate Shock Down***	***Steepener shock***	***Flattener shock***
As at 31 December	(219 057)	147 303	(119 451)	65 416	7 766	(49 405)
Exercise average	(162 778)	70 207	(106 756)	59 039	18 799	(63 603)
Exercise maximum	44 560	209 961	(13 794)	135 003	40 358	(20 429)
Exercise minimum	(380 019)	(152 580)	(247 596)	8 691	419	(144 031)

(thousand of Euros)

	2022					
	Parallel increase of 200 pb	**Parallel decrease of 200 pb**	***Short Rate Shock Up***	***Short Rate Shock Down***	***Steepener shock***	***Flattener shock***
As at 31 December	(361 341)	195 808	(241 571)	131 255	39 850	(144 912)
Exercise average	(25 294)	(96 866)	(106 585)	70 159	72 455	(138 995)
Exercise maximum	70 179	195 808	(68 229)	131 255	105 417	(78 024)
Exercise minimum	(361 341)	(263 636)	(241 571)	43 154	30 496	(170 498)

42.4.2. Foreign exchange risk

Regarding currency risk, the distribution of assets and liabilities, as at December 31, 2023 and 2022 by currency, is analyzed as follows:

(thousand of Euros)

		2023				2022			
		Spot	**Forward**	**Other elements**	**Net exposure**	**Spot**	**Forward**	**Other elements**	**Net exposure**
USD	UNITED STATES DOLLAR	(497 127)	506 031	(18)	8 886	(635 256)	634 533	91	(632)
GBP	GREAT BRITISH POUND	(46 256)	48 788	-	2 532	(48 068)	47 867	-	(201)
BRL	BRAZILIAN REAL	908	-	-	908	866	-	-	866
MOP	MACAO PATACA	109	-	-	109	2 409	-	-	2 409
JPY	JAPANESE YEN	(1 377)	1 521	2	146	(2 326)	2 318	-	(8)
CHF	SWISS FRANC	(1 950)	4 590	-	2 640	(9 289)	9 769	-	480
SEK	SWEDISH KRONE	(5 000)	5 795	-	795	17 593	(17 578)	-	15
NOK	NORWEGIAN KRONE	48 681	(47 178)	-	1 503	53 291	(53 059)	-	232
CAD	CANADIAN DOLLAR	(19 149)	22 060	-	2 911	(16 710)	19 003	-	2 293
ZAR	SOUTH AFRICAN RAND	(516)	757	-	241	(10)	(530)	-	(540)
AUD	AUSTRALIAN DOLLAR	8 407	(7 317)	-	1 090	9 613	(9 463)	-	150
VEB	VENEZUELAN BOLIVAR	3	-	-	3	2	-	-	2
PLN	ZLOTY	3 086	(2 507)	-	579	(2 995)	3 010	-	15
MAD	MOROCCAN DIRHAN	(1 350)	2 064	-	714	(2 558)	2 256	-	(302)
MXN	MEXICAN PESO	60	(91)	-	(31)	(6)	-	-	(6)
AOA	ANGOLAN KWANZA	(13)	-	-	(13)	(23)	-	-	(23)
CVE	CAPE VERDEAN ESCUDOS	(160)	-	-	(160)	(137)	-	-	(137)
HKD	HONG-KONG DOLAR	(1 273)	1 112	-	(161)	(706)	595	-	(111)
CZK	CZECH KORUNA	225	(425)	-	(200)	6	(114)	-	(108)
DZD	ALGERIAN DINAR	7 593	-	-	7 593	7 638	-	-	7 638
CNY	YUAN REN-MIN-BI	4	(255)	-	(251)	333	(347)	-	(14)
	Others	(7 370)	9 545	-	2 175	(2 957)	4 057	0	1 101
		(512 465)	**544 490**	**(16)**	**32 009**	**(629 290)**	**642 317**	**91**	**13 119**

Note: asset / (liability)

42.5. Liquidity risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its obligations as they fall due, without incurring substantial losses.

Liquidity risk can be subdivided into two types:

- Asset liquidity (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to a lack of liquidity in the market, which results in the widening of the bid/offer spread or the application of a haircut to the market value;
- Funding (funding liquidity risk) - consists in the impossibility of financing assets in the market and/or refinancing maturing debt, within the desired terms and currency. This impossibility can be reflected through a sharp increase in financing costs or the requirement of collateral to obtain funds. The difficulty of (re)financing can lead to the sale of assets, even if incurring significant losses. The risk of (re)financing should be minimized through appropriate diversification of financing sources and maturities.

Banks are subject to liquidity risk inherent in their maturity transformation business (long-term lenders and short-term depositors), making prudent liquidity risk management crucial.

As at December 31, 2023, and 2022, the main liquidity indicators is as follows:

		(thousand of Euros)
	2023	**2022**
Gross funding from the ECB	1 129	6 323
Net funding from the ECB (1)	(4 246)	385
Eligible Assets for repo operations (ECB) net of haircut	14 217	16 917
Used collateral	6 957	9 971
Liquidity Buffer(2)	13 582	13 736
Transformation Ratio (3)	81,2%	83,3%
Liquidity Coverage Ratio (LCR) (4)	163%	210%
Net Stable Funding Ratio (NSFR) (4)	118%	113%

(1) Includes ESCB financing and investments; a positive value corresponds to a resource; a negative value corresponds to an investment

(2) Corresponds to eligible assets portfolio adding HQLA securities non eligible for ECB, deducted of the used collateral

(3) (Total Loans - Accumulated Impairment on Loans)/ Customer Deposits

(4) Preliminary

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are included in regulatory legislation, and the LCR aims to promote the resilience of Banks to short-term liquidity risk, ensuring that they hold high quality liquid assets, sufficient to survive a severe stress scenario, for a period of 30 days, while the NSFR aims to ensure that Banks maintain stable funding for their assets and off-balance sheet operations, for a period of one year. In accordance with current regulatory legislation, the novobanco Group is required to comply with a minimum regulatory limit of 100% in both ratios (LCR and NSFR).

In the novobanco Group, liquidity is managed in a centralized manner at the Headquarters for the prudential consolidated group, with analysis and decision-making based on reports that allow not only to identify negative mismatches but to perform dynamic coverage of them. In accordance with the rules of the ITS (Implementing Technical Standards), the calculation of the net contractual deficit and the rebalancing capacity (counterbalancing capacity) is made for the end of 2023 and 2022:

(thousands of Euros)

	2023						
	Total	**Up to 7 days**	**7 days to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**More than 1 year**
OUTPUT							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	650 268	7 747	4 593	6 104	479	6 722	624 623
Liabilities from guaranteed lending operations and operations associated to financial markets	6 939 455	-	1 150 391	526 714	-	2 891 083	2 371 267
Behavioral output from deposits	29 829 454	541 358	217 829	155 606	113 667	233 746	28 567 248
Exchange swaps and derivatives	531 444	10 482	30 744	265 440	85 943	52 548	86 287
Other output	743 368	1 026	-	-	20 143	49 386	672 813
Total Output	**38 693 989**	**560 613**	**1 403 557**	**953 864**	**220 232**	**3 233 485**	**32 322 238**
INPUT							
Secured lending operations and operations associated to financial markets	-	-	-	-	-	-	-
Behavioral inputs from loans and advances	28 169 581	102 428	58 929	162 573	235 714	471 921	27 138 016
Exchange swaps and derivatives	570 605	9 232	31 410	264 407	83 230	52 108	130 218
Own portfolio securities maturing and other entries	9 167 468	80 063	326 086	405 235	242 770	341 604	7 771 710
Total Input	**37 907 654**	**191 723**	**416 425**	**832 215**	**561 714**	**865 633**	**35 039 944**
Net contractual deficit	(786 336)	(368 890)	(987 134)	(121 649)	341 482	(2 367 852)	2 717 707
Accumulated net contractual deficit		**(368 890)**	**(1 356 022)**	**(1 477 671)**	**(1 136 189)**	**(3 504 041)**	**(786 335)**

CAPACITY TO READJUSTMENT	**Total**	**Up to 7 days**	**7 days to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**More than 1 year**
Cash	179 229	-	-	-	-	-	-
Deployable reserves from the central bank	5 082 915	-	-	-	-	-	-
Negotiable and non-negotiable assets eligible for the central bank	6 856 277	-	1 095 910	39 532	(150 627)	246 919	(8 088 011)
Authorized facilities and not utilized received	2 698 448	(16 140)	(71 111)	(185 312)	(297 069)	717 916	(2 846 732)
Net variation of capacity to adjustment	-	(16 140)	1 024 799	(145 780)	(447 696)	964 835	(10 934 743)
Accumulated capacity to readjustment	**14 816 869**	**14 800 729**	**15 825 528**	**15 679 748**	**15 232 052**	**16 196 887**	**5 262 144**

(thousands of Euros)

	2022						
	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
OUTPUT							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	1 480 787	2 247	4 593	10 700	5 986	297 637	1 159 624
Liabilities from guaranteed lending operations and operations associated to financial markets	10 059 656	57 154	66 513	1 732 249	3 341 048	739 188	4 123 504
Behavioral output from deposits	30 194 492	573 588	41 352	133 529	149 284	414 200	28 882 540
Exchange swaps and derivatives	751 818	5 224	52 647	385 288	82 861	65 007	160 791
Other output	623 245	4 477	-	-	15 824	34 000	568 944
Total Output	**43 109 997**	**642 690**	**165 104**	**2 261 766**	**3 595 003**	**1 550 031**	**34 895 403**
INPUT							
Secured lending operations and operations associated to financial markets	-	-	-	-	-	-	-
Behavioral inputs from loans and advances	38 461 333	5 838 109	68 447	183 143	273 970	548 609	31 549 055
Exchange swaps and derivatives	753 169	6 049	53 146	386 808	83 515	63 026	160 625
Own portfolio securities maturing and other entries	10 550 649	49 284	163 514	265 079	222 462	2 144 302	7 706 009
Total Input	**49 765 151**	**5 893 442**	**285 107**	**835 029**	**579 947**	**2 755 937**	**39 415 689**
Net contractual deficit	6 655 155	5 250 752	120 003	(1 426 737)	(3 015 056)	1 205 906	4 520 287
Accumulated net contractual deficit		**5 250 752**	**5 370 755**	**3 944 018**	**928 962**	**2 134 868**	**6 655 155**

CAPACITY TO READJUSTMENT	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Cash	182 895						
Deployable reserves from the central bank	5 653 802	(5 653 802)					
Negotiable and non-negotiable assets eligible for the central bank	7 924 420	56 109	62 178	(116 348)	(131 290)	(1 924 380)	(5 866 209)
Authorized facilities and not utilized received	-	(23 829)	(77 909)	1 378 676	2 739 531	(84 317)	(3 932 151)
Net variation of capacity to adjustment		(5 621 523)	(15 731)	1 262 328	2 608 241	(2 008 697)	(9 798 361)
Accumulated capacity to readjustment	**13 761 118**	**8 139 595**	**8 123 864**	**9 386 192**	**11 994 433**	**9 985 736**	**187 375**

At the end of 2022, there was a net contractual surplus accumulated over one year of 2,135 million euros, having changed on December 31, 2023 to a net contractual deficit accumulated over one year of 3,504 million euros. Despite this variation, the liquidity position remained stable, given that this increase of 5,639 million euros is essentially due to a change in regulatory reporting criteria, given that last year the deposits at the ECB, totaling 5 654 million euros were considered as a cash inflow and this year this item is included in the rebalancing capacity.

The counterbalancing capacity for 1 year at the end of 2023 was 16,197 million euros, 6,211 million euros higher than the value recorded at the end of 2022 (9,986 million euros). This increase is essentially due to the change in regulatory criteria referred to in the previous point (+5,083 million euros) and the increase in secured funding, which partially offset the reimbursement of borrowings from the ECB.

In order to anticipate possible negative impacts, internal liquidity stress scenarios are created that represent the types of crisis that may occur, based on idiosyncratic scenarios (characterized by a loss of confidence in the Bank) and market scenarios.

Despite the repayment of 5,377 million euros in financing to the ECB, the Novobanco Group's liquidity ratios remained at comfortable values, with the average LCR in the 12 months of 2023 being 169%, which compares to 190% in 2022. The NSFR in turn stood at 118% on December 31, 2023, 5pp more than at the end of the previous year, due to the increase in stable financing, essentially resulting from the increase in capital and collateralized financing exceeding 6 months and 1 year. In accordance with current regulatory legislation, the novobanco Group is required to comply with a minimum regulatory limit of 100% in both ratios (LCR and NSFR).

Assets and Liabilities - Tiering by maturity dates

As at December 31, 2023, and 2022, the tiering of assets and liabilities by maturity dates is as follows:

(thousands of Euros)

	2023					
	Up to 3 months	**From 3 months to one year**	**From one to five years**	**More than five years**	**Indefinite duration / Past due credit**	**Total**
Financial Assets	**2 601 364**	**2 498 407**	**11 332 243**	**18 742 630**	**696 592**	**35 871 236**
Financial Assets and Liabilities held for trading	**100 834**	**231 721**	**15 805**	**87 788**	**-**	**436 148**
Securities	96 068	222 460	-	-	-	318 528
Trading derivatives	4 766	9 261	15 805	87 788	-	117 620
Financial assets mandatorily measured at fair value through profit or loss - securities	**-**	**112**	**50**	**11 256**	**253 494**	**264 912**
Financial assets mandatorily measured at fair value through other comprehensive income - securities	**154 305**	**87 676**	**320 907**	**197 981**	**77 654**	**838 523**
Financial assets mandatorily measured at amortized cost	**2 345 693**	**2 163 711**	**10 660 476**	**18 113 266**	**365 444**	**33 648 590**
Securities	706 444	439 051	4 154 426	2 894 927	-	8 194 848
Applications in credit institutions	24 345	6 001	15 220	3 088	-	48 654
Loans to Customers	1 614 904	1 718 659	6 490 830	15 215 251	365 444	25 405 088
Derivatives - Hedge Accounting	**532**	**15 187**	**335 005**	**332 339**	**-**	**683 063**
Financial Liabilities	**21 860 215**	**10 984 087**	**3 137 444**	**1 142 855**	**-**	**37 124 601**
Financial Liabilities held for trading	**6 267**	**8 685**	**15 248**	**70 439**	**-**	**100 639**
Financial liabilities measured at amortised cost	**21 853 909**	**10 974 926**	**3 019 681**	**1 050 717**	**-**	**36 899 233**
Due from central banks	178 807	950 000	-	-	-	1 128 807
Due from other credit institucions	1 180 249	1 500 343	1 935 927	-	-	4 616 519
(of which: Operations with repurchase agreement)	854 275	1 452 461	1 560 317	-	-	3 867 053
Due to Customers	20 494 853	8 524 583	959 951	66 935	-	30 046 322
(of which: Operations with repurchase agreement)	813 660	302 564	250 158	-	-	1 366 382
Liabilities represented by securities	-	-	123 803	482 282	-	606 085
Subordinated liabilities	-	-	-	501 500	-	501 500
Derivatives - Hedge Accounting	**39**	**476**	**102 515**	**21 699**	**-**	**124 729**
Notional	**2 175 569**	**2 440 569**	**20 812 846**	**11 893 626**	**-**	**37 322 610**
Trading derivatives	**2 122 569**	**1 119 863**	**2 058 376**	**4 687 196**	**-**	**9 988 004**
Notional Purchase	1 045 911	559 993	1 021 440	2 310 578	-	4 937 922
Notional Sale	1 076 658	559 870	1 036 936	2 376 618	-	5 050 082
Derivatives - Hedge Accounting	**53 000**	**1 320 706**	**18 754 470**	**7 206 430**	**-**	**27 334 606**
Notional Purchase	26 500	660 353	9 377 235	3 603 215	-	13 667 303
Notional Sale	26 500	660 353	9 377 235	3 603 215	-	13 667 303

(thousands of Euros)

	2022					
	Up to 3 months	From 3 months to one year	From one to five years	More than five years	Indefinite duration / Past due credit	Total
Financial Assets	**2 296 820**	**3 748 010**	**9 592 265**	**20 777 149**	**717 932**	**37 132 176**
Financial Assets and Liabilities held for trading	**13 476**	**16 821**	**33 344**	**108 169**	**-**	**171 810**
Securities	-	4 911	10 055	21 462	-	36 428
Trading derivatives	13 476	11 910	23 289	86 707	-	135 382
Financial assets mandatorily measured at fair value through profit or loss - securities	**-**	**-**	**2 469**	**11 004**	**300 211**	**313 684**
Financial assets measured at fair value through profit or loss - securities	**-**	**13**	**-**	**-**	**-**	**13**
Financial assets mandatorily measured at fair value through other comprehensive income - securities	**142 588**	**1 655 714**	**285 809**	**159 873**	**87 115**	**2 331 099**
Financial assets mandatorily measured at amortized cost	**2 140 748**	**2 075 079**	**9 131 698**	**20 074 594**	**330 606**	**33 752 725**
Securities	785 649	545 902	2 832 097	4 092 547	-	8 256 195
Applications in credit institutions	320	666	38 365	4 977	-	44 328
Loans to Customers	1 354 779	1 528 511	6 261 236	15 977 070	330 606	25 452 202
Derivatives - Hedge Accounting	**8**	**383**	**138 945**	**423 509**	**-**	**562 845**
Financial Liabilities	**24 372 537**	**9 936 945**	**5 559 945**	**817 609**	**44 451**	**40 731 487**
Financial Liabilities held for trading	**8 144**	**11 063**	**18 705**	**61 474**	**-**	**99 386**
Financial liabilities measured at amortised cost	**24 372 534**	**9 936 365**	**5 501 590**	**756 969**	**44 451**	**40 611 909**
Due from central banks	1 627 198	3 750 000	950 000	-	-	6 327 198
Due from other credit institucions	574 838	296 221	2 214 958	291 939	-	3 377 956
(of which: Operations with repurchase agreement)	123 620	-	2 027 204	-	-	2 150 824
Due to Customers	22 170 498	5 614 270	1 493 090	-	-	29 277 858
(of which: Operations with repurchase agreement)	450 906	-	-	-	-	450 906
Liabilities represented by securities	-	275 874	427 970	465 030	-	1 168 874
Subordinated liabilities	-	-	415 572	-	-	415 572
Financial liabilities associated with transferred assets	-	-	-	-	44 451	44 451
Derivatives - Hedge Accounting	**3**	**580**	**58 355**	**60 640**	**-**	**119 578**
Notional						
Trading derivatives						
Notional Purchase	1 342 255	735 763	963 226	2 285 684	-	5 326 928
Notional Sale	1 340 594	735 132	983 950	2 354 243	-	5 413 919
Derivatives - Hedge Accounting						
Notional Purchase	3 020	63 678	4 629 088	4 514 816	-	9 210 602
Notional Sale	3 020	63 678	4 629 088	4 514 816	-	9 210 602

42.6. Encumbered and unencumbered assets

The following is information on encumbered and unencumbered assets, as defined by Instruction No. 28/2014 from the Bank of Portugal (we underline that this information is prepared in a prudential perspective, the consolidation perimeter of which differs from the consolidation perimeter of the financial statements presented):

(thousands of Euros)

Assets	2023			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Equity instruments	-	-	1 048 005	1 048 005
Debt securities	2 173 152	2 173 152	6 788 198	6 788 198
Other assets	6 633 169	n/a	27 081 452	n/a
Assets of the institution	**8 806 321**	**n/a**	**34 917 655**	**n/a**

(thousands of Euros)

Assets	2022			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Equity instruments	-	-	1 203 595	1 203 595
Debt securities	1 475 265	1 475 265	9 001 842	9 001 842
Other assets	12 019 977	n/a	22 515 329	n/a
Assets of the institution	**13 495 242**	**n/a**	**32 720 766**	**n/a**

(thousands of Euros)

Collateral received	2023		2022	
	Fair value of encumbered collateral received or of own debt securities issued	Fair value of collateral received or of own debt securities issued and encumberable	Fair value of encumbered collateral received or of own debt securities issued	Fair value of collateral received or of own debt securities issued and encumberable
Collateral received	**-**	**-**	**-**	**-**
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABS	**-**	**-**	**-**	**-**

(thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	2023		2022	
	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS	Associated liabilities, contingent liabilities and securities loaned	Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS
Carrying book value of the selected financial liabilities	6 803 634	8 806 322	9 968 346	13 495 242

Encumbered assets are primarily represented by loans and securities used in financing operations with the ECB, repo operations, mortgage bond issues, and securitizations. There are also assets given as collateral to cover the Bank's counterparty risk in derivative operations.

42.7. Operational risk

Operational risk generally refers to the probability of occurrence of events with negative impacts, on results or capital, arising from the inadequacy or deficiency of procedures and information systems, the behavior of people, or triggered by external events, including legal risks. Therefore, operational risk is understood as the sum of the following risks: operational, information systems, compliance, and reputation risks.

For operational risk management, a system was developed and implemented aimed at ensuring the standardization, systematization, and recurrence of activities of identification, monitoring, control, and mitigation of this risk. This system is supported by an organizational structure, integrated into the Global Risk Department exclusively dedicated to this task, as well as by Operational Risk Management Representatives appointed by each of the departments, branches, and subsidiaries considered relevant, who are responsible for compliance with the established procedures and the daily management of this risk in their areas of competence.

42.8. Capital Management and Solvency Ratio

The main objective of capital management is to ensure compliance with the strategic objectives of the novobanco Group in terms of capital adequacy, complying with and enforcing the rules for calculating risk-weighted assets and own funds and ensuring compliance with the solvency and leverage levels defined by the supervisory authorities, namely by the European Central Bank (ECB) - the entity directly responsible for the supervision of the novobanco Group - and the Bank of Portugal, and the risk appetite set internally for capital metrics.

The Executive Board of Directors is responsible for defining the strategy to be adopted in terms of capital management, which is integrated into the global objective definition of the novobanco Group.

The capital ratios of the novobanco Group are calculated based on the rules set out in Directive 2013/36/EU and Regulation (EU) No 575/2013 (CRR), which define the criteria for access to credit institutions and investment firms and determine the prudential requirements to be observed by these entities, particularly with regard to the calculation of the aforementioned ratios.

The novobanco Group is authorized to use the approach based on the use of internal models in the determination of risk-weighted credit assets (Internal Ratings Based or IRB method). More specifically, the IRB method is applied to the institution, company, and retail risk classes of the novobanco Group. The equity risk class, securitization positions, positions in the form of investment fund shares, and non-credit obligations are always treated by the IRB method regardless of the entities of the novobanco Group in which the respective risk positions are registered. The standard method is used in the calculation of risk-weighted market and operational assets.

The regulatory capital elements considered in the determination of solvency ratios are divided into Tier 1 common equity (or Common Equity Tier I or CET I), additional Tier 1 capital (or Additional Tier I) which, when added to CET I, constitutes Tier 1 funds, and Tier 2 funds (or Tier II) which, when added to Tier I, constitute total own funds.

The novobanco Group's total own funds consist of CET I elements and Tier II elements.

Complementary information on the evolution and composition of the novobanco Group's capital ratios can be found in the Group's Market Discipline Document (point 3. Capital Adequacy)

The following table presents a summary of own funds, risk-weighted assets, and capital ratios of novobanco for December 31, 2023 and 2022:

(milhões de euros)

	2023 (fully loaded) [3]	2023 (phased.in)	2022
Realised ordinary share capital, issue premiums and own shares	6 568	6 568	6 305
Reserves and Retained earnings	(2 931)	(2 931)	(3 388)
Net income for the year attributable to shareholders of the Bank	746	746	556
Non-controlling interests (minorities)	23	23	18
A - Equity (prudential perspective)	**4 406**	**4 406**	**3 491**
Net result of the financial year attributable to the Bank's shareholders not eligible	-	-	-
Non-controlling interests (minorities)	(14)	(14)	(10)
Adjustments of additional valuation	(3)	(3)	(4)
Transitional period to IFRS9	-	81	126
Goodwill and other intangibles	(45)	(45)	(73)
Insufficiency of provisions given the expected losses	-	-	-
Pension fund assets with defined benefits	(19)	(19)	(60)
Deferred tax assets and shareholdings in financial companies	(215)	(215)	(296)
Other [1]	(415)	(399)	(249)
B - Regulatory adjustments to equity	**(703)**	**(614)**	**(565)**
C - Own principal funds level 1 - CET I (A+B)	**3 703**	**3 792**	**2 926**
Eligible capital instruments for additional Tier I	-	-	-
Other eligible instruments for additional Tier 1	2	2	2
D - Additional own funds Level 1 - Additional Tier 1	**2**	**2**	**2**
E - Level 1 own funds - Tier I (C+D)	**3 705**	**3 794**	**2 928**
Subordinated liabilities eligible for Tier II	497	497	399
Other elements eligible for Tier II	77	77	91
Regulatory adjustments to Tier II	-	-	-
F - Level 2 own funds - Tier II	**574**	**574**	**490**
G - Eligible own funds (E+F)	**4 279**	**4 368**	**3 418**
Credit risk	18 334	18 394	19 608
Market risk	100	100	78
Operational risk	1 965	1 965	1 670
H - Risk Weighted Assets	**20 399**	**20 459**	**21 355**
Solvability ratio			
CET I ratio	**18,2%**	**18,5%**	**13,7%**
Tier I ratio	**18,2%**	**18,5%**	**13,7%**
Solvability ratio	**21,0%**	**21,4%**	**16,0%**
Leverage ratio [2]	**7,9%**	**8,1%**	**6,1%**

(1) It includes adjustments to the CCA to be received, reflected at the level of reserves, and not received from the Resolution Fund as well as the amount relating to the backstop.

(2) The leverage ratio results from dividing Tier 1 by the exposure measure calculated under the CRR.

(3) Capital and leverage ratios not considering effects related with transitional period

Note 43 – NPL Disclosures

Following the recommendations of the European Banking Authority as set out in the document EBA/GL/2018/10, credit institutions with a Non-Performing Loans (NPL) ratio above 5% must publish a set of information related to Non-Performing Exposures (NPE), restructured loans, and assets received in lieu, according to a standardized format, which is presented below (it is underlined that this information is prepared from a prudential perspective, the consolidation perimeter of which differs from the consolidation perimeter of the condensed interim financial statements presented):

43.1. Credit quality of forborne exposures

(thousand 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	
		Non-performing forborne						
	Performing forborne	Total	Of which defaulted	Of which subject to impairment	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
Loans and advances	696 645	591 206	591 206	591 206	(71 783)	(295 877)	675 078	242 564
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	-	161 999	161 999	161 999	-	(39 004)	115 356	115 356
Non-financial corporations	525 345	365 383	365 383	365 383	(68 859)	(210 602)	383 214	111 796
Households	171 300	63 824	63 824	63 824	(2 924)	(46 270)	176 508	15 412
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	2 710	821	821	821	-	-	-	-
Total	**699 355**	**592 027**	**592 027**	**592 027**	**(71 783)**	**(295 877)**	**675 078**	**242 564**

43.2. Credit quality of performing and non-performing exposures by days past due

(thousand of Euros)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due < =30 days	Past due > 30 days <=90 days	Total	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	**5 688 156**	**5 688 156**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**24 379 831**	**24 279 004**	**100 827**	**1 132 652**	**648 744**	**75 426**	**123 341**	**113 323**	**99 196**	**18 835**	**53 786**	**1 132 652**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	315 287	314 506	780	-	-	-	-	-	-	-	-	-
Credit institutions	23 896	23 896	-	-	-	-	-	-	-	-	-	-
Other financial corporations	768 596	743 426	25 170	219 975	193 146	-	7	2	19 449	1 155	6 216	219 975
Non-financial corporations	11 810 496	11 801 877	8 619	705 057	354 733	53 663	95 479	76 821	65 988	16 919	41 452	705 057
Of which SMEs	6 873 599	6 865 242	8 357	541 510	230 375	53 180	67 742	76 044	60 495	13 031	40 643	541 510
Households	11 461 556	11 395 297	66 258	207 620	100 865	21 763	27 855	36 500	13 758	761	6 118	207 620
Debt securities	**8 506 408**	**8 506 408**	**-**	**460 965**	**357 997**	**-**	**-**	**-**	**-**	**1 746**	**101 222**	**460 965**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	4 778 128	4 778 128	-	-	-	-	-	-	-	-	-	-
Credit institutions	393 321	393 321	-	-	-	-	-	-	-	-	-	-
Other financial corporations	528 111	528 111	-	20 584	91	-	-	-	-	1 746	18 747	20 584
Non-financial corporations	2 806 848	2 806 848	-	440 381	357 906	-	-	-	-	-	82 475	440 381
Off-balance-sheet exposures	**8 219 034**			**418 374**								**418 374**
Central banks	-			-								-
General governments	264 576			-								-
Credit institutions	539 622			-								-
Other financial corporations	81 750			7 425								7 425
Non-financial corporations	6 090 705			405 688								405 688
Households	1 242 381			5 261								5 261
Total	**46 793 429**	**38 473 568**	**100 827**	**2 011 991**	**1 006 741**	**75 426**	**123 341**	**113 323**	**99 196**	**20 581**	**155 008**	**2 011 991**

Productive and non-productive exposures and respective provisions

(thousand 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
	Total	Of which stage 1	Of which stage 2	Total	Of which stage 2	Of which stage 3	Total	Of which, Stage 1	Of which, Stage 2	Total	Of which, Stage 2	Of which, Stage 3			
Cash in Central Banks	**5 688 156**	**5 688 156**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**24 379 831**	**20 626 688**	**3 753 143**	**1 132 652**	**-**	**1 132 652**	**(398 756)**	**(61 577)**	**(337 179)**	**(556 483)**	**-**	**(556 483)**	**(486 931)**	**15 046 921**	**422 768**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	315 287	299 791	15 496	-	-	-	(751)	(495)	(256)	-	-	-	(4)	30 676	-
Credit institutions	23 896	19 127	4 769	-	-	-	(714)	(556)	(158)	-	-	-	-	-	-
Other financial corporations	768 596	631 701	136 895	219 975	-	219 975	(21 033)	(3 492)	(17 541)	(57 254)	-	(57 254)	(193 603)	171 422	127 937
Non-financial corporations	11 810 496	9 311 877	2 498 619	705 057	-	705 057	(293 275)	(39 037)	(254 238)	(390 645)	-	(390 645)	(204 339)	4 464 391	219 431
Of which SMEs	6 873 599	5 404 368	1 469 230	541 510	-	541 510	(104 305)	(21 833)	(82 472)	(293 703)	-	(293 703)	(136 822)	3 201 769	167 669
Households	11 461 556	10 364 192	1 097 364	207 620	-	207 620	(82 983)	(17 997)	(64 986)	(108 584)	-	(108 584)	(88 986)	10 380 432	75 401
Debt securities	**8 506 408**	**8 442 222**	**64 186**	**460 965**	**112**	**460 853**	**(5 614)**	**(3 847)**	**(1 767)**	**(318 937)**	**-**	**(318 937)**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	4 778 128	4 778 128	-	-	-	-	(636)	(636)	-	-	-	-	-	-	-
Credit institutions	393 321	393 321	-	-	-	-	(123)	(123)	-	-	-	-	-	-	-
Other financial corporations	528 111	528 111	-	20 584	-	20 584	(530)	(530)	-	-	-	-	-	-	-
Non-financial corporations	2 806 848	2 742 662	64 186	440 381	112	440 269	(4 325)	(2 558)	(1 767)	(318 937)	-	(318 937)	-	-	-
Off-balance-sheet exposures	**8 219 034**	**7 096 903**	**1 122 131**	**418 374**	**-**	**418 374**	**(14 080)**	**(6 412)**	**(7 668)**	**(71 322)**	**-**	**(71 322)**		**193 750**	**11 044**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
General governments	264 576	264 111	466	-	-	-	(18)	(12)	(6)	-	-	-		2 804	-
Credit institutions	539 622	430 147	109 475	-	-	-	(644)	(10)	(634)	-	-	-		48 227	-
Other financial corporations	81 750	79 046	2 704	7 425	-	7 425	(67)	(21)	(46)	(38)	-	(38)		9 767	-
Non-financial corporations	6 090 705	5 236 837	853 868	405 688	-	405 688	(8 518)	(2 048)	(6 471)	(71 172)	-	(71 172)		122 248	10 983
Households	1 242 381	1 086 762	155 619	5 261	-	5 261	(4 833)	(4 322)	(511)	(111)	-	(111)		10 704	61
Total	**46 793 429**	**41 853 969**	**4 939 460**	**2 011 991**	**112**	**2 011 879**	**(418 450)**	**(71 836)**	**(346 614)**	**(946 742)**	**-**	**(946 742)**	**(486 931)**	**15 240 672**	**433 812**

Quality of non-performing exposures by geography

(thousand of Euros)

	Gross carrying amount/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	Total	Of which non-performing		Of which subject to impairment			
			Of which defaulted				
On-balance-sheet exposures	**34 479 856**	**1 593 617**	**1 593 617**	**34 468 439**	**(1 279 790)**		**-**
Portugal	24 027 073	1 421 492	1 421 492	24 015 768	(1 153 954)		-
Other countries	10 452 783	172 125	172 125	10 452 671	(125 836)		-
Off-balance-sheet exposures	**8 637 408**	**418 374**	**418 374**			**83 983**	
Portugal	8 266 884	415 935	415 935			82 290	
Other countries	370 524	2 439	2 439			1 693	
Total	**43 117 264**	**2 011 991**	**2 011 991**	**34 468 439**	**(1 279 790)**	**83 983**	**-**

Credit quality of loans and advances by sector of activity

(thousand of Euros)

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	Total	Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	335 094	3 249	3 249	335 094	(9 595)	-
Mining and quarrying	58 186	6 189	6 189	58 186	(4 766)	-
Manufacturing	2 582 525	113 710	113 710	2 582 525	(100 733)	-
Electricity, gas, steam and air conditioning supply	291 441	613	613	291 441	(2 249)	-
Water supply	182 665	98	98	182 665	(4 296)	-
Construction	1 267 392	77 793	77 793	1 267 392	(58 211)	-
Wholesale and retail trade	1 560 036	78 889	78 889	1 560 036	(68 304)	-
Transport and storage	810 411	28 633	28 633	810 411	(42 241)	-
Accommodation and food service activities	1 110 904	77 808	77 808	1 110 904	(71 700)	-
Information and communication	155 785	5 901	5 901	155 785	(6 867)	-
Financial and insurance activities	385 391	29 663	29 663	385 391	(48 949)	-
Real estate activities	1 633 516	161 289	161 289	1 633 516	(111 611)	-
Professional, scientific and technical activities	1 107 396	43 011	43 011	1 107 396	(28 865)	-
Administrative and support service activities	339 426	7 719	7 719	339 426	(21 314)	-
Public administration and defence, compulsory social security	1 593	-	-	1 593	(16)	-
Education	52 554	708	708	52 554	(761)	-
Human health services and social work activities	316 916	32 494	32 494	316 916	(24 157)	-
Arts, entertainment and recreation	129 256	23 553	23 553	129 256	(18 822)	-
Other services	195 066	13 734	13 734	195 066	(60 465)	-
Total	**12 515 554**	**705 057**	**705 057**	**12 515 554**	**(683 920)**	**-**

Assessment of collateral - loans and advances

(thousand of Euros)

	Loans and advances											
	Performing			Non-performing								
							Of which, past due > 90 days					
	Total - Performing	Not overdue or overdue < =30 days	Of which past due > 30 days <=90 days	Total - Non Performing	Unlikely to pay that are not past due or are past due <= 90 days	Total past due > 90 days	Of which past due >90 days <= 180 days	Of which: past due > 180 days <= 1 year	Of which: past due > 1 years <= 2 years	Of which: past due > 2 years <= 5 years	Of which: past due > 5 years £<=7 years	Of which: past due > 7 years
Gross carrying amount	**25 512 483**	**24 379 831**	**100 827**	**1 132 652**	**648 744**	**483 908**	**75 426**	**123 341**	**113 323**	**99 196**	**18 835**	**53 786**
Of which secured	17 351 290	16 558 781	60 598	792 509	464 376	328 133	40 636	68 445	76 312	83 068	14 166	45 506
Of which secured with immovable property	14 097 340	13 532 214	58 410	565 126	295 681	269 445	39 196	56 659	43 698	76 564	10 850	42 479
Of which instruments with LTV higher than 60% and lower or equal to 80%	2 270 404	2 083 698		186 706	124 456	62 250						
Of which instruments with LTV higher than 80% and lower or equal to 100%	508 942	447 769		61 173	43 994	17 180						
Of which instruments with LTV higher than 100%	841 217	633 274		207 943	61 039	146 905						
Accumulated impairment for secured assets	**(542 821)**	**(206 830)**	**(3 261)**	**(335 991)**	**(175 042)**	**(160 949)**	**(15 903)**	**(28 193)**	**(44 760)**	**(41 251)**	**(6 405)**	**(24 436)**
Collateral												
Of which value capped at the value of exposure	15 428 309	15 011 097	57 199	417 212	264 773	152 439	14 670	39 476	29 760	39 702	7 761	21 070
Of which immovable property	13 399 886	13 074 293	55 234	325 593	198 369	127 224	14 327	32 727	23 773	34 218	2 336	19 843
Of which value above the cap	38 535 746	37 240 152	77 081	1 295 594	638 233	657 361	46 791	50 229	257 922	82 771	79 023	140 625
Of which immovable property	28 045 182	27 495 182	73 212	550 000	345 999	204 001	32 420	39 747	28 705	54 548	3 190	45 392
Financial guarantees received	**41 381**	**35 825**	**59**	**5 556**	**4 246**	**1 310**	**511**	**745**	**54**	**-**	**-**	**-**
Accumulated partial write-off	**(486 931)**	**(1 717)**	**(1 717)**	**(485 214)**	**(4 317)**	**(480 898)**	**(7 295)**	**(477)**	**(86 463)**	**(46 114)**	**(59 107)**	**(281 441)**

Changes in the stock of non-performing loans and advances

(thousand of Euros)

	Gross carrying amount
Initial stock of non-performing loans and advances	**1 391 459**
Inflows to non-performing portfolios	411 465
Outflows from non-performing portfolios	(670 273)
Outflow to performing portfolio	(154 882)
Outflow due to loan repayment, partial or total	(188 695)
Outflow due to collateral liquidation	-
Outflow due to taking possession of collateral	(1 934)
Outflow due to sale of instruments	(144 521)
Outflow due to risk transfer	-
Outflow due to write-off	(158 048)
Outflow due to other situations	(18 156)
Outflow due to reclassification as held for sale	-
Final stock of non-performing loans and advances	**1 132 652**

Collateral obtained by taking possession and execution processes

(thousand of Euros)

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	**-**	**-**
Other than PP&E	**170 960**	**(55 463)**
Residential immovable property	45 137	(11 085)
Commercial Immovable property	55 995	(28 353)
Movable property (auto, shipping, etc.)	1 795	(1 039)
Equity and debt instruments	40 640	(8 860)
Other	27 394	(6 127)
Total	**170 960**	**(55 463)**

Collateral obtained by taking possession and execution processes – distribution by age

(thousand of Euros)

			Total collateral obtained by taking possession							
			Foreclosed <=2 years		Foreclosed > 2 years <=5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
Collateral obtained by taking possession classified as PP&E	-	-								
Collateral obtained by taking possession other than that classified as PP&E	170 960	(55 463)	6 886	(341)	41 828	(17 844)	122 247	(37 278)	-	-
Residential immovable property	45 137	(11 085)	1 484	(60)	7 671	(1 398)	35 983	(9 628)	-	-
Commercial immovable property	55 995	(28 353)	5 294	(219)	4 353	(1 266)	46 348	(26 867)	-	-
Movable property (auto, shipping, etc.)	1 795	(1 039)	108	(62)	846	(194)	840	(783)	-	-
Equity and debt instruments	40 640	(8 860)	-	-	1 564	(8 860)	39 076	-	-	-
Other	27 394	(6 127)	-	-	27 394	(6 127)	-	-	-	-
Total	**170 960**	**(55 463)**	**6 886**	**(341)**	**41 828**	**(17 844)**	**122 247**	**(37 278)**	**-**	**-**

Note 44 – Provision of Insurance or Reinsurance Mediation Service

As of December 31, 2023 and 2022, the remunerations resulting from the provision of insurance or reinsurance mediation service have the following composition:

(thousands of Euros)

	2023	2022
Life Insurance	**17 065**	**20 223**
Unit Link and other life commissions	945	1 795
Credit protection insurance (life)	791	881
Traditional Products	15 329	17 547
Non-Life Insurance	**12 291**	**10 071**
Personal lines insurance	10 878	8 464
Corporate insurance	177	177
Credit protection insurance (non-life)	1 236	1 430
	29 356	**30 294**

Note: the amounts shown are net of accruals

The Group does not collect insurance premiums on behalf of Insurers, nor does it move funds related to insurance contracts. Therefore, there are no other assets, liabilities, income, or expenses to report, related to the insurance mediation activity carried out by the Group, in addition to those already disclosed.

Note 45 – Subsequent Events

- On February 1, 2024, novobanco announced that on that date, Fitch assigned a BBB- rating to novobanco's long-term preferred senior debt. The Investment Grade rating reflects i) the Bank's current business model; ii) a significant improvement in asset quality; iii) profitability levels that compare favorably with peers; iv) significant improvement in capital buffers in 2023; and v) stable financing, along with adequate liquidity;
- On February 21, 2024, novobanco announced the issue of Covered Bonds in the amount of 500 million euros, maturing on March 1, 2027 (soft bullet). The expected rating of the issue is Aaa by Moodys. The bonds have an annual interest rate of 3.25%, equivalent to 3-year mid-swaps plus 45bp;
- On February 28, 2024, novobanco issued Senior Preferred debt in the amount of 500 million euros, maturing on March 8, 2028 and with an early repayment option on March 8, 2027. The bonds were issued with an annual coupon rate of 4.25%.

SEPARATE FINANCIAL STATEMENTS OF NOVOBANCO

novobanco
SEPARATE INCOME STATEMENT FOR THE YEARS ENDEND 31 DECEMBER 2023 AND 2022

(thousands of Euros)

	Notes	2023	2022
Interest Income	8	1 940 462	838 291
Interest Expenses	8	(833 352)	(213 295)
Net Interest Income		**1 107 110**	**624 996**
Dividend income	10	32 444	17 452
Fee and comission income	9	306 859	302 126
Fee and comission expenses	9	(37 563)	(39 816)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10	(58 055)	(88 444)
Gains or losses on financial assets and liabilities held for trading	10	3 144	146 715
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	10	71 766	(95 948)
Gains or losses from hedge accounting	10	31 468	(535)
Exchange differences	10	23 989	7 305
Gains or losses on derecognition of non-financial assets	11	27 608	82 159
Other operating income	12	45 120	56 579
Other operating expenses	12	(78 681)	(68 778)
Operating Income		**1 475 209**	**943 811**
Administrative expenses		(407 920)	(369 730)
Staff expenses	13	*(234 729)*	*(216 821)*
Other administrative expenses	15	*(173 191)*	*(152 909)*
Cash contributions to resolution funds and deposit guarantee schemes	16	(77 528)	(40 717)
Depreciation	23, 24	(45 878)	(53 961)
Provisions or reversal of provisions	17	(23 305)	(10 894)
Commitments and guarantees given		*434*	*2 555*
Other provisions		*(23 739)*	*(13 449)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	17	(142 022)	(103 265)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	17	12 216	16 166
Impairment or reversal of impairment on non-financial assets	17	6 353	14 081
Profit or loss before tax from continuing operations		**797 125**	**395 491**
Tax expense or income related to profit or loss from continuing operations	25	4 656	58 339
Current tax		*(5 386)*	*(4 611)*
Deferred tax		*10 042*	*62 950*
Profit or loss after tax from continuing operations		**801 781**	**453 830**
Profit or loss before tax from discontinued operations	27	(1 121)	-
Profit or loss for the exercise		**800 660**	**453 830**
Weighted average number of ordinary shares in circulation (thousands)		10 034 965	10 034 965
Basic earnings per share (in euros)		0,08	0,05
Diluted earnings per share (in euros		0,08	0,05
Basic earnings per share from continuing operations (in euros)		0,08	0,05
Diluted earnings per share from continuing operations (in euros)		0,08	0,05

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

novobanco

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022

(thousands of Euros)

	Notes	2023	2022
Net profit / (loss) for the exercise		**800 660**	**453 830**
Other comprehensive income / (loss)			
Items that will not be classified to results		**(51 531)**	**110 205**
Actuarial gains / (losses) on defined benefits plans	a)	(27 285)	96 485
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(24 246)	13 720
Items that may be reclassified to results		**213 144**	**(296 489)**
Cash flow hedging		192 974	(100 418)
Financial assets at fair value through other comprehensive income	a)	20 170	(196 071)
Total other comprehensive income/(loss) for the exercise		**962 273**	**267 546**

a) See Statement of Changes in Equity

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

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SEPARATE BALANCE SHEET
AS AT 31 DECEMBER 2023 AND 2022

(thousands of Euros)

	Notes	2023	2022
ASSETS		**43 146 264**	**45 464 048**
Cash, cash balances at central banks and other demand deposits	18	5 742 599	6 387 295
Financial assets held for trading	19	436 345	170 847
Non-trading financial assets mandatorily at fair value through profit or loss	20	1 434 690	1 537 670
Financial assets designated at fair value through profit or loss	20	-	13
Financial assets at fair value through other comprehensive income	20	741 446	2 183 034
Financial assets at amortised cost	20	31 389 894	31 500 944
Debt securities		8 200 570	8 400 233
Loans and advances		125 817	145 464
Loans and advances		23 063 507	22 955 247
Derivatives – Hedge accounting	21	683 074	562 886
Fair value changes of the hedged items in portfolio hedge of interest rate risk	21	(83 763)	(164 388)
Investments in subsidiaries, joint ventures and associates	22	263 675	251 457
Tangible assets		300 242	258 963
Other tangible assets	23	300 242	258 963
Intangible assets	24	86 427	69 640
Tax assets	25	923 641	947 500
Current Tax Assets		26 260	30 298
Deferred Tax Assets		897 381	917 202
Other assets	26	1 211 512	1 713 116
Non-current assets and disposal groups classified as held for sale	27	16 482	45 071
LIABILITIES		**39 117 042**	**42 397 100**
Financial liabilities held for trading	19	100 607	99 317
Financial liabilities measured at amortised cost	28	37 392 300	40 904 697
Deposits from banks		6 685 933	10 506 509
(Of which, Repurchase Agreement)		3 867 053	2 150 824
Due to customers		29 130 958	28 425 223
(Of which, Repurchase Agreement)		1 366 382	450 906
Debt securities issued and Subordinated debt		1 085 659	1 601 454
Other financial liabilities		489 750	371 511
Derivatives – Hedge accounting	21	124 957	120 612
Fair value changes of the hedged items in portfolio hedge of interest rate risk	21	62 049	-
Provisions	29	420 543	423 190
Tax liabilities	25	4 191	4 505
Current Tax liabilities		4 191	4 505
Other liabilities	30	1 012 395	844 779
EQUITY		**4 029 222**	**3 066 948**
Capital	31	6 567 844	6 304 661
Accumulated other comprehensive income	32	(993 658)	(1 155 271)
Retained earnings	32	(8 577 074)	(8 577 074)
Other reserves	32	6 231 450	6 040 802
Profit or loss attributable to Owners of the parent		800 660	453 830
TOTAL LIABILITIES AND EQUITY		**43 146 264**	**45 464 048**

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

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SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022

(thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the year	Total
Balance as at 31 December 2021		**6 054 907**	**(968 987)**	**(8 576 860)**	**6 064 434**	**225 908**	**2 799 402**
Capital increase by incorporation of special reserve for deferred taxes		249 754	-	-	(249 754)	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**(214)**	**226 122**	**(225 908)**	**-**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	-	*225 908*	*(225 908)*	-
Other movements		-	-	*(214)*	*214*	-	-
Total comprehensive income for the year		**-**	**(186 284)**	**-**	**-**	**453 830**	**267 546**
Changes in fair value, net of tax	32	-	*(178 410)*	-	-	-	*(178 410)*
Remeasurement of defined benefit plans, net of tax	14	-	*96 485*	-	-	-	*96 485*
Reserves of impairment of securities at fair value through OCI	32	-	*(3 079)*	-	-	-	*(3 079)*
Reserves of sales of securities at fair value through OCI	32	-	*(862)*	-	-	-	*(862)*
Net profit / (loss) for the year		-	*(100 418)*	-	-	*453 830*	*353 412*
Balance as at 31 December 2022		**6 304 661**	**(1 155 271)**	**(8 577 074)**	**6 040 802**	**453 830**	**3 066 948**
Capital increase by incorporation of special reserve for deferred taxes	31	263 183	-	-	(263 183)	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**-**	**453 831**	**(453 830)**	**1**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	-	*453 830*	*(453 830)*	-
Other movements		-	-	-	*1*	-	*1*
Total comprehensive income for the year		**-**	**161 613**	**-**	**-**	**800 660**	**962 273**
Changes in fair value, net of tax	32	-	*255 122*	-	-	-	*255 122*
Remeasurement of defined benefit plans, net of tax	14	-	*(27 285)*	-	-	-	*(27 285)*
Reserves of impairment of securities at fair value through OCI	32	-	*(378)*	-	-	-	*(378)*
Reserves of sales of securities at fair value through OCI	32	-	*(258 820)*	-	-	-	*(258 820)*
Cash flow hedging reserves		-	*192 974*	-	-	-	*192 974*
Net profit / (loss) for the year		-	-	-	-	*800 660*	*800 660*
Balance as at 31 December 2023		**6 567 844**	**(993 658)**	**(8 577 074)**	**6 231 450**	**800 660**	**4 029 222**

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

novobanco

CASH FLOW STATEMENT

FOR THE YEARS ENDED ON 2023 AND 2022

(thousands of Euros)

	Notes	2023	2022
Cash flows from operatings activities		**1 199 892**	**586 720**
Interest received		1 985 442	855 033
Interest paid		(715 474)	(207 797)
Fees and commissions received		306 859	302 126
Fees and commissions paid		(37 581)	(39 816)
Recoveries on loans previously written off		31 994	39 741
Cash contributions to resolution funds and deposit guarantee schemes		(77 528)	(40 717)
Cash payments to employees and suppliers		(293 820)	(321 850)
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(4 622 226)	(1 702 869)
Financial assets mandatorily at fair value through profit or loss		225 187	558 483
Financial assets designated at fair value through profit or loss		(229 596)	146 847
Financial assets at fair value through other comprehensive income		1 772 803	4 535 561
Financial assets at amortised cost		153 086	(6 732 655)
Securities		*373 792*	*(5 699 590)*
Loans and advances to banks		*20 890*	*41 890*
Loans and advances to customers		*(241 596)*	*(1 074 955)*
Financial liabilities at amortised cost		1 825 336	2 121 448
Deposits from banks		*1 122 185*	*682 009*
Due to customers		*703 151*	*1 439 439*
Derivatives - Hedge accounting		(415 013)	(54 864)
Other operating assets and liabilities		26 563	1 171 677
Net cash from operating activities before corporate income tax		**(63 968)**	**630 348**
Corporate income taxes paid		(25 709)	(35 231)
Net cash from operating activities		**(89 677)**	**595 117**
Cash flows from investing activities			
Sale of investments in subsidiaries and associated companies		-	1 867
Dividends received		32 444	17 452
Acquisition of tangible fixed assets		(82 368)	(105 881)
Sale of tangible fixed assets		1 279	107 072
Acquisition of intangible assets		(30 177)	(25 160)
Net cash from investing activities		**(78 822)**	**(4 650)**
Cash flows from financing activities			
Reimbursement of bonds and other debt securities		(577 303)	
Issue of subordinated debt		500 000	100 000
Reimbursement of subordinated debt		(400 000)	(575)
Net cash from financing activities		**(477 303)**	**99 425**
Net changes in cash and cash equivalents		**(645 802)**	**689 892**
Cash and cash equivalents at the beginning of the exercise		**6 099 398**	**5 409 506**
Net changes in cash and cash equivalents		(645 802)	689 892
Cash and cash equivalents at the end of the exercise		**5 453 596**	**6 099 398**
Cash and cash equivalents include:			
Cash	18	171 006	176 797
Deposits with Central Banks	18	5 374 612	5 942 501
(of which, Restricted balances)		(289 003)	(287 897)
Deposits with banks	18	196 981	267 997
Total		**5 453 596**	**6 099 398**

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

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novobanco
Notes to the Separate Financial Statements as of 31 December 2023

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

Note 1 – Activity

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

As at 18 October 2017, the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging 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.

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. On December 19, 2023, the company became Nani Holdings S.à.r.l, with its headquarters at Rue des Mérovingiens 7A, Bertrange, Luxembourg. 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.

Novobanco has a retail network comprising 273 branches in Portugal and abroad (31 December 2022: 274 branches), including branches in Luxembourg, and 2 representative offices, one in Switzerland and one in Spain (31 December 2022: 2 representative offices in Switzerland).

Note 2 –Basis of presentation

The separate financial statements of novobanco are presented as at 31 December 2023, 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 of 31 December 2022. The changes to the most relevant accounting policies are described in Note 5.

The separate financial statements of novobanco have been prepared under the assumption of continuity of operations from the accounting records and following the historical cost convention, except for the assets and liabilities accounted at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

The separate financial statements and the Management Report of 31 December 2023 were approved at the Executive Board of Directors' meeting held on 29 February 2024 and will be submitted to the General Assembly of Shareholders, which has the power to justifiably decide to change them. However, it is Executive Board of Directors' conviction that these financial statements will be approved without changes.

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 1 January 2023, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of 19 July 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).

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 caption.

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented throughout the different balance sheet notes.

Note 5 – Changes in Accounting Policies

In the preparation of its financial statements with reference to 31 December 2023, 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 financial year

The following norms, interpretations, amendments, and revisions adopted ("endorsed") by the European Union have mandatory application for the first time in the exercise beginning 1 January 2023:

Standards/Interpretation	Description
IFRS 17 – Insurance Contracts	IFRS 17 replaces IFRS 4 and applies to all insurance contracts (i.e., life, non-life, direct insurance, and reinsurance), regardless of the type of entities that issue them, as well as to some warranties and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides a more useful and more consistent accounting model for insurance contracts. Contrasting with 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 IFRS 17 – Insurance Contracts – Initial application of IFRS 17 and IFRS 9 – Comparative information	This amendment to IFRS 17 pertains to the presentation of comparative information of financial assets upon the initial application of IFRS 17. The amendment adds a transition option that allows an entity to apply an 'overlay' to the classification of a financial asset in the comparative period(s) presented upon the initial application of IFRS 17. The 'overlay' allows all financial assets, including those held in relation to activities not related to contracts within the scope of IFRS 17, to be classified, instrument by instrument, in the comparative period(s) in line with how the entity expects these assets to be classified upon the initial application of IFRS 9.
Amendments to IAS 1 - Disclosure of Accounting Policies	These changes aim to assist an entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However, due to the absence of this concept in IFRS standards, it was decided to replace it with the concept of "materiality", a concept already known by the users of financial statements. When assessing the materiality of accounting policies, the entity must consider not only the size of the transactions but also other events or conditions and their nature.
Amendments to IAS 8 - Definition of Accounting Estimates	The amendment aims to clarify the distinction between changes in accounting estimates, changes in accounting policies, and the correction of errors. Additionally, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.

Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction	IAS 12 now requires an entity to recognise deferred tax when its initial recognition gives rise to equal amounts of taxable temporary differences and deductible temporary differences. However, it is a matter of professional judgment whether such deductions are attributable to the liability that is recognised in the financial statements or to the related asset. This fact is particularly important in determining the existence of temporary differences in the initial recognition of the asset or liability, insofar as the initial recognition exception is not applicable to transactions that originated equal taxable and deductible temporary differences. Among the applicable transactions are the registration of (i) assets under right of use and lease liabilities; (ii) provisions for dismantling, restoration, or similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset, when at the date of initial recognition they do not apply for tax purposes. This amendment is retrospectively applicable.
Amendments to IAS 12 - International Tax Reform - Second Pillar Model Rules	These changes arise in the context of implementing the Global Anti-Base Erosion ("Globe") rules of the OECD, which may have significant impacts on the determination of deferred taxes that are difficult to estimate as of the date of issuance of these changes. These changes introduce a temporary exception to the accounting for deferred taxes arising from the application of the OECD's second pillar model rules, and additionally establish new specific disclosure requirements for affected entities.

These standards and changes had no material impact on the Bank’s financial statements

Note 6 –Main Accounting polices

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‘s functional currency.

6.1.2. Transactions and balances

Foreign currency transactions are translated into 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 from this translation are recognised in the income statement.

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

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

6.2. Recognition of interest income/expense

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

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

When calculating the effective interest rate, the 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 recognised impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value.

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognised 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. Fee and commission income recognition

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

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognised as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method, as described in note 6.2.

6.4. instruments - Classification and initial measurement

6.4.1. 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 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 recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

6.4.2. 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 6.6. Financial instruments are initially measured at their fair value (as defined in Note 6.5), 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.

6.4.3. 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 recognises 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 recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

The Bank recognises 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).

6.4.4. 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:

- Amortised cost, as explained in Note 6.6.1;
- Fair Value of through Other Comprehensive Income, as explained in Notes 6.6.1, 6.6.2 and 6.6.3;
- Fair Value Through Profit or Loss, as set out in Note 6.6.4;
- Mandatorily measured at fair value through profit or loss, as set out in Note 6.6.4.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Note 6.6.5. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6.6.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative.

6.5. 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 customised 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 organised market;
(ii) Shares quoted on a stock exchange;
(iii) Open investment funds quoted on a stock exchange;
(iv) Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;
(v) Bonds with 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.

6.6. 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 recognised in equity;
- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets are acquired for the purpose of trading in the short term, they are classified as held for trading.

6.6.1. Financial assets at amortised cost

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 calculation, as explained in Note 6.12..

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

6.6.2. Debt instruments with fair value changes in other comprehensive income

The Bank classifies debt instruments with fair value changes in 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; and
- 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 thus classified are subsequently measured at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income until the assets are derecognised, at which point the accumulated amount of potential gains and losses recorded in reserves is transferred to profit or loss under the heading of gains or losses on financial assets and liabilities measured at fair value through profit or loss. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same way as for financial assets measured at amortised cost as explained in Note 6.2.

The expected credit loss calculation is explained in Note 6.12. When 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.

6.6.3. 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 fair value through other comprehensive income when they meet the definition of equity under IAS 32 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 recognised 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 other comprehensive income.

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

6.6.4. 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

6.6.5. 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 recognised 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.

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

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 26 and 30) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting

- 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 captions 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 caption and hedging instrument and evaluation of the effectiveness of the hedge;
(iii) There is an economic relationship between the hedged caption 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 caption in the portion attributed to the hedged risk. Any ineffectiveness found is recognised in the income statement when it occurs in gains or losses of hedge accounting. In the specific case of fair value hedging of interest rate risk for the deposit portfolio, the IAS 39 carve-out exception was adopted for the application of macro hedging to core deposits.

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

- Fair Value Hedge

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

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

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

- Cash flow hedge

In a hedge operation of the exposure to variability of highly probable future cash flows (cash flow hedge), the effective portion of changes in the fair value of the hedging derivative is recognized in the cash flow hedge reserve. The value of this reserve is transferred to the results in the periods in which the expected cash flows of the hedged item affect results. The ineffective portion of the hedge is recorded in results.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria required for hedge accounting, the changes in the fair value of the derivative accumulated in reserves are recognized in results when the hedged operation also affects results. If it is foreseeable that the hedged operation will not be carried out, the amounts still recorded in equity are immediately recognized in results, and the hedging instrument is transferred 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 6.5.

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

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

These embedded derivatives are recorded at fair value with changes recognized in income statement.

6.6.7. Financial Liabilities

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

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

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

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

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;

- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Bank's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows to designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

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

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Bank establishes the fair value by using valuation techniques based on market information, including the 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 recognised in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

These liabilities are measured at fair value, and the respective gains or losses on revaluation are recognised in profit or loss except for changes resulting from changes in the Bank's own risk, the Debt Valuation Adjustment (DVA), which is recognised in other comprehensive income. novobanco does not record any gain associated with own credit risk.

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

6.6.8. Financial and performance guarantees

Financial guarantees

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

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

Performance guarantees

Performance guarantees are contracts that result in compensation of a party if the if there is non-compliance with the defined contractual obligation. Performance guarantees are initially recognized at fair value, which is normally evidenced by the value of commissions received during the contract's duration. If the defined contractual obligation is not fulfilled, the Group has the right of recourse against the main debtor of the guarantee, with the amounts recognized in Loans to customers after payment of compensation to the beneficiary of the guarantee. As the right of return is embedded in the performance guarantee, and therefore part of the same unit of account, the Group understands that it does not assume insurance risk, but only financial (credit) risk on the main debtor, and, in this sense, treats these guarantees as financial instruments.

6.7 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.

6.8. Modification of financial assets and liabilities

The activity of commercial renegotiation of financial assets is one of the tools that the Bank has available and regularly uses in the management and recovery of these instruments. Accordingly, the Bank believes that the assessment of whether these renegotiations result in the derecognition of financial assets should be exceptional and case-by-case, taking into account the identification of the transactions in question by professional judgment and their materiality.

In these cases, 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 derecognise 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 6.10.

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 amortised 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 effective interest rate. Any resulting difference is recognised immediately in the income statement. The Bank accounts for a substantial modification of the terms of an existing liability or part thereof as an extinguishment of the original financial liability and the recognition 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 any fees received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. The difference between the carrying value of the original liability and the value of the new liability is recorded in income statement.

6.9. Derecognition

Financial assets are derecognised 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 derecognised, the accumulated gain or loss previously recognised in other comprehensive income is reclassified to results. In the specific case of equity instruments, the accumulated gain or loss previously recognised in other equity is not reclassified to profit or loss, being transferred between equity captions.

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 derecognised against the funds / assets received. and consequent use of impairment on the balance sheet.

6.10. 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 derecognised, as explained in Note 6.8. 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 37 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.

6.11. 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 recognised amounts and there is an intention to settle on a net basis, or to realise 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.

6.12. 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 recognised 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 12m ECL 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 12m ECL 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 aggregates its loans by stage as described below:

- Stage 1: includes all exposures without any indication of significant deterioration in credit risk and without an active default status. For these exposures the impairment is recognised as a 12-month expected loss;

- *Stage 2*: includes all exposures where at least one indication of significant deterioration of credit risk has been identified. For these exposures, impairment is recognised at the present value of the expected losses accumulated until maturity. This universe also includes exposures in a quarantine period, that is, exposures that have recently ceased to have (1) indications of significant deterioration of credit risk and/or (2) default classification;

- *Stage 3*: includes all exposures classified in default - according to the Bank's internal definition which is aligned with the regulatory definition . This definition includes, cumulatively:

  - Exposures that have materially defaulted for more than 90 consecutive days; or
  - Exposures that, not having material default for more than 90 consecutive days, are classified as "Unlikely to pay".

Purchased or originated impaired financial assets (POCI), that is, for which impairment was identified upon initial recognition, can be classified as stage 2 or stage 3.

The calculation of collective impairment

For the calculation of impairment on a collective basis, exposures are segmented based on similar credit risk characteristics according to the risk assessment defined by the Bank. For each of these homogeneous risk segments, risk factors are estimated and applied as part of the impairment calculation.

To determining collective impairment, the risk factors considered in each risk segment must, in accordance with IFRS regulations, reflect forward-looking information. In addition, the calculation of impairment should also reflect consideration of multiple scenarios, whereby the final impairment is the result of the sum of the amounts calculated in each scenario, weighted by the respective associated probability.

The calculation of the expected loss always involves the consideration of:

- Probability of default (PD) - this risk factor is an estimate of the probability of default over a given period. Default can only occur at a given point in time in the evaluation period if the credit line has not been previously derecognised and is still on balance sheet;

- Severity (LGD) - this risk factor is an estimate of the loss that arises if the default occurs at a given time. It is based on the difference between the contractual cash flows and those that the Bank estimates it will receive, including the execution of collateral or other contractual changes that become an integral part of the loan and do not meet the criteria to be recognised separately.

- Exposure - represents the nominal value of the exposure at the reporting date and it is this amount that is considered for the basis of the collective impairment calculation. In the case of off-balance sheet exposures, a credit conversion factor (CCF) is applied to the nominal value of the exposure. This factor represents the probability that the off-balance sheet exposures will convert into on-balance sheet exposures.

When an exposure is classified in stage 2, it is considered for impairment calculation purposes that the exposure evolves according to the contracted principal and interest repayment plan, or in the absence of this information, that the disbursement occurs at maturity.

The details of the impairment calculation are presented as follows:

- Stage 1: this calculation applies to productive exposures that show no active indication of significant credit risk deterioration compared to origination. Impairment represents the expected loss resulting from default events on a financial instrument that may occur within a term of 12 months after the balance sheet date. Risk factors - PD and LGD - consider the 12-month horizon and are applied to the value of the exposure. This calculation is carried out by the scenario, since each considered scenario has specific risk factors - PD and LGD;

- Stage 2: this calculation applies to productive exposures that show an indication of a significant increase in credit risk since origination. Impairment represents the current value of the sum of expected losses until the maturity of the exposure. Expected losses are calculated on the projected exposure at each moment of the debt amortization, according to the exposure amortization plan, and these expected losses are discounted at the original effective rate of the contract to obtain their current value, as of the reporting date. As mentioned above, this determination is done by scenario since different risk factors are considered for each scenario;

- Stage 3: this calculation applies to non-productive exposures, where impairment corresponds to the difference between the amount outstanding and the current value of the expected recoveries for this exposure, given its characteristics. To determine the current value of the expected recoveries, the original effective rate of the contract is also used;

- POCI are financial assets with impairment at initial recognition. Exposures in this situation cannot be classified as stage 1;

- Irrevocable commitments and letters of credit: as detailed above, given the off-balance sheet nature of irrevocable commitments, the Bank estimates for these contracts the respective amount that it expects to be converted into an on-balance sheet amount (credit). Accordingly, the estimated conversion factor for this type of exposure is applied to its nominal value and the respective result is taken into account as the basis for calculating collective impairment;

- Impairment is calculated and deducted from assets for credit cards and revolving lines that include an irrevocable commitment. For irrevocable commitments and letters of credit, impairment is recognised in Provisions on the liabilities side.

Impairment for debt instruments measured at fair value through other comprehensive income does not reduce the carrying amount of those financial assets, which remains at fair value. Accordingly, an amount equal to the provision that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment charge, with a corresponding charge to profit or loss. The cumulative loss recognised in other comprehensive income is recycled to profit or loss on derecognition of the assets.

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.

6.13. 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 indexes.

6.14. 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 exercise 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 recognised at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. For real estate properties recorded in the balance sheet of 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 specialised 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 specialised 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.

6.15. *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 recognised as overdue credit. Exemptions from this requirement are (i) extra-judicial agreements, PER and Insolvency, where part of the credit may remain due and the remaining debt is written off by judicial/ extra-judicial decision, and (ii) situations in which, despite the contract not being fully matured, the Bank 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, leading to an extreme scenario of total impairment– 100% impairment. This rule is only applicable for contracts without real estate collateral and if the whole contract is classified as overdue. In all other cases, it is necessary to ensure that the amount to be written off is fully impaired (at least in the month prior to the month of the write-off).

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

6.16. 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.

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

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

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

Securities ceded under loan agreements are not derecognised in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 6.10. Securities received under borrowing agreements are not recognised in the balance sheet.

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

6.18. 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 recognised 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 exercise 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-Service Buildings	35 to 50
Leasehold improvements	10
IT equipment	4 to 5
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 recognised when the book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset but considering the normal depreciation the asset would have been subject to.

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

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

6.19. 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 recognises 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 recognise assets under the 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 recognises the lease payments associated with these leases as expenses on a straight-line basis over the lease term in the 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 an 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 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, and 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 recognised as costs 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 recognised on a straight-line basis over the lease term and recorded in “Other operating income”.

6.20. 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. Exceptionally, these may be extended whenever it is verified that the useful life of the asset is demonstrably longer.

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

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

6.21. 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised. 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 recognised for the asset in prior exercises. Such reversal is recognised 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.

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.

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.

6.22. 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 by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the novobanco Group.

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

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

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

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

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

The Bank makes payments to the funds to assure their solvency, the minimum levels set by Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each exercise, 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 staff 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 Staff 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 recognises 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 exercise. 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

6.23. Provisions and Contingent Liabilities

Provisions are recognised 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 recognised in financial expenses.

Restructuring provisions are recognised 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 recognised 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.

6.24. Contingent assets

Contingent assets are not recognised in the financial statements, being disclosed when it is probable that there will be a future economic inflow of resources.

6.25. Income taxes

novobanco is subject to the tax regime consigned in the Código do Imposto sobre o Rendimento das Pessoas Coletivas (IRC Code).

Corporate income tax comprises current tax and deferred tax.

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

Current tax

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

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 exercises.

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 basis and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

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

Following the changes set forth in Law no. 27-A/2020, of July 24, within the scope of the Supplementary Budget for 2020, the deadline for carrying forward tax losses is now 14 years for tax losses generated in 2014, 2015 and 2016 and 7 years for tax losses generated in 2017, 2018 and 2019. Tax losses generated in 2020 and 2021 have a limit of 12 years and can be deducted until 2032 and 2033, respectively. The limit for tax losses is increased from 70% to 80%, applicable only to tax losses generated in 2020 and 2021.

Law 24-D/2022, of December 30 (State Budget Law for 2023) introduced changes in terms of the carry forward of tax losses. A period for carrying forward tax losses is no longer foreseen. On the other hand, the annual limit of the deduction to taxable income is reduced to 65% (currently 70%). This change applies to the deduction of losses from taxable profits in taxable periods beginning on or after 1 January 2023, as well as to tax losses assessed in taxable periods prior to 1 January 2023.

The elimination of the time limitation on tax losses does not apply to those ascertained in tax periods prior to 1 January 2023, in which one of the situations provided for in No 1 of the Article 6 of the Special Regime applicable to Deferred Tax Assets (REAID), approved as an annexe to Law No. 61/2014, of August 26 (conversion of deferred tax assets into tax credits), applying to tax losses ascertained in these tax periods the deduction period in force on 31 December 2023.

This change does not affect the application of paragraph 2 of article 11 of Law 27-A/2020, of July 24 (which allows an increase of 10 percentage points in the deduction of taxable income when dealing with tax losses ascertained in 2020 and 2021).

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 regarding 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.

DAC6

The obligation to report to the Tax and Customs Authority ("AT") internal or cross-border mechanisms of tax relevance has emerged in the context of Law no. 26/2020, of July 21 ("Law no. 26/2020"), which transposes Council Directive (EU) 2018/822 of May 25, 2018 ("DAC6") into Portuguese law. The DAC6 aims to discourage the use of potentially aggressive tax planning mechanisms by imposing reporting obligations to the Tax Authorities of the different Member States of the European Union. In addition, it aims to provide tax administrations and national legislators with information that will help combat aggressive tax planning.

Novobanco, with the collaboration of tax consultants, has implemented measures that allow for the identification of operations subject to reporting to tax authorities. These measures focus mainly on a primary analysis conducted by business areas and a second-line analysis conducted by Novobanco's tax area. The Bank's own operations are analyzed by Novobanco's tax area and validated by the Compliance Department.

BEPS - Pilar II

In October 2021, as part of the Erosion of the Tax Base and Profit Shifting project ("BEPS 2.0 - Base Erosion and Profit Shifting 2.0") of the Organization for Economic Cooperation and Development ("OECD"), about 137 members of the OECD/G20, representing 90% of the world's GDP, reached an agreement for a reform of the international tax system, through which a general framework for a commonly designated "Pillar II" global minimum tax regime was approved.

In this regard, Pillar II of BEPS 2.0, enshrined in Council Directive (EU) 2022/2523 of December 15, 2022, established a global minimum tax level of 15% for major multinational companies and large domestic groups, which could result in the payment of an additional tax.

Novobanco has been identifying the potential impacts associated with the implementation of Pillar II rules, having found that it should meet the eligibility criteria for the application of the Pillar II rules, namely by presenting consolidated annual incomes exceeding 750 million euros in two out of the last four financial years.

However, both the Directive and the preliminary draft establish an exclusion rule for the application of the Income Inclusion Rule ("IIR") and the Undertaxed Payments Rule ("UTPR") for large national groups and multinational enterprise groups in the initial stage of international activity.

Notwithstanding, that special rule stipulates that the additional tax due is zero in the reference jurisdiction for large national groups and multinational enterprise groups that are in an initial stage of their international activity, which implies (in the case of multinational enterprise groups) that, in each tax year: (i) they include constituent entities located in no more than six jurisdictions and (ii) the sum of the net book value of tangible assets of all their constituent entities, excluding those located in the reference jurisdiction, does not exceed 50 million euros.
Additionally, said norm provides for the possibility of applying the exclusion rule for five years after the start of the first fiscal year in which the group comes under the Pillar II rules. However, it must be ascertained annually whether the above requirements are met.

In this regard, according to the analysis carried out, Novobanco Group should meet the requirements for the application of the exclusion rule for multinational enterprise groups in the initial stage of their international activity, not foreseeing material impacts during the period when such exclusion rule is applied.

6.26. Recently issued accounting standards and interpretations

The recently issued accounting standards and interpretations, which have not yet come into force and which the Group has not yet applied in the preparation of its financial statements, can be analyzed as follows:

Standards, interpretations, amendments and revisions that come into force in future fiscal years

The following standards, interpretations, amendments and revisions, with mandatory application in future fiscal years, had been adopted ("endorsed") by the European Union as of the approval date of these financial statements

Standard/ Interpretation	Applicable in the European Union for	Description

	fiscal years beginning in or after	
Amendments to IAS 1 - Presentation of Financial Statements - Classification of Current and Non-Current Liabilities	1-jan-2024	This amendment aims to clarify the classification of liabilities as current or non-current balances based 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 evaluation should determine whether a right exists but should not consider whether the entity will or will not exercise such right), or by events occurring after the reporting date, such as non-compliance with a "covenant". However, if the right to defer settlement for at least twelve months is subject to the fulfilment of certain conditions after the balance sheet date, these criteria do not affect the right to defer settlement whose purpose is to classify a liability as current or non-current. This amendment also includes a new definition of "settlement" of a liability and is retroactively applicable.
Amendments to IFRS 16 - Leasing liabilities in sale and leaseback transactions	1-jan-2024	This amendment to IFRS 16 introduces guidance regarding the subsequent measurement of leasing liabilities, related to sale and leaseback transactions ("sale & leaseback") that qualify as "sale" according to the principles of IFRS 15, with greater impact when some or all of the lease payments are variable lease payments that do not depend on an index or a rate. When subsequently measuring leasing liabilities, the seller-lessees should determine the "lease payments" and "revised lease payments" in such a way that they do not recognize gains/(losses) in relation to the right of use they retain. This amendment is retroactively applicable.

The Bank has not proceeded with the early application of any of these standards in the financial statements for the fiscal year ended December 31, 2023. No significant impacts are estimated on the financial statements as a result of their adoption.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

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

Standard/ Interpret	Description
Amendments to IAS 7 and IFRS 7 - Disclosures: Supplier Financing Arrangements	These amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures, aim to clarify the characteristics of a supplier financing arrangement and introduce additional disclosure requirements when such arrangements exist. The disclosure requirements are intended to help users of the financial statements understand the effects of supplier financing arrangements on the entity's liabilities, cash flows and liquidity risk exposure. The amendments take effect in the period beginning on or after January 1, 2024. Early adoption is permitted, however it should be disclosed..
Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability	This amendment aims to clarify how to assess the exchangeability of a currency, and how the exchange rate should be determined when it is not exchangeable for a long period. The amendment specifies that a currency should be considered exchangeable when an entity is able to obtain the other currency within a period that allows for normal administrative management, and through an exchange mechanism or market in which an exchange transaction creates enforceable rights and obligations. If a currency cannot be exchanged for another currency, an entity should estimate the exchange rate on the measurement date of the transaction. The goal will be to determine the exchange rate that would be applicable, on the measurement date, for a similar transaction between market participants. The amendments also state that an entity may use an observable exchange rate without making any adjustments. The amendments take effect in the period beginning on or after January 1, 2025. Early adoption is permitted, however the transition requirements applied must be disclosed.

These standards have not yet been adopted ("endorsed") by the European Union and, as such, have not been applied by the Group for the year ended on December 31, 2023. No significant impacts are estimated on the financial statements as a result of their adoption.

Note 7 – 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 Bank are discussed in this Note in order to improve the understanding of how their application affects the reported results of the Bank and its disclosure.

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

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

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

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Bank determines its business model based on how it manages the financial assets and its business objectives. The Bank monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;

- Significant increase on the credit risk: as mentioned on the Note 6.12 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Bank management, constitutes a significant increase on credit risk;

- Classification of default: 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 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 to 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.

7.2. 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 Bank uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Note 36.

7.3. 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 recognised in the period and evidenced in Note 25.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Group 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 novobanco's Executive Board of Directors believes that there will be no significant corrections to taxes on profits recorded in the financial statements.

7.4. 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.

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 recognised. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

Complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognised 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

Investment properties are initially recognised 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 specialised in this type of service, using the market, income or cost methods, as defined in Notes 7.14 and 7.15. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

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

7.7. Lease Contract 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 recognised 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 31 December 2023 and 2022 is as follows:

		(thousands of Euros)
	2023	**2022**
Interest Income	**1 940 462**	**838 291**
From assets / liabilities at amortised cost	1 552 253	727 880
Interest from loans and advances	1 161 336	576 835
(of which, financial leasing operations)	*35 550*	*30 046*
(of which, repurchase agreement)	*8*	*-*
Interest from deposits with and loans and advances to banks	142 196	25 692
(of which, repurchase agreement)	*47*	*160*
Interest from securities	238 945	124 887
Other interest and similar income	9 776	466
From assets / liabilities at fair value through other comprehensive income (*)	38 129	38 162
Interest from securities	38 129	38 162
Income/expenses from negative interest rates (*)	1 862	40 006
Interest from deposits with and loans and advances to banks	9	38 253
Interest from derivatives	1 853	1 753
Fair value through profit or loss	348 218	32 243
Interest from loans and advances	611	18
Interest from securities	40 873	13 053
Interest from derivatives	306 734	19 172
Interest Expenses	**833 352**	**213 295**
From assets / liabilities at amortised cost (*)	615 510	171 667
Interest on debt securities issued	56 449	58 252
Interest on amounts due to customers	203 320	44 224
(of which, repurchase agreement)	*33 880*	*3 397*
Interest on deposits from Central Banks and other banks	297 969	27 733
(of which, repurchase agreement)	*116 938*	*4 859*
Interest on subordinated liabilities	44 779	34 178
Other interest and similar expenses	12 993	7 280
Income/expenses from negative interest rates (*)	305	19 707
Interest on deposits from Central Banks and other banks	222	12 306
Interest on derivatives	83	6 850
Other interest and similar expenses	-	551
From assets / liabilities at fair value through profit or loss	217 537	21 921
Interest on derivatives	217 537	21 921
	1 107 110	**624 996**

*Calculated by the effective interest method

Average rates of financial assets and liabilities

The following table presents the average interest rates for the main categories of the Bank's financial assets and liabilities, as at December 31, 2023 and 2022, as well as the respective average balance and interest for the year:

(thousands of Euros)

	2023			2022		
	Average balance for the year	Year interest	Average interest rate	Average balance for the year	Year interest	Average interest rate
Financial assets	**40 122 574**	**1 709 618**	**4,26%**	**43 213 580**	**764 946**	**1,77%**
Monetary assets	4 478 339	141 974	3,17%	7 703 743	13 385	0,17%
Loans to customers	24 034 005	1 149 835	4,78%	23 922 921	571 255	2,39%
Securities and others	11 610 230	417 809	3,60%	11 586 916	180 306	1,56%
Financial liabilities	**40 122 574**	**602 508**	**1,50%**	**43 213 580**	**139 950**	**0,32%**
Monetary Liabilities	8 065 174	264 080	3,27%	11 314 546	(13 917)	-0,12%
Due to customers	28 212 754	237 200	0,84%	27 911 300	47 622	0,17%
Other resources	1 377 123	101 228	7,35%	1 429 109	106 245	7,43%
Differential Liabilities	2 467 523	-	-	2 558 625	-	-
Net Interest margin		**1 107 110**	**2,76%**		**624 996**	**1,45%**

Note 9 – Fees and Commissions Income and Expenses

The breakdown of this caption is as follows:

(thousands of Euros)

	2023	2022
Fees and commissions income	**306 859**	**302 126**
From banking services	220 544	220 269
Cards	45 149	40 697
Management of Means of Payment	112 759	106 866
Asset Management	13 094	13 887
Credit operations	49 542	58 819
From guarantees provided	30 717	31 879
From transaction of securities	10 102	8 235
From commitments to third parties	6 870	6 599
Bancassurance	28 138	29 043
Other fee and commission income	10 488	6 101
Fees and commissions expenses	**37 563**	**39 816**
With banking services rendered by third parties	24 823	27 729
Cards	9 019	9 122
Management of Means of Payment	13 144	14 645
Asset Management	16	17
Credit operations	2 644	3 945
With guarantees provided	1 313	1 903
With transaction of securities	4 710	4 389
Other fee and commission income	6 717	5 795
	269 296	**262 310**

Note 10 – Results of Financial Operations

The breakdown of this caption is as follows:

		(thousands of Euros)
	2023	**2022**
Dividend income	**32 444**	**17 452**
From financial assets at fair value through other comprehensive income	176	9 242
Shares	68	107
Participation units	108	9 135
From financial assets at fair value through other comprehensive income	1 705	3 406
Shares	1 705	3 406
Investments in associates accounted for using a method other than the equivalence method	30 563	4 804
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss	**(58 055)**	**(88 444)**
From financial assets at fair value through other comprehensive income	5 090	(83 194)
Bonds and other fixed income securities - issued by government and public entities	5 090	(31 160)
Bonds and other fixed income securities - issued by other entities	-	(52 034)
From financial assets and liabilities at amortized cost	(63 145)	(5 250)
Bonds and other fixed income securities - issued by government and public entities	(387)	2
Bonds and other fixed income securities - issued by other entities	(69 296)	(6 293)
Credit	6 538	1 041
Gains or losses on financial assets and liabilities held for trading	**3 144**	**146 715**
Bonds and other fixed income securities - issued by government and public entities	131	(23 620)
Bonds and other fixed income securities - issued by other entities	106	39
Financial Derivatives	2 907	170 296
Foreign exchange rate contracts	(1 136)	5 174
Interest rate contracts	(407)	161 650
Equity / Index contracts	4 285	965
Credit default contracts	(2)	187
Other	167	2 320
Gains or losses on financial assets mandatorily	**71 766**	**(95 948)**
Bonds and other fixed income securities - issued by other entities	37 987	(93 648)
Shares	1 111	14 119
Other variable yield securities	27 283	14 778
Credit to customers	5 385	(31 197)
Gains or losses from hedge accounting	**31 468**	**(535)**
Fair value changes of hedging instruments		
Foreign exchange rate contracts	(152 982)	438 484
Fair value changes of hedging item attributable to hedged risk	184 450	(439 019)
Foreign exchange revaluation	**23 989**	**7 305**
	72 312	**(30 907)**

As at December 31, 2023, gains recognized in results from the brokerage margin (day one profit), which are essentially related to foreign exchange transactions, amounted to approximately 3,602 thousand euros (December 31, 2022: 3,597 thousand euros).

Gains or losses on hedge accounting

Gains or losses on hedge accounting include changes in fair value of the hedging instrument (derivative) and changes in fair value of the hedged caption attributable to the hedged risk. In the case where the hedge operations are interrupted early, here may occur the payment/receipt of compensation, which is recorded in Other operating expenses/ Other operating income. As at December 31, 2023, there were no compensations (December 31, 2022: 89 thousand euros).

Note 11 – Gain or Losses on Derecognition of Non-Financial Assets

The breakdown of this caption is as follows:

		(thousands of Euros)
	2023	**2022**
Real estate properties	26 896	85 386
Equipment	526	(5 790)
Others	185	2 563
	27 608	**82 159**

The caption gains or losses on derecognition of non-financial assets - buildings includes, as at December 31, 2022, the gain of 66,797 thousand euros on the sale of novobanco headquarters building, as detailed in note 23.

Note 12 – Other Operating Income and Other Operating Expenses

The breakdown of this caption is as follows:

		(thousands of Euros)
	2023	**2022**
Other operating income	**45 120**	**56 579**
Gains / (losses) on recoveries of loans	31 994	39 741
Non-recurring advisory services	331	334
Other income	12 795	16 504
Other operating expenses	**(78 681)**	**(68 778)**
Losses on the acquisition of debt issued by the Bank (see Note 28)	(1 436)	-
Direct and indirect taxes	(3 610)	(2 748)
Contribution to the Banking Sector	(29 207)	(28 270)
Additional solidarity	(5 310)	(5 140)
Membership subscriptions and donations	(1 404)	(1 643)
Charges with Supervisory entities	(2 228)	(2 254)
Other expenses	**(35 486)**	**(28 723)**
Other operating income / (expenses)	**(33 561)**	**(12 199)**

As at December 31, 2023, there are no received amounts related to compensation for interruption of hedge operations, included in other income (December 31, 2023: 89 thousand euros) (see Note 10).

Note 13 – Staff Expenses

The breakdown of this caption is as follows:

		(thousands of Euros)
	2023	**2022**
Wages and salaries	178 588	166 593
Remuneration	177 357	166 593
Long-term service / Career bonuses (see Note 14)	1 231	-
Mandatory social charges	46 493	43 972
Costs with post-employment benefits (see Note 14)	89	263
Other costs	9 559	5 993
	234 729	**216 821**

The provisions and costs related to the restructuring process are presented in Note 29.

As of 31 December 2023 and 2022, the number of employees of the Bank, considering the staff and the term contracted, presents the following breakdown by professional category:

	2023	2022
Senior management functions	428	408
Middle Management functions	353	365
Specific functions	2 114	2 058
Administrative and other functions	1 044	986
	3 939	**3 817**

Note 14 –Employee Benefits

Pension and health-care benefits

As mentioned in accounting policy 6.22, 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, being now responsible for the difference required for the pension guaranteed under the terms of the Collective Labor Agreement.

At the end of exercise 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.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to novobanco. 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).

The assets of the undivided part are not allocated to any liabilities of Novobanco or BES until the final decision of the court (under Article 402), with the amount of 8.8 million euros of net liabilities of the fund's assets related to the undivided part being recorded under the Provisions item of novobanco's liabilities.

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 31 December 2023, the amount of Euro 617 thousand was recorded in Staff Costs related to the defined contribution plan (31 December 2022: Euro 548 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 6.22 - Employee benefits, reportable as of 31 December 2023 and 2022 are analysed as follows:

(thousands of Euros)	2023	2022
Liabilities		
Liabilities in the beginning of the exercise	**1 389 421**	**1 887 967**
Current service cost	89	-
Interest cost	53 833	24 946
Plan participants' contribution	2 665	2 568
Contributions from other entities	209	201
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	101 041	(515 423)
- Experience adjustments (gains) / losses	93 989	50 016
Pensions paid by the fund / transfers and one-off bonuses	(87 198)	(80 263)
Early retirement	11 245	19 409
Foreign exchange differences and other	(1)	-
Liabilities at end of exercise	**1 565 293**	**1 389 421**
Of which:		
Pensioners	1 178 544	1 057 119
Assets	386 749	332 302
Pension Funds		
Fair value of fund assets at beginning of exercise	**1 441 442**	**1 865 405**
Net return from the fund	220 558	(346 268)
- Share of the net interest on the assets	52 813	22 654
- Return on assets excluding net interest	167 745	(368 922)
Plan participants' contributions	2 665	2 568
Pensions paid by the fund / transfers and one-off bonuses	(87 198)	(80 263)
Foreign exchange differences and other	(1)	-
Fund balance at the end of the exercise	**1 577 466**	**1 441 442**
Assets / (liabilities) recognized in the balance sheet		
In the beginning of the exercise	**52 021**	**(22 562)**
Cost of the exercise	(1 109)	(2 555)
Actuarial (gains) / losses recognized in other comprehensive income	(27 285)	96 485
Other	(11 454)	(19 347)
In the end of the exercise	**12 173**	**52 021**
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**684 759**	**781 244**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial assumptions	101 041	(515 423)
- Plan assets return (excluding net interest)	(73 756)	418 938
Accumulated actuarial losses recognized in other comprehensive income at the end of the exercise	**712 044**	**684 759**
Participants in Pension Plan	**12 047**	**11 914**
Assets	3 983	3 861
Retirees and survivors	6 994	6 993
Participants under the Clause 98	1 070	1 060

Pension fund assets can be analysed as follows:

(thousands of Euros)

	2023			2022		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	-	125 736	125 736	-	63 411	63 411
Debt instruments	1 016 302	-	1 016 302	933 370	-	933 370
Investment funds	113 019	51 737	164 756	137 105	53 434	190 539
Real estate properties	-	228 483	228 483	-	181 960	181 960
Cash and cash equivalents	-	42 189	42 189	-	72 162	72 162
Total	**1 129 321**	**448 145**	**1 577 466**	**1 070 475**	**370 967**	**1 441 442**

Pension fund assets used by the Bank or representative of securities issued by the Bank are detailed as follows:

(thousands of Euros)

	2023	2022
Cash and Cash Equivalents	21 408	63 802
Real estate properties	39 965	39 056
Total	**61 373**	**102 858**

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

	2023		2022	
	Assumptions	Actual	Actual	Verified
Actuarial Assumptions				
Projected rate of return on plan assets	3,45%	15,87%	4,00%	-18,92%
Discount rate	3,45%	-	4,00%	-
Pension increase rate	0,75%	4,36%	0,75%	1,41%
Salary increase rate	1,00%	5,71%	1,00%	2,54%
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 31 December 2023 and 2022 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

As of 31 December 2023 and 2022, the sensitivity analysis to a 0.25% change in the assumptions rate used and one year in the mortality table results in the following changes in the current value of liabilities determined for past services:

Assumptions	Change in the amount of liabilities due to the change:			
	2023		2022	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(47 335)	49 852	(41 268)	43 438
Salary increase rate	9 569	(9 256)	6 809	(6 577)
Pension increase rate	46 928	(44 874)	43 853	(41 917)
	+1 year	-1 year	+1 year	-1 year
Mortality table	(49 394)	49 118	(40 699)	40 314

The costs of retirement pensions and health benefits for the exercises ended 31 December 2022 and 2021 can be analysed as follows:

(thousands of Euros)	2023	2022
Current service cost (a)	89	-
Net interest	1 020	2 292
Early retirement (a)	-	263
Post-employment benefit costs	**1 109**	**2 555**

(a) recognised in Staff expenses (see Note 14)

In 2023, the value of early retirements amounted to Euro 11.2 million (31 December 2022: Euro 19.4 million), which Euro 11.2 million are part of the Bank's restructuring process and, as such, they were recognised against the use of the provision for restructuring (see Note 29).

The average duration of the defined benefit plan liabilities is approximately 13 years (as of 31 December 2022: approximately 13 years).

Career Bonuses

As of 31 December 2023, the liabilities assumed by the Bank amounted to Euro 6,474 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 6.22 – Employee benefits (31 December 2022: Euro 5,506 thousand) (see Note 30).

As of December 31, 2023, costs of Euro 1,231 thousand euros were recognized for career premiums (on December 31, 2022, no costs for career premiums were recognized) (see Note 13).

Note 15 – Other Administrative Expenses

The breakdown of this caption is as follows:

(thousands of Euros)	2023	2022
Rentals	7 088	5 896
Advertising	5 471	4 884
Communication	7 836	8 782
Maintenance and repairs expenses	7 577	7 918
Travelling and representation	2 421	2 050
Transportation of valuables	2 663	2 630
Insurance	4 885	5 955
IT services	43 563	41 606
Independent work	2 252	2 147
Temporary work	703	1 271
Electronic payment systems	13 937	11 359
Legal costs	7 392	6 447
Consultancy and audit fees	41 316	26 998
Water, energy and fuel	1 393	2 712
Consumables	1 570	1 484
Other costs	23 124	20 770
	173 191	**152 909**

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

As of December 31, 2023, rental costs include an amount of Euro 683 thousand related to short-term operating lease contracts (December 31, 2022: Euro 704 thousand), as described in note 6.19.

The fees invoiced during the exercises 2023 and 2022 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code (Código das Sociedades Comerciais), have the following:

	(thousands of Euros)	
	2023	**2022**
Statutory Audit of annual accounts	1 500	1 326
Other reliability assurance services	1 884	1 177
Total value of billable services	**3 384**	**2 503**

Note 16 - Contributions to resolution funds and deposit guarantee schemes

As of 31 December 2023 and 2022, this caption is analysed as follows:

	(thousands of Euros)	
	2023	**2022**
Contribution to the Single Resolution Fund	14 877	24 416
Contribution to the National Resolution Fund	6 947	16 017
Contribution to the Deposit Guarantee Fund	55 704	284
	77 528	**40 717**

In the context of annual periodic contributions to the Deposit Guarantee Fund (DGF), novobanco undertook irrevocable commitments, according to article 161, nº4, of the General Regime of Credit Institutions and Financial Companies ("RGICSF"), related to part of these contributions, with the commitment to make the respective payment when the DGF requested it. At the end of the 2023 financial year, and at the indication of this institution, the Bank proceeded to pay the entire value of the commitments assumed, amounting to 55,462 thousand euros, and recognized this amount as costs of the year.

Additionally, the Bank has irrevocable commitments amounting to 20,143 thousand euros related with contributions to the single Resolution Fund, resulting from the option to make part of the annual contributions through a collateral deposit.

Note 17 – Impairment

As of 31 December 2023 and 2022, this caption is analysed as follows:

	(thousands of Euros)	
	2023	**2022**
Provisions net of cancellations (see Note 29)	**23 305**	**10 894**
Provisions for guarantees and for commitments	(434)	(2 555)
Other provisions	23 739	13 449
Impairments or reversal of impairments on financial assets not measured at fair value through profit or loss (see Note 20)	**142 022**	**103 265**
Securities at fair value through other comprehensive income	(352)	(457)
Securities at amortized cost	32 956	67 324
Loans and advances to banks	(6)	(471)
Loans and advances to customers	109 424	36 869
Impairments or reversal of impairments for investments in subsidiaries, joint ventures and associates (see Note 22)	(12 216)	(16 166)
Impairments or reversal of impairments on non-financial assets	**(6 353)**	**(14 081)**
Non-current assets held for sale and Discontinued operations (see Note 27)	14 425	(623)
Tangible fixed assets (see Note 23)	(1 014)	(1 696)
Other assets (see Note 26)	(19 764)	(11 762)
	146 758	**83 912**

Note 18 – Cash, Cash Balances at Central Banks and Other Demand Deposits

As of 31 December 2023 and 2022, this caption is analysed as follows:

		(thousands of Euros)
	2023	**2022**
Cash	**171 006**	**176 797**
Demand Deposits in central banks	5 374 612	5 942 501
Bank of Portugal	5 365 346	5 936 640
Other Central Banks	9 266	5 861
Deposits in other domestic credit institutions	**107 563**	**179 460**
Repayable on demand	27 720	20 331
Uncollected checks	79 843	159 129
Deposits with banks abroad	**89 418**	**88 537**
Repayable on demand	89 418	88 537
	5 742 599	**6 387 295**

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 277.6 million (31 December 2022: Euro 275.7 million), which aim to satisfy the legal requirements regarding the constitution of minimum cash balances. 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 of 31 December, 2022 and 2023, the average interest rate on these deposits was 0% and 2.00%, respectively.

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 of 31 December 2023 was included in the observation period running from 20 December 2023 to 30 January 2024.

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

Note 19 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

This item as of December 31, 2023 and 2022 is analysed as follows:

		(thousands of Euros)
	2023	**2022**
Financial assets held for trading	**436 345**	**170 847**
Bonds and other fixed income securities - Issued by government and public entities	318 528	36 428
Derivatives held for trading with positive fair value	117 817	134 419
Financial liabilities held for trading	**100 607**	**99 317**
Derivatives held for trading with negative fair value	100 607	99 317

Securities held for trading

The detail of the securities held for trading by fair value hierarchy is described in Note 36.

Derivatives

As of 31 December 2023 and 2022, this caption is analysed as follows:

(thousands of Euros)

	2023				2022			
	Notional		Fair value		Notional		Fair value	
	Buy	Sell	Asset	Liability	Buy	Sell	Asset	Liability
Trading derivatives			**117 817**	**100 607**			**134 419**	**99 317**
Exchange rate contracts			**11 441**	**11 414**			**23 145**	**22 024**
Forward	458 622	458 482	7 738	7 903	618 333	616 911	13 563	12 896
Currency Swaps	718 899	718 684	2 485	2 293	760 315	758 406	2 976	2 522
Currency Options	86 152	76 649	1 218	1 218	293 418	293 419	6 606	6 606
Interest rate contracts			**101 098**	**83 897**			**102 729**	**74 413**
Interest Rate Swaps	2 771 025	2 771 025	90 173	73 772	2 766 363	2 766 363	97 524	70 120
Interest Rate Caps & Floors	337 730	414 502	10 925	10 125	142 992	233 310	5 205	4 293
Equity / index contracts			**4 315**	**4 360**			**8 256**	**2 671**
Equity / Index Options	265 640	265 640	4 315	4 360	422 894	422 894	8 256	2 671
Contracts on risk of default			**-**	**104**			**-**	**-**
Credit Default Swaps	-	45 249	-	104	-	-	-	-
Commodities contracts			**963**	**832**			**289**	**209**
Commodities Swaps	29 082	29 082	963	832	15 759	15 759	289	209

a) Derivatives traded on organized markets, whose market value is settled daily against the margin account (see Note 26)

Economic hedge derivatives include instruments intended to manage the risk associated with certain financial assets and liabilities designated at fair value through results, in accordance with the accounting policy described in Notes 6.6.6 and 6.6.7, and which the Bank has not designated for hedge accounting.

In the exercise of 2023, the Bank recognised a loss of Euro 228 thousand related to the CVA of derivative instruments (31 December 2022: loss of Euro 1 820 thousand). The way of determining the CVA is explained in Note 36.

Note 20 – Financial Assets Mandatorily at Fair Value through Profit or Loss, Designated at Fair Value through Profit or Loss, at Fair Value through Other Comprehensive Income and at Amortised Cost

As of 31 December 2023 and 2022, this caption is analysed as follows:

(thousands of Euros)

	2023					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost[1]	Fair value changes [2]	Total
Securities	1 434 690	-	741 446	8 200 570	-	10 376 706
Loans and advances to banks	-	-	-	125 817	-	125 817
Loans and advances to customers	-	-	-	23 063 507	(83 763)	22 979 744
	1 434 690	**-**	**741 446**	**31 389 894**	**(83 763)**	**33 482 267**

[1] Includes fair value adjustments resulting from micro-hedging of interest rate risk (see Note 21)

[2] Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 21)

(thousands of Euros)

	2022					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost[1]	Fair value changes [2]	Total
Securities	1 537 652	13	2 183 034	8 400 233	-	12 120 932
Loans and advances to banks	-	-	-	145 464	-	145 464
Loans and advances to customers	18	-	-	22 955 247	(164 388)	22 790 877
	1 537 670	**13**	**2 183 034**	**31 500 944**	**(164 388)**	**35 057 273**

[1] Includes fair value adjustments resulting from micro-hedging of interest rate risk (see Note 21)

[2] Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 21)

20.1 Securities

As of 31 December 2023 and 31 December 2022, the detail of securities portfolio is as follows:

(thousands of Euros)

	2023	2022
Securities mandatorily accounted for at fair value through profit or loss	**1 434 690**	**1 537 652**
Bonds and other fixed income securities - From other issuers	465 211	433 665
Shares	141 460	140 442
Other securities with variable income	828 019	963 545
Securities at fair value through profit and loss	**-**	**13**
Bonds and other fixed income securities - From other issuers	-	13
Securities at fair value through other comprehensive income	**741 446**	**2 183 034**
Bonds and other fixed income securities - From public issuers	285 852	1 629 639
Bonds and other fixed income securities - From other issuers	389 194	479 406
Shares	66 400	73 989
Securities at amortised cost	**8 200 570**	**8 400 233**
Bonds and other fixed income securities - From public issuers	4 402 729	4 403 137
Bonds and other fixed income securities - From other issuers	4 122 185	4 288 663
Impairment	(324 344)	(291 567)
	10 376 706	**12 120 932**

On December 29, 2022, the Crow Project was concluded, between novobanco, Banco Comercial Português, S.A., Caixa Geral de Depósitos, S.A., Banco Santander Totta, S.A. and Oitante, S.A. (the sellers) and Davidson Kempner (the buyer), regarding the sale process of the participation units held by these banks in the restructuring funds. This transaction resulted in: (i) the transfer of the units held in FRT together with the assets directly and indirectly held by the fund to the buyer; (ii) the transfer of the shares in FLIT together with the assets directly and indirectly held by the fund to the buyer; (iii) certain hotel assets indirectly held by the Recovery Fund, FCR were indirectly acquired by FLIT; and (iv) certain assets indirectly held by FLIT and FRT were transferred to the Sellers. As a result of this transaction, novobanco received, in net terms, Euro 224 million, derecognised Euro 267 million of participating units and acquired assets recorded as non-current assets in the amount of Euro 48 million, with a positive impact on results of Euro 4.8 million.

The remaining participations in restructuring funds that remained in the Bank's balance sheet are accounted for as shares and other variable income securities mandatorily measured at fair value through profit or loss, in accordance with the accounting policy described in Note 6.6.4, based on the net book value disclosed by the Management Companies, adjusted based on independent information, analyses or valuations deemed necessary to determine their fair value, in response to guidance from the European Central Bank. As these are "level 3" assets in accordance with the IFRS 13 fair value hierarchy (quotations supplied by third parties whose parameters used are mostly not observable in the market), details of the valuation methodology are described in Note 36.

During this year, the Bank decided, on an exceptional basis, to fully sell a portfolio of supranational debt recorded at amortized cost whose yield was significantly below those observed in the market, within the scope of interest rate risk management, and in line with the Bank's strategy of protecting financial margin in a scenario of falling interest rates as early as 2024. Given the exceptionality and non-repeatable nature of the operation, we understand that it is part of the adopted business model. This portfolio consisted of eighteen securities with a duration of around 5 years (not considering call options), which represented around 9.4% (in nominal value) of the total securities portfolio recorded at amortized cost. With this operation, the Bank recognized a loss in the line Gains or losses of financial assets and liabilities not measured at fair value of 70,982 thousand euros in the 2023 financial year, which corresponds to the realization of potential losses on these securities, for the benefit of gains in future margin.

As of 31 December 2023 and 2022, the detail of the fair value securities through other comprehensive income is as follows:

(thousands of Euros)

	Cost (1)	Fair value reserve		Fair value reserve transferred to Results (2)	Balance sheet value	Impairment reserves
		Positive	Negative			
Bonds and other fixed income securities - From public issuers	284 159	1 747	(54)	-	285 852	(21)
Residents	-	-	-	-	-	-
Non residents	284 159	1 747	(54)	-	285 852	(21)
Bonds and other fixed income securities - From other issuers	420 490	775	(27 052)	(5 019)	389 194	(190)
Shares	130 095	37 168	(100 863)	-	66 400	-
Other securities with variable income	3	-	(3)	-	-	-
Balance as at 31 December 2023	**834 747**	**39 690**	**(127 972)**	**(5 019)**	**741 446**	**(211)**

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

(2) In the context of fair value hedge operations (see Note 21)

(thousands of Euros)

	Cost (1)	Fair value reserve		Fair value reserve transferred to Results (2)	Balance sheet value	Impairment reserves
		Positive	Negative			
Bonds and other fixed income securities - From public issuers	1 634 375	311	(5 047)	-	1 629 639	(382)
Residents	224 013	-	(486)	-	223 527	(52)
Non residents	1 410 362	311	(4 561)	-	1 406 112	(330)
Bonds and other fixed income securities - From other issuers	541 022	-	(49 628)	(11 988)	479 406	(207)
Shares	400 636	34 763	(361 410)	-	73 989	-
Other securities with variable income	3	-	(3)	-	-	-
Balance as at 31 December 2022	**2 576 036**	**35 074**	**(416 088)**	**(11 988)**	**2 183 034**	**(589)**

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

(2) In the context of fair value hedge operations (see Note 21)

During 2023, the Bank sold Euro 1,1152.9 million of financial instruments classified at fair value through other comprehensive income (31 December 2022: Euro 5,909.2 million), with a gain of Euro 5,1 million (31 December 2022: loss of Euro 83,2 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 258.8 million that were transferred from revaluation reserves to sales-related reserves (31 December 2022: loss of Euro 0.9 million), from the sale of equity instruments.

The transfers between stages that occurred in the portfolio of securities at fair value through other comprehensive income and amortised cost during the 2023 and 2022 financial years are presented as follows:

(thousands of Euros)

	2023					
	Transfers between Stage 1 and 2		Transfers between *Stage* 2 and 3		Transfers between *Stage* 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 2 from Stage 1*
Bonds and other fixed income securities – Capitals						
From other issuers	86 586	25 549	29 648	-	-	-
	86 586	**25 549**	**29 648**	**-**	**-**	**-**

(thousands of Euros)

	2022					
	Transfers between Stage 1 and 2		Transfers between *Stage* 2 and 3		Transfers between *Stage* 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 2 form Stage 1*
Bonds and other fixed income securities – Capitals						
From other issuers	18 523	1 405	-	-	5 622	-
	18 523	**1 405**	**-**	**-**	**5 622**	**-**

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

(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 2021	**3 668**	**-**	**-**	**3 668**
Transfers to stage 3	(20)	-	20	-
Increases due to changes in credit risk	2 278	-	-	2 278
Decreases due to changes in credit risk	(2 715)	-	(20)	(2 735)
Write off	(2 654)	-	-	(2 654)
Other movements	32	-	-	32
Balance as at 31 December 2022	**589**	**-**	**-**	**589**
Increases due to changes in credit risk	390	-	-	390
Decreases due to changes in credit risk	(742)	-	-	(742)
Write off	(22)	-	-	(22)
Other movements	(4)	-	-	(4)
Balance as at 31 December 2023	**211**	**-**	**-**	**211**

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

(thousands of Euros)				
	Impairment movement of securities at amortised cost			
	Stage 1	*Stage* 2	*Stage* 3	Total
Balance as at 31 December 2021	**6 246**	**38 283**	**203 243**	**247 772**
Transfers to stage 1	*76*	*(76)*	*-*	*-*
Transfers to stage 2	*(61)*	*61*	*-*	*-*
Transfers to stage 3	*(6 357)*	*-*	*6 357*	*-*
Increases due to changes in credit risk	15 451	173 771	1 687 706	1 876 928
Decreases due to changes in credit risk	(9 993)	(208 666)	(1 590 945)	(1 809 604)
Write off	(40)	-	(25 237)	(25 277)
Other movements	61	-	1 687	1 748
Balance as at 31 December 2022	**5 383**	**3 373**	**282 811**	**291 567**
Transfers to stage 1	*1 883*	*(1 883)*	*-*	*-*
Transfers to stage 2	*(1 784)*	*1 784*	*-*	*-*
Transfers to stage 3	*-*	*(1 654)*	*1 654*	*-*
Increases due to changes in credit risk	8 915	11 020	1 631 947	1 651 882
Decreases due to changes in credit risk	(12 254)	(9 201)	(1 597 471)	(1 618 926)
Write off	(153)	(23)	(5)	(181)
Other movements	1 650	(1 649)	1	2
Balance as at 31 December 2023	**3 640**	**1 767**	**318 937**	**324 344**

In accordance with the accounting policy mentioned on Note 6.12, 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 36.

The securities portfolio pledged by the bank are analysed in Note 33.

20.2 Loans and advances to Banks

As of 31 December 2023 and 2022, the applications in Loans and advances to Banks are detailed as follows:

(Thousands of Euros)		
	2023	2022
Loans and advances to banks in Portugal	**123 268**	**141 042**
Deposits	103 091	101 814
Loans	20 177	39 228
Loans and advances to banks abroad	**3 216**	**5 096**
Deposits	3 216	5 096
	126 484	**146 138**
Impairment losses	**(667)**	**(674)**
	125 817	**145 464**

The applications in credit institutions are all recorded in the amortised cost portfolio.

The movements that occurred with impairment losses on loans and applications in credit institutions are presented as follows:

				(thousands Euros)
	Loans and advances to Banks			
	Stage 1	*Stage* 2	*Stage* 3	Total
Balance as at 31 December 2021	**284**	**474**	**425**	**1 183**
Increases due to changes in credit risk	167	391	-	558
Decreases due to changes in credit risk	(318)	(711)	-	(1 029)
Other movements	(42)	-	4	(38)
Balance as at 31 December 2022	**91**	**154**	**429**	**674**
Transfers to stage 1	84	(84)	-	-
Transfers to stage 2	(30)	30	-	-
Increases due to changes in credit risk	236	518	-	754
Decreases due to changes in credit risk	(322)	(438)	-	(760)
Other movements	1	-	(2)	(1)
Balance as at 31 December 2023	**60**	**180**	**427**	**667**

20.3 Loans and advances to customers

As of 31 December 2023 and 2022, the detail of loans to customers is presented as follows:

		(thousands of Euros)
	2023	**2022**
Loans and advances - Corporate	**13 323 794**	**13 788 661**
Current account loans	1 337 068	1 127 247
Loans	10 407 895	11 002 049
Discounted bills	71 736	86 552
Factoring	816 137	699 780
Overdrafts	13 671	46 698
Financial leases	656 298	796 669
Other loans and advances	20 989	29 666
Loans and advances - Individuals	**10 311 600**	**9 886 021**
Residential Mortgage loans	8 829 426	8 622 198
Consumer credit and other loans	1 482 174	1 263 823
Overdue loans and advances and interests	**364 104**	**338 150**
Under 90 days	27 108	11 943
Over 90 days	336 996	326 207
	23 999 498	**24 012 832**
Impairment losses	(935 991)	(1 057 567)
	23 063 507	**22 955 265**
Fair value adjustments of interest rate hedges (See Note 21)	**(83 763)**	**(164 388)**
Corporate - Loans	-	(16 805)
Individual - Residential Mortgage loans	(83 763)	(147 583)
	22 979 744	**22 790 877**

As of December 31, 2023, there are transactions mandatorily recorded at fair value through results, with a nominal value of Euro 13,090 thousand and a fair value of Euro 0 thousand (December 31, 2022: 31,197 thousand euros and 18 thousand euros, respectively), the impact of which was recorded in the line Gains or losses with financial assets mandatorily accounted for at fair value through results of the income statement (see Note 10).

As of December 31, 2023, the caption of loans to customers includes Euro 7,442.1 million (December 31, 2022: Euro 6,078.4 million) of mortgage credit affecting the issue of mortgage bonds (see Note 28).

As of December 31, 2023, the value of the interest and fees recorded in the balance sheet related to credit operations amounts to 92,071 thousand euros (December 31, 2022: Euro 36,145 thousand).

As of 31 December 2023 and 2022, the transfers between stages that occurred in credit is as follows:

(thousands of Euros)

	2023					
	Transfers between Stage 1 and 2		Transfers between *Stage* 2 and 3		Transfers between *Stage* 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 2 from Stage 1*
Loans – Capitals						
Corporate loans	914 537	725 009	171 692	104 562	70 630	314
Loans to individuals	467 522	248 122	49 455	26 866	24 685	4 434
	1 382 059	**973 131**	**221 147**	**131 428**	**95 315**	**4 748**

(thousands of Euros)

	2022					
	Transfers between Stage 1 and 2		Transfers between *Stage* 2 and 3		Transfers between *Stage* 1 and 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 2 from Stage 1*
Loans – Capitals						
Corporate loans	548 205	510 364	81 931	40 297	29 605	2 250
Loans to individuals	386 142	306 701	35 570	40 507	8 638	22 636
	934 347	**817 065**	**117 501**	**80 804**	**38 243**	**24 886**

Changes in credit impairment losses are presented as follows:

(thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	*Stage* 2	*Stage* 3	Total
Balance as at 31 December 2021	**62 056**	**317 271**	**856 430**	**1 235 757**
Transfers to stage 1	*72 212*	*(72 212)*	-	-
Transfers to stage 2	*(18 735)*	*47 083*	*(28 348)*	-
Transfers to stage 3	*(248)*	*(18 534)*	*18 782*	-
Financial assets derecognised	(4)	-	(26 847)	(26 851)
Increases due to changes in credit risk	19 465	62 244	128 065	209 774
Decreases due to changes in credit risk	(90 575)	(38 332)	(43 998)	(172 905)
Write off	-	(38)	(197 122)	(197 160)
Other movements	16 853	(786)	(7 115)	8 952
Balance as at 31 December 2022	**61 024**	**296 696**	**699 847**	**1 057 567**
Transfers to stage 1	143 939	(143 939)	-	-
Transfers to stage 2	(46 756)	85 304	(38 548)	-
Transfers to stage 3	(183)	(33 502)	33 685	-
Financial assets derecognised	(123)	(188)	(75 114)	(75 425)
Increases due to changes in credit risk	11 891	167 453	124 784	304 128
Decreases due to changes in credit risk	(110 032)	(39 202)	(45 470)	(194 704)
Write off	-	(31)	(154 738)	(154 769)
Other movements	2 366	(2 376)	(796)	(806)
Balance as at 31 December 2023	**62 126**	**330 215**	**543 650**	**935 991**

Loans to customers distribution by type of rate is as follows

	(thousand of Euros)	
	2023	**2022**
Fixed rate	3 407 936	2 710 318
Variable rate	20 507 799	21 138 126
	23 915 735	**23 848 444**

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

	(thousand of Euros)	
	2023	**2022**
Gross investment in finance leases receivable	**768 608**	**915 702**
Up to 1 year	228 441	216 621
1 to 5 years	418 850	496 962
More than 5 years	121 317	202 119
Interest due from finance leases	**100 061**	**97 481**
Up to 1 year	31 620	26 238
1 to 5 years	52 892	54 097
More than 5 years	15 549	17 146
Capital due	**668 547**	**818 221**
Up to 1 year	196 821	190 383
1 to 5 years	365 958	442 865
More than 5 years	105 768	184 973
Impairment	**(66 291)**	**(84 922)**
	602 256	**733 299**

As of December 31, 2023 and 2022, the detail of the gross credit exposure value and impairment assessed individually and collectively, by segment, was as follows:

						(thousands of Euros)
	2023					
Segment	Individual Evaluation[1]		Collective Evaluation [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	**861 977**	**412 884**	**12 787 971**	**341 207**	**13 649 948**	**754 091**
Stage 1	-	-	10 125 185	42 852	10 125 185	42 852
Stage 2	-	-	2 610 902	270 423	2 610 902	270 423
Stage 3	861 977	412 884	51 884	27 932	913 861	440 816
Mortgage loans	**274**	**120**	**8 752 072**	**63 443**	**8 752 346**	**63 563**
Stage 1	-	-	7 985 953	3 467	7 985 953	3 467
Stage 2	-	-	682 770	35 209	682 770	35 209
Stage 3	274	120	83 349	24 767	83 623	24 887
Other Credit to Individuals	**52 005**	**49 058**	**1 461 436**	**69 279**	**1 513 441**	**118 337**
Stage 1	-	-	1 091 116	14 590	1 091 116	14 590
Stage 2	-	-	312 597	26 970	312 597	26 970
Stage 3	52 005	49 058	57 723	27 719	109 728	76 777
Total	**914 256**	**462 062**	**23 001 479**	**473 929**	**23 915 735**	**935 991**

(1) Loans whose final impairment has been determined and approved by the Impairment Committee

(2) Loans whose final impairment was determined in accordance with the calculation rules of the collective impairment model

(thousands of Euros)

Segment	2022					
	Individual Evaluation [1]		Collective Evaluation [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	**1 095 291**	**549 032**	**12 983 009**	**330 599**	**14 078 300**	**879 631**
Stage 1	-	-	10 082 118	43 347	10 082 118	43 347
Stage 2	1 587	392	2 854 536	259 527	2 856 123	259 919
Stage 3	1 093 704	548 640	46 355	27 725	1 140 059	576 365
Mortgage loans	**3 443**	**385**	**8 480 691**	**44 504**	**8 484 134**	**44 889**
Stage 1	-	-	7 714 906	3 213	7 714 906	3 213
Stage 2	-	-	679 096	18 826	679 096	18 826
Stage 3	3 443	385	86 689	22 465	90 132	22 850
Other Credit to Individuals	**80 441**	**74 467**	**1 205 569**	**58 580**	**1 286 010**	**133 047**
Stage 1	-	-	987 539	14 462	987 539	14 462
Stage 2	-	-	173 264	18 134	173 264	18 134
Stage 3	80 441	74 467	44 766	25 984	125 207	100 451
Total	**1 179 175**	**623 884**	**22 669 269**	**433 683**	**23 848 444**	**1 057 567**

(1) Loans whose final impairment has been determined and approved by the Impairment Committee

(2) Loans whose final impairment was determined in accordance with the calculation rules of the collective impairment model

In the case of credits analysed by the Impairment Committee for which the impairment determined automatically by the Impairment Model was not changed, they are included and presented in the "Collective Assessment".

As of December 31, 2023 and 2022, the detail of the gross credit exposure value and impairment assessed individually and collectively, by geography, was as follows:

(thousand of Euros)

Country	2023					
	Individual evaluation*		Collective Evaluation**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	789 180	399 754	19 140 526	424 999	19 929 706	824 753
Spain	-	-	1 099 284	15 187	1 099 284	15 187
United Kingdom	-	-	424 101	6 292	424 101	6 292
France	-	-	385 583	3 626	385 583	3 626
Switzerland	-	-	234 451	2 418	234 451	2 418
Luxembourg	-	-	334 695	1 383	334 695	1 383
Others	125 077	62 308	1 382 839	20 025	1 507 916	82 333
Total	**914 257**	**462 062**	**23 001 479**	**473 930**	**23 915 736**	**935 992**

* Credits whose impairment results from individual analysis (defined and approved by the Impairment Committee)

** Credits whose impairment was evaluated collectively and determined automatically by the Impairment Model.

(thousand of Euros)

Country	2022					
	Individual evaluation*		Collective Evaluation**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 091 599	570 194	19 319 288	381 306	20 410 887	951 500
Spain	2	1	943 137	12 445	943 139	12 446
United Kingdom	-	-	380 798	13 933	380 798	13 933
France	-	-	360 053	4 258	360 053	4 258
Switzerland	-	-	237 023	2 167	237 023	2 167
Luxembourg	-	-	280 338	1 973	280 338	1 973
Others	87 574	53 689	1 148 632	17 601	1 236 206	71 290
Total	**1 179 175**	**623 884**	**22 669 269**	**433 683**	**23 848 444**	**1 057 567**

* Credits whose impairment results from individual analysis (defined and approved by the Impairment Committee)

** Credits whose impairment was evaluated collectively and determined automatically by the Impairment Model.

As of December 31, 2023 and 2022, the detail of the gross credit exposure value and impairment by segment was as follows:

(thousands of Euros)

Segment	2023						
	Perfoming			Non-Perfoming			Total
	Performing or with Delay < 30 days	With Delay > 30 days	Total	Days late <= 90 days	Days late > 90 days	Total	
Gross Value	**22 713 779**	**94 744**	**22 808 523**	**632 481**	**474 731**	**1 107 212**	**23 915 735**
Corporate	12 701 866	34 221	12 736 087	538 009	375 852	913 861	13 649 948
Mortgage Loans	8 620 185	48 928	8 669 113	40 727	42 506	83 233	8 752 346
Other loans to Individuals	1 391 728	11 595	1 403 323	53 745	56 373	110 118	1 513 441
Impairment	**387 086**	**5 255**	**392 341**	**284 475**	**259 175**	**543 650**	**935 991**
Corporate	312 566	709	313 275	230 434	210 382	440 816	754 091
Mortgage Loans	40 700	2 466	43 166	10 204	10 193	20 397	63 563
Other loans to Individuals	33 820	2 080	35 900	43 837	38 600	82 437	118 337
Net Value	**22 326 693**	**89 489**	**22 416 182**	**348 006**	**215 556**	**563 562**	**22 979 744**

(thousand of Euros)

Segment	2022						
	Performing			Non-Performing			Total of Credit
	Performing or With Delay < 30 days	With Delay > 30 days	Total	Days late <= 90 days	Days late > 90 days	Total	
Gross Value	**22 423 330**	**69 734**	**22 493 064**	**814 923**	**540 457**	**1 355 380**	**23 848 444**
Corporate	12 906 116	32 143	12 938 259	714 541	425 500	1 140 041	14 078 300
Mortgage Loans	8 367 083	29 490	8 396 573	46 635	40 926	87 561	8 484 134
Other loans to Individuals	1 150 131	8 101	1 158 232	53 747	74 031	127 778	1 286 010
Impairment	**351 119**	**6 782**	**357 901**	**372 302**	**327 364**	**699 666**	**1 057 567**
Corporate	299 681	3 585	303 266	318 183	258 182	576 365	879 631
Mortgage Loans	23 506	1 617	25 123	10 845	8 921	19 766	44 889
Other loans to Individuals	27 932	1 580	29 512	43 274	60 261	103 535	133 047
Net Value	**22 072 211**	**62 952**	**22 135 163**	**442 621**	**213 093**	**655 714**	**22 790 877**

As of December 31, 2023 and 2022, the detail of the credit portfolio by segment and by reference year was as follows:

(thousands of Euros)

2023

Reference year	Corporate			Mortgage			Other Loans to Individuals			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and previous	3 870	268 211	9 863	45 544	676 845	8 202	1 024 738	61 502	2 377	1 074 152	1 006 558	20 442
2005	653	21 592	7 029	4 105	139 297	1 061	15 649	6 781	258	20 407	167 670	8 348
2006	717	96 083	7 629	5 995	226 840	1 466	18 605	6 411	287	25 317	329 334	9 382
2007	922	167 897	29 533	9 049	342 107	2 342	27 719	9 458	432	37 690	519 462	32 307
2008	986	310 485	10 889	8 631	368 690	2 016	20 719	9 712	315	30 336	688 887	13 220
2009	815	107 450	10 444	6 641	310 392	2 260	14 721	16 739	9 168	22 177	434 581	21 872
2010	836	103 616	15 136	6 474	329 400	2 466	22 230	18 925	315	29 540	451 941	17 917
2011	1 071	74 602	8 287	3 329	147 677	794	24 788	12 747	322	29 188	235 026	9 403
2012	1 371	135 766	24 773	1 624	61 201	562	30 927	10 653	400	33 922	207 620	25 735
2013	1 501	260 143	35 122	2 072	99 546	1 081	27 639	9 113	498	31 212	368 802	36 701
2014	1 178	120 403	28 819	1 374	71 625	583	26 772	8 196	622	29 324	200 224	30 024
2015	1 825	423 201	51 185	2 168	124 210	561	30 876	23 409	14 752	34 869	570 820	66 498
2016	2 138	347 782	38 943	4 577	283 108	1 616	45 235	44 819	20 767	51 950	675 709	61 326
2017	3 842	476 168	32 939	6 956	501 783	3 122	47 209	37 902	5 718	100 343	1 015 853	41 779
2018	4 962	779 567	64 798	7 762	660 931	2 870	55 222	65 923	4 133	67 946	1 506 421	71 801
2019	7 363	1 222 815	98 181	8 049	727 546	3 743	63 278	114 668	7 994	78 690	2 065 029	109 918
2020	9 363	1 361 378	40 517	5 954	567 666	3 254	42 970	94 219	4 889	58 287	2 023 263	48 660
2021	6 779	1 621 416	23 937	6 867	741 982	4 301	64 336	174 835	9 507	77 982	2 538 233	37 745
2022	10 732	3 276 316	114 536	8 796	1 089 910	4 020	100 946	315 221	16 686	120 474	4 681 447	135 242
2023	15 896	2 475 057	101 531	10 046	1 281 590	17 243	148 443	472 208	18 897	174 385	4 228 855	137 671
Total	**76 820**	**13 649 948**	**754 091**	**156 013**	**8 752 346**	**63 563**	**1 853 022**	**1 513 441**	**118 337**	**2 128 191**	**23 915 735**	**935 991**

(thousands of Euros)

2022

Reference year	Corporate			Mortgage			Other Loans to Individuals			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and previous	3 627	227 417	31 575	52 397	787 292	6 745	698 312	10 982	(173)	754 336	1 025 691	38 147
2005	621	26 979	2 914	4 520	159 082	1 077	9 163	6 341	242	14 304	192 402	4 233
2006	733	147 139	31 412	6 552	255 933	1 719	11 333	6 491	260	18 618	409 563	33 391
2007	866	194 270	40 847	9 981	389 134	3 375	17 891	8 467	399	28 738	591 871	44 621
2008	930	343 977	14 122	9 695	421 363	2 819	17 016	6 983	274	27 641	772 323	17 215
2009	740	133 329	12 768	7 532	356 920	2 479	9 919	15 327	9 765	18 191	505 576	25 012
2010	781	127 631	26 623	7 197	380 456	2 685	15 158	18 510	375	23 136	526 597	29 683
2011	846	98 075	14 913	3 825	169 886	888	17 214	11 834	298	21 885	279 795	16 099
2012	1 024	158 404	29 806	2 063	74 162	785	23 003	10 125	455	26 090	242 691	31 046
2013	1 362	322 549	58 136	2 480	113 585	1 318	21 984	9 324	564	25 826	445 458	60 018
2014	1 331	204 112	52 263	1 566	81 895	652	19 821	11 847	642	22 718	297 854	53 557
2015	1 962	492 473	67 776	2 412	141 877	727	22 760	50 177	40 867	27 134	684 527	109 370
2016	2 680	459 603	50 837	5 029	323 792	1 470	36 742	53 456	21 727	44 451	836 851	74 034
2017	4 765	650 642	45 917	7 735	583 437	3 073	40 314	54 312	6 862	100 343	1 288 391	55 852
2018	6 031	1 023 117	79 664	8 813	775 037	3 498	49 232	93 553	6 032	64 076	1 891 707	89 194
2019	8 384	1 794 181	147 647	9 121	857 142	3 385	55 414	157 754	11 238	72 919	2 809 077	162 270
2020	9 879	1 881 547	57 468	6 681	653 994	2 948	36 886	126 459	6 844	53 446	2 662 000	67 260
2021	7 187	2 126 034	36 636	7 373	809 229	3 782	53 793	230 688	9 669	68 353	3 165 951	50 087
2022	14 671	3 666 821	78 307	8 940	1 149 918	1 464	77 519	403 380	16 707			
Total	**68 420**	**14 078 300**	**879 631**	**163 912**	**8 484 134**	**44 889**	**1 233 474**	**1 286 010**	**133 047**	**1 412 205**	**18 628 325**	**961 089**

The values presented include, in addition to all new operations for the reference year, renewals, interventions, and restructurings of operations originated in previous years, including the period prior to the establishment of novobanco.

In order to mitigate credit risk, credit operations have associated guarantees, namely mortgages or pledges. The fair value of these guarantees is determined at the time of granting the credit and is periodically re-evaluated. The following is the gross value of credits and their respective fair value of collaterals, limited to the value of the associated credit:

(thousands of Euros)

	2023				2022			
	Loan Value	Impairment	Net Value	Fair value of collateral	Loan Value	Impairment	Net Value	Fair value of collateral
Mortgage loans	**8 752 346**	**(63 563)**	**8 688 783**	**8 753 664**	**8 484 134**	**(44 889)**	**8 439 245**	**8 383 312**
Stage 1								
Mortgages	7 603 115	(2 908)	7 600 207	7 695 522	7 429 201	(3 017)	7 426 184	7 429 201
Pledges	323 439	(93)	323 346	317 885	210 610	(71)	210 539	203 912
Not collateralized	59 399	(466)	58 933	-	75 095	(125)	74 970	-
Stage 2								
Mortgages	622 063	(17 304)	604 759	621 258	644 671	(16 762)	627 909	643 353
Pledges	38 945	(788)	38 157	38 039	21 188	(699)	20 489	19 797
Not collateralized	21 762	(17 117)	4 645	-	13 237	(1 365)	11 872	-
Stage 3								
Mortgages	79 262	(20 467)	58 795	78 926	87 312	(22 346)	64 966	87 016
Pledges	2 189	(796)	1 393	2 034	33	(12)	21	33
Not collateralized	2 172	(3 624)	(1 452)	-	2 787	(492)	2 295	-
Total								
Mortgages	8 304 440	(40 679)	8 263 761	8 395 706	8 161 184	(42 125)	8 119 059	8 159 570
Pledges	364 573	(1 677)	362 896	357 958	231 831	(782)	231 049	223 742
Not collateralized	83 333	(21 207)	62 126	-	91 119	(1 982)	89 137	-
Other Loans to individuals	**1 513 441**	**(118 337)**	**1 395 104**	**536 474**	**1 286 010**	**(133 047)**	**1 152 963**	**399 870**
Stage 1								
Mortgages	297 223	(190)	297 033	297 049	241 787	(330)	241 457	241 434
Pledges	101 516	(743)	100 773	100 629	91 867	(1 081)	90 786	91 047
Not collateralized	692 377	(13 657)	678 720	-	653 885	(13 051)	640 834	-
Stage 2								
Mortgages	109 566	(3 274)	106 292	109 338	44 122	(1 109)	43 013	43 769
Pledges	11 490	(783)	10 707	11 324	4 821	(239)	4 582	4 630
Not collateralized	191 541	(22 913)	168 628	-	124 321	(16 786)	107 535	-
Stage 3								
Mortgages	6 935	(2 243)	4 692	6 545	5 994	(2 035)	3 959	5 562
Pledges	38 776	(36 641)	2 135	11 589	66 953	(61 799)	5 154	13 428
Not collateralized	64 017	(37 893)	26 124	-	52 260	(36 617)	15 643	-
Total								
Mortgages	413 724	(5 707)	408 017	412 932	291 903	(3 474)	288 429	290 765
Pledges	151 782	(38 167)	113 615	123 542	163 641	(63 119)	100 522	109 105
Not collateralized	947 935	(74 463)	873 472	-	830 466	(66 454)	764 012	-
Corporate loans	**13 649 948**	**(754 091)**	**12 895 857**	**4 563 562**	**14 078 300**	**(879 631)**	**13 198 669**	**4 100 011**
Stage 1								
Mortgages	2 607 201	(11 136)	2 596 065	2 432 250	2 053 125	(12 881)	2 040 244	1 839 860
Pledges	1 680 498	(5 183)	1 675 315	769 949	1 691 145	(5 851)	1 685 294	701 387
Not collateralized	5 837 486	(26 533)	5 810 953	-	6 337 848	(24 615)	6 313 233	-
Stage 2								
Mortgages	829 829	(75 018)	754 811	734 720	890 069	(88 368)	801 701	800 854
Pledges	530 063	(74 841)	455 222	229 090	573 690	(93 599)	480 091	294 167
Not collateralized	1 251 010	(120 564)	1 130 446	-	1 392 364	(77 952)	1 314 412	-
Stage 3								
Mortgages	365 360	(147 620)	217 740	327 322	457 887	(220 793)	237 094	366 273
Pledges	149 078	(78 345)	70 733	70 231	190 047	(82 518)	107 529	97 470
Not collateralized	399 423	(214 851)	184 572	-	492 125	(273 054)	219 071	-
Total								
Mortgages	3 802 390	(233 774)	3 568 616	3 494 292	3 401 081	(322 042)	3 079 039	3 006 987
Pledges	2 359 639	(158 369)	2 201 270	1 069 270	2 454 882	(181 968)	2 272 914	1 093 024
Not collateralized	7 487 919	(361 948)	7 125 971	-	8 222 337	(375 621)	7 846 716	-
Total	**23 915 735**	**(935 991)**	**22 979 744**	**13 853 700**	**23 848 444**	**(1 057 567)**	**22 790 877**	**12 883 193**

The difference between the credit value and the fair value of the collateral represents the total credit exposure that exceeds the value of the collateral; this value is not impacted by collaterals with a fair value higher than the credit they are associated with.

The detail of the collaterals - mortgages is presented as follows:

(thousands of Euros)

Collateral ranges a)	2023							
	Mortgage loans		Other loans to individuals		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
less than 0.5M€	148 382	7 991 213	10 408	394 112	8 718	435 465	167 508	8 820 790
greater than 0.5M€ and less than 1.0M€	448	283 743	18	10 460	2 307	233 075	2 773	527 278
greater than 1.0M€ and less than 5.0M€	80	120 750	5	8 360	5 980	731 752	6 065	860 862
greater than 5.0M€ and less than 10.0M€	-	-	-	-	1 354	685 934	1 354	685 934
greater than 10.0M€ and less than 20.0M€	-	-	-	-	1 474	717 152	1 474	717 152
greater than 20.0M€ and less than 50.0M€	-	-	-	-	4 128	476 884	4 128	476 884
greater than 50M€	-	-	-	-	1 609	214 030	1 609	214 030
	148 910	**8 395 706**	**10 431**	**412 932**	**25 570**	**3 494 292**	**184 911**	**12 302 930**

a) The allocation by intervals was carried out based on the total value of collateral per credit contract.

(thousands of Euros)

Collateral ranges a)	2022							
	Mortgage loans		Other loans to individuals		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
less than 0.5M€	157 859	7 837 881	6 635	273 580	18 414	440 729	182 908	8 552 190
greater than 0.5M€ and less than 1.0M€	367	228 517	13	8 659	2 364	238 296	2 744	475 472
greater than 1.0M€ and less than 5.0M€	65	93 172	4	8 526	9 816	717 599	9 885	819 297
greater than 5.0M€ and less than 10.0M€	-	-	-	-	1 904	539 832	1 904	539 832
greater than 10.0M€ and less than 20.0M€	-	-	-	-	134	399 451	134	399 451
greater than 20.0M€ and less than 50.0M€	-	-	-	-	5 717	401 813	5 717	401 813
greater than 50M€	-	-	-	-	1 567	269 267	1 567	269 267
	158 291	**8 159 570**	**6 652**	**290 765**	**39 916**	**3 006 987**	**204 859**	**11 457 322**

a) The allocation by intervals was carried out based on the total value of collateral per credit contract.

The collaterals values - mortgages, presented above, represent the maximum coverage value of the covered assets, that is, their contribution up to the gross value of the individual credits covered.

In assessing the risk of an operation or set of operations, the elements of credit risk mitigation associated with them are taken into account, in accordance with internal rules and procedures.

The relevant collaterals are essentially the following:

- Real estate, where the value considered corresponds to the last available appraisal;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month, in the case of a listed security, or the value of the pledge, in the case of being cash.

The acceptance of collaterals as a guarantee for credit operations refers to the need to define and implement techniques to mitigate the risks to which these collaterals are exposed. Thus, as an approach to this matter, the Group has stipulated a set of procedures applicable to collaterals (particularly financial and real estate), which cover, among others, the volatility of the collateral value, its liquidity and an indication as to the recovery rates associated with each type of collateral.

The internal norms of credit powers thus have a specific chapter on this point, "Acceptance of collaterals - techniques for mitigating the risks to which collaterals are exposed, namely liquidity and volatility risks.".

The process of re-evaluating real estate is carried out by appraisers registered with the CMVM, based on the evaluation methods described in Note 7.6.

Restructured credit

The Bank identifies and marks restructured credit contracts due to financial difficulties of the client whenever there are changes to the terms and conditions of a contract in which the client has defaulted, i.e., it is foreseeable that they will default, on a financial obligation. It is considered that there is a change in the terms and conditions of the contract when:

(i) there are contractual changes that benefit the client, such as extension of the deadline, introduction of grace periods, rate reduction or partial debt forgiveness;
(ii) there is a new credit operation contracted to settle the existing debt (total or partial). or
(iii) the new terms of the contract are more favorable than those applied to other clients with the same risk profile.

The remarking of a credit restructured due to financial difficulties of the client can only occur after a minimum period of two years from the date of restructuring, provided that the following conditions are cumulatively met:

(i) regular payment of principal and interest;
(ii) the client has no due principal or interest; and
(iii) there have been no debt restructuring mechanisms by the client during that period.

As of 31 December 2023 and 2022, the values of credit restructured due to the client's financial difficulties is as follows:

(thousands of Euros)

	2023	2022
Corporate Loans	1 044 134	1 180 626
Mortgage Loans	157 699	162 891
Other Loans to Individuals	56 308	81 378
Total	**1 258 141**	**1 424 895**

Loans marked as restructured due to financial difficulties include loans that are currently performing, classified in stage 2, and that are in the curing period for deselection.

The detail of the restructuring measures applied to the restructured credits as of 31 December 2023 and 2022 is analysed as follows:

(thousands of Euros)

Issue	2023								
	Performing			Non - Performing			Total		
	Number of operations	Exposure	Impairment	Number of operations	Expossure	Impairment	Number of operations	Exposure	Impairment
Forgiveness of capital or interest	39	9 441	471	49	67 406	41 693	88	76 847	42 164
Assets received for partial credit settlement	22	1 027	164	6	3 780	3 044	28	4 807	3 208
Interest capitalization	15	5 010	824	112	48 582	32 057	127	53 592	32 881
New credit for total or partial settlement of existing debt	1 112	191 072	15 436	557	131 945	69 422	1 669	323 017	84 858
Extension of repayment term	1 390	225 031	35 481	438	254 671	108 304	1 828	479 702	143 785
Introduction of grace period for capital or interest	903	138 141	13 300	113	38 607	20 906	1 016	176 748	34 206
Reduction of interest rates	414	69 762	4 571	85	22 888	9 130	499	92 650	13 701
Change of lease payment plan	103	13 509	458	61	5 797	2 522	164	19 306	2 980
Change in the periodicity of interest payments	5	1 837	257	3	388	243	8	2 225	500
Others	1 408	21 936	478	281	7 311	2 459	1 689	29 247	2 937
Total	**5 411**	**676 766**	**71 440**	**1 705**	**581 375**	**289 780**	**7 116**	**1 258 141**	**361 220**

(thousands of Euros)

Measure	2022								
	Performing			Non - Performing			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Forgiveness of capital or interest	41	13 990	901	61	95 035	53 859	102	109 025	54 760
Assets received for partial credit settlement	23	1 068	164	8	146	129	31	1 214	293
Interest capitalization	16	4 965	923	87	52 218	29 659	103	57 183	30 582
New credit for total or partial settlement of existing debt	1 028	191 512	14 132	506	177 111	79 690	1 534	368 623	93 822
Extension of repayment term	1 366	262 295	50 333	631	246 792	162 833	1 997	509 087	213 166
Introduction of grace period for capital or interest	809	114 982	6 864	169	71 619	27 336	978	186 601	34 200
Reduction of interest rates	481	40 574	461	39	76 714	29 588	520	117 288	30 049
Change of lease payment plan	118	16 714	1 637	59	9 389	4 517	177	26 103	6 154
Change in the periodicity of interest payments	5	2 011	207	3	674	198	8	2 685	405
Others	1 491	34 137	1 035	423	12 949	4 814	1 914	47 086	5 849
Total	**5 378**	**682 248**	**76 657**	**1 986**	**742 647**	**392 623**	**7 364**	**1 424 895**	**469 280**

Note 21 – Derivatives – Hedge Accounting and Fair Value Changes of the Hedged Captions

As of 31 December 2023, and 2022, the fair value of the hedging derivatives in the balance sheet is analyzed as follows:

(milhares de euros)

	2023	2022
Hedging derivatives	**558 117**	**442 274**
Assets	683 074	562 886
Liabilities	(124 957)	(120 612)
Fair value component of the assets and liabilities hedged for interest rate risk	**(86 317)**	**(394 921)**
Financial assets at amortised cost	**(143 347)**	**(382 933)**
Securities	(59 584)	(218 545)
Loans and advances to customers	(83 763)	(164 388)
Financial assets at fair value through other comprehensive income	**(5 019)**	**(11 988)**
Securities (*)	(5 019)	(11 988)
Financial Liabilities	**62 049**	**-**
Due to customers	62 049	-

* Amount recorded in fair value reserves transferred to results

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognised in the income statement in the caption Gains and losses from hedge accounting (see Note 10).

The Bank calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 36 - Financial assets and liabilities held for trading.

Fair value hedging

As of 31 December 2023 and 2022, fair value hedging operations may be analysed as follows:

(thousands of euros)

2023							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivatives (1)**	**Change in fair value of derivative in period**	**Fair value component of hedged item(2)**	**Change in fair value component of hedged item in period (2)**
Interest Rate Swap/CIRS	Loans and advances to customers	Interest rate and exchange rate	1 737 884	96 055	(74 442)	(83 763)	80 569
Interest Rate Swap	Securities at amortized cost	Interest rate	3 572 250	256 814	(153 096)	(59 584)	158 961
Interest Rate Swap	Securities at fair value through other comprehensive income	Interest rate	130 000	12 480	(6 537)	(5 019)	6 969
Interest Rate Swap	Due to customers	Interest rate	1 500 000	56 921	59 482	62 049	(62 049)
			6 940 134	**422 270**	**(174 593)**	**(86 317)**	**184 450**

(1) Includes accrued interest

(2) Attributable to the hedged risk

(thousands of euros)

2022							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivatives (1)**	**Change in fair value of derivative in period**	**Fair value component of hedged item(2)**	**Change in fair value component of hedged item in period (2)**
Interest Rate Swap/CIRS	Loans and advances to customers	Interest rate and exchange rate	1 659 552	165 117	191 565	(164 388)	(196 310)
Interest Rate Swap	Securities at amortized cost	Interest rate	2 728 250	359 089	214 274	(218 545)	(215 410)
Interest Rate Swap	Securities at fair value through other comprehensive income	Interest rate	100 000	19 140	27 272	(11 988)	(27 298)
			4 487 802	**543 346**	**433 111**	**(394 921)**	**(439 018)**

(1) Includes accrued interest

(2) Attributable to the hedged risk

As of December 31, 2023, the ineffective part of the fair value hedging operations, which resulted in a gain of 9.9 million euros, was recorded by offsetting income (31 December 2022: cost of 5.9 million euros). The Bank periodically conducts tests of the effectiveness of existing hedging relationships.

Cash flow hedging

As of 31 December 2023 and 2022, the cash flow hedging operations can be analysed as follows:

(thousands of euros)

2023					
Covered asset	**Asset book value**	**Notional**	**Derivate book value**	**Cash flow hedge reserve**	**Ineffectiveness value - recorded in results**
Loans to customers	6 732 000	6 732 000	135 847	92 557	10 269
	6 732 000	**6 732 000**	**135 847**	**92 557**	**10 269**

(thousands of euros)

2022					
Covered asset	Asset book value	Notional	Derivate book value	Cash flow hedge reserve	Ineffectiveness value - recorded in results
Loans to customers	4 732 583	4 732 000	(101 072)	(100 418)	(881)
	4 732 583	**4 732 000**	**(101 072)**	**(100 418)**	**(881)**

Note 22 – Investments in Subsidiaries, Joint Ventures and Associates

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

(thousands of Euros)

	2023						2022					
	Nº of shares	Direct participation in capital	Nominal value (euros)	Acquisition Cost	Impairment	Net Book value	Nº of shares	Direct participation of capital	Nominal value (euros)	Acquisition Cost	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	62 999 800	100,00%	1,00	100 418	(13 453)	86 965	62 999 700	100,00%	1,00	100 418	(20 755)	79 663
ES Tech Ventures	71 500 000	100,00%	1,00	71 500	(44 558)	26 942	71 500 000	100,00%	1,00	71 500	(44 559)	26 941
GNB GA	2 350 000	100,00%	5,00	86 720	-	86 720	2 350 000	100,00%	5,00	86 720	-	86 720
GNB Concessões	942 306	98,97%	5,00	20 602	-	20 602	942 306	98,96%	5,00	20 602	(4 915)	15 687
ES Representações	49 995	99,99%	0,18	9	(9)	-	49 995	99,99%	0,18	9	(9)	-
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	4	-	4
Righthour	10 000	100,00%	1,00	-	-	-	-	-	-	-	-	-
				377 309	**(113 634)**	**263 675**				**377 309**	**(125 852)**	**251 457**

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

(thousands of Euros)

	2023	2022
Balance at the beginning of the exercise	**125 852**	**146 478**
Increases	-	3 255
Decreases	(12 216)	(19 421)
Foreign exchange differences	(2)	(4 460)
Balance at the end of the exercise	**113 634**	**125 852**

Note 23 – Property, Plant and Equipment

This caption as of 31 December 2023 and 2022 is analysed as follows:

		(thousands of Euros)
	2023	**2022**
Real estate properties	**160 215**	**164 915**
For own use	68 898	79 501
Improvements in leasehold properties	91 317	85 414
Equipment	**209 208**	**219 365**
Computer equipment	120 883	113 428
Fixtures	18 686	27 503
Furniture	47 256	53 173
Security equipment	13 047	16 915
Office equipment	8 724	7 702
Transport equipment	562	562
Other	50	82
Assets under right of use	**134 083**	**122 133**
Real estate properties	112 905	111 518
Equipment	21 178	10 615
Work in progress	**54 971**	**57 177**
Improvements in leasehold properties	7 831	31 376
Real estate properties	46 854	25 508
Equipment	41	16
Others	245	277
	558 477	**563 590**
Accumulated impairment	**(9 361)**	**(10 375)**
Accumulated depreciation	**(248 874)**	**(294 252)**
	300 242	**258 963**

The changes in this caption were as follows:

(thousand of Euros)

	Real estate properties	Equipment	Right-of-Use Assets	Work in progress	Total
Acquisition cost					
Balance at 31 December 2021	**299 602**	**232 349**	**116 041**	**6 452**	**654 444**
Acquisitions	11 483	23 811	19 526	51 061	105 881
Disposals / write-offs (a)	(145 389)	(36 693)	(13 434)	(15)	(195 531)
Transfers (b)	(781)	(101)	-	(322)	(1 204)
Foreign exchange differences and other movements	-	(1)	-	1	-
Balance at 31 December 2022	**164 915**	**219 365**	**122 133**	**57 177**	**563 590**
Acquisitions	2 504	14 146	21 047	44 671	82 368
Disposals / write-offs (c)	(52 349)	(24 288)	(9 097)	-	(85 734)
Transfers (d)	45 145	(1)	-	(46 870)	(1 726)
Foreign exchange differences and other movements	-	(14)	-	(7)	(21)
Balance at 31 December 2023	**160 215**	**209 208**	**134 083**	**54 971**	**558 477**
Depreciation					
Balance at 31 December 2021	**180 880**	**192 397**	**37 677**	**-**	**410 954**
Depreciation	4 307	12 386	14 230	-	30 923
Disposals / write-offs (a)	(107 557)	(36 242)	(5 546)	-	(149 345)
Transfers (b)	(390)	(101)	-	-	(491)
Foreign exchange differences and other movements	2 125	86	-	-	2 211
Balance at 31 December 2022	**79 365**	**168 526**	**46 361**	**-**	**294 252**
Depreciation	4 748	12 415	15 307	-	32 470
Disposals / write-offs (c)	(45 819)	(24 284)	(7 822)	-	(77 925)
Transfers (d)	(879)	(1)	-	-	(880)
Foreign exchange differences and other movements	840	117	-	-	957
Balance at 31 December 2023	**38 255**	**156 773**	**53 846**	**-**	**248 874**
Impairment					
Balance at 31 December 2021	**12 071**	**-**	**-**	**-**	**12 071**
Reversion of impairment losses	(1 696)	-	-	-	(1 696)
Balance at 31 December 2022	**10 375**	**-**	**-**	**-**	**10 375**
Reversion of impairment losses	(1 014)	-	-	-	(1 014)
Balance at 31 December 2023	**9 361**	**-**	**-**	**-**	**9 361**
Net book value at 31 December 2023	**112 599**	**52 435**	**80 237**	**54 971**	**300 242**
Net book value at 31 December 2022	**75 175**	**50 839**	**75 772**	**57 177**	**258 963**

(a) Includes 106 395 thousand of euros of fixed assets (real estate and equipment) and 68 164 thousands of euros of accumulated depreciation referring to the Headquarters Building that was sold in 2022

b) Includes 1 203 thousand of euros of fixed assets (real estate and equipment) and 490 thousands of euros of accumulated depreciation referring to discontinued counters that were transferred at net value to the appropriate balance sheet items.'

(c) Includes 10 293 thousand of euros of fixed assets (real estate and equipment) and 3 748 thousands of euros accumulated depreciation relating to assets sold to the entity NB Branches.

(d) Includes 1.726 thousand of euros of fixed assets (real estate and equipment and 880 thousands of euros accumulated depreciation relating to discontinued branches which were transferred to the appropriate balance sheet items at net value.

In 2022 the Head Office building was sold for Euro 112.2 million, the gross book value was Euro 106.4 million (Euro 38.2 million net of accumulated depreciation) resulting in a gain of Euro 67 million, net of costs related to the sale process. Until construction of the new headquarters is concluded, the Bank will continue to use the building, having signed a lease contract for this purpose.

Note 24 –Intangible Assets

This caption as of 31 December 2023 and 2022, is analysed as follows:

		(thousands of Euros)
	2023	**2022**
Internally developed	**65 373**	**65 373**
Software - Automatic data processing system	65 373	65 373
Acquired from third parties	**404 407**	**366 444**
Software - Automatic data processing system	404 407	366 444
Work in progress	**17 958**	**31 881**
Accumulated amortization	**(401 311)**	**(394 058)**
	86 427	**69 640**

Internally generated intangible assets include expenses incurred by the Bank's units specialising in the implementation of IT solutions that will bring future economic benefits (see Note 6.20).

The changes in this caption were as follows:

			(thousands of Euros)
	Automatic data processing system	**Work in progress**	**Total**
Acquisition cost			
Balance as at 31 December 2021	**445 152**	**13 410**	**458 562**
Acquisitions			
Acquired from third parties	6 474	18 686	25 160
Disposals/Write-offs	(20 026)	-	(20 026)
Transfers	216	(216)	-
Foreign exchange differences and other	1	1	2
Balance as at 31 December 2022	**431 817**	**31 881**	**463 698**
Acquisitions			
Acquired from third parties	572	29 623	30 195
Disposals/Write-offs	(6 155)	-	(6 155)
Transfers	43 546	(43 546)	-
Balance as at 31 December 2023	**469 780**	**17 958**	**487 738**
Amortizations			
Balance as at 31 December 2021	**391 047**	**-**	**391 047**
Amortization for the period	23 038	-	23 038
Disposals/Write-offs	(20 026)	-	(20 026)
Foreign exchange differences and other	(1)	-	(1)
Balance as at 31 December 2022	**394 058**	**-**	**394 058**
Amortization for the period	13 408	-	13 408
Disposals/Write-offs	(6 155)	-	(6 155)
Balance as at 31 December 2023	**401 311**	**-**	**401 311**
Net balance at 31 December 2023	**68 469**	**17 958**	**86 427**
Net balance at 31 December 2022	**37 759**	**31 881**	**69 640**

Note 25 – Taxes

The deferred tax assets and liabilities recognised in the balance sheet as of 31 December 2023 and 2022 may be analysed as follow:

(thousands of Euros)

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Current tax	**26 260**	**4 191**	**30 298**	**4 505**
Corporate tax recoverable	1 260	4 044	-	4 174
Others	25 000	147	30 298	331
Deferred tax	**897 381**	**-**	**917 202**	**-**
	923 641	**4 191**	**947 500**	**4 505**

The deferred tax assets and liabilities recognised in the balance sheet as of 31 December 2023 and 2022 are as follows:

(thousands of Euros)

	Assets		Liabilities		Net	
	2023	2022	2023	2022	2023	2022
Financial instruments	94 166	91 249	(52 508)	(13 369)	41 658	77 880
Credit impairment (not covered by the special regime)	279 514	330 072	-	-	279 514	330 072
Credit impairment (covered by the special regime)	296 818	295 119	-	-	296 818	295 119
Other tangible assets	-	-	(14)	(76)	(14)	(76)
Provisions	101 819	100 583	-	-	101 819	100 583
Pensions	44 586	50 624	-	-	44 586	50 624
Reportable tax losses	133 000	63 000	-	-	133 000	63 000
Deferred tax asset / (liability)	**949 903**	**930 647**	**(52 522)**	**(13 445)**	**897 381**	**917 202**
Asset / liability set-off for deferred tax purposes	(52 522)	(13 445)	52 522	13 445	-	-
Net Deferred tax asset / (liability)	**897 381**	**917 202**	**-**	**-**	**897 381**	**917 202**

As of 31 December 2023, 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 4 September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Therefore, on 31 December 2023, the Bank 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.

As of 31 December 2023 and 2022, 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 of 31 December 2023, the amounts held by novobanco referring to this situation amount to approximately Euro 55 million (31 December 2022: Euro 57 million).

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

(milhares de euros)

	2023	2022
Balance at the beginning of the exercise	**917 202**	**741 321**
Recognised in income statement	10 042	62 950
Recognised in Fair value reserves	(37 610)	79 291
Conversion of Deferred taxes into Tax credits	7 747	33 640
Balance at the end of the exercise (Assets / (Liabilities))	**897 381**	**917 202**

The current and deferred taxes recognised in the income statement and in reserves, in 2023 and 2022, had the following origins:

(thousands of Euros)

	2023		2022	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial instruments	(1 388)	37 610	15 825	(79 291)
Impairment losses on loans and advances to customers	56 606	-	12 759	-
Other tangible assets	(62)	-	(7 953)	-
Provisions	(1 236)	-	(18 491)	-
Pensions	6 038	-	(2 090)	-
Tax losses carried forward	(70 000)	-	(63 000)	-
Deferred taxes	**(10 042)**	**37 610**	**(62 950)**	**(79 291)**
Current taxes	**5 386**	**-**	**4 611**	**-**
Total tax recognised (income) / (expense)	**(4 656)**	**37 610**	**(58 339)**	**(79 291)**

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

(thousands of Euros)

	2023		2022	
	%	Value	%	Value
Income before tax		**796 004**		**395 491**
Tax rate of novobanco	21,0		21,0	
Income tax calculated based on the tax rate of novobanco		**167 161**		**83 053**
Tax-exempt dividends	(0,8)	(6 502)	(0,3)	(1 248)
Impairment on investments in subsidiaries or associated companies not subject to Participation Exemption	0,1	464	(0,9)	(3 525)
Branch Tax and Tax Withheld Abroad	0,0	147	0,2	956
Rate differential in the generation / reversal of temporary differences	0,6	4 526	3,0	11 949
Impairments and provisions for credit	5,2	41 215	(5,7)	(22 476)
Impairments and fair value adjustments of securities	(0,3)	(2 665)	2,2	8 648
Provisions for other risks and charges and contingencies	(0,9)	(7 306)	(2,7)	(10 519)
Deferred tax asset not recognized on tax loss for the year	-	-	10,3	40 811
Employees long term benefits	0,5	4 070	(0,5)	(2 163)
Extraordinary Contribution and Additional Solidarity over the Banking Sector	0,9	7 249	1,8	7 016
Deferred taxes on tax losses from previous years	(8,8)	(70 000)	(15,9)	(63 000)
Capital gains/losses on asset sales	(17,9)	(142 623)	(25,8)	(101 924)
Others	(0,0)	(392)	(1,5)	(5 917)
Total tax recognized	**(0,6)**	**(4 656)**	**(14,8)**	**(58 339)**

Deferred tax assets recoverability analysis

Deferred tax assets are recognised 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, considering that 5 years is a reasonable period for projecting future results. 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 2023, this exercise was made based on the latest draft version of the business plan ("MTP") for the period of 2024-2026 and a stress scenario exercise, preliminarily considered by the General Supervisory Board in December 2023 and which, upon inclusion of the end of 2023 accounts will be definitively approved.

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 2026, it is assumed, thereafter an increase in pre-tax results from 2026;
- Interest rate benchmarks aligned with macroeconomic outlooks for the 2024-2026 triennium and BCE monetary policy decisions;
- Development of the commercial banking product anchored in the expected evolution of the interest rate benchmarks, combined with the prospect of growth in commercial volumes, as well as the development of new projects at the level of commissioning generated with payment methods and asset management;
- Maintenance of operating costs, despite the expected increase in inflation, anchored in the specific cost reduction plan and the implementation of a new distribution model and, generally, the simplification and increase in efficiency of the processes, particularly focusing on the digital component; and
- Provisions for credit impairments in line with the evolution of the Bank's activity and supported by macroeconomic projections, taking into account the effort made in recent exercises in the provisioning of the credit portfolio and the progressive convergence to gradually normalized risk costs.

Depending on the analysis mentioned above, as of 31 December 2023, the Bank has recognized deferred tax assets associated with tax losses in the balance sheet amounting to Euro 133 million (December 31, 2022: Euro 63 million).

Additionally, the amount of unrecognized deferred taxes related to tax losses, by year of expiry, is as follows:

(thousands of Euros)

	2023	2022
No expiry period	921 359	933 178
With expiry period	439 651	478 489
2025	92 332	91 728
2026	135 422	135 452
2029	170 236	170 236
2033	41 661	81 073
	1 361 010	**1 411 667**

In addition, regarding adjustments resulting from the application of the fair value model to units of real estate investment funds and venture capital funds, which do not contribute to the formation of taxable profit in the taxation period in which they are recognized for accounting purposes, they only have tax relevance at the time of their realization, particularly in the onerous transfer of 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 of 31 December, 2023, amounts to Euro 176 million (31 December, 2022: Euro 229 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 1 January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Following the determination of a negative net income in the 2020 fiscal year, the converted deferred tax assets, referring to the eligible deferred tax assets as of the closing date of that fiscal year, amount to 116,975 thousand euros. This amount has already been validated by the Tax and Customs Authority.

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

Note 26 – Other Assets

As of 31 December 2023 and 2022, the caption other assets is analysed as follows:

		(thousands of Euros)
	2023	**2022**
Escrow accounts	272 713	251 225
Derivative products	*177 866*	*133 864*
Collateral CLEARNET and VISA	*38 940*	*41 423*
Collateral deposits relating to reinsurance operations	*51 407*	*71 387*
Other collateral deposits	4 499	4 551
Recoverable government subsidies on mortgage loans	20 658	18 304
Public sector	206 419	481 198
Contingent Capital Agreement (See Note 32.2)	198 180	198 180
Other debtors	489 155	440 912
Shareholder loans and supplementary capital contributions	*234 211*	*229 930*
Sale of non-performing loans	*2 170*	*2 173*
Sale of real estate	*42 646*	*710*
Sale of restructuring funds	*20 881*	*20 881*
Others	*189 247*	*187 218*
Income receivable	33 405	131 814
Deferred costs	13 025	13 184
Retirement pensions and health benefits (see Note 14)	12 173	52 021
Precious metals, numismatics, medal collection and other liquid assets	10 506	10 395
Real estate properties a)	102 090	221 097
Equipment a)	1 795	3 013
Stock exchange transactions pending settlement	-	4 465
Other assets	15 687	119 948
	1 375 806	**1 945 756**
Impairment losses	**(164 294)**	**(232 640)**
Real estate properties a)	(40 058)	(112 855)
Equipment a)	(1 039)	(2 195)
Other debtors - Shareholder loans, supplementary capital contributions	(75 343)	(74 164)
Other	(47 854)	(43 426)
	1 211 512	**1 713 116**

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 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.

The decrease observed during 2023 in the Public Sector Administration item includes approximately Euro 249.8 million related to the conversion into capital of the rights resulting from the Special Regime Applicable to Deferred Tax Assets, as detailed in Note 31 (31 December, 2022: Euro 272.9 million).

Operations on securities to be regularized reflect operations carried out with securities, registered on the trade date, which were awaiting settlement, according to the accounting policy described in Note 6.6.

The items of properties and equipment refer to assets received for credit recovery and discontinued facilities, for which the Bank aims to sell them immediately.

The bank implemented a plan aiming 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 2023, an impairment reversal of Euro 23.7 million was recorded for the properties in the portfolio (31 December 2022: charge of Euro 12.9 million).

The changes occurred in impairment losses are presented as follows:

		(thousands of Euros)
	2023	**2022**
Balance at the beginning of the exercise	**232 640**	360 425
Increases	20 587	16 070
Write off	(51 580)	(114 484)
Reversals	(40 351)	(27 832)
Foreign exchange differences and other	2 998	(1 539)
Balance at the end of the exercise	**164 294**	**232 640**

The changes occurred in the real estate properties were as follows:

		(thousands of Euros)
	2023	**2022**
Balance at the beginning of the exercise	**221 097**	**357 644**
Additions	8 898	15 510
Sales	(127 764)	(151 092)
Other movements	(141)	(965)
Balance at the end of the exercise	**102 090**	**221 097**

As of 31 December 2023, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 10,922 thousand (31 December 2022: Euro 9,970 thousand), having the Bank recorded impairment losses for these assets in the total amount of Euro 3,359 thousand (31 December 2022: Euro 2,954thousand).

Note 27 – 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 on 31 December 2023 and 2022, is analysed as follows:

		(thousands of Euros)
	2023	**2022**
Non-current Assets/liabilities held for sale	**38 992**	**53 156**
Banco Well Link (former NB Asia)	-	2 175
Compagris	18 437	17 437
Barrosinha	7 473	7 473
Solago	-	12 875
Ijar Leasing Algerie	13 032	13 146
Others	50	50
Impairment losses	**(22 510)**	**(8 085)**
Compagris	(14 425)	-
Ijar Leasing Algerie	(8 035)	(8 035)
Others	(50)	(50)
	16 482	**45 071**

In March 2023, the stake held in Well Link Bank was sold, since the put options on the position that the Group still held in this financial institution were exercised.

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

The impairment movement for non-current Assets for disposal classified as held for sale is as follow:

		(thousands of Euros)
	2023	**2022**
Balance at the beginning of the exercise	**8 085**	**8 085**
Increases / (decreases) for the exercise	14 425	(623)
Write offs	-	(3 837)
Transfers	-	4 460
Balance at the end of the exercise	**22 510**	**8 085**

Compagris, Barrosinha and Solago

In December 2022, as a result of the conclusion of the sale process of the Restructuring Funds, novobanco acquired 100% of the share capital of Compagris and Barrosinha and 84.16% of the share capital of Solago. As the Bank intends to sell these assets, they were classified as discontinued operations. In December 2023, the Bank proceeded to sell Solago, recognizing a capital loss of Euro 1.1 million.

Note 28 – Financial Liabilities Measured at Amortised Cost

This caption as of 31 December 2023 and 2022 is analysed as follows:

						(thousands of euros)
	2023			**2022**		
	Measured at amortised cost	**Fair value variation ***	**Total**	**Measured at amortised cost**	**Fair value variation ***	**Total**
Deposits from Banks	6 623 884	-	6 623 884	10 506 509	-	10 506 509
Due to customers	29 193 007	62 049	29 255 056	28 425 223	-	28 425 223
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 085 659	-	1 085 659	1 601 454	-	1 601 454
Other financial liabilities	489 750	-	489 750	371 511	-	371 511
	37 392 300	**62 049**	**37 454 349**	**40 904 697**	**-**	**40 904 697**

* Variation in the fair value of the items covered by the interest rate hedging portfolio

28.1 Deposits from Central Banks and other credit institutions

The balance of Deposits from Central Banks and other credit institutions is composed, as to its nature, as follows:

		(thousands of Euros)
	2023	**2022**
Deposits from Central Banks	**1 128 807**	**6 327 198**
From the European System of Central Banks	1 128 807	6 327 198
Deposits	178 807	198
Other funds	950 000	6 327 000
Deposits from Other credit institutions	**5 495 077**	**4 179 311**
Domestic	**1 073 669**	**1 110 465**
Deposits	1 065 854	1 071 278
Other funds	7 815	39 187
Foreign	**4 421 408**	**3 068 846**
Deposits	136 087	430 487
Loans	375 610	479 880
Very short-term funds	3 867 053	2 150 824
Operations with repurchase agreements	42 658	7 655
	6 623 884	**10 506 509**

As of December 31, 2023, the balance of the European System of Central Banks Resources item includes 950 million euros collateralized by the Bank's financial assets, as part of the third series of longer-term refinancing operations of the European Central Bank (TLTRO III), which will mature in December 2024.

In 2023, Euro 5.4 billion of the TLTRO III were repaid. To deal with the maturity of these lines, Novobanco adopted as an exit strategy from the TLTRO III, among others, the reduction of the balance sheet's size and an increase in other stable financing instruments, mainly interbank operations collateralized by retained covered bonds. As a result, collateralized financing through medium-term repurchase agreements increased by Euro 2.6 billion in 2023, which added to the amount of Euro 2.6 billion recorded in 2022 for this type of financing, to mitigate the impact of shortening the term and/or maturity of the TLTRO III, totals Euro 5.2 billion (including Euro 1.4 billion of operations classified in Due to customers).

Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 6.17.

28.2 Due to customers

The balance of Deposits due to costumers is composed, as to its nature, as follows:

		(thousands of Euros)
	2023	**2022**
Demand deposits	**10 556 457**	**12 644 222**
Companies and other entities	5 739 882	7 190 941
Private companies	4 816 575	5 453 281
Time deposits	**16 809 219**	**14 925 851**
Corporate and other entities	6 461 277	5 063 842
Private companies	10 347 942	9 862 009
Other funds	**1 827 331**	**855 150**
Repurchase agreement	1 366 382	450 906
Other	460 949	404 244
	29 193 007	**28 425 223**
Value adjustments for hedging interest rate risk *	**62 049**	
	29 255 056	**28 425 223**

* See Note 21

28.3 Debt Securities issued, Subordinated Debt and Financial liabilities associated to transferred assets

This caption breaks down as follows:

		(thousands of Euros)
	2023	**2022**
Debt securities issued	**584 159**	**1 141 431**
Euro Medium Term Notes (EMTN)	584 159	561 565
Bonds	-	579 866
Subordinated debt	**501 500**	**415 572**
Euro Medium Term Notes (EMTN)	501 500	-
Bonds	-	415 572
Financial liabilities associated to transferred assets	**-**	**44 451**
Asset lending operations	-	44 451
	1 085 659	**1 601 454**

The movement occurred in the 2023 and 2022 fiscal years in liabilities represented by securities, subordinated liabilities, and financial liabilities associated with transferred assets was as follows:

(thousands of Euros)

	Debt securities issued			Subordinated Liabilities			Financial liabilities associated to transferred assets	TOTAL
	Euro Medium Term Notes (EMTN)	Bonds	Total	Euro Medium Term Notes (EMTN)	Bonds	Total	Asset lending operations	
Balance as at 31 December 2021	**445 633**	**573 588**	**1 019 221**	**-**	**415 394**	**415 394**	**44 451**	**1 479 066**
Issues	100 000	-	100 000	-	-	-	-	100 000
Net purchases	(500)	-	(500)	-	-	-	-	(500)
Other movements (a)	16 432	6 278	22 710	-	178	178	-	22 888
Balance as at 31 December 2022	**561 565**	**579 866**	**1 141 431**	**-**	**415 572**	**415 572**	**44 451**	**1 601 454**
Issues	-	-	-	500 000	-	500 000	-	500 000
Reimbursements	-	(575 000)	(575 000)	-	(400 000)	(400 000)	-	(975 000)
Net purchases	(527)	-	(527)	-	-	-	-	(527)
Other movements (a)	23 121	(4 866)	18 255	1 500	(15 572)	(14 072)	(44 451)	(40 268)
Balance as at 31 December 2023	**584 159**	**-**	**584 159**	**501 500**	**-**	**501 500**	**-**	**1 085 659**

a) The other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.

The main characteristics of the outstanding issues as of 31 December 2023 and 2022 are as follows:

(thousands of Euros)

Entity	ISIN	Description	Currency	Issue date	Unit price (€)	Maturity	Interest rate	Market	Book value 2023	Book value 2022
Bonds										
novobanco	PTNOBIOM0014	NB 3,5% 23/07/23	EUR	2021	-	2023	Taxa Fixa 3,5%	XDUB	-	303 992
novobanco	PTNOBJOM0005	NB 4,25% 09/23	EUR	2021	-	2023	Euribor 3M + 4,25%	XDUB	-	275 874
Euro Medium Term Notes										
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24	EUR	2022	100,00	2026	Fixed rate 5,5%	XDUB	105 475	99 989
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	2043	Fixed rate 3,5%	XLUX	43 958	43 363
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	2043	Fixed rate 3,5%	XLUX	100 110	99 065
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	2043	Fixed rate 3,5%	XLUX	65 655	64 774
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	2043	Fixed rate 3,5%	XLUX	48 260	47 641
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	2048	Zero voucher	XLUX	37 934	35 711
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	2049	Zero voucher	XLUX	46 650	43 694
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	2049	Zero voucher	XLUX	12 977	12 146
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	2051	Zero voucher	XLUX	17 822	16 672
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	2051	Zero voucher	XLUX	12 538	11 729
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	2048	Zero voucher	XLUX	43 072	40 180
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	2052	Zero voucher	XLUX	41 444	38 891
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	2046	Zero voucher	XLUX	8 264	7 710
Subordinated debts										
novobanco	PTNOBFOM0017	NB 06/07/2023	EUR	2018	-	2023 a)	8,50%	XDUB	-	415 572
novobanco	PTNOBLOM0001	NB 9.875% 01/12/33	EUR	2023	100,00	2033	9,875%	XDUB	501 500	-
									1 085 659	**1 557 003**

a) Date of the next *call option*

In terms of medium-term financing, in June 2023, the Bank issued a new Tier 2 bond of Euro 500 million, maturing on 1 December , 2033, with a purchase option 6 months from 1 June, 2028, aiming to replace the existing Tier 2 bond with a spread lower by 150bps. Through the public offer, the Bank managed to repurchase Euro 206 million of the existing Tier 2 bond. The remaining amount was reimbursed on the call date, which only occurred on 6 July, 2023.

The Bank didn't have any defaults on capital or interest regarding its issued debt during the 2023 and 2022.

Under the Mortgage Bond Issuance Program, which has a maximum amount of Euro 10,000 million, the Bank made issuances totaling Euro 5,500 million (31 December, 2022: Euro 5,500 million), and these issuances were fully repurchased by the Bank. The characteristics of the live issuances as of 31 December, 2023 and 2022 are as follows:

(thousand of Euros)

Designation	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating		Nominal Value	Balance Value	
						Moody's	DBRS		2023	2022
NB 2015 SR.1	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	1 000 000	-	-
NB 2015 SR.2	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	1 000 000	-	-
NB 2015 SR.3	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	1 000 000	-	-
NB 2015 SR.4	07/10/2015	07/10/2028	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	700 000	-	-
NB 2015 SR.5	22/12/2016	22/12/2028	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aaa	NR	500 000	-	-
NB 2019 SR.6	10/12/2019	10/06/2029	Quarterly	Euribor 3 Months + 0,25%	XMSM	Aaa	NR	750 000	-	-
NB 2019 SR.7	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0,25%	XMSM	Aaa	NR	550 000	-	-
								5 500 000	**-**	**-**

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in novobanco 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 and 8 and Instruction nº 13/2006 of Bank of Portugal. As of 31 December 2023, the assets that collateralize these covered debt securities amount to Euro 7,442.1 million (31 December 2022: Euro 6,078.4 million) (see Note 20).

Note 29 – Provisions

As of 31 December 2023 and 2022, the caption Provisions presents the following changes:

(thousands of Euros)

	Provision for restructuring	Provision for guarantees and commitments	Other Provisions	Total
Balance as at 31 December 2021	**46 686**	**91 775**	**339 709**	**478 170**
Increases / (decreases)	1 332	(2 555)	12 117	10 894
Write offs	(28 870)	-	(37 617)	(66 487)
Transfers	-	-	-	-
Exchange differences and others	-	238	375	613
Balance as at 31 December 2022	**19 148**	**89 458**	**314 584**	**423 190**
Increases / (decreases)	6 325	(434)	17 414	23 305
Write offs	(18 697)	-	(7 216)	(25 913)
Exchange differences and others	-	(5 291)	5 252	(39)
Balance as at 31 December 2023	**6 776**	**83 733**	**330 034**	**420 543**

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:

				(thousands of Euros)
	Stage 1	*Stage* 2	*Stage* 3	Total
Balance as at 31 December 2021	**7 800**	**10 959**	**73 016**	**91 775**
Transfers to stage 1	2 199	(2 199)	-	-
Transfers to stage 2	(1 115)	1 226	(111)	-
Transfers to stage 3	(13)	(1 203)	1 216	-
Increases due to changes in credit risk	1 981	2 467	22 289	26 737
Decreases due to changes in credit risk	(4 865)	(4 079)	(20 348)	(29 292)
Other movements	3	36	199	238
Balance as at 31 December 2022	**5 990**	**7 207**	**76 261**	**89 458**
Transfers to stage 1	5 373	(5 373)	-	-
Transfers to stage 2	(3 684)	4 292	(608)	-
Transfers to stage 3	(23)	(18)	41	-
Increases due to changes in credit risk	5 838	4 710	7 310	17 858
Decreases due to changes in credit risk	(6 608)	(3 691)	(7 993)	(18 292)
Other movements	(1)	(19)	(5 271)	(5 291)
Balance as at 31 December 2023	**6 885**	**7 108**	**69 740**	**83 733**

The transfers between stages that occurred in guarantees and commitments are detailed as follows:

						(thousands of Euros)
	2023					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 1 from Stage 3*
Commitments and financial guarantees given	107 570	216 563	1 558	6 528	410	203

						(milhares de euros)
	2022					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	*To Stage 1 from Stage 2*	*To Stage 3 from Stage 2*	*To Stage 2 from Stage 3*	*To Stage 3 from Stage 1*	*To Stage 1 from Stage 3*
Commitments and financial guarantees given	43 164	40 385	45 450	2 234	1 775	181

As of December 31, 2023, the value of the provision for restructuring in the balance sheet is 6.8 million euros, and during the years 2022 and 2023, a net reinforcement of 1.3 million euros and 6.3 million euros, with 28.9 million euros and 18.7 million euros being used, respectively.

Other provisions amounting to Euro 330.0 million (31 December 2022: Euro 314.6 million), are intended to cover certain identified contingencies related to the Bank's activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Bank maintains provisions of Euro 21.6 million (31 December 2022: Euro 24.2 million);
- Contingencies associated with legal proceedings amounting to Euro 2.8 million (31 December 2022: Euro 4.0 million);
- Contingencies associated with sales processes in the amount of Euro 7.1 million (31 December 2022: Euro 7.1 million);

- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 8.8 million (31 December 2022: Euro 19.2 million), transferred from the liability captions net of the value of the assets of the Pension Fund (see Note 14);

- The State Budget Law for 2021 ("LOE 21"), amended the rules of the Property Transfer Tax ("IMT") and the Municipal Property Tax ("IMI"), with the broadening of the incidence scope of the increased IMI and IMT rate, and loss of exemptions, for properties held by taxpayers who are directly or indirectly controlled by an entity subject to a more beneficial tax regime, listed in an order approved by the Minister of Finance. As of this date, the calculation of the application of the increased IMI rates to all properties in the direct and indirect ownership of the novobanco Group amounts to approximately 202.1 million euros as of December 31, 2023 (December 31, 2022: 192.1 million euros);

- The remaining amount, of approximately Euro 87.6 million (31 December, 2022: Euro 88.0 million), is intended to cover losses arising from the Bank's activity, such as fraud, theft, and robberies, and ongoing legal proceedings for contingencies related to asset sales processes, among others.

Note 30 – Other Liabilities

As of 31 December 2023 and 2022, the caption other liabilities are analysed as follows:

		(thousands of Euros)
	2023	**2022**
Public sector	38 883	32 830
Creditors for supply of goods	109 446	105 063
Margin Accounts Derivative instruments	562 047	478 750
Other creditors	214 782	113 244
Career bonuses (see Note 14)	6 474	5 506
Other accrued expenses	95 149	81 501
Deferred income	1 065	1 111
Foreign exchange transactions to be settled	611	-
Other transactions pending settled	60 846	26 774
	1 012 395	**844 779**

As of December 31, 2023, the caption Suppliers of Goods Payable includes Euro 83,461 thousand related to creditors of assets under the right of use, within the framework of IFRS 16 (31 December, 2022: Euro 82,088 thousand), whose maturity terms are presented as follows:

		(thousands of Euros)
	2023	**2022**
Up to 3 months	185	255
From 3 months to one year	3 216	6 016
From one to five years	20 942	18 490
More than five years	59 118	57 327
	83 461	**82 088**

Note 31 – Share Capital

32.1 Ordinary Shares

As of 31 December 2023, the Bank's share capital of Euro 6,567,843,862.91 is represented by 11,130,841,957 registered shares with no par value and is fully subscribed and paid up by the following shareholders (31 December 2022: share capital of Euro 6,304,660,637.69 represented by 10,391,043,938 registered shares):

	% Capital	
	2023	2022
Nani Holdings, S.à.r.l	75,00%	75,00%
Resolution Fund [(1)]	13,04%	19,31%
Directorate-General for Treasury and Finance	11,96%	5,69%
	100,00%	**100,00%**

(1) Under the commitments made between the Portuguese State and the European Commission, the Resolution Fund is inhibited from exercising its voting rights.

During 2017, following the acquisition of 75% of the share capital of novobanco by Lone Star, two capital increases of Euro 750 million and Euro 250 million were made in October and December, respectively.

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 exercise 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 32).

In November 2022, a capital increase of Euro 249,753 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the exercises 2016 and 2017, which gave the State a 4,13 % stake in the novobanco, and which resulted in the issuance of 436,136,627 new ordinary shares (see Note 32).

In April 2023, a capital increase was completed amounting to 263,183 thousand euros through the conversion of conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) related to the 2018 and 2019 fiscal years, which granted the State an additional 6.27% stake in Novobanco, and from which 739,798,019 new ordinary shares were issued (see Note 32).

As mentioned in Note 25, 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 give the State the right to demand from novobanco the respective increase of the share capital, through the incorporation of the amount of the special reserve and consequent issuance and free delivery of ordinary shares representing 3.64% of the capital (with reference to the 2020 financial year), which will only dilute, in accordance with the sale contract, the Resolution Fund's participation, if the shareholders do not exercise their potestative right to acquire the conversion rights.

Note 32 – Other Accumulated Comprehensive Income, Retained Earnings and Other Reserves

As at 31 December 2023 and 2022, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

		(thousands of Euros)
	2023	2022
Other accumulated comprehensive income	**(993 658)**	**(1 155 271)**
Retained earnings	**(8 577 074)**	**(8 577 074)**
Other reserves	**6 231 450**	**6 040 802**
	(3 339 282)	**(3 691 543)**

32.1 Other accumulated comprehensive income

The changes in Other accumulated comprehensive income were as follows:

(thousands of Euros)

	Other accumulated comprehensive income						
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Cash flow hedging reserves	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2021	**3 668**	**9 214**	**(34 306)**	**(166 319)**	**-**	**(781 244)**	**(968 987)**
Actuarial deviations	-	-	-	-	-	96 485	96 485
Fair value changes, net of taxes	-	-	-	(178 410)	-	-	(178 410)
Impairment reserves of securities at fair value through other comprehensive income	(3 079)	-	-	-	-	-	(3 079)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(862)	-	-	-	(862)
Cash flow hedging	-	-	-	-	(100 418)	-	(100 418)
Balance as at 31 December 2022	**589**	**9 214**	**(35 168)**	**(344 729)**	**(100 418)**	**(684 759)**	**(1 155 271)**
Actuarial deviations	-	-	-	-	-	(27 285)	(27 285)
Fair value changes, net of taxes	-	-	-	255 122	-	-	255 122
Impairment reserves of securities at fair value through other comprehensive income	(378)	-	-	-	-	-	(378)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(258 820)	-	-	-	(258 820)
Cash flow hedging	-	-	-	-	192 974	-	192 974
Balance as at 31 December 2023	**211**	**9 214**	**(293 988)**	**(89 607)**	**92 556**	**(712 044)**	**(993 658)**

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 analysed as follows:

(thousands of Euros)

	2023			2022		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the exercise	**(381 014)**	**36 285**	**(344 729)**	**(123 313)**	**(43 006)**	**(166 319)**
Changes in fair value	4 599	-	4 599	(325 981)	-	(325 981)
Foreign exchange differences	(5 524)	-	(5 524)	2 006	-	2 006
Disposals in the exercise	293 657	-	293 657	66 274	-	66 274
Deferred taxes recognized in the exercise in reserves	-	(37 610)	(37 610)	-	79 291	79 291
Balance at the end of the exercise	**(88 282)**	**(1 325)**	**(89 607)**	**(381 014)**	**36 285**	**(344 729)**

The fair value reserves are analysed as follows:

	2023	2022
		(thousands of Euros)
Amortised cost of financial assets at fair value through other comprehensive income	834 747	2 576 036
Market value of financial assets at fair value through other comprehensive income	741 446	2 183 034
Unrealised gains / (losses) recognized in fair value reserve	**(93 301)**	**(393 002)**
Fair value reserve transferred to Results (1)	(5 019)	(11 988)
Potential gains / (losses) recognized in the fair value reserve	(88 282)	(381 014)
Deferred Taxes	(1 325)	36 285
Fair value reserve attributable to shareholders of the Bank	**(89 607)**	**(344 729)**

(1) In the context of fair value hedge operations (see Note 21)

The movements in cash flow hedging reserves are presented as follows:

	2023	2022
		(thousands of Euros)
Balance at the beginning of the exercise	**(100 418)**	**-**
Change in the fair value of the hedged item recognized in other comprehensive income	203 243	(101 299)
Reclassification from other comprehensive income to results	(10 269)	881
Balance at the end of the exercise	**92 556**	**(100 418)**

32.2. Others Reserves

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 298/92, 31 December) requires that the legal reserve be credited annually with at least 10% of the annual net income, up to a limit equal to the value of the share capital or the sum of the free reserves constituted, and the results carried over, if higher.

Special reserve

As mentioned in Note 25, 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 exercises between 2015 and 2020, with reference to deferred tax assets eligible at the date of closures of those exercises, 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:

	2023	2022
		(thousands of Euros)
2019 (net loss 2018)	-	146 367
2020 (net loss 2019)	-	116 817
2021 (net loss 2020)	128 673	137 193
	128 673	**400 377**

Contingent capitalization mechanism

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 33 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As of 31 December 2023, these assets had a net value of Euro 0.9 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2022: net value of Euro 1.1 billion).

Taking into consideration the losses presented by novobanco on 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 value related to the Contingent Capitalization Mechanism recorded in 2020, as receivable from the Resolution Fund (598,312 thousand euros), differs from the paid value due to 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 receivable, the Bank deducted, as of 31 December 2023 and 2022, from the regulatory capital calculation (165,442 thousand euros). Additionally, the amount of variable remuneration of the Executive Board of Directors for the 2019 and 2020 exercises was also deducted (3,857 thousand euros).

In 2021 a value was recorded as receivable from the Resolution Fund of 209,220 thousand euros related to the Contingent Capitalization Mechanism, accounted for in Other Reserves and which results, at each balance sheet date, from the losses incurred and the regulatory ratios in force at the time of its determination. Consequently, as mentioned above and in line with regulatory guidelines, on December 31, 2023, and 2022, this value was also deducted from the calculation of regulatory capital.

Novobanco considers this amount as due under the Contingent Capitalization Mechanism and is triggering the legal and contractual mechanisms at its disposal to ensure its receipt.

Note 33 – Contingent Liabilities and Commitments

In addition to the derivative financial instruments, the balances relating to off-balance accounts as of 31 December 2023 and 2022 are the following:

		(thousands of Euros)
	2023	**2022**
Contingent liabilities	**11 187 432**	**14 548 395**
Guarantees and endorsements	2 347 433	2 262 092
Financial assets pledged as collateral	8 542 774	12 036 520
Open documentary credits	187 024	169 410
Others	110 201	80 373
Commitments	**5 996 626**	**5 955 096**
Revocable commitments	5 343 467	5 397 330
Irrevocable commitments	653 159	557 766

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

As of 31 December 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 7.9 billion (31 December 2022: Euro 11.2 billion), of which 2.1 billion euros are encumbered (31 December 2022: 9.3 billion euros);

- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 9.2 million (31 December 2022: Euro 6.8 million);

- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 64.6 million as of 31 December 2022. As of December 31, 2023, following the payment of the total amount of commitments assumed to the Deposit Guarantee Fund, as mentioned in Note 16, there are no securities given as collateral;

- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 468.5 million (31 December 2022: Euro 578.3 million);

- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of 74.0 million euro (31 December 2022: 110.0 million);

- Deposits provided as collateral to guarantee the responsibilities assumed by issuing guarantees in the amount of 18.9 million euros (31 December 2022: 29.7 million euros).

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 collateralization 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 captions related to banking services provided are as follows:

		(thousand of Euros)
	2023	**2022**
Deposit and custody of securities and other items	35 162 112	31 031 260
Amounts received for subsequent collection	192 382	207 006
Securitized loans under management (servicing)	1 497 960	1 697 076
Other responsibilities related with banking services	824 098	723 197
	37 676 552	**33 658 539**

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 nº1, Annex 2 to the Resolution of Bank of Portugal of 3 August 2014 (20 hours), as amended by the Resolution of Bank of Portugal of 11 August 2014 (17 hours) ". Under the terms of this resolution, Bank of Portugal came:

(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 separate and consolidated financial statements as of 31 December 2023 (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 captions 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 resolution.

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 neutralise, 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 captions 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 of 31 December 2023 (as well as in the previous financial statements), 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 18 October 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 29 December 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.

33.1 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 are, at the present date, insusceptible to determine or quantify:

(i) Ação judicial intentada pela Partran, SGPS, S.A., Massa Insolvente da Espírito Santo Financial Group, S.A. e Massa Insolvente da Espírito Santo Financial (Portugal), S.A. contra o novobanco e a Calm Eagle Holdings, S.A.R.L. através da qual se pretende a declaração de nulidade do penhor constituído sobre as ações da Companhia de Seguros Tranquilidade, S.A. e, subsidiariamente, a anulação do penhor ou a declaração da sua ineficácia, na qual apenas figura como autora a Massa Insolvente da ESF (Portugal) na sequência da desistência das restantes;

(ii) Ações judiciais intentadas na sequência da celebração do contrato de compra e venda do capital social do novobanco, assinado entre o Fundo de Resolução e a Lone Star em 31 de março de 2017, relacionadas com as condições da venda, nomeadamente a ação administrativa intentada pelo Banco Comercial Português, S.A. contra o Fundo de Resolução, da qual o novobanco não é parte e, no âmbito da qual, segundo a divulgação pública de informação privilegiada efetuada pelo BCP no site da CMVM em 1 de setembro de 2017, é solicitada a apreciação jurídica da obrigação de capitalização contingente assumida pelo Fundo de Resolução no âmbito do Mecanismo de Capitalização Contingente.

With respect to the amount requested from the Resolution Fund, for the 2020 financial year, divergences remain between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) valuation of participation units, which are the subject of ongoing arbitration. novobanco considers these amounts (165 million euros) as due under the Contingent Capitalization Mechanism and has initiated an arbitration action to claim payment of these amounts. There is also another disagreement regarding the application, by novobanco, at the end of 2020, of the dynamic option of the IFRS 9 transitional regime, which is also under consideration in the same arbitration action. Additionally, the Resolution Fund did not pay the amount requested for the 2021 financial year. novobanco considers the amounts claimed and not paid as due under the Contingent Capitalization Mechanism, having triggered the legal and contractual mechanisms at its disposal in order to ensure the receipt of the same, which are recorded as amounts receivable and are subject to favorable arbitration decisions.

<u>Resolution Fund</u>
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 of 31 December 2023, the periodic contribution made by the Bank amounted to Euro 6,947 thousand (31 December 2022: Euro 16,017 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 nº 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 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 31 March 2017, Bank of Portugal announced that it had selected the Lone Star Fund for the purchase of novobanco, which was completed on 18 October 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 21 December 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 materialising, 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 recognise 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 34 – 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 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).

During 2023, the following transactions with Related Parties identified on 31 December 2023 (credit and other types) were carried out:

(i) Credit Operations

Entities / Individuals	Justification	Operation	Amount (euros)
APB - Associação Portuguesa de Bancos	Entities for which there is a relationship of economic interdependence	Credit Card Limits (raise)	1 500
EDENRED - Portugal S.A.	Entities for which there is a relationship of economic interdependence	Direct Debits Limits (RCE) (renewal and raise)	1 000 000
		Credit Card Limits (renewal)	24 000
Members of the Administration and Supervision bodies and related persons	Members of the Administration and Supervision bodies and related persons (1.)	Credit Card Limits (raise)	22 500
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.	Entities for which there is a relationship of economic interdependence	Credit Card Limits (renewal)	10 000
		Current-Account Loan Account (renewal)	2 500 000
		Trading Room Operations (RCE)	3 000 000
		Direct Debits Limits (RCE) (renewal)	4 000 000
		Leasing (renewal with changes)	68 250 000
		Commercial Paper (renewal with change)	25 000 000
NACIONAL CONTA – Contabilidade, Consultadoria e Administração, Lda.	Entity dominated by members of the Administration / Supervision	Current-Account Loan Account (renewal)	100 000
		Credit Card Limits (renewal)	1 000
Novo Banco Group (BEST, NB Açores e NB Finance)	Entity dominated by members of the Administration / Supervision	• Interbank Limits (Trading Room Operations) • Commercial Limits	2 437 100 000
Pedro Santos Reis	Persons or entities whose relationship with the institution potentially influences their management	Housing Credit	360 000
Unicre - Cartão Internacional de Crédito S.A.	Entities for which there is a relationship of economic interdependence	Current-Account Loan Account	15 000 000

1. Notice 3/2020, artº33 - 3 b) and Notice 3/2020, artº33 - 3 c)

(ii) Services rendered and other signed contracts

Entities / Individuals	Justification	Operation	Amount (euros)
BEST Banco Electrónico de Serviço Total SA	Entities for which there is a relationship of economic interdependence	Lease Agreement	na
Novobanco dos Açores	Entities for which there is a relationship of economic interdependence. Entity dominated by members of Administration / Supervision	Amendment to the Distribution Agreement	na
NANI Holdings S.à R.L. / LSF NANI Investments S.à R.L.	Shareholder and/or Entities related to the Shareholder	Service Contract	na

The Bank balances with related parties as of 31 December 2022 and 2021, as well as the respective profit and losses, can be summarised as follows:

(thousands of Euros)

	2023					2022				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders	**198 180**	**106 129**	**-**	**416**	**6 947**	**198 180**	**54 253**	**-**	**389**	**16 017**
NANI HOLDINGS	-	271	-	416	-	-	152	-	389	-
FUNDO DE RESOLUÇÃO	198 180	105 858	-	-	6 947	198 180	54 101	-	-	16 017
Subsidiary companies	**1 085 533**	**1 320 006**	**10 394**	**18 166**	**38 356**	**1 158 034**	**1 218 195**	**10 322**	**19 621**	**16 001**
GNB CONCESSÕES	83 473	51 525	-	-	-	83 473	39 189	-	-	-
GNB GA	3 435	54 422	4 025	3 262	-	3 552	14 752	4 025	6 303	-
ES TECH VENTURES	46 732	75 073	-	-	-	46 732	74 426	-	-	-
BEST	5 052	673 245	37	8 208	21 574	2 610	647 221	37	7 878	5 900
novobanco AÇORES	130 302	228 807	1 295	4 071	6 793	124 017	216 280	1 295	1 369	2 898
SPE-LM6	222 877	911	-	299	-	243 371	1 915	-	338	-
SPE-LM7	575 842	1 586	-	838	-	628 541	3 000	-	932	-
FCR NB CAPITAL GROWTH	-	-	-	-	-	15 015	3 547	-	-	-
NB ÁFRICA	-	8 648	-	-	-	-	7 166	-	-	-
FUNGEPI	-	56 463	2 449	56	1 050	-	40 180	2 414	44	446
FUNGEPI II	-	-	-	11	198	-	23 742	35	2 692	513
FUNGERE	-	-	-	-	-	-	-	-	13	1
IMOINVESTIMENTO	-	675	-	20	28	-	5 561	-	20	-
PREDILOC	-	3 105	-	-	30	-	3 938	-	-	-
IMOGESTÃO	-	561	-	3	-	-	478	-	28	1
ARRABIDA	-	-	-	-	-	-	-	-	-	1
INVESFUNDO VII	-	-	-	4	23	-	980	-	4	-
NB LOGÍSTICA	-	-	-	-	-	-	-	-	-	1
NB PATRIMÓNIO	-	97 755	387	-	2 581	-	46 022	387	-	4 199
FUNDES	-	-	-	-	-	-	-	-	-	1
AMOREIRAS	-	30 811	-	-	-	-	30 671	-	-	-
FIMES ORIENTE	-	13 181	-	-	96	16	13 551	-	-	10
NB ARRENDAMENTO	-	1 111	-	-	8	-	897	-	-	-
NB FINANCE	-	7 171	2 095	-	156	-	7 067	1 952	-	145
FEBAGRI	-	-	-	-	-	-	1 150	71	-	-
GREENWOODS	-	7 474	-	-	-	-	7 483	-	-	-
HERDADE DA BOINA	-	1	-	-	-	-	-	-	-	-
BENAGIL	-	78	-	-	-	-	21	-	-	-
PROMOFUNDO	-	1 367	-	-	2	-	65	-	-	-
GREENDRAIVE	6 526	-	106	-	-	6 445	20	106	-	-
FIVE STARS	-	6 036	-	1 394	5 817	-	17 986	-	-	1 885
AROLERI	4 262	-	-	-	-	4 262	-	-	-	-
IMALGARVE	-	-	-	-	-	-	10 887	-	-	-
RIGHTHOUR	7 032	-	-	-	-	-	-	-	-	-
Associated Companies	**155 123**	**92 584**	**273**	**4 322**	**4 316**	**179 676**	**95 106**	**273**	**4 614**	**3 190**
LINEAS	-	3 027	-	-	15	-	3 176	-	-	-
LOCARENT	137 886	1 987	-	43	3 422	139 286	3 218	-	1 727	3 161
UNICRE	15 220	29	-	1 641	-	38 365	76	-	919	-
MULTIPESSOAL	2 010	32	273	-	-	2 023	35	273	-	-
Others	7	87 509	-	2 638	879	2	88 601	-	1 968	29
Other related entities	**241**	**4**	**-**	**-**	**4 726**	**324**	**5**	**-**	**-**	**4 638**
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 726	-	-	-	-	4 638
NACIONAL CONTA LDA	241	4	-	-	-	324	5	-	-	-

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the financial exercise 2021. The liability corresponds to the 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 signed between NANI HOLDINGS, SGPS, S.A. (currently Nani Holdings S.à.r.l.), LSF NANI INVESTMENTS S.à.r.l. and Novobanco, for the provision of support services to 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. Every year, novobanco, together with consultants, analyses and prepares the Transfer Pricing Dossier, which contains information that shows that transactions with related parties respect the principle of Full Competition, which is delivered to the Tax and Customs Authority within the legal deadline.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest between 0% and 11,94% (the rates correspond to the rates applied according to the original currency of the asset).

The costs with remunerations and other benefits granted to Key Management Personnel of novobanco in 2023 and 2022, are as follows:

(thousands of Euros)

	2023			2022		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	3 557	1 494	5 051	3 092	1 257	4 349
Post-employment benefits	2	-	2	2	-	2
Other long-term benefits	27	3	30	197	38	235
	3 586	**1 497**	**5 083**	**3 291**	**1 295**	**4 586**

In 2023 and 2022, the value of variable remunerations for the Management Bodies amounted to 1,878 thousand and 1,931 thousand euros, respectively, which constitutes remunerations that are not vested rights of the members until after the end of the restructuring period, its payment is subject to deferment and verification of certain conditions. Additionally, in the financial year of 2023, costs of 150 thousand euros were registered as sign-on bonuses resulting from the appointment of a new Executive Director (2022: costs of 260 thousand euros were registered as sign-on bonuses resulting from the appointment of two new Executive Directors and compensation for termination of mandates of two Executive Directors were registered amounting to 460 thousand euros).

As of 31 December 2023 and 2022, 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 195 thousand (31 December 2022: Euro 351 thousand); and
(ii) members of the General and Supervisory Board and their direct relatives had no credit liabilities (31 December 2022: no exposure).

Deposits

(i) of members of the Executive Board of Directors and their direct relatives was Euro 2,552 thousand (31 December 2021: Euro 1,138 thousand); and
(ii) members of the General and Supervisory Board and their direct relatives was Euro 820 thousand (31 December 2022: Euro 1,544 thousand).

Note 35 –Securitisation of Assets

As of 31 December 2023 and 2022, the outstanding securitisation transactions made by the Bank were as follows:

(milhares de euros)

Issue	Start date	Original amount	Current amount of credit		Asset securitized
			2023	2022	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	183 022	214 061	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	286 348	330 075	Mortgage loans (general regime)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	280 627	317 612	Mortgage loans (general regime)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	733 445	817 287	Mortgage loans (general regime)

The main characteristics of these operations, as of 31 December 2023 and 2022, may be analysed as follows:

2023

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	139 110	-	-	December 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Class B	22 800	9 208	-	-	December 2048	AA	Aa2	AA	-	A-	A1	AA+	-
	Class C	19 200	7 754	-	-	December 2048	A+	A1	A+	-	BB+	Baa3	AA	-
	Class D	24 000	9 693	-	-	December 2048	BBB+	Baa1	BBB-	-	B+	B2	BB+	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	212 384	-	-	December 2059	AAA	Aaa	AAA	-	AA+	Aa2	AA+	-
	Class B	26 600	17 384	-	-	December 2059	AA	Aa2	AA	-	A+	A3	AA+	-
	Class C	22 400	14 639	-	-	December 2059	A	A1	A	-	BBB+	Ba1	BBB	-
	Class D	28 000	18 299	-	-	December 2059	BBB+	Baa2	BBB	-	CCC	Caa2	B	-
	Class E	11 900	5 950	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	116 039	97 882	94 913	March 2060	AAA	Aaa	AAA	-	AA+	Aa2	A	-
	Class B	65 450	65 450	63 950	58 568	March 2060	AA	Aa3	AA	-	AA+	Aa2	A	-
	Class C	41 800	41 800	41 800	34 496	March 2060	A	A3	A	-	BBB	A1	A	-
	Class D	17 600	17 600	17 600	13 356	March 2060	BBB	Baa3	BBB	-	CCC	Ba3	BB	-
	Class E	31 900	31 900	31 900	21 291	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	260 940	260 939	247 653	October 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Class B	294 500	294 500	294 500	260 109	October 2064	-	-	BBB-	-	-	-	AA+	-
	Class C	180 500	180 500	180 500	65 973	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

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	163 785	-	-	December 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Class B	22 800	10 842	-	-	December 2048	AA	Aa2	AA	-	A-	A2	AA-	-
	Class C	19 200	9 130	-	-	December 2048	A+	A1	A+	-	BB+	Baa3	A-	-
	Class D	24 000	11 412	-	-	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	245 724	-	-	December 2059	AAA	Aaa	AAA	-	A+	Aa2	AA+	-
	Class B	26 600	20 113	-	-	December 2059	AA	Aa2	AA	-	BBB+	Baa2	AA+	-
	Class C	22 400	16 937	-	-	December 2059	A	A1	A	-	B+	Ba3	BBB	-
	Class D	28 000	21 172	-	-	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	152 014	128 051	124 100	March 2060	AAA	Aaa	AAA	-	AA+	Aa2	A-	-
	Class B	65 450	65 450	63 950	55 286	March 2060	AA	Aa3	AA	-	AA	Aa2	A-	-
	Class C	41 800	41 800	41 800	31 303	March 2060	A	A3	A	-	BB+	A3	A-	-
	Class D	17 600	17 600	17 600	12 414	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	20 017	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	345 770	345 770	326 254	October 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Class B	294 500	294 500	294 500	242 031	October 2064	-	-	BBB-	-	-	-	AA+	-
	Class C	180 500	180 500	180 500	59 141	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

In December 2022 novobanco contracted a loan risk transfer operation from a credit portfolio to companies worth around Euro 1 billion through synthetic securitisation, due to a maturity date of February 2031 (and the possibility of call option in September 2025). Given the nature of this transaction, there was no derecognition of the balance sheet claims, and the guarantee received was recorded, which will be updated according to activation triggers defined in the contract.

Note 36 – Fair Value of Financial Assets and Liabilities

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures, and the definition of the responsibilities of the parties involved in this process.

36.1. Assets and Liabilities at Fair Value

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 customised 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 because of additional internal or external valuations.

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper and loans to customers: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unlisted 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.

Unlisted 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 after the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors 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 exercise 2022 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, considering 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 80 major assets subdivided into a total of more than 500 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 in Development			Real Estate			Shopping Center			Agricultural Properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average Rate (€)	55	197	650	133	177	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy Rate %	40%	62%	80%	60%	70%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/m2	n.a.	n.a.	n.a.	30	1 518	3 150	800	2 594	6 750	960	1 085	1 180	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.	2 800	13 270	20 200
Discount Rate	8,5%	9,4%	10,1%	8,0%	12,3%	16,0%	4,5%	6,4%	10,0%	10,0%	10,3%	10,8%	n.a.	n.a.	n.a.
Valuation Methodology	Income Market			Income Market			Income Market			Income Market			Income Market		

Notes:

(i) All the above assumptions were calculated based on the average of the values considered by the external evaluators per property assessed.
(ii) The average presented was calculated on the property-weighted average in the sum of the value of the underlying assets per category presented.
(iii) 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).
(iv) €/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:

Fund Typology	Discount based on p/BV observed on the market
Real Estate and Tourism	16,60%
Real Estate and Tourism / Other	15,30%
Others	12,00%

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency.
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads.
- Futures and Options: The Bank trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

The 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:

(thousand of Euros)

	At Fair Value			
	Quoted market prices	Valuation models based on observable market parameters	Valuation models based on unobservable market parameters	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
31 December 2023				
Securities held for trading	**318 528**	**117 817**	**-**	**436 345**
Bonds issued by public entities - *Bonds issued by other entities*	318 528	-	-	318 528
Derivatives held for trading	-	117 817	-	117 817
Exchange rate contracts	-	*11 441*	-	*11 441*
Interest rate contracts	-	*101 098*	-	*101 098*
Others	-	*5 278*	-	*5 278*
Financial assets mandatorily at fair value through profit or loss - Securities	**17 172**	**20 913**	**1 396 605**	**1 434 690**
Bonds issued by other entities	*11 368*	*50*	*453 793*	*465 211*
Shares	*5 804*	-	*135 656*	*141 460*
Other variable income securities	-	*20 863*	*807 156*	*828 019*
Financial assets at fair value through other comprehensive income	**655 561**	**26 968**	**58 917**	**741 446**
Bonds issued by public entities	*285 852*	-	-	*285 852*
Bonds issued by other entities	*368 610*	*20 584*	-	*389 194*
Shares	*1 099*	*6 384*	*58 917*	*66 400*
Derivatives - Hedge Accounting - *Interest rate contracts*	**-**	**683 074**	**-**	**683 074**
Assets at fair value	**991 261**	**848 772**	**1 455 522**	**3 295 555**
Financial liabilities held for trading – Derivatives	**-**	**98 957**	**1 650**	**100 607**
Exchange rate contracts	-	*11 414*	-	*11 414*
Interest rate contracts	-	*82 247*	*1 650*	*83 897*
Loans	-	*104*	-	*104*
Others	-	*5 192*	-	*5 192*
Derivatives - Hedge Accounting	**-**	**124 957**	**-**	**124 957**
Liabilities at fair value	**-**	**223 914**	**1 650**	**225 564**

(thousands of Euros)

	At Fair Value			
	Quoted market prices	Valuation models based on observable market parameters	Valuation models based on unobservable market parameters	Total Fair Value
	(Level 1)	(Level 2)	(Level 3)	
31 December 2022				
Financial assets held for trading	**36 428**	**134 419**	**-**	**170 847**
Bonds issued by public entities	36 428	-	-	36 428
Derivatives held for trading	-	134 419	-	134 419
Exchange rate contracts	-	*23 145*	-	*23 145*
Interest rate contracts	-	*102 729*	-	*102 729*
Other	-	*8 545*	-	*8 545*
Financial assets mandatorily at fair value through profit or loss - Securities	**15 832**	**21 409**	**1 500 429**	**1 537 670**
Bonds issued by other entities	*11 045*	*50*	*422 570*	*433 665*
Shares	*4 787*	-	*135 655*	*140 442*
Other variable income securities	-	*21 359*	*942 186*	*963 545*
Loans	-	-	18	18
Financial assets mandatorily at fair value through profit or loss	**-**	**-**	**13**	**13**
Bonds issued by other entities	-	-	*13*	*13*
Financial assets at fair value through other comprehensive income	**2 094 365**	**27 124**	**61 545**	**2 183 034**
Bonds issued by public entities	*1 629 639*	-	-	*1 629 639*
Bonds issued by other entities	*458 913*	*20 493*	-	*479 406*
Shares	*5 813*	*6 631*	*61 545*	*73 989*
Derivatives - Hedge Accounting - Interest rate contracts	**-**	**562 886**	**-**	**562 886**
Assets at fair value	**2 146 625**	**745 838**	**1 561 987**	**4 454 450**
Financial liabilities held for trading - Derivatives	**-**	**96 711**	**2 606**	**99 317**
Exchange rate contracts	-	*22 024*	-	*22 024*
Interest rate contracts	-	*71 807*	*2 606*	*74 413*
Others	-	*2 880*	-	*2 880*
Derivatives - Hedge Accounting - Interest rate contracts	**-**	**120 612**	**-**	**120 612**
Liabilities at fair value	**-**	**217 323**	**2 606**	**219 929**

The changes occurred in financial assets and financial liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the exercises 2023 and 2022, can be analysed as follows:

(thousands of euros)

	2023						
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total assets	Financial liabilities held for trading	Total liabilities
	Securities	Credit				Derivatives held for trading	
Balance as at 31 December 2022	1 500 411	18	13	61 545	1 561 987	2 606	2 606
Acquisitions	92 009	-	-	1 073	93 082	-	-
Attainment of maturity	(214 463)	-	-	-	(214 463)	-	-
Settlements	(24 176)	-	-	(9 818)	(33 994)	-	-
Changes in value	42 824	(18)	(13)	6 117	48 910	(956)	(956)
Balance as at 31 December 2023	1 396 605	-	-	58 917	1 455 522	1 650	1 650

(thousands of euros)

	2022						
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total assets	Financial liabilities held for trading	Total liabilities
	Securities	Credit				Derivatives held for trading	
Balance as at 31 December 2021	**2 036 378**	**-**	**-**	**35 725**	**2 072 103**	**1 950**	**1 950**
Acquisitions	236 516	-	-	3 477	239 993	-	-
Attainment of maturity	(533 151)	-	-	-	(533 151)	-	-
Settlements	(131 465)	-	-	(707)	(132 172)	-	-
Changes in value	(107 867)	18	13	23 050	(84 786)	656	656
Balance as at 31 December 2022	**1 500 411**	**18**	**13**	**61 545**	**1 561 987**	**2 606**	**2 606**

In the exercises 2023 and 2022 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 on 31 December 2023 and 2022 were as follows:

(thousands of euros)

	2023			2022		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	955	955	-	(655)	(655)
Financial assets at fair value through profit or loss	-	(19 100)	(19 100)	-	-	-
Financial assets mandatorily at fair value through profit or loss	-	34 223	34 223	-	(117 028)	(117 028)
Financial assets at fair value through other comprehensive income	(279)	-	(279)	23 350	-	23 350
	(279)	**16 078**	**15 799**	**23 350**	**(117 683)**	**(94 333)**

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:

(millions of Euros)

Assets classified under level 3	2023						
	Valuation Model	Variable analysed	Carrying book value	Unfavourable scenario		Favourable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**1 396,6**		**(37,1)**		**25,7**
Bonds issued by other entities			453,8		(37,1)		25,7
	Discounted cash flow model	*Discount rate*	*453,8*	*(-) 100 bps*	*(37,1)*	*(+) 100 bps*	*25,7*
Shares			135,7		-		-
	Valuation of the management company (adjusted)	*(b)*	*135,7*		-		-
Other variable income securities			807,2		-		-
	Valuation of the management company	*(b)*	*76,3*		-		-
	Valuation of the management company	*(c)*	*730,9*		-		-
Financial assets at fair value through other comprehensive income			**58,9**		**(0,6)**		**0,3**
Shares			58,9		(0,6)		0,3
	Discounted cash flows	*Renewable Energy Tariff*	*9,9*		*(0,6)*		*0,3*
	Others	*(a)*	*49,1*		-		-
Total			**1 455,5**		**(37,8)**		**26,0**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) Given that the Restructuring Funds were not revalued in 2023, a sensitivity analysis was not carried out on them.

(c) In the specific case of units valued according to the quotation provided by the respective management company, it is not reasonable to analyse the impact of the change in variables underlying the determination of the quotation by that entity

(millions of Euros)

Assets classified under level 3	2022						
	Valuation Model	Variable analysed	Carrying book value	Unfavourable scenario		Favourable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**1 500,4**		**(43,3)**		**54,5**
Bonds issued by other entities			422,6		(43,3)		54,5
	Discounted cash flow model	*Specific Impairment*	*2,4*	*-50%*	*(2,4)*	*+50%*	*10,8*
	Discounted cash flow model	*Discount rate*	*420,2*	*(-) 100 bps*	*(40,9)*	*(+) 100 bps*	*43,7*
Shares			135,7		-		-
	Valuation of the management company (adjusted)	*(b)*	*137,7*		-		-
Other variable income securities			942,2		-		-
	Valuation of the management company (adjusted)	*(b)*	*117,6*		-		-
	Valuation of the management company	*(c)*	*824,6*				
Financial assets at fair value through other comprehensive income			**61,5**		**(1,7)**		**0,1**
Shares			61,5		(1,7)		0,1
	Discounted cash flows	*Renewable Energy Tariff*	*9,6*		*(1,7)*		*0,1*
	Others	*(a)*	*51,9*		-		-
Total			**1 562,0**		**(45,0)**		**54,6**

(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 about 90% of the underlying assets of the Funds, a variation of +10% and -10% was considered in the fair value of the main real estate assets of each Fund, which leads to an impact of +5.2% and -5.2% in the fair value of the restructuring funds.

(c) In the specific case of units valued according to the quotation provided by the respective management company, it is not reasonable to analyse the impact of the change in variables underlying the determination of the quotation by that entity

The main parameters used, on 31 December 2023 and 2022, 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:

	2023			2022		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	4,0325	5,3650	5,0850	1,9501	4,3650	3,5750
1 month	3,8450	5,4200	5,2900	1,8840	4,4200	3,6500
3 months	3,9090	5,5300	5,5000	2,1320	4,7700	3,8000
6 months	3,8610	5,5000	5,3500	2,6930	5,1500	4,3350
9 months	3,6870	5,4100	5,2750	2,9920	5,2350	4,5250
1 year	3,5130	5,0470	4,9670	3,2910	5,1130	4,6768
3 years	2,5665	4,0319	3,9400	3,3005	4,3010	4,6088
5 years	2,4360	3,8117	3,6544	3,2390	4,0110	4,3280
7 years	2,4420	3,7571	3,5548	3,2020	3,8780	4,1350
10 years	2,4940	3,7541	3,5682	3,2020	3,8220	3,9920
15 years	2,5580	3,7785	3,6300	3,1410	3,7970	3,9377
20 years	2,5150	3,7585	3,6570	2,9310	3,7260	3,8647
25 years	2,4120	3,6768	3,6470	2,7150	3,6170	3,7967
30 years	2,3260	3,5910	3,6403	2,5320	3,4720	3,7257

Credit Spreads

The credit spreads used by the Bank in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behavior in the market during the year, is presented as follows:

(basis points)

Index	Serie	1 year	3 years	5 years	7 years	10 years
31 december 2023						
CDX USD Main	**41**	-	33,64	56,70	78,74	98,19
iTraxx Eur Main	**40**	14,64	33,08	58,21	78,97	98,68
iTraxx Eur Senior Financial	**40**	-	-	67,02	-	-
31 de dezembro de 2022						
CDX USD Main	**39**	-	56,87	82,02	101,74	117,73
iTraxx Eur Main	**38**	35,05	66,40	90,60	106,87	122,66
iTraxx Eur Senior Financial	**38**	-	-	99,29	-	-

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	2023			2022		
	EUR	USD	GBP	EUR	USD	GBP
1 year	87,29	94,80	99,70	99,28	23,33	55,24
3 years	110,08	125,00	142,10	124,23	38,10	49,59
5 years	105,67	121,30	140,10	124,77	40,72	47,00
7 years	101,82	116,10	134,00	121,60	39,38	45,73
10 years	97,50	108,90	124,60	115,66	35,95	42,81
15 years	91,56	99,00	113,10	107,02	-	-

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:

Foreign exchange rate	2023	2022	Volatility (%)				
			1 month	3 months	6 months	9 months	1 year
EUR/USD	1,1050	1,0666	6,98	6,64	6,57	6,54	6,70
EUR/GBP	0,8691	0,8869	4,96	5,14	5,50	5,75	5,95
EUR/CHF	0,9260	0,9847	6,76	6,13	5,99	5,94	5,91
EUR/NOK	11,2405	10,5138	9,81	9,54	9,56	9,60	9,61
EUR/PLN	4,3395	4,6808	6,99	7,04	7,13	7,19	7,24
EUR/RUB	117,2010	117,2010	29,28	31,71	34,65	36,12	32,92
USD/BRL [a)]	4,8523	5,2865	12,71	13,09	13,60	13,95	14,29
USD/TRY [b)]	29,5503	18,7183	8,47	13,41	17,98	21,13	23,43

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.

Quotation 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
	2023	2022	Change %	1 month	3 months	
DJ Euro Stoxx 50	4 399	3 794	15,96%	13,65	15,89	11,00
PSI 20	5 920	5 726	3,39%	12,29	13,99	-
IBEX 35	9 593	8 229	16,57%	12,13	17,15	-
FTSE 100	7 532	7 452	1,07%	10,97	13,37	9,28
DAX	16 148	13 924	15,98%	12,94	15,16	11,03
S&P 500	4 450	3 840	15,91%	11,61	13,75	10,93
BOVESPA	118 087	109 735	7,61%	15,90	18,48	19,74

36.2. Assets and liabilities at Amortized Cost

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost

The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Bank are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions

The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Bank is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued, Subordinated debt and liabilities associated to transferred assets

The fair value of these instruments is based on quoted market prices, when available. When not available, the Bank 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.

The fair value of financial assets and liabilities recorded in the balance sheet at amortized cost is analyzed as follows, having been estimated based on the main methodologies and assumptions described below:

(thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair value			
		Quoted market prices	Valuation models based on observable market parameters	Valuation models based on unobservable market parameters	Total fair value
		(Level 1)	(Level 2)	(Level 3)	
31 December 2023					
Cash, cash balances at central bank and other demand deposits	5 742 599	-	5 742 599	-	5 742 599
Financial assets at amortised cost					
Debt securities	8 200 570	6 315 707	228 200	1 515 592	8 059 499
Loans and advances to banks	125 817	-	125 817	-	125 817
Loans and advances to customers	23 063 507	-	-	23 379 919	23 379 919
Financial assets	**37 132 493**	**6 315 707**	**6 096 616**	**24 895 511**	**37 307 834**
Financial liabilities measured at amortised cost					
Deposits from banks	6 685 933	-	6 623 884	-	6 623 884
Due to customers	29 193 007	-	-	29 193 007	29 193 007
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 085 659	1 237 424	-	-	1 237 424
Other financial liabilities	489 750	-	-	489 750	489 750
Financial liabilities	**37 454 349**	**1 237 424**	**6 623 884**	**29 682 757**	**37 544 065**

(thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair value			
		Quoted market prices	Valuation models based on observable market parameters	Valuation models based on unobservable market parameters	Total fair value
		(Stage 1)	(Stage 2)	(Stage 3)	
31 December 2022					
Cash, cash balances at central bank and other demand deposits	6 387 295	-	6 387 295	-	6 387 295
Financial assets at amortised cost					
Debt securities	8 400 233	6 296 968	281 254	1 461 985	8 040 207
Loans and advances to banks	145 464	-	145 464	-	145 464
Loans and advances to customers	22 955 247	-	-	23 450 103	23 450 103
Financial assets	**37 888 239**	**6 296 968**	**6 814 013**	**24 912 088**	**38 023 069**
Financial liabilities measured at amortised cost					
Deposits from banks	10 506 509	-	10 497 606	-	10 497 606
Due to customers	28 425 223	-	-	28 425 223	28 425 223
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 601 454	1 693 216	-	44 451	1 737 667
Other financial liabilities	371 511	-	-	371 511	371 511
Financial liabilities	**40 904 697**	**1 693 216**	**10 497 606**	**28 841 185**	**41 032 007**

Note 37 –Risk Management

The institutional area of the Novo Banco, S.A.'s website (www.novobanco.pt) presents the information directed to investors, namely, Novo Banco, S.A., Market Discipline Report 2022 which addresses the public disclosure obligations as defined in Part VIII of the Regulation n.º 575/2013 of the European Parliament and the Council at 26 of July 2013 (CRR) and EBA guidelines transposed to the Portuguese legislation through the Instruction n.º 5/2018 the Bank of Portugal.

In the case where the information of the present annual report supports the information in the Market Discipline report, this information is identified through references to this report as systematised in the Annex X of the Market Discipline Report.

37.1 - Framework

Risk is implicit in the banking business and as such novobanco is naturally exposed to several categories of risks arising from external and internal factors, and which arise according to the characteristics of the markets in which the Bank operates and the activities it undertakes.

Thus, the novobanco risk management and control is based on the following premises:

- Universality by application throughout novobanco;
- Integrality of the risk culture, through a holistic vision and anticipation of its materialization;
- Independence from the other units of the group, in particular from the risk-taking units;
- 3 Lines of defense model, with the objective of adequately detecting, measuring, monitoring and controlling the materially relevant risks to which novobanco is subject. This model implies that all employees, in their sphere of activity, are responsible for risk management and control.

37.2 - Governance and risk management structure

Risk Management, being vital for the development of novobanco Group's activity, is centralized in the Risk Management Function, assumed by the Global Risk Department (DRG), which defines in a holistic way the principles of risk management and control, in close coordination with the other 2nd line units of the novobanco Group, as well as with the Internal Audit Department.

All materially relevant risks are reported to the respective Management and Supervisory Bodies (EBD, GSB and both Risk Committees and specialised Committees), which assume responsibility for supervising, monitoring, assessing, and defining the Risk Appetite and the control principles implemented.

The person responsible for the Risk Management Function of the novobanco Group is the head of the DRG. In order to guarantee greater efficiency in coordination with the DRG, a local Risk Function Manager was appointed for each relevant entity of the novobanco Group. The intervention of the DRG is direct or of coordination in alignment with the units that assume the local Risk Management Function.

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

- Credit risk.
- Market risk.
- Liquidity risk.
- Information and communication and Security, compliance risk, and reputational risk, and
- Business risk.

We highlight ESG (Environmental, Social and Governance) risk - particularly the subcategories of climate and environmental risk and other environmental risks - as risks of increasing relevance, and whose impact is estimated to be materialized in the medium and long term (that is, over a horizon longer than the other risk categories).

ESG risk is part of the Bank's risk management framework, in close articulation between the DRG and the ESG Office, which contributes specific knowledge to the identification of climate and environmental risk factors and social risk factors.

Thus, it is formally defined in the taxonomy of risks of novobanco as the exposure to unfavorable events resulting from inadequacy or failures in procedures, systems or policies related to the environment (adaptation to or mitigation of climate change, sustainable use and protection of water or marine resources, transition to the circular economy, waste prevention and recycling, pollution control and ecosystem protection) and natural resources (Biodiversity), Social (equality, social cohesion, social integration, labor relations) and Governance (adequate management structures, labor relations, employee compensation and tax compliance).

The assessment of the materiality of its impacts is analysed cross-sectionally, as ESG factors are intrinsically present in the other risk categories provided for in the Group's risk taxonomy.

In this regard, we highlight the factors that have received greater specialization from the Group, in terms of its risk assessment and control methodologies and their integration into business processes:

- Climate transition risks: defined as the impacts associated with the transition to a low-carbon economy. In other words, these risks are caused by legislation/regulation, technology and market changes resulting from the requirements associated with climate change. Depending on the response of each economic sector (and each company in particular) to the need for transition, different scenarios (and severities of transition risk factors) can be projected and, as a result, different risks and risk levels can be identified and assessed.
- Physical risks: defined as the impacts associated with the physical effects of climate change. These risks may result from factors arising from an extreme event - severe risk - or through a medium or long-term factor - chronic risk (for example, the negative effect that global warming, resulting from the continuous rise in temperatures, may have on the production cycles of some sectors). Physical risks may result in internal financial impacts (damage to own assets) or external financial impacts (disruption of the production cycles of clients/counterparties or the impact on the Bank's real estate collateral).

Next are the main guidelines for managing the risks identified above:

- credit risk: the management and control of this type of risk is supported using an internal system of risk identification, assessment and quantification, as well as internal processes for attributing ratings and scorings to portfolios and their continuous monitoring in specific decision forums
- market risk: existence of a specialised team that centralises the management and control of market risk and balance sheet interest rate risk (IRRBB) of the Bank, in line with the regulations and good risk practices;
- liquidity risk: based on the measurement of liquidity outflows from contractual and contingent positions in normal or stressed situations, the management and control of this risk consists, on the one hand, in determining the size of the pool of liquidity available at each moment, and on the other hand, in planning for medium and long term stable financing sources;
- non-financial risks: the management of this risk is based on the definition of a framework for the management and control of non-financial risks and specific policies; and on the compliance function and the Information Security Office playing a relevant role in the definition of other specific risk policies.

37.3 Credit Risk

Credit risk results from the possibility of financial losses arising from the default of the client or counterparty in relation to the contractual obligations established with the Bank within the scope of its credit activity. Credit risk is essentially present in traditional banking products - loans, guarantees and other contingent liabilities and derivatives. In credit default swaps (CDS), the net exposure between protection seller and buyer positions on each entity underlying the transactions, constitutes credit risk for novobanco Bank. CDS are recorded at their fair value in accordance with the accounting policy described in Note 7.6.6.

A permanent management of credit portfolios is carried out, which privileges the interaction between the various teams involved in risk management throughout the successive stages of the life of the credit process. This approach is complemented by the introduction of continuous improvements both in the level of methodologies and tools for risk assessment and control, as well as in the level of decision-making procedures and circuits.

The monitoring of the Bank's credit risk profile, regarding the evolution of credit exposures and monitoring of credit losses, is carried out regularly on the Risk Committees of the Executive Board of Directors and the General and Supervisory Board.

Main events in the fiscal year 2023

During 2023, we highlight below the main events related to impairment, namely:

(i) Constitution of impairments for contingencies resulting from adverse market conditions;

(ii) Introduction of new triggers to stage 2 related to exposures without a risk rating;

(iii) Update of macroeconomic scenarios.

Regarding the impairment boosts mentioned in points 1. above, taking into account the current economic context of high interest rates, with the prospect of maintenance during 2024, to face contingencies of these adverse market conditions, a sensitivity analysis was carried out on the corporate and housing portfolio.

Therefore, novobanco estimated and accounted for these portfolios, in an appropriate and timely manner, more than 40 million euros in unallocated impairment in addition to the cost of risk observed in its portfolio.

Regarding the introduction of new triggers to stage 2, in this case, all exposures with a persistent situation of not having a valid risk rating are now considered in stage 2. The introduction of this measure in the collective impairment calculation model had no impact in 2023 as novobanco had already taken precautions.

In relation to point (iii) above, the impact of updating the macroeconomic scenarios underlying novobanco's impairment calculation model was estimated slightly below 30 million euros of impairment, an amount also recorded as unallocated impairment.

The climate and environmental risk component

The ESG risk materiality analysis seeks to identify the impact that this risk will have on other risks, particularly credit risk, since it is the main risk faced by novobanco. In order to monitor the portfolio's credit risk from an ESG perspective, various metrics (KRI) were created which are monitored on a monthly basis, seeking to analyze the evolution of the portfolio's risk and anticipate any adverse impacts on credit risk resulting from factors associated with climate and environmental risk.
From a portfolio perspective, the assessment of credit risk in sectors relevant to climate risk policy is used by the novobanco to prioritize, assess and monitor transition risk, with a focus on negatively affected sectors or those with an uncertain impact. This methodology takes into account the following factors: direct and indirect contribution to GHG emissions (greenhouse gas, such as the production and distribution of fossil fuels or renewable energies), relevance to climate policy (such as the sensitivity of the cost structure to regulatory or fiscal changes based on GHG emissions) and importance in the energy value chain (production, use, consumption).

In this respect, novobanco is developing its transition plan with the aim of reducing its indirect carbon footprint, reducing the risk of its portfolio and contributing to meeting the Paris objectives. In 2023 it took a major step forward, approving targets for reducing financed GHG emissions for 3 business sectors (Electricity Generation, Concrete and Commercial Mortgages). These targets were calculated based on scientific methodologies recommended by sector by the Science Based Targets Initiative (SBTi).

In order to allow for a top-down analysis, novobanco has developed an ESG sectoral scoring system that allows for the identification of clients who will be the target of credit risk analysis from an ESG perspective, by prioritizing the sectors with the greatest concerns in terms of climate risk, namely the sectors classified in the ESG scoring with high and severe risk. Novobanco is developing specific guidelines adapted to the risks that each relevant sector faces or will face.

To ensure that novobanco has access to its clients' ESG information, new contractual provisions have been introduced in credit agreements regarding the provision of non-financial information by clients, minimum social and governance safeguards, as well as sectoral provisions for sectors subject to minimum financing safeguards, where applicable. For reference, the sectors subject to exclusion or minimum safeguards are described in the novobanco's Financing Principles - Sector/activity exclusions and minimum safeguards.

During 2023, special emphasis was also placed on obtaining Energy Performance Certificates (EPC) for real estate guarantees already in the bank's portfolio. For new operations, regardless of the purpose and type of property, the energy certificate is mandatory.

Finally, novobanco was selected to take part in the Fit-for-55 Climate Stress Test, a regulatory exercise that seeks to identify the resilience of financial institutions to meet climate objectives. The exercise began in 2023 and will conclude in 2024. This exercise will enable a benchmark to be made between the various institutions and will allow the regulator to identify market best practices.

37.3.1 - Credit risk exposure

novobanco maximum credit risk exposure is analysed as follows:

(thousands of Euros)

	2023			2022		
	Gross value	**Impairment**	**Net Exposure**	**Gross value**	**Impairment**	**Net Exposure**
Deposits with and loans and advances to banks	323 465	(667)	322 798	414 135	(674)	413 461
Derivatives for trading and fair value option derivatives	117 817	-	117 817	134 419	-	134 419
Securities held for trading	318 528	-	318 528	36 428	-	36 428
Securities at fair value through profit/loss	-	-	-	13	-	13
Securities at fair value through profit/loss - mandatory	465 211	-	465 211	433 665	-	433 665
Securities at fair value through other comprehensive income	675 046	(211)	674 835	2 109 045	(589)	2 108 456
Securities at amortised cost	8 524 914	(291 567)	8 233 347	8 691 800	(291 567)	8 400 233
Loans and advances to customers	23 915 735	(935 991)	22 979 744	23 848 444	(1 057 567)	22 790 877
Derivatives - hedge accounting	683 074	-	683 074	562 886	-	562 886
Other assets	543 218	(191 543)	351 675	591 030	(117 590)	473 440
Guarantees and standby letters provided	2 347 433	(74 665)	2 272 768	2 262 092	(82 392)	2 179 700
Documentary credits	187 024	-	187 024	169 410	-	169 410
Revocable and irrevocable commitments	5 996 626	(9 068)	5 987 558	5 955 096	(7 066)	5 948 030
	44 098 091	**(1 503 712)**	**42 594 379**	**45 208 463**	**(1 557 445)**	**43 651 018**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the accounting book value, net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Bank would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Bank calculates impairment, on a collective or individual basis in accordance with the accounting policy as described in Note 6.12. In the cases where the value of the collateral, net of haircuts (considering the type of collateral), equals or exceeds the exposure, the individual impairment may be nil. Hence, novobanco does not have any overdue financial assets for which it has not performed a review regarding their recoverability and the subsequent impairment recognition, when necessary.

37.3.2 - Impairment Models scenarios

As proposed in IFRS 9 regulations, the Bank’s calculation of impairment reflects different expectations of macroeconomic evolution, that is, it incorporates multiple scenarios. To incorporate the effects of future macroeconomic behavior in the loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used in the impairment calculation. In effect, different possible scenarios are considered which give rise to the same number of impairment results.

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

- Representative scenarios that capture existing non-linearities (e.g., a base case scenario, a scenario with a more favorable macroeconomic outlook and a scenario with a less favorable macroeconomic outlook).
- The base case scenario is consistent with inputs used in other exercises in the Bank, since the same methodology is used for the impairment calculation as the Bank uses in internal and regulatory planning exercises.
- The alternative scenarios to the base case do not reflect extreme scenarios.
- The correlation between the projected variables is realistic with the economic reality (e.g., if GDP is increasing, unemployment is expected to be decreasing).

The exercise of building 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 minimised).

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 stylised 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 (or adverse) and an upside case. The scenarios considered and the respective evolution of the main macroeconomic variables are described in the tables below:

A – Base Cenario, with a relative weight of 72,5%

	Unit	2023	2024	2025	2026
PIB	Real growth %	2,1	1,4	2,0	2,2
Private Consumption	Real growth %	1,0	0,8	1,3	1,7
Public Expenditure	Real growth %	1,2	1,2	1,3	1,4
Investment	Real growth %	1,5	4,7	5,1	4,2
Exports	Real growth %	4,2	2,0	3,9	6,4
Imports	Real growth %	1,3	3,4	4,0	6,3
Internal Demand	Real growth %	1,1	1,6	2,0	2,2
Prices					
CPI	%	4,6	2,9	2,2	2,0
Real Estate (Residential)	%	6,5	0,2	1,5	3,3
Real Estate (Commercial)	%	2,2	0,1	0,6	1,6
Equity prices (incremental change)	%	2,0	0,0	0,0	0,0
Unemployment	% workforce	6,5	6,7	6,9	6,8
Euribor (annual average)					
3-months	%	3,43	3,58	3,02	2,84
End of the period	%	*3,96*	*3,19*	*2,85*	*2,83*
6-months	%	3,69	3,52	2,99	2,87
End of the period	%	*3,92*	*3,11*	*2,87*	*2,86*
12-months	%	3,88	3,40	2,97	2,91
End of the period	%	*3,77*	*3,03*	*2,90*	*2,92*
Yields Soberanas (average)					
Bund 10Y	%	2,53	2,81	2,87	2,98
End of the period	%	*2,81*	*2,81*	*2,92*	*3,04*
PGB 10Y	%	3,33	3,71	3,89	4,11
End of the period	%	*3,64*	*3,78*	*4,00*	*4,21*
PGB 2Y	%	2,96	2,89	2,92	3,18
End of the period	%	*2,99*	*2,79*	*3,05*	*3,31*
10Y PGB-Bund spread					
Annual average	bps	80	90	103	113
End of the period	bps	*83*	*97*	*108*	*117*
10Y-2Y PGB Spread					
Annual average	bps	37	82	97	93
End of the period	bps	*65*	*99*	*95*	*90*

After GDP growth of 6.8% in 2022, the base scenario assumes a slowdown in activity in 2023, to growth of around 2.1%, supported by net external demand, given the strong growth in exports at the beginning of the year (in particular from tourism), and the resilience of private consumption. The decline in GDP growth is explained by the adverse impact on domestic demand of high inflation and rising interest rates. For 2024, it is assumed that GDP growth will decline to 1.4%, with additional lagged impacts from a restrictive monetary policy (increase in debt service), a slight rise in unemployment and a slowdown in exports. The decline in growth is mitigated by the decline in inflation, budgetary support and an acceleration of investment (mainly public investment) within the scope of the Recovery and Resilience Plan. In 2025-26, GDP growth is assumed to converge to trend (annual growth around 2%-2.2%).

After reaching a peak of 7.8% in 2022, average annual inflation remains high in 2023, at around 4.6% (mainly with the contribution of services). A more visible slowdown in consumer prices is assumed for 2024-26, towards the 2% target. In any case, persistent inflation in 2022-24 supports the scenario of higher key interest rates. In the base scenario, these reach their peak in the 4th quarter of 2023. The annual average Euribor in months is seen to increase from 0.35% in 2022 to 3.43% in 2023 and to 3.58% in 2024, before to gradually decrease to 2.84% in 2026 (the rate is expected to peak at around 4% in the 4th quarter of 2023). The PGB-Bund spread is expected to remain contained, below or around 100 basis points in 2024 and 2025.

The household savings rate is expected to increase from 6.5% in 2022 to 7.3% in 2025 and 2026, as private consumption slows, following the post-Covid boom and with the effects of higher interest rates and more restrictive financing conditions. The unemployment rate remains contained, at around 6.5%-6.8% of the active population.

B – Less favorable / adverse scenario, with a relative weight of 17,5%

	Unit	2023	2024	2025	2026
PIB	Real growth %	2,1	-3,2	-1,5	1,6
Private Consumption	Real growth %	1,0	-3,9	-2,6	1,4
Public Expenditure	Real growth %	1,2	0,1	0,1	0,8
Investment	Real growth %	1,5	1,2	1,0	3,7
Exports	Real growth %	4,1	-3,2	0,4	6,3
Imports	Real growth %	1,3	-0,3	0,5	6,5
Internal Demand	Real growth %	1,1	-2,3	-1,4	1,8
Prices					
CPI	%	4,9	4,7	1,9	1,8
Real Estate (Residential)	%	4,7	-10,1	-4,8	0,8
Real Estate (Commercial)	%	1,6	-15,2	-6,5	0,4
Equity prices (incremental change)	%	1,5	-50,0	-45,0	-35,0
Unemployment	% workforce	6,7	8,9	13,1	10,6
Euribor (annual average)					
3-months	%	3,49	4,37	2,96	2,25
End of the period	%	*4,56*	*3,98*	*2,45*	*2,05*
6-months	%	3,79	4,66	2,84	2,15
End of the period	%	*5,05*	*3,87*	*2,33*	*1,96*
12-months	%	3,99	4,65	2,72	2,08
End of the period	%	*5,10*	*3,75*	*2,21*	*1,94*
Yields Soberanas (average)					
Bund 10Y	%	2,90	2,93	1,98	1,80
End of the period	%	*3,65*	*2,21*	*1,75*	*1,85*
PGB 10Y	%	3,69	4,31	3,48	3,08
End of the period	%	*4,84*	*3,78*	*3,17*	*2,99*
PGB 2Y	%	2,86	3,69	2,68	2,24
End of the period	%	*4,39*	*2,99*	*2,36*	*2,11*
10Y PGB-Bund spread					
Annual average	bps	80	138	150	128
End of the period	bps	*119*	*157*	*142*	*114*
10Y-2Y PGB Spread					
Annual average	bps	83	62	80	85
End of the period	bps	*45*	*79*	*81*	*88*

The adverse scenario is based on the assumption that inflation will become more persistent than expected. This could be due to an energy shock, with new impacts from the wars in Ukraine and the Middle East. The ECB responds by further increasing policy rates in late 2023 and 2024. This leads to sharply restrictive financial conditions and a recession in 2024-2025.

In the Portuguese economy, GDP growth falls by 3.2% in 2024 and 1.5% in 2025, mainly as a result of a significant contraction in private consumption, which is negatively impacted by the increase in interest rates, the fall in purchasing power purchase and a significant increase in unemployment. Private investment by families and non-financial corporations also falls in real terms. However, total investment still increases, as a result of the public component, reflecting the implementation of the Recovery and Resilience Plan funds. It is assumed that net external demand will have a negative contribution to growth (decrease in exports, including services).

Average annual inflation is expected to remain well above the target in 2024 (around 4.7% in Portugal). But tighter financial conditions, with higher policy and market interest rates, contribute to the recession in 2024-25, which is assumed to be disinflationary in nature. Inflation falls quickly to levels below 2% in 2025-26, leading the ECB to cut key rates in that period, which translates into a fall in market interest rates, to levels below those observed in the base scenario.

The unemployment rate rises to 8.9% in 2024 and to 13.1% in 2025. The fall in private consumption and the need to compensate for the erosion caused by inflation result in an increase in the household savings rate, to 9. 9% of disposable income in 2025, above pre-Covid levels.

C – Most favorable scenario, with a relative weight of 10%

	Unit	2023	2024	2025	2026
PIB	Real growth %	2,3	2,1	2,4	3,1
Private Consumption	Real growth %	1,3	1,8	2,4	3,5
Public Expenditure	Real growth %	1,2	1,2	1,5	1,4
Investment	Real growth %	1,5	5,5	6,1	5,0
Exports	Real growth %	4,2	3,1	4,7	6,9
Imports	Real growth %	1,3	4,6	5,9	7,7
Internal Demand	Real growth %	1,3	2,4	3,0	3,5
Prices					
CPI	%	4,6	3,0	2,4	2,1
Real Estate (Residential)	%	7,5	1,8	2,5	3,7
Real Estate (Commercial)	%	2,5	0,6	0,8	1,2
Equity prices (incremental change)	%	2,0	15,0	20,0	25,0
Unemployment	% workforce	6,4	6,5	6,4	5,9
Euribor (annual average)					
3-months	%	3,44	3,83	3,52	3,17
End of the period	%	*3,96*	*3,69*	*3,35*	*2,99*
6-months	%	3,70	3,76	3,42	3,11
End of the period	%	*3,92*	*3,60*	*3,24*	*2,97*
12-months	%	3,88	3,65	3,33	3,04
End of the period	%	*3,77*	*3,52*	*3,13*	*2,95*
Yields Soberanas (average)					
Bund 10Y	%	2,53	2,87	3,05	3,28
End of the period	%	*2,85*	*2,88*	*3,21*	*3,35*
PGB 10Y	%	3,33	3,65	3,76	3,91
End of the period	%	*3,64*	*3,66*	*3,86*	*3,96*
PGB 2Y	%	2,96	2,91	2,92	3,00
End of the period	%	*2,99*	*2,83*	*3,01*	*2,99*
10Y PGB-Bund spread					
Annual average	bps	80	79	72	63
End of the period	bps	*79*	*78*	*65*	*61*
10Y-2Y PGB Spread					
Annual average	bps	37	74	84	91
End of the period	bps	*65*	*83*	*85*	*97*

The favorable scenario assumes that the increase in inflation in 2023 proves to be transitory. After recording 4.6%, price growth converges, in the remaining projection horizon, to values close to 2%. This development could be associated with a rapid resolution of conflicts in Ukraine and/or the Middle East and a strong reduction in energy and food prices. Short-term market interest rates decline in 2025-2026 but remain clearly above pre-Covid levels. Long-term interest rates rise throughout the projection horizon, but with the 10-year PGB-Bund spread retreating and evolving at low levels. In this context, it is assumed that economic activity will expand at an above-trend pace for most of the projection horizon and accelerating until 2026. GDP growth benefits from positive investment performance (with the implementation of funds from the PRR), private consumption and exports. Strong external demand and favorable financing conditions support house price growth, albeit in single digits. The unemployment rate is seen falling to close to 5% of the active population.

37.3.3. Impairment Models

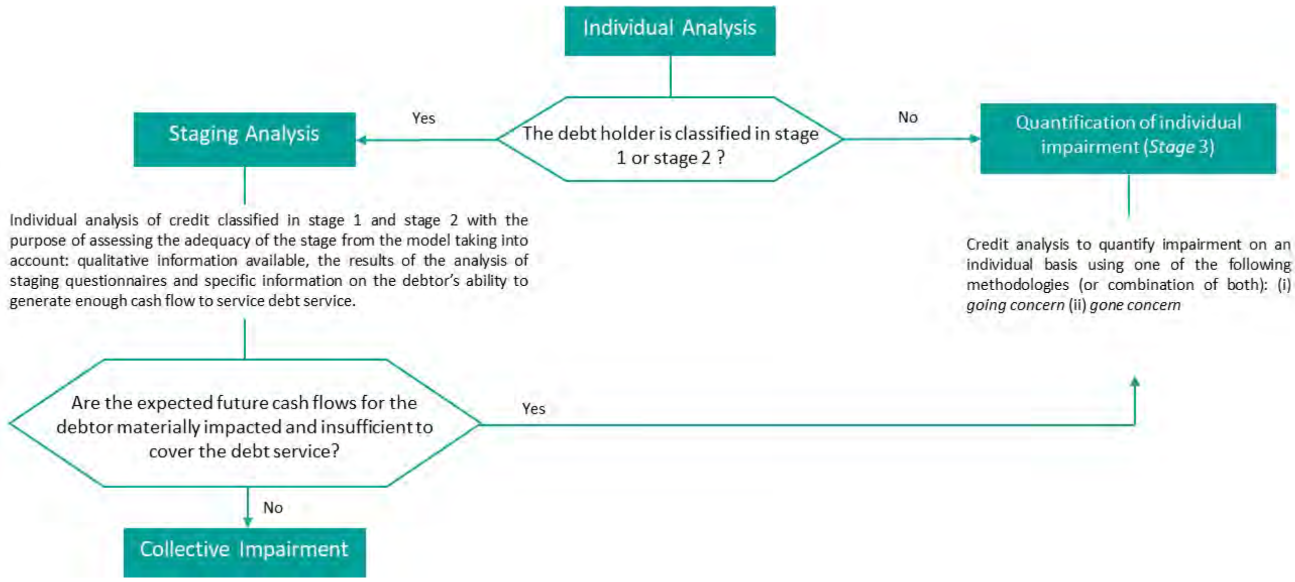
37.3.3.1. Individual Credit Analysis

The Individual Impairment Analysis aims to determine the most appropriate impairment rate for individually significant clients, regardless of the value resulting from the Collective Impairment Model. The identification of individually significant customers is carried out based on the criteria defined in the standard.

The Individual Analysis of individually significant clients is carried out based on the information provided by the Commercial Structures and DRCE (Corporate Credit Recovery Department) regarding the client/Group framework, historical cash flows (wherever possible, at least 3 years) and forecasts (when available) and existing collateral.

In the analysis of quantifying impairment on an individual basis, possible scenarios are established for credit recovery, either through the continuity of the client's business, through the giving/execution of collateral or through the sale of the credit, weighted by the respective probability of occurrence. If the analysis results in no specific impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model.

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



Selection Criteria

The Group considers as the target of an Individual Analysis process (staging analysis and, when applicable, individual impairment quantification), customers who:

- Register exposure in stage 3 and liability equal to or greater than 1 million euros (or equal to or greater than 250 thousand euros if they are DRCE clients);
- Are identified by the Committee itself based on another justified criterion (e.g. sector of activity);
- In the past, they have been assigned specific impairment;
- In the event of any new evidence that may have repercussions on the calculation of impairment, they are proposed for analysis by one of the participants of the Impairment Committee or by another Body/Forum, namely GARC (e.g.: Reclassification in stage 3 within the scope of GARC).

The identification of customers targeted for Individual Analysis will be updated monthly, in order to take into account any changes that may occur throughout the year.

Quantification of Impairment on an Individual Basis

The impairment calculation on an individual basis may take into account different recovery strategies, which must include different possible scenarios, weighted by the respective probability of occurrence, and they must include information on past and current events and forecasts of future economic conditions (forward scenarios -looking).

It is understood that there are two methods of estimating the amount to be recovered by the Bank:

- Going Concern approach ("business continuity" method): estimation of cash flows through the client's activity;
- Gone Concern approach ("cessation of activity" method): presupposes the cessation of the Client's activity, whereby the recoverable value is determined based on scenarios of execution/granting of guarantees provided, the Client's liquidation/insolvency and/or of the respective guarantors/guarantors, and/or the sale of credits to third parties.

Going Concern
This scenario involves a situation of recovery of outstanding amounts through the cash flows generated by the client's business.

The going concern scenario is considered to be applicable when:

- There is updated and reliable financial information about the debtor so that it is possible to reliably estimate the future cash flows that will be channeled to fulfill the debt service (e.g.: financial information aged less than or equal to 1 year and/or reports audits that do not recurrently present reservations);
- The available information suggests that the debtor will have the capacity to generate cash flows from its operational activities.

This analysis can be carried out using the following approaches:
- "Discounted Cash Flow" approach supported by a reliable business plan and adjusted to the expectations of the evolution of the debtor's activity;
- "Twostep Discounted Cash Flow" - approach supported by a Discounted Cash Flow (Step 1), complemented with a Terminal value (Step 2);
- "Steady state" in the absence of a reliable business plan, the latest available financial statements may be used, and the Group must make any adjustments it deems necessary to determine the operational cashflow that will be generated to cover debt service.

Gone Concern
In the gone concern approach, the recovery of amounts owed will be materialized through a scenario of payment in kind and/or the execution of collateral allocated to the credit granted. This approach therefore considers the scenario of cessation of the company's activity and the preparation of estimates of the flows that result from the execution and sale of collateral allocated to credit.

The consideration of a scenario of donation or execution of collateral must, in a first phase, take into account the eligibility of the collateral for recovery of the amounts owed, i.e., the verification that the asset meets the necessary conditions to be considered for consideration. effects of calculating the recoverable value (e.g.: registration of mortgages, lack of seizure of assets, among others). By way of example, if another creditor has a preferential mortgage on the collateral that is greater than the recoverable value of the asset, then the Group should not consider any amount recoverable from that collateral.

Subsequently, the recoverable value must be determined in accordance with the rules described in Circular Letter no. CC/2018/0000006, particularly with regard to the deadlines for receiving collateral, sales costs, maintenance costs, haircuts to be applied in accordance with the age of the evaluation, among others.

37.3.3.2. Collective analysis adjustments to the automatic result of the model

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

When this is not possible, the calculated impairment value is recorded without being allocated to specific exposures and, for that purpose, the stage and the type of credit to which it refers are associated. Having the prerogative to ensure that all impairment is allocated to specific exposures, these impairment amounts initially constituted in the unallocated form will, once conditions exist, be fully distributed over the exposures in which their allocation is determined.

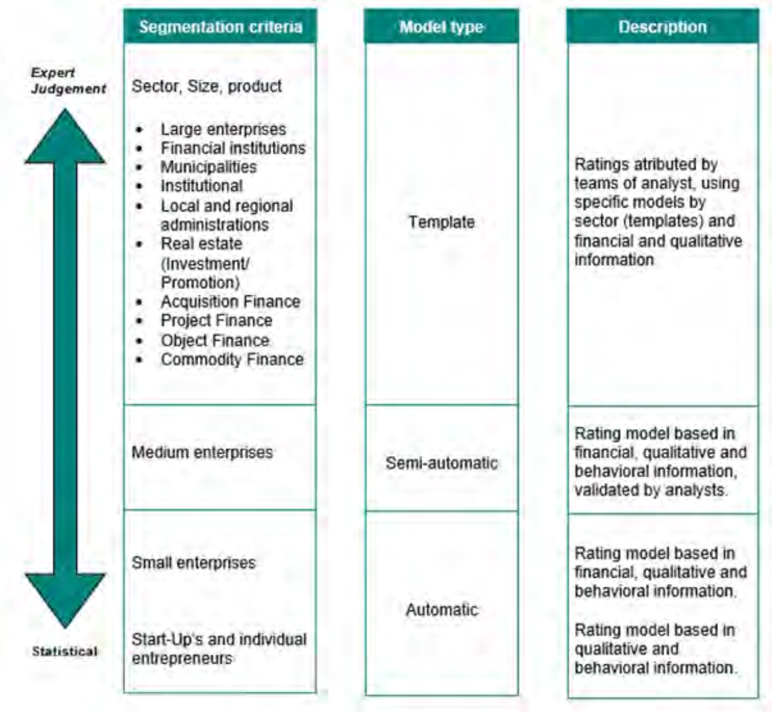
In terms of the governance model, both adjustments to specific exposures and impairment amounts constituted in the unallocated form must be validated and supported by an approval by a competent body, which, as a rule, will be the Extended Impairment Committee.

37.3.4. Credit Risk Monitoring

37.3.4.1. Internal rating models for corporate, institutional and equity portfolios

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

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



The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Individual Business Owners (ENIs); Small Businesses; Medium Businesses; Large Companies; Real Estate and Rental Real Estate; Large Business Holding; Financial Institutions; Municipalities and Institutions; Countries; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

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

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

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

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

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

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

As for the risk positions equivalent to equities held by the novobanco, directly or indirectly through the holding of investment funds, as well as advances and accessory benefits, all included in the equity risk class for the purpose of calculating risk-weighted assets, are classified in various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented earlier. These segmentation criteria determine the type of rating model to be applied to the issuers of the stocks (or borrowers of the advances / accessory benefits) and, therefore, to them.

37.3.4.2 - Relationships between internal and external ratings

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

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

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

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

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

<table>
<tr><th>S&P</th><th>Moody's</th><th>Fitch</th><th>External rating equivalent to S&P</th><th>Aggregation classes of rating*</th></tr>
<tr><td>AAA</td><td>Aaa</td><td>AAA</td><td>AAA</td><td>Prime Grade</td></tr>
<tr><td>AA+</td><td>Aa1</td><td>AA+</td><td>AA+</td><td rowspan="3">High grade</td></tr>
<tr><td>AA</td><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>AA-</td><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A+</td><td>A1</td><td>A+</td><td>A+</td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A</td><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A-</td><td>A3</td><td>A-</td><td>A-</td></tr>
<tr><td>BBB+</td><td>Baa1</td><td>BBB+</td><td>BBB+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>BBB</td><td>Baa2</td><td>BBB</td><td>BBB</td></tr>
<tr><td>BBB-</td><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>BB+</td><td>Ba1</td><td>BB+</td><td>BB+</td><td rowspan="3">Non investment grade speculative</td></tr>
<tr><td>BB</td><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>BB-</td><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>B+</td><td>B1</td><td>B+</td><td>B+</td><td rowspan="3">Highly speculative</td></tr>
<tr><td>B</td><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B-</td><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td>CCC+</td><td>Caa1</td><td>CCC+</td><td>CCC+</td><td rowspan="6">Others</td></tr>
<tr><td>CCC</td><td>Caa2</td><td>CCC</td><td>CCC</td></tr>
<tr><td>CCC-</td><td>Caa3</td><td>CCC-</td><td>Lower than CCC</td></tr>
<tr><td>CC</td><td>Ca</td><td>CC</td><td></td></tr>
<tr><td>SD</td><td>C</td><td>C</td><td></td></tr>
<tr><td>D</td><td></td><td>RD/D</td><td></td></tr>
</table>

* for the purposes of disclosing information in the explanatory notes

37.3.4.3 - Internal scoring models for Individual portfolios

Regarding scoring models for individual portfolios, NB has origination / concession and behavioral scoring models (applied to operations older than 6 months).

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

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

37.3.4.2. Other specific disclosures

Forward Looking Models

Collective impairment models incorporate forward looking information through macroeconomic models, which estimate the evolution of risk parameters through the evolution of macroeconomic variables.

Regarding the PD model, the forward looking adjustment is carried out for the segments of Large and Medium-sized Companies, Small Companies and Start-ups, Home Credit and Other Consumer Credit. For LGD models, there is a specific macroeconomic adjustment for the Housing, Consumer and Corporate Credit segments.

The aforementioned models are based on the historical series of defaults and, on the other hand by the historical series of the main macroeconomic variables (GDP, inflation, interest rate, unemployment rate and property prices), having been used quarterly historical data since 2010. The definition of the final models depends on the economic sense and their statistical performance.

37.3.5. Delinquency

The table below displays the assets impaired, or overdue but not impaired:

(thousands of Euros)

	2023					
	Neither overdue or impaired	Overdue but not impaired	Impaired	Total exposurel	Impairment	Net Exposure
Deposits with and loans and advances to banks	323 465	-	-	323 465	(667)	322 798
Securities held for trading	318 528	-	-	318 528	-	318 528
Bonds issued by government and other public entities	318 528	-	-	318 528	-	318 528
Securities at fair value through profit/loss - mandatory	465 211	-	-	465 211	-	465 211
Bonds issued by other entities	465 211	-	-	465 211	-	465 211
Securities at fair value through other comprehensive income	654 462	-	20 584	675 046	(211)	674 835
Bonds issued by government and other public entities	285 852	-	-	285 852	(21)	285 831
Bonds issued by other entities	368 610	-	20 584	389 194	(190)	389 004
Securities at amortised cost	8 084 645	-	440 269	8 524 914	(324 344)	8 200 570
Bonds issued by government and other public entities	4 402 729	-	-	4 402 729	(585)	4 402 144
Bonds issued by other entities	3 681 916	-	440 269	4 122 185	(323 759)	3 798 426
Loans and advances to customers	22 792 360	16 162	1 107 213	23 915 735	(935 991)	22 979 744

(thousands of Euros)

	2022					
	Neither overdue or impaired	Overdue but not impaired	Impaired	Total exposurel	Impairment	Net Exposure
Deposits with and loans and advances to banks	414 135	-	-	414 135	(674)	413 461
Securities held for trading	36 428	-	-	36 428	-	36 428
Bonds issued by government and other public entities	36 428	-	-	36 428	-	36 428
Securities at fair value through profit/loss - mandatory	433 665	-	-	433 665	-	433 665
Bonds issued by other entities	433 665	-	-	433 665	-	433 665
Securities at fair value through other comprehensive income	2 083 797	-	25 248	2 109 045	(589)	2 108 456
Bonds issued by government and other public entities	1 629 639	-	-	1 629 639	(382)	1 629 257
Bonds issued by other entities	454 158	-	25 248	479 406	(207)	479 199
Securities at amortised cost	8 281 706	-	410 094	8 691 800	(291 567)	8 400 233
Bonds issued by government and other public entities	4 590 460	-	-	4 590 460	(1 714)	4 588 746
Bonds issued by other entities	3 691 246	-	410 094	4 101 340	(289 853)	3 811 487
Loans and advances to customers	22 487 282	5 765	1 355 397	23 848 444	(1 057 567)	22 790 877

Impaired exposures correspond to (i) exposures with objective evidence of loss ("Exposure in default", according to the internal definition of default - which corresponds to Stage 3); and (ii) exposures classified as having specific impairment after individual impairment assessment.

The exposures classified as not having impairment relate to (i) all exposures that do not show signs of significant deterioration in credit risk - exposures classified in Stage 1; (ii) exposures that, showing signs of significant deterioration in credit risk, have no objective evidence of loss or specific impairment after an individual assessment of impairment.

The following table presents the assets that are impaired or overdue but not impaired, split by their respective maturity or ageing (when overdue):

(thousands of Euros)

	2023					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue	**-**	**102 968**	**-**	**-**	**16 162**	**347 942**
Up to 3 months	-	-	-	-	13 063	13 274
From 3 months to 1 year	-	-	-	-	1 283	121 865
From 1 to 3 years	-	-	-	-	1 071	130 683
From 3 to 5 years	-	1 746	-	-	709	15 882
More than 5 years	-	101 222	-	-	36	66 238
Due	**-**	**357 885**	**-**	**-**	**-**	**759 271**
Up to 3 months	-	13 510	-	-	-	56 576
From 3 months to 1 year	-	344 284	-	-	-	109 559
From 1 to 3 years	-	-	-	-	-	87 260
From 3 to 5 years	-	91	-	-	-	187 422
More than 5 years	-	-	-	-	-	318 454
	-	**460 853**	**-**	**-**	**16 162**	**1 107 213**

(thousands of Euros)

	2022					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue	**-**	**102 968**	**-**	**-**	**5 765**	**332 385**
Up to 3 months	-	-	-	-	3 423	15 525
From 3 months to 1 year	-	-	-	-	1 448	102 395
From 1 to 3 years	-	-	-	-	822	91 577
From 3 to 5 years	-	6 696	-	-	53	38 165
More than 5 years	-	96 272	-	-	19	84 723
Due	**-**	**332 374**	**-**	**-**	**-**	**1 023 012**
Up to 3 months	-	327 619	-	-	-	49 932
From 3 months to 1 year	-	-	-	-	-	172 570
From 1 to 3 years	-	-	-	-	-	225 914
From 3 to 5 years	-	4 755	-	-	-	81 317
More than 5 years	-	-	-	-	-	493 279
	-	**435 342**	**-**	**-**	**5 765**	**1 355 397**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(thousands of Euros)

	2023				2022			
	Stage 1	*Stage* 2	*Stage* 3	Total	*Stage* 1	*Stage* 2	*Stage* 3	Total
Deposits with and loans and advances to banks	-	-	-	-	-	-	-	-
Securities at fair value through other comprehensive income	-	-	20 584	20 584	-	-	25 248	25 248
Securities at amortised cost	-	-	440 269	440 269	-	-	410 094	410 094
Loans and advances to customers	11 235	4 927	1 107 213	1 123 375	-	-	1 361 162	1 361 162
	11 235	**4 927**	**1 568 066**	**1 584 228**	**-**	**-**	**1 796 504**	**1 796 504**

Distribution of credit risk by rating level

Regarding assets that are neither past due nor impaired, the distribution by rating grade is presented below. For the debt instruments, the rating assigned by the Rating Agencies is taken into account, for the credit to clients and cash and deposits with credit institutions, the internal rating and scoring models are used, that assign a risk rating, which is periodically reviewed. For the purposes of presenting the information, the ratings have been aggregated into five major risk groups, with the last group including the unrated exposures.

(thousands of Euros)

	2023					
	Prime +High grade	**Upper Medium Grade**	**Lower Medium grade**	**Non-Investment Grade Speculative + Highly speculative**	**Others**	**Total**
Deposits with and loans and advances to banks	2 093	75 234	5 739	20 769	219 630	323 465
Securities held for trading	121 431	114 400	82 697	-	-	318 528
Bonds issued by government and other public entities	121 431	114 400	82 697	-	-	318 528
Bonds issued by other entities	-	-	-	-	-	-
Securities at fair value through results	-	-	-	-	-	-
Debt instruments from other public entities	-	-	-	-	-	-
Debt instruments - other issuers	-	-	-	-	-	-
Securities at fair value through profit/loss - mandatory	-	-	-	-	465 211	465 211
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	465 211	465 211
Securities at fair value through other comprehensive income	145 868	253 586	200 641	-	54 367	654 462
Bonds issued by government and other public entities	145 868	129 993	9 991	-	-	285 852
Bonds issued by other entities	-	123 593	190 650	-	54 367	368 610
Securities at amortised cost	2 270 897	1 822 665	1 568 211	551 373	1 871 499	8 084 645
Bonds issued by government and other public entities	2 236 452	1 366 307	517 534	-	282 436	4 402 729
Bonds issued by other entities	34 445	456 358	1 050 677	551 373	1 589 063	3 681 916
Loans and advances to customers	5 610 977	6 013 313	2 541 315	7 704 060	922 695	22 792 360

(thousands of Euros)

	2022					
	Prime +High grade	Upper Medium Grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Others	Total
Deposits with and loans and advances to banks	625	26 595	57 692	72 881	256 342	414 135
Securities held for trading	-	-	-	-	36 428	36 428
Bonds issued by government and other public entities	-	-	-	-	36 428	36 428
Bonds issued by other entities	-	-	-	-	-	-
Securities at fair value through results	-	-	-	-	13	13
Debt instruments from other public entities	-	-	-	-	-	-
Debt instruments - other issuers	-	-	-	-	13	13
Securities at fair value through profit/loss - mandatory	-	-	-	-	433 665	433 665
Bonds issued by government and other public entities	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	433 665	433 665
Securities at fair value through other comprehensive income	700 313	717 790	616 785	-	48 909	2 083 797
Bonds issued by government and other public entities	686 424	683 903	259 312	-	-	1 629 639
Bonds issued by other entities	13 889	33 887	357 473	-	48 909	454 158
Securities at amortised cost	2 935 513	2 036 816	1 048 626	553 872	1 706 879	8 281 706
Bonds issued by government and other public entities	2 252 149	1 668 779	341 704	-	327 828	4 590 460
Bonds issued by other entities	683 364	368 037	706 922	553 872	1 379 051	3 691 246
Loans and advances to customers	5 783 346	5 852 343	2 457 978	7 677 338	716 277	22 487 282

37.3.6. Concentration of credit risk

The analysis of risk exposure by sector of activity, on 31 December 2022 and 2021, is presented as follows:

(thousands of Euros)

	2023												
	Loans to customers		Securities held for trading	Derivatives held for trading	Securities at fair value through profit or loss	Securities mandatorily at fair value through profit or loss	Derivatives - Hedge accounting	Securities at fair value through other comprehensive income		Securities at amortized cost		Guarantees and endorsements provided	
	Gross Value	Impairment						Gross Value	Impairment	Gross Value	Impairment	Gross Value	Impairment
Agriculture, Forestry, and Fishing	302 578	(6 334)	-	-	-	-	-	8 363	-	5 766	(6)	7 648	(107)
Extractive Industries	57 469	(3 269)	-	-	-	-	-	14 764	(7)	18 697	(5)	9 387	(280)
Food, Beverage and Tobacco Industries	472 014	(9 440)	-	1 084	-	-	-	19 620	(6)	107 785	(304)	33 717	(83)
Textiles and Clothing	332 265	(11 408)	-	106	-	-	-	-	-	7 103	(77)	6 089	(2 140)
Tanneries and Footwear	58 155	(1 197)	-	-	-	-	-	-	-	5 024	-	1 445	(115)
Wood and Cork	106 131	(816)	-	256	-	-	-	-	-	42 486	(410)	9 527	(245)
Paper and Graphic Industries	86 284	(4 214)	-	325	-	-	-	-	-	29 181	(138)	5 066	(17)
Oil Refining	15 448	(4 747)	-	-	-	-	-	13 429	(2)	60 341	(11)	11 910	(2)
Chemical and Rubber Product	331 556	(7 430)	-	116	-	-	-	-	-	258 791	(127)	9 246	(383)
Non-Metallic Mineral Products	208 819	(2 705)	-	9	-	-	-	-	-	123 274	(63)	13 243	(155)
Basic Metallurgical Industries and metal products	339 892	(14 102)	-	804	-	-	-	184	-	88 643	(346)	41 467	(374)
Manufacture of Machines, Equipment and Electrical Appliances	182 068	(3 360)	-	384	-	-	-	36 493	(18)	211 288	(48)	19 792	(3 974)
Manufacture of Transport Materials	156 110	(9 988)	-	-	-	-	-	-	-	100 058	(78)	12 379	(38)
Other Manufacturing Industries	143 730	(4 871)	-	-	-	-	-	-	-	20 378	(16)	15 123	(2 045)
Electricity, Gas and Water	342 545	(1 595)	-	5 329	-	-	-	-	-	243 643	(243)	35 311	(25)
Construction and Public Works	1 274 696	(127 075)	-	14 485	-	-	-	12 710	(33)	214 382	(137 557)	778 122	(40 992)
Wholesale and Retail Trade	1 445 291	(41 169)	-	3 714	-	-	-	18 032	(9)	104 873	(77)	180 231	(3 417)
Tourism	1 109 052	(50 448)	-	738	-	-	-	145	-	-	-	44 683	(643)
Transport and Communications	873 078	(29 181)	-	12 088	-	-	-	34 582	(6)	340 776	(234)	425 074	(1 396)
Financial Activities	1 014 892	(80 027)	-	72 345	-	1 434 485	683 074	161 309	(21)	1 095 420	(615)	186 374	(82)
Real Estate Activities	1 791 295	(140 115)	-	4 672	-	-	-	34 258	(77)	178 027	(86 951)	81 590	(4 069)
Services Provided to Companies	1 987 456	(143 810)	-	1 359	-	205	-	76 977	(7)	704 318	(95 482)	342 618	(12 882)
Administration and Public Services	443 232	(25 369)	318 528	-	-	-	-	285 852	(21)	4 419 909	(597)	20 705	(84)
Other collective service activities	395 004	(21 317)	-	-	-	-	-	24 728	(4)	144 751	(959)	40 889	(893)
Mortgage Loans	8 752 346	(63 563)	-	-	-	-	-	-	-	-	-	-	-
Loans to Individuals	1 513 441	(118 337)	-	-	-	-	-	-	-	-	-	-	-
Others	180 888	(10 104)	-	3	-	-	-	-	-	-	-	15 797	(224)
TOTAL	**23 915 735**	**(935 991)**	**318 528**	**117 817**	**-**	**1 434 690**	**683 074**	**741 446**	**(211)**	**8 524 914**	**(324 344)**	**2 347 433**	**(74 665)**

(thousands of Euros)

	2022													
	Loans to customers		Securities held for trading	Derivatives held for trading	Securities at fair value through profit or loss	Securities mandatorily at fair value through profit or loss	Derivatives - Hedge accounting	Securities at fair value through other comprehensive income		Securities at amortized cost		Guarantees and endorsements provided	
	Gross Value	Impairment						Gross Value	Impairment	Gross Value	Impairment	Gross Value	Impairment
Agriculture, Forestry, and Fishing	314 282	(6 361)	-	-	-	-	-	8 616	-	5 788	(15)	11 878	(5 902)
Extractive Industries	65 487	(5 033)	-	-	-	-	-	14 277	(7)	18 445	(8)	8 851	(335)
Food, Beverage and Tobacco Industries	451 857	(11 092)	-	4 302	-	-	-	19 152	(9)	112 027	(188)	35 920	(260)
Textiles and Clothing	399 438	(21 326)	-	298	-	-	-	-	-	9 690	(9)	7 026	(958)
Tanneries and Footwear	71 976	(1 253)	-	-	-	-	-	-	-	5 522	(1)	1 518	(117)
Wood and Cork	135 642	(2 490)	-	609	-	-	-	-	-	53 959	(114)	7 563	(255)
Paper and Graphic Industries	95 294	(5 900)	-	629	-	-	-	-	-	28 906	(139)	5 780	(22)
Oil Refining	16 314	(114)	-	1	-	-	-	13 718	(2)	59 816	(16)	2 264	-
Chemical and Rubber Product	288 743	(7 069)	-	357	-	-	-	-	-	221 901	(186)	15 775	(135)
Non-Metallic Mineral Products	186 565	(2 412)	-	4	-	-	-	14 839	(5)	93 571	(105)	35 468	(165)
Basic Metallurgical Industries and metal products	389 416	(16 041)	-	145	-	-	-	433	-	48 649	(75)	34 232	(390)
Manufacture of Machines, Equipment and Electrical Appliances	229 052	(10 721)	-	42	-	-	-	41 511	(25)	191 510	(63)	21 824	(3 559)
Manufacture of Transport Materials	176 450	(4 941)	-	-	-	-	-	-	-	58 643	(65)	12 813	(290)
Other Manufacturing Industries	146 223	(4 877)	-	-	-	-	-	-	-	39 244	(22)	18 174	(2 452)
Electricity, Gas and Water	235 377	(3 438)	-	4 916	-	-	-	6 435	-	170 300	(2 675)	33 760	(88)
Construction and Public Works	1 402 541	(133 395)	-	16 597	-	-	-	14 533	(6)	229 922	(117 563)	709 328	(45 840)
Wholesale and Retail Trade	1 455 117	(41 766)	-	7 371	-	-	-	17 373	(10)	87 673	(58)	178 985	(3 190)
Tourism	1 159 301	(83 692)	-	-	-	-	-	124	-	-	-	48 385	(1 027)
Transport and Communications	908 728	(28 609)	-	7 345	-	-	-	46 531	(20)	228 236	(304)	394 609	(1 762)
Financial Activities	717 583	(65 727)	-	90 113	-	1 535 145	562 886	207 058	(92)	1 639 254	(492)	152 540	(133)
Real Estate Activities	1 736 996	(162 024)	-	1 428	-	-	-	29 699	(11)	150 030	(73 610)	90 041	(3 484)
Services Provided to Companies	2 263 447	(161 737)	-	98	13	129	-	80 134	(11)	692 736	(93 479)	358 605	(10 716)
Administration and Public Services	409 300	(25 241)	36 428	-	-	-	-	1 629 863	(382)	4 403 137	(1 714)	21 158	(109)
Other collective service activities	423 173	(42 174)	-	145	-	2 378	-	24 849	(9)	92 579	(662)	38 037	(962)
Mortgage Loans	8 484 134	(44 889)	-	-	-	-	-	-	-	-	-	-	-
Loans to Individuals	1 286 010	(133 047)	-	-	-	-	-	-	-	-	-	-	-
Others	399 998	(32 198)	-	19	-	-	-	13 889	-	50 262	(4)	17 558	(241)
TOTAL	**23 848 444**	**(1 057 567)**	**36 428**	**134 419**	**13**	**1 537 652**	**562 886**	**2 183 034**	**(589)**	**8 691 800**	**(291 567)**	**2 262 092**	**(82 392)**

37.4. Market risk

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

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, being this risk monitored by the Risk Committee.

In terms of market risk, the main element of risk measurement consists of estimating potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. The novobanco Group uses a VaR using Monte Carlo simulation, with a 99% confidence interval and an investment period of 10 days. Volatilities and correlations are historical based on a one-year observation period. Validation of the suitability of the VaR model is carried out daily through the backtesting process (theoretical and real). Additionally, on a monthly basis, market risk monitoring includes the reporting of additional metrics within the scope of the stress testing framework, namely Stressed VaR (SVaR), historical stress scenarios and sensitivity analyzes to the main risk factors. Additionally, the market risk control framework incorporates a monthly process of monitoring portfolio positions within the scope of controlling the boundary between the trading book and the banking book, as well as independent validation (2nd line of defense) of the valuation of financial instruments at fair value.

(thousands of Euros)

	2023				2022			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	653	584	1 348	356	328	1 299	4 362	328
Interest rate risk	1 096	1 752	4 707	422	586	5 532	47 720	586
Shares and commodities	0	21	250	0	0	0	0	-
Volatility	0	60	312	0	1	380	2 117	1
Credit spread	317	607	2 271	234	415	841	2 386	229
Diversification effect	(1 016)	(780)	(2 025)	(32)	(433)	(1 738)	(7 766)	(248)
Total	**1 051**	**2 244**	**6 864**	**979**	**897**	**6 314**	**48 820**	**897**

novobanco has a VaR of Euro 1.051 thousand euros (31 December 2021: 897 thousand euros) in respect of its trading positions. The decrease is essentially explained by the decrease in the position in interest rate risk hedging derivatives of the bank portfolio.

37.4.1. Interest Rate Risk

Following the recommendations of the European Banking Authority explained in the set of guidelines published in 2022 (EBA/GL/2022/14, EBA/RTS/2022/09 and EBA/RTS/2022/10) novobanco Group calculates its exposure to risk balance sheet interest rate based on prescribed shocks, classifying notional and interest amounts by repricing or key rate duration brackets, of all asset, liability and off-balance sheet items sensitive to interest rates, which do not belong to the trading portfolio . The calculation of balance sheet interest rate risk is also measured through internal shocks defined by the bank, namely through VaR metrics.

In this context, novobanco Group has implemented a stress testing approach to interest rate risk based on three pillars: interest rate shock scenarios, sensitivity analyzes and reverse stress testing.

The interest rate risk control framework allows novobanco Group to monitor and measure the impact of different interest rate scenarios, both from an economic value perspective and from a financial margin perspective, changing and adapting its risk profile in in line with the defined risk management strategy. Given the recent scenario of a significant increase in interest rates starting in the second half of 2022, this monitoring and control has become even more relevant, in order to guarantee the protection of economic value and financial margin in the face of interest rate volatility.

As a result of novobanco Group's risk profile, with variable rate assets predominating and an essentially fixed rate liability structure, the rise in interest rates translated into a significant increase in financial margin, as a result of the favorable interest rate environment and the careful management of asset interest rates and financing costs. In addition, and taking into account the EBA's new regulatory shock on net interest income, whose regulatory limit is 5% of Tier 1 (on December 31, 2023 this limit was still indicative), the Bank adopted management measures in order to be able to fit the sensitivity of net interest income in a scenario of falling interest rates within the (indicative) limit established.

Following the recommendations of Basel II (Pilar 2) and Instruction No. 19/2005, of the Bank of Portugal, novobanco Group calculates its exposure to balance sheet interest rate risk based on the Bank of International Settlements (BIS) methodology. classifying all asset, liability and off-balance sheet items, which do not belong to the trading portfolio, by repricing levels.

(thousands of Euros)

	2023					
	Eligible amounts	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**
Loans and advances to banks	5 865 014	5 762 343	100 000	2 629	42	-
Loans and advances to customers	23 323 150	13 384 158	4 434 408	2 777 436	1 867 795	859 353
Securities	10 134 098	1 753 679	842 514	182 160	3 995 853	3 359 892
Other assets	178 059	178 059	-	-	-	-
Total		**21 078 239**	**5 376 922**	**2 962 225**	**5 863 690**	**4 219 245**
Deposits from banks	6 547 035	5 895 702	269 066	147 441	231 689	3 137
Due to customers	29 121 550	12 290 023	3 673 355	4 061 919	6 204 248	2 892 005
Debt securities issued	2 165 658	-	-	-	600 000	1 565 658
Other liabilities	969 072	774 505	39 489	79 734	75 344	-
Total		**18 960 230**	**3 981 910**	**4 289 094**	**7 111 281**	**4 460 800**
Balance sheet GAP (Assets - Liabilities)	697 005	2 118 009	1 395 011	(1 326 870)	(1 247 590)	(241 555)
Off-Balance sheet	-	(3 442 043)	(155 145)	(140 937)	4 052 806	(314 681)
Structural GAP	**697 005**	**(1 324 034)**	**1 239 866**	**(1 467 807)**	**2 805 216**	**(556 236)**
Accumulated GAP		**(1 324 034)**	**(84 168)**	**(1 551 975)**	**1 253 241**	**697 005**

(thousands of Euros)

	2022					
	Eligible amounts	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans and advances to banks	6 530 130	6 425 590	100 000	4 502	18	20
Loans and advances to customers	23 311 653	13 474 715	4 299 392	2 898 241	1 748 925	890 380
Securities	11 863 628	1 813 859	787 465	2 086 492	2 953 975	4 221 837
Other assets	134 045	134 045	-	-	-	-
Total		**21 848 209**	**5 186 857**	**4 989 235**	**4 702 918**	**5 112 237**
Deposits from banks	10 493 818	9 704 967	325 100	171 592	(752)	292 911
Due to customers	28 403 671	18 000 157	2 670 859	3 702 650	3 179 172	850 833
Debt securities issued	2 640 658	275 000	-	299 964	100 036	1 965 658
Other liabilities	787 899	738 146	6 882	9 783	26 990	6 098
Total		**28 718 270**	**3 002 841**	**4 183 989**	**3 305 446**	**3 115 500**
Balance sheet GAP (Assets - Liabilities)	(486 591)	(6 870 062)	2 184 016	805 246	1 397 473	1 996 736
Off-Balance sheet	1 045	(1 300 422)	1 302 320	(590 086)	810 306	(221 073)
Structural GAP	**(485 545)**	**(8 170 484)**	**3 486 336**	**215 161**	**2 207 779**	**1 775 663**
Accumulated GAP		**(8 170 484)**	**(4 684 148)**	**(4 468 987)**	**(2 261 208)**	**(485 545)**

Sensitivity analyses are carried out for the interest rate risk of the banking portfolio based on an approximation to the duration model, with various scenarios of shift of the yield curve being carried out in all interest rate brackets.

(thousands of Euros)

	2023					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	*Short Rate Shock Up*	*Short Rate Shock Down*	*Steepener shock*	*Flattener shock*
As at 31 December	(219 057)	147 303	(119 451)	65 416	7 766	(49 405)
Exercise average	(162 778)	70 207	(106 756)	59 039	18 799	(63 603)
Exercise maximum	44 560	209 961	(13 794)	135 003	40 358	(20 429)
Exercise minimum	(380 019)	(152 580)	(247 596)	8 691	419	(144 031)

(thousands of Euros)

	2022					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	*Short Rate Shock Up*	*Short Rate Shock Down*	*Steepener shock*	*Flattener shock*
As at 31 December	(334 517)	200 038	(227 249)	123 841	38 128	(132 267)
Exercise average	(17 375)	2 525	(94 998)	68 433	69 877	(118 588)
Exercise maximum	69 075	205 226	(57 198)	123 841	98 327	(71 234)
Exercise minimum	(334 517)	(235 847)	(227 249)	35 622	30 932	(143 180)

37.4.2 Foreign Exchange Risk

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, on 31 December 2022 and 2021, is analysed as follows:

(thousand of Euros)

		2023				2022			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(499 111)	506 031	(18)	6 902	(635 627)	634 533	91	(1 003)
GBP	GREAT BRITISH POUND	(46 498)	48 788	-	2 290	(47 219)	46 965	-	(254)
BRL	BRAZILIAN REAL	908	-	-	908	866	-	-	866
DKK	DANISH KRONE	(7 213)	7 635	-	422	(3 439)	3 079	-	(360)
JPY	JAPANESE YEN	(1 385)	1 521	2	138	(2 357)	2 318	-	(39)
CHF	SWISS FRANC	(2 022)	4 590	-	2 568	(9 359)	9 769	-	410
SEK	SWEDISH KRONE	(5 087)	5 795	-	708	17 568	(17 578)	-	(10)
NOK	NORWEGIAN KRONE	48 641	(47 178)	-	1 463	53 277	(53 059)	-	218
CAD	CANADIAN DOLLAR	(19 853)	22 060	-	2 207	(17 250)	19 003	-	1 753
ZAR	SOUTH AFRICAN RAND	(516)	757	-	241	(11)	(530)	-	(541)
AUD	AUSTRALIAN DOLLAR	8 309	(7 317)	-	992	9 589	(9 463)	-	126
VEB	VENEZUELAN BOLIVAR	3	-	-	3	2	-	-	2
MOP	MACAO PATACA	108	-	-	108	2 409	-	-	2 409
MAD	MOROCCAN DIRHAN	(1 350)	2 064	-	714	(2 558)	2 256	-	(302)
MXN	MEXICAN PESO	59	(91)	-	(32)	(7)	-	-	(7)
AOA	ANGOLAN KWANZA	(13)	-	-	(13)	(23)	-	-	(23)
PLN	POLISH ZLOTY	3 081	(2 507)	-	574	(2 998)	3 010	-	12
CZK	CZECH KORUNA	225	(425)	-	(200)	6	(114)	-	(108)
DZD	ALGERIAN DINAR	7 593	-	-	7 593	7 638	-	-	7 638
CNY	YUAN REN-MIN-BI	(8)	(255)	-	(263)	326	(347)	-	(21)
	OTHER	(1 648)	3 022	-	1 374	(406)	1 574	-	1 168
		(515 777)	**544 490**	**(16)**	**28 697**	**(629 573)**	**641 416**	**91**	**11 934**

Note: asset / (liability)

37.5. Liquidity Risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its obligations as they fall due, without incurring substantial losses.

Liquidity risk can be subdivided into two types:

- Asset liquidity (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to a lack of liquidity in the market, which results in the widening of the bid/offer spread or the application of a haircut to the market value;

- Funding (funding liquidity risk) - consists in the impossibility of financing assets in the market and/or refinancing maturing debt, within the desired terms and currency. This impossibility can be reflected through a sharp increase in financing costs or the requirement of collateral to obtain funds. The difficulty of (re)financing can lead to the sale of assets, even if incurring significant losses. The risk of (re)financing should be minimized through appropriate diversification of financing sources and maturities.

Banks are subject to liquidity risk inherent in their maturity transformation business (long-term lenders and short-term depositors), making prudent liquidity risk management crucial.

As at December 31, 2023, and 2022, the main liquidity indicators is as follows:

(thousand of Euros)

	2023	2022
Gross funding from the ECB	1 129	6 323
Net funding from the ECB (1)	(4 246)	385
Portfolio of Eligible Assets for Repos (ECB and others), net of haircut	14 145	16 848
Used collateral	6 947	9 962
Liquidity Buffer (2)	13 529	13 667
Transformation Ratio (3)	84,3%	83,3%
Liquidity Coverage Ratio (LCR) (4)	155%	202%
Net Stable Funding Ratio (NSFR) (4)	115%	105%

(1) Includes ESCB financing and investments; a positive value corresponds to a resource; a negative value corresponds to an investment
(2) Corresponds to eligible assets portfolio adding HQLA securities non eligible for ECB, deducted of the used collateral
(3) (Total Loans - Accumulated Impairment on Loans)/ Customer Deposits
(4) Preliminary

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are included in regulatory legislation, and the LCR aims to promote the resilience of Banks to short-term liquidity risk, ensuring that they hold high quality liquid assets, sufficient to survive a severe stress scenario, for a period of 30 days, while the NSFR aims to ensure that Banks maintain stable funding for their assets and off-balance sheet operations, for a period of one year. In accordance with current regulatory legislation, the novobanco Group is required to comply with a minimum regulatory limit of 100% in both ratios (LCR and NSFR).

In the novobanco Group, liquidity is managed in a centralized manner at the Headquarters for the prudential consolidated group, with analysis and decision-making based on reports that allow not only to identify negative mismatches but to perform dynamic coverage of them. In accordance with the rules of the ITS (Implementing Technical Standards), the calculation of the net contractual deficit and the rebalancing capacity (counterbalancing capacity) is made for the end of 2023 and 2022:

(thousands of Euros)

	2023						
	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
OUTPUTS							
Liabilities from emitted transferable securities (if they're not treated as retail deposits)	623 639	7 747	4 593	5 842	-	5 500	599 957
Liabilities from guaranteed lending operations and operations associated to financial markets	6 939 455	-	1 150 391	526 714	-	2 891 083	2 371 267
Behavioural output from deposits	29 699 742	457 933	222 240	167 368	131 309	269 064	28 451 828
Exchange swaps and derivatives	532 270	10 496	30 744	265 471	85 993	52 621	86 945
Other output	743 368	1 026	-	-	20 143	49 386	672 813
Total Output	**38 538 474**	**477 202**	**1 407 968**	**965 395**	**237 445**	**3 267 654**	**32 182 810**
INPUTS							
Secured lending operations and operations associated to financial markets	-	-	-	-	-	-	-
Behavioral inputs from loans and advances	26 477 815	75 994	55 218	147 193	216 681	441 741	25 540 988
Exchange swaps and derivatives	571 179	9 239	31 410	264 420	83 267	52 138	130 705
Own portfolio securities maturing and other entries	10 004 315	80 063	321 079	394 041	251 000	356 039	8 602 093
Total Input	**37 053 309**	**165 296**	**407 707**	**805 654**	**550 948**	**849 918**	**34 273 786**
Net contractual deficit	(1 485 165)	(311 906)	(1 000 262)	(159 741)	313 503	(2 417 736)	2 090 977
Accumulated net contractual deficit	**-**	**(311 906)**	**(1 312 168)**	**(1 471 909)**	**(1 158 406)**	**(3 576 142)**	**(1 485 165)**

CAPACITY TO READJUSTMENT	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Cash	171 006						
Deployable reserves from the central bank	5 082 915	-					
Negotiable and non-negotiable assets eligible for the central bank	6 773 777	-	1 095 910	393 824	(150 627)	251 828	(8 364 712)
Authorized facilities and not utilized received	2 698 448	(16 140)	(71 111)	(185 312)	(297 069)	717 916	(2 846 732)
Net variation of capacity to adjustment	-	(16 140)	1 024 799	208 512	(447 696)	969 744	(11 211 444)
Accumulated capacity to readjustment	**14 726 146**	**14 710 006**	**15 734 805**	**15 943 317**	**15 495 621**	**16 465 365**	**5 253 921**

(thousands of Euros)

	2022						
	Total	**Up to 7 days**	**7 days to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**More than 1 year**
OUTPUTS							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	1 426 968	2 247	4 593	10 535	5 486	296 776	1 107 331
Liabilities from guaranteed lending operations and operations associated to financial markets	10 059 656	57 154	66 513	1 732 249	3 341 048	739 188	4 123 504
Behavioral output from deposits	29 944 525	490 403	45 719	145 209	166 803	416 287	28 680 104
Exchange swaps and derivatives	753 198	5 230	52 647	384 395	82 939	65 165	162 822
Other output	623 245	4 477	-	-	15 824	34 000	568 944
Total Output	**42 807 592**	**559 511**	**169 472**	**2 272 388**	**3 612 100**	**1 551 416**	**34 642 705**
INPUTS							
Secured lending operations and operations associated to financial markets	-	-	-	-	-	-	-
Behavioral inputs from loans and advances	36 105 674	5 817 950	63 286	169 329	252 210	507 323	29 295 576
Exchange swaps and derivatives	753 433	6 056	53 146	385 920	83 582	63 089	161 640
Own portfolio securities maturing and other entries	12 335 751	49 286	167 097	266 806	225 215	2 091 882	9 535 465
Total Input	**49 194 858**	**5 873 292**	**283 529**	**822 055**	**561 007**	**2 662 294**	**38 992 681**
Net contractual deficit	6 387 267	5 313 782	114 057	(1 450 332)	(3 051 094)	1 110 878	4 349 976
Accumulated net contractual deficit	**-**	**5 313 782**	**5 427 839**	**3 977 507**	**926 413**	**2 037 291**	**6 387 267**

CAPACITY TO READJUSTMENT	**Total**	**Up to 7 days**	**7 days to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**More than 1 year**
Cash	176 797						
Deployable reserves from the central bank	5 653 802	(5 653 802)					
Negotiable and non-negotiable assets eligible for the central bank	7 841 356	56 109	62 178	(116 348)	(126 324)	(1 918 431)	(5 794 060)
Authorized facilities and not utilized received	-	(23 829)	(77 909)	1 378 676	2 739 531	(84 317)	(3 932 151)
Net variation of capacity to adjustment	-	(5 621 522)	(15 731)	1 262 328	2 613 207	(2 002 748)	(9 726 211)
Accumulated capacity to readjustment	**13 671 955**	**8 050 433**	**8 034 702**	**9 297 030**	**11 910 237**	**9 907 489**	**181 278**

At the end of 2022, there was a net contractual surplus accumulated over one year of 2,037 million euros, having changed on December 31, 2023 to a net contractual deficit accumulated over one year of 3,576 million euros. Despite this variation, the liquidity position remained stable, given that this increase of 5,613 million euros is essentially due to a change in regulatory reporting criteria, given that last year the deposits at the ECB, totaling 5 654 million euros were considered as a cash inflow and this year this item is included in the rebalancing capacity.

The counterbalancing capacity for 1 year at the end of 2023 was 16,465 million euros, 6,558 million euros higher than the value recorded at the end of 2022 (9,907 million euros). This increase is essentially due to the change in regulatory criteria referred to in the previous point (+5,083 million euros) and the increase in secured funding, which partially offset the reimbursement of borrowings from the ECB.

In order to anticipate possible negative impacts, internal liquidity stress scenarios are created that represent the types of crisis that may occur, based on idiosyncratic scenarios (characterized by a loss of confidence in the Bank) and market scenarios.

Assets and Liabilities - Tiering by maturity dates

As at December 31, 2023, and 2022, the tiering of assets and liabilities by maturity dates is as follows:

(thousands of Euros)

	2023					
	Up to 3 months	From 3 months to one year	From one to five years	More than five years	Indefinite duration / Past due credit	Total
Financial Assets	**2 488 249**	**2 522 643**	**11 244 108**	**18 207 705**	**1 399 983**	**35 862 688**
Financial Assets and Liabilities held for trading	**101 049**	**231 713**	**15 815**	**87 768**	**-**	**436 345**
Securities	96 068	222 460	-	-	-	318 528
Trading derivatives	4 981	9 253	15 815	87 768	-	117 817
Financial assets mandatorily measured at fair value through profit or loss	**-**	**112**	**50**	**465 049**	**969 479**	**1 434 690**
Financial assets mandatorily measured at fair value through other comprehensive income	**126 782**	**85 400**	**296 349**	**166 515**	**66 400**	**741 446**
Securities	126 782	85 400	296 349	166 515	66 400	741 446
Financial assets mandatorily measured at amortized cost	**2 259 886**	**2 190 231**	**10 596 889**	**17 156 023**	**364 104**	**32 567 133**
Securities	708 639	434 145	4 145 647	3 236 483	-	8 524 914
Loans and advances to banks	5 087	102 165	16 144	3 088	-	126 484
Credit to Customers	1 546 160	1 653 921	6 435 098	13 916 452	364 104	23 915 735
Derivatives - Hedge Accounting	**532**	**15 187**	**335 005**	**332 350**		**683 074**
Financial Liabilities	**21 857 624**	**11 092 558**	**3 098 330**	**1 141 651**	**-**	**37 190 163**
Financial Liabilities held for trading	**6 264**	**8 670**	**15 234**	**70 439**	**-**	**100 607**
Financial liabilities measured at amortised cost	**21 851 321**	**11 083 412**	**2 980 581**	**1 049 285**	**-**	**36 964 599**
Due from central banks	178 807	950 000	-	-	-	1 128 807
Due from other credit institutions	1 643 753	1 905 618	1 943 540	2 166	-	5 495 077
(of which: Operations with repurchase agreement)	854 275	1 452 461	1 560 317	-	-	3 867 053
Due to Customers	20 028 761	8 227 794	931 566	66 935	-	29 255 056
(of which: Operations with repurchase agreement)	813 660	302 564	250 158	-	-	1 366 382
Liabilities represented by securities	-	-	105 475	478 684	-	584 159
Subordinated liabilities	-	-	-	501 500	-	501 500
Financial liabilities associated with transferred assets	-	-	-	-	-	-
Derivatives - Hedge Accounting	**39**	**476**	**102 515**	**21 927**		**124 957**
Notional	**2 173 776**	**2 442 709**	**20 814 116**	**11 360 130**	**-**	**36 790 731**
Trading derivatives	**2 120 776**	**1 122 003**	**2 059 646**	**4 144 038**	**-**	**9 446 463**
Notional Purchase	1 045 013	561 063	1 022 075	2 038 999	-	4 667 150
Notional Sale	1 075 763	560 940	1 037 571	2 105 039	-	4 779 313
Derivatives - Hedge Accounting	**53 000**	**1 320 706**	**18 754 470**	**7 216 092**	**-**	**27 344 268**
Notional Purchase	26 500	660 353	9 377 235	3 608 046	-	13 672 134
Notional Sale	26 500	660 353	9 377 235	3 608 046	-	13 672 134

(thousands of Euros)

	2022					
	Up to 3 months	**From 3 months to one year**	**From one to five years**	**More than five years**	**Indefinite duration / Past due credit**	**Total**
Financial Assets	**1 314 646**	**3 694 724**	**9 499 196**	**21 116 122**	**1 516 126**	**37 140 814**
Financial Assets and Liabilities held for trading	**13 479**	**16 816**	**33 350**	**107 202**	**-**	**170 847**
Securities	-	4 911	10 055	21 462	-	36 428
Trading derivatives	13 479	11 905	23 295	85 740	-	134 419
Financial assets mandatorily measured at fair value through profit or loss	**-**	**-**	**2 469**	**431 196**	**1 103 987**	**1 537 652**
Securities	-	-	2 469	431 196	1 103 987	1 537 652
Financial assets measured at fair value through profit or loss	-	18	-	-	-	18
Securities	**-**	**13**	**-**	**-**	**-**	**13**
Credit to Customers	-	13	-	-	-	13
Financial assets mandatorily measured at fair value through other comprehensive income	**142 178**	**1 588 220**	**252 293**	**126 354**	**73 989**	**2 183 034**
Financial assets mandatorily measured at amortized cost	**1 158 981**	**2 089 292**	**9 072 122**	**20 027 837**	**338 150**	**32 686 382**
Securities	786 798	535 014	2 830 097	4 539 891	-	8 691 800
Loans and advances to banks	363	101 476	39 322	4 977	-	146 138
Credit to Customers	371 820	1 452 802	6 202 703	15 482 969	338 150	23 848 444
Derivatives - Hedge Accounting	**8**	**383**	**138 962**	**423 533**	**-**	**562 886**
Financial Liabilities	**24 131 408**	**10 582 744**	**5 116 010**	**878 502**	**44 451**	**40 753 115**
Financial Liabilities held for trading	**8 098**	**11 055**	**18 690**	**61 474**	**-**	**99 317**
Financial liabilities measured at amortised cost	**24 123 307**	**10 571 109**	**5 038 794**	**755 525**	**44 451**	**40 533 186**
Due from central banks	1 627 198	3 750 000	950 000	-	-	6 327 198
Due from other credit institutions	1 001 089	669 315	2 214 958	293 949	-	4 179 311
(of which: Operations with repurchase agreement)	123 620	-	2 027 204	-	-	2 150 824
Due to Customers	21 495 020	5 460 348	1 469 855	-	-	28 425 223
(of which: Operations with repurchase agreement)	-	-	450 906	-	-	450 906
Liabilities represented by securities	-	275 874	403 981	461 576	-	1 141 431
Subordinated liabilities	-	415 572	-	-	-	415 572
Financial liabilities associated with transferred assets	-	-	-	-	44 451	44 451
Derivatives - Hedge Accounting	**3**	**580**	**58 526**	**61 503**	**-**	**120 612**
Notional	**2 688 889**	**1 598 251**	**11 209 352**	**13 683 959**	**-**	**29 180 451**
Derivatives held for trading	**2 682 849**	**1 470 895**	**1 947 176**	**4 639 927**	**-**	**10 740 847**
Notional Purchase	1 342 255	735 763	963 226	2 285 684	-	5 326 928
Notional Sale	1 340 594	735 132	983 950	2 354 243	-	5 413 919
Derivatives - Hedge Accounting	**6 040**	**127 356**	**9 262 176**	**9 044 032**	**-**	**18 439 604**
Notional Purchase	3 020	63 678	4 631 088	4 522 016	-	9 219 802
Notional Sale	3 020	63 678	4 631 088	4 522 016	-	9 219 802

37.6. Operational risk

Operational risk generally translates into the probability of the occurrence of events with negative impacts, in the results or in the capital, resulting from the inadequacy or deficiency of procedures and information systems, the behaviour of people or motivated by external events, including legal risks. Thus, operational risk is understood as the calculation of the following risks: operational, information systems, compliance and reputation.

For the management of operational risk, a system was developed and implemented to ensure the uniformity, systematisation and recurrence of the activities for the identification, monitoring, control and mitigation of this risk. This system is supported by an organizational structure, integrated in the Global Risk Department exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the departments, branches and subsidiaries considered relevant, which are responsible for complying with the procedures. and the day-to-day management of this Risk in its areas of competence.

37.7. Capital Management and Solvency Ratio

The main objective of the capital management is to ensure compliance with the novobanco's strategic objectives in terms of capital adequacy, respecting and enforcing the requirements for calculating risk-weighted assets and own funds and ensuring compliance with the levels of solvency and leverage defined by the supervisory entities, in particular by the European Central Bank (ECB) – the entity directly responsible for the supervision of novobanco - and by the Bank of Portugal, and internally stipulated risk appetite for capital metrics.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of novobanco's objectives.

The capital ratios of novobanco are calculated based on the rules defined in Directive 2013/36/EU and Regulation (EU) nº 575/2013 (CRR) that define the criteria for the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities, to the calculation of the ratios mentioned above.

novobanco is authorised to apply the Internal Ratings-Based Approach (IRB) for the calculation of risk weighted assets by credit risk. In particular, the IRB method is applied to the exposure classes of institutions, corporate and retail of novobanco Portugal. The equity' risk classes, the positions taken in the form of securitization, the positions taken in the form of participation units in investment funds, and the elements that are not credit obligations are always handled by the IRB method regardless of novobanco's entities in which the respective exposures are recorded. The standard method is used in the determination of risk weighted assets by market and operational risks.

The regulatory capital components considered in the determination of solvency ratios are divided into own funds of level 1 (common equity Tier I or CET I), additional own funds of level 1 (additional Tier I) which combined with the CET I constitute the own funds of level I (Tier I), and own funds of level 2 (or Tier II) which added to the Tier I represent the total own funds.

The total own funds of novobanco are composed by elements of CET I and Tier II.

Supplementary information on the evolution and composition of Novobanco Group's capital ratios can be found in the Group's Market Discipline Document (section 3. Capital Adequacy).

The summary of own funds, risk weighted assets and capital ratios capital of novobanco as of 31 December 2023 and 2022 are presented in the following table:

(millions of Euros)

		2023 (fully loaded)[3]	**2023 (phase in)**	**2022**
Realised ordinary share capital, issue premiums and own shares		6 568	6 568	6 305
Reserves and Retained earnings		(3 339)	(3 339)	(3 692)
Net income for the year attributable to shareholders of the Bank		801	801	454
Non-controlling interests (minority)		-	-	-
A - Equity (prudential perspective)		**4 029**	**4 029**	**3 067**
Net income for the year attributable to non-eligible Bank shareholders		-	-	-
Non-controlling interests (minority)		-	-	-
Adjustments of additional valuation		(4)	(4)	(5)
Transitional period to IFRS9		-	79	122
Intangibles assets		(34)	(34)	(70)
Insufficiency of provisions given the expected losses		-	-	-
Pension fund assets with defined benefits		(12)	(12)	(52)
Deferred tax assets and shareholdings in financial companies		(246)	(246)	(332)
Others (1)		(413)	(398)	(248)
B - Regulatory adjustments to equity		**(701)**	**(615)**	**(584)**
C - Own principal funds level 1 - CET I (A+B)		**3 328**	**3 415**	**2 483**
Capital instruments eligible for additional Tier I		-	-	-
Other elements eligible for additional Tier I		-	-	-
D - Additional own funds Level 1 - Additional Tier 1		**-**	**-**	**-**
E - Level 1 own funds - Tier I (C+D)		**3 328**	**3 415**	**2 483**
Subordinated liabilities eligible for Tier II		497	497	399
Other elements eligible for Tier II		78	78	91
Regulatory adjustments for Tier II		-	-	-
F - Level 2 own funds - Tier II		**575**	**575**	**490**
G - Eligible own funds (E+F)		**3 903**	**3 990**	**2 973**
Credit risk		18 339	18 406	19 855
Market risk		100	100	77
Operational risk		1 905	1 905	1 621
H - Risk Weighted Assets		**20 344**	**20 411**	**21 553**
Solvability ratio				
CET I ratio	**(C/H)**	**16,4%**	**16,7%**	**11,5%**
Tier I ratio	**(E/H)**	**16,4%**	**16,7%**	**11,5%**
Solvability ratio	**(G/H)**	**19,2%**	**19,5%**	**13,8%**
Leverage ratio (2)		**7,2%**	**7,4%**	**5,2%**

(1) Includes adjustments to the CCA receivable, reflected in reserves, and not received from the Resolution Fund, as well as the amount relating to the backstop.

(2) The leverage ratio results from dividing Tier 1 by the exposure measure calculated under the terms of the CRR.

(3) Capital and leverage ratios not considering effects relating to the transitional period

Note 38 – Provision of Insurance or Reinsurance Mediation Service

On 31 December of 2023 and 2022, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

		(thousands of Euros)
	2023	**2022**
Life	**16 084**	**19 152**
Unit Link and other life commissions	945	1 795
Credit protection insurance (life part)	775	877
Traditional products	14 364	16 480
Non-Life	**12 054**	**9 891**
Private Insurance	10 674	8 300
Business Insurance	177	177
Credit protection insurance (non-life)	1 203	1 414
	28 138	**29 043**

Note: the amounts shown are net of accruals

The Bank does not collect insurance premiums on behest insurers, nor does it move funds related to insurance contracts. Thus, there is no other asset, liability, income or charge to be reported, related to the insurance mediation activity carried out by the Bank, other than those already disclosed.

Note 39 –Subsequent Events

- On 1 February 2024, Novobanco announced that on that date Fitch had assigned a BBB- rating to Novobanco's long-term preferred senior debt. The Investment Grade rating reflects i) the Bank's current business model; ii) a significant improvement in asset quality; iii) profitability levels that compare favorably with peers; iv) significant improvement in capital buffers in 2023; and v) stable financing, along with adequate liquidity.
- On February 21, 2024, novobanco informed about the issuance of Covered Bonds worth 500 million euros, maturing on March 1, 2027 (soft bullet). The expected rating of the issue is Aaa by Moodys. The bonds have an annual interest rate of 3.25%, equivalent to 3-year mid-swaps plus 45bps;
- On February 28, 2024, novobanco issued Senior Preferred debt in the amount of 500 million euros, maturing on March 8, 2028 and with an early repayment option on March 8, 2027. The bonds were issued with an annual coupon rate of 4.25%.

€743mn

Net Income

18.2%

CET 1 ratio

20.4%

RoTE

ANNEX

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*(Translation from the original document in the Portuguese language.
In case of doubt, the Portuguese version prevails)*

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Novo Banco S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2023 (showing a total of 43,500,790 thousand euros and a total equity of 4,422,428 thousand euros, including a net profit for the year of 743,088 thousand euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Novo Banco, S.A. as at 31 December 2023, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The caption Loans and advances to customers includes an accumulated impairment amount of 954,525 thousand euros ("K€"), with an impairment loss of 109,389 K€ recorded in the period on Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. The details of the impairment for loans and advances to customers, the related accounting policies, methodologies, definitions and assumptions are disclosed in the	Our audit approach included, amongst others, the execution of the following procedures: ▶ obtaining the understanding, evaluating the design and testing the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers; ▶ performing analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, comparing it with last year and with the

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Novo Banco S.A.
Statutory and Auditor's Report (Consolidated)
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2023

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
notes to the consolidated financial statements (Notes 7.12, 8.1, 19, 22.3 and 42.3). In order to calculate this estimate on the impairment loss of the loans and advances to customers, management made judgments such as the business model assessment, the evaluation of significant increase in credit risk, the classification as default, the definition of groups of financial assets with similar credit risk characteristics and the use of models and assumptions. For relevant exposures on an individual approach, the impairment is determined based on the judgment from Group specialists on the evaluation of credit risk. In addition to the complexity of the models, its use requires the treatment of a significant volume of data, which raises issues on its quality and availability. Given the degree of subjectivity and complexity involved, especially in a rapidly changing macroeconomic environment, the use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment, which makes we consider this topic as key auditing matter.	expectations considering the changes in the loan portfolio; • selecting a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included the information containing business models, the financial situation of the debtors and the collateral appraisal reports. Inquiring of Group experts in order to obtain an understanding of the recovery strategy defined and the assumptions used; • analyzing the documents formalizing the relevant sale operations of loans and advances to customers and assessed the impact in the financial statements; • obtaining the understanding and evaluating the design of the model used to calculate the expected loss, testing the calculation, comparing the information used in the model with the source information, through the reconciliations prepared by the Group staff, evaluating the assumptions used to fill gaps in data, comparing the parameters used with the results of the estimation models and comparing the results with the values in the financial statements; • evaluating the reasonableness of the parameters used in the calculation of impairment, highlighting the following procedures: i) understanding the methodology formalized and adopted by management and comparing with the one effectively used; ii) evaluating the changes to models used by the Group to determine the parameters used in the impairment calculation; iii) testing, for the Group credit portfolio, of the application of the rules to measure the significant increase in credit risk, and on a sample basis, the assessment of such classification; iv) inquiries to management's experts responsible for models and inspection of reports from internal audit and regulators; and v) analyzing the work of the validation area and internal audit on the collective assessment models; • reading the minutes of the Credit Impairment Committee, Broad Credit Impairment Committee and Credit Risk Monitoring Group; and • analyzing the disclosures included in the explanatory notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

2. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement

The captions Investment properties and Other assets, include real estate assets of 393,795 K€ and 66,312 K€, respectively. The accounting policies and the details of these assets are disclosed in the notes to the financial statements (notes 7.14, 7.15, 8.6, 26, 29 and 40).
 	
As disclosed in note 7.14 to the consolidated financial statements, the Other assets include real estate that were essentially obtained by credit foreclosure and for which the Group has implemented a plan pursuant to its sale. These real estate assets are valued at the lower of net book value and the fair value less cost to sell.
 	
The notes to the consolidated financial statements (note 26) disclose the detail and the movement of investment properties, which are held by investment funds and which are rented to third parties for obtaining income or held to generate capital gains. The real estate assets in this category are valued at fair value which is calculated by experts registered at CMVM contracted by the management.
 	
The fair value results from an estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation carried out by contracted experts. The assumptions considered include the best use that can be given to the asset, what could be considered as a comparable transaction or the potential yield that can be obtained.
 	
As the use of different valuation techniques or assumptions could lead to different estimates of fair value, with a potential material impact in the consolidated financial statements, we consider this topic as a key audit matter.
	Our audit approach included, amongst others, the execution of the following procedures:
	
	- performing analytical procedures on the value of the assets included in the Investment properties and Other assets, compared with last year and with the expectation formed, which include the understanding of the variations that have occurred and identification of changes in the assumptions and methodologies;
	- for a sample of real estate assets, testing the reasonableness of the methodologies and assumptions used by management's external experts registered in CMVM. For these assets, inspection of the eventual promissory sale contracts and the certificate of land register;
	- For the more significant real estate transactions:
	  - inspecting the real estate sale contracts;
	  - analyzing the Group internal documentation on the assessment of conflicts of interest and of the competitive sale process;
	  - for the real estate assets in the scope of the contingent capital agreement, analyzing the Resolution Fund approvals; and
	  - testing the derecognition of the assets and the calculation of gains or losses recorded;
	- inquiries to the management experts on the assumptions used for a sample of assets and read the minutes of the executive board;
	- Inquiring the management about potential sale operations and, when applicable, examining the offers received on the assets and comparing with the fair value calculated by the management; and
	- analyzing the disclosures included in the explanatory notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

3. Disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The notes to the consolidated financial statements disclose the contingent liabilities (Note 36) that may represent a possible obligation to the Group resulting from past	Our audit approach included, amongst others, the execution of the following procedures:

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Group. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 7.24 and the main estimates and assumptions in note 8.5. The main contingent liabilities arise from various situations, most notably: ▸ notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Group; ▸ the existence of litigation resulting from the resolution measure applied to BES, which, in spite of existing guarantees, may lead to effects or impacts in the Group which not possible to determine or quantify; ▸ existing lawsuits following the closing of the sale and purchase agreement of the Group and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Star; ▸ the Group participates in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Group will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. There are, also, divergent views between the Group and the Resolution Fund regarding the amount requested to this Fund that the Group considers due in accordance with the contingent capital agreement. The risk assessment and the assumptions are matters of judgment by the Management of the Group which requires complex analysis using internal and external legal experts. Given the relevance of these contingencies for the Group, we consider this topic as a key audit matter.	▸ reading the minutes of the management bodies of the Group, the correspondence with regulators and with the Resolution Fund; ▸ analyzing the responses to external confirmations from external legal experts of the Group and inquiries to the management and to the legal experts on the contingent liabilities of the Group; ▸ inspecting the documentation of the Resolution Fund, in particular the annual report of 2022 and the public communications from the Resolution Fund; and ▸ analyzing the disclosures contained in the consolidated financial statements, based on the requirements of international financial reporting standards and in the accounting records.

4. Responsibilities with pensions

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The responsibilities with pensions amount to 1,596,810 K€, with a total of 103,329 K€ recognizes in the other comprehensive income as an actuarial loss resulting from the update of the actuarial assumptions. The accounting policies for the recognition of responsibilities with pensions are disclosed in the notes do the financial statements (Notes 7.23, 8.4 and 16). The discount rate used in the calculation of the responsibilities with pensions is derived based on market yields of high quality corporate bonds, in the currency on which the liabilities will be settled, with a maturity similar to the responsibilities within the pension plan. Estimating the responsibilities with pensions requires the use of actuarial assumptions, which if different from the ones used by Management, could result in a materially different amount. For this reason, we consider this topic as a key audit matter.	Our audit approach included, amongst others, the execution of the following procedures: ▸ Inspection of the actuarial note as of December 31, 2023 prepared by the independent actuary contracted by the Management; ▸ inquiries of the key personnel of the Bank and with the independent actuary in order to understand the assumptions used; ▸ assessment of the assumptions used as of December 31, 2023, in particular the discount rate, with the assistance of our internal actuarial specialists; and ▸ analyzing the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, the Corporate Governance Report and the Non-financial statement in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures we took to eliminate those matters or the related safeguards we applied.

Our responsibility also includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code regarding corporate governance, as well as verifying that the Non-financial statement was presented.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

As mentioned in article 451. Nr. 7 of the Commercial Companies Code, this opinion is not applicable to the Non-financial statement included in the Management Report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4 of the Commercial Companies Code, in our opinion, the "Corporate Governance" chapter included in the Management Report includes the information required to the Group to provide as per article 29-H of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of nr.1 of the said article.

On the Non-financial statement

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Group prepared the Sustainability Report separated from the Management Report, which includes the Non-financial statement, as required in article 66-B of the Commercial Companies Code, being the same disclosed together with Management Report.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Novo Banco, S.A. (Group´s Parent Entity) for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020. We were reappointed in the shareholders' general meeting held on 22 October 2020 for a second mandate from 2021 to 2024;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on this date; and
- We declare that we have not provided any prohibited services as described in article 5 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and we have remained independent of the Group in conducting the audit.

European Single Electronic Format (ESEF)

The accompanying consolidated financial statements of Novo Banco, S.A. for the year ended 31 December 2023 must comply with the applicable requirements set out in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (ESEF Regulation).

Management is responsible for preparing and disclosing the annual report in accordance with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements, included in the annual report, are presented in accordance with the requirements set out in the ESEF Regulation.

Our procedures considered the OROC Technical Application Guide (GAT 20) on report in ESEF and included, among others:

- gaining understanding of the financial reporting process, including the submission of the annual report in valid XHTML format; and
- the identification and evaluation of the risks of material distortion associated with the marking-up of the information of the financial statements, in XBRL format using iXBRL technology. This evaluation was based on the understanding of the process implemented by the Group to mark-up the information.

In our opinion, the accompanying consolidated financial statements included in the annual report are presented, in all material respects, in accordance with the requirements set out in the ESEF Regulation.

Lisbon, March 5, 2024

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Antonio Filipe Dias da Fonseca Brás - ROC nr. 1661
Registered with the Portuguese Securities Market Commission under license nr. 20161271

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Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Novo Banco, S.A. (the Bank), which comprise the Separate Balance Sheet as at 31 December 2023 (showing a total of 43,146,264 thousand euros and a total equity of 4,029,222 thousand euros, including a net profit for the year of 800,660 thousand euros), and the Separate Income Statement, the Separate Statement of Comprehensive Income, the Separate Statement of Changes in Equity and the Separate Cash Flow Statement for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Novo Banco, S.A. as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The caption Loans and advances to customers includes an accumulated impairment amount of 935,991 thousand euros ("K€"), with an impairment loss of 109,424 K€ recorded in the period on Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. The details of the impairment for loans and advances to customers, the related accounting policies, methodologies, definitions and assumptions are disclosed in the	Our audit approach included, amongst others, the execution of the following procedures: • obtaining the understanding, evaluating the design and testing the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers; • performing analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, comparing it with last year and with the

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
notes to the financial statements (Notes 6.12, 7.1, 17, 20.3 and 37.3) In order to calculate this estimate on the impairment loss of the loans and advances to customers, management made relevant judgments such as the business model assessment, the evaluation of significant increase in credit risk, the classification as default, the definition of groups of financial assets with similar credit risk characteristics and the use of models and assumptions. For relevant exposures on an individual approach, the impairment is determined based on the judgment from Bank specialists on the evaluation of credit risk. In addition to the complexity of the models, its use requires the treatment of a significant volume of data, which raises issues on its quality and availability. Given the degree of subjectivity and complexity involved, especially in a rapidly changing macroeconomic environment, the use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment, which makes we consider this topic as key auditing matter.	expectations, considering the changes in the loan portfolio; • selecting a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included the information containing business models, the financial situation of the debtors and the collateral appraisal reports. Inquiring of Bank experts in order to obtain an understanding of the recovery strategy defined and the assumptions used. • analyzing the documents formalizing the relevant sale operations of loans and advances to customers and assessed the impact in the financial statements; • obtaining the understanding and evaluating the design of the model used to calculate the expected loss, testing the calculation, comparing the information used in the model with the source information, through the reconciliations prepared by the Bank staff, evaluating the assumptions used to fill gaps in data, comparing the parameters used with the results of the estimation models and comparing the results with the values in the financial statements; • evaluating the reasonableness of the parameters used in the calculation of impairment, highlighting the following procedures: i) understanding the methodology formalized and adopted by management and comparing with the one effectively used; ii) evaluating the changes to models used by the Bank to determine the parameters used in the impairment calculation; iii) testing, for the Bank's credit portfolio, of the application of the rules to measure the significant increase in credit risk, and on a sample basis, the assessment of such classification; iv) inquiries to management's experts responsible for models and inspection of reports from internal audit and regulators; and v) analyzing the work of the validation area and internal audit on the collective assessment models; • reading the minutes of the Credit Impairment Committee, Broad Credit Impairment Committee and Credit Risk Monitoring Group; and • analyzing the disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

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2. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The caption Other assets includes real estate assets of 62,032 K€. The accounting policies and the details of these assets are disclosed in the notes to the financial statements (notes 6.14, 7.6 and 26). As disclosed in note 6.14 to the financial statements, the Other assets include real estate that were essentially obtained by credit foreclosure and for which the Bank has implemented a plan pursuant to its sale. These real estate assets are valued at the lower of net book value and the fair value less cost to sell. The fair value results from an estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation carried out by contracted experts. The assumptions considered include the best use that can be given to the asset, what could be considered as a comparable transaction or the potential yield that can be obtained. As the use of different valuation techniques or assumptions could lead to different estimates of fair value with a potential material impact in the financial statements, we consider this topic as a key audit matter.	Our audit approach included, amongst others, the execution of the following procedures: ▸ performing analytical procedures on the value of the assets included in the Other assets, compared with last year and with the expectation formed, which include the understanding of the variations that have occurred and identification of changes in the assumptions and methodologies; ▸ for a sample of real estate assets, testing the reasonableness of the methodologies and assumptions used by management's external experts registered in CMVM. For these assets, inspection of the eventual promissory sale contracts and the certificate of land register; ▸ For the more significant real estate transactions: ▸ inspecting the real estate sale contracts; ▸ analyzing the Bank´s internal documentation on the assessment of conflicts of interest and of the competitive sale process; ▸ for the real estate assets in the scope of the contingent capital agreement, analyzing the Resolution Fund approvals; and ▸ testing the derecognition of the assets and the calculation of gains or losses recorded; ▸ inquiries to the management experts on the assumptions used for a sample of assets and read the minutes of the executive board; ▸ Inquiring the management about potential sale operations and, when applicable, examining the offers received on the assets and comparing with the fair value calculated by the management; and ▸ analyzing the disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

3. Disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The notes to the financial statements disclose the contingent liabilities (note 33) that may represent a possible obligation to the Bank resulting from past events. The occurrence of	Our audit approach included, amongst others, the execution of the following procedures:

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
these obligations is dependent on one or more future events that are not entirely under the control of the Bank. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 6.23 and the main estimates and assumptions in note 7.5. The main contingent liabilities arise from various situations, most notably: - notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Bank; - the existence of litigation resulting from the resolution measure applied to BES, which, in spite of existing guarantees, may lead to effects or impacts in the Bank which not possible to determine or quantify; - existing lawsuits following the closing of the sale and purchase agreement of the Bank and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Star; - the Bank participates in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Bank will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. There are, also, divergent views between the Bank and the Resolution Fund regarding the amount requested to this Fund that the Bank considers due in accordance with the contingent capital agreement. The risk assessment and the assumptions are matters of judgment by the Management of the Bank, which requires complex analysis using internal and external legal experts. Given the relevance of these contingencies for the Bank, we consider this topic as a key audit matter.	- reading the minutes of the management bodies of the Bank, the correspondence with regulators and with the Resolution Fund; - analyzing the responses to external confirmations from external legal experts of the Bank and inquiries to the management and to the legal experts on the contingent liabilities of the Bank; - inspecting the documentation of the Resolution Fund, in particular the annual report of 2022 and the public communications from the Resolution Fund; and - analyzing the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

4. Responsibilities with pensions

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The responsibilities with pensions amount to 1,565,293 K€, with a total of 101,041 K€ recognizes in the other comprehensive income as an actuarial loss resulting from the update of the actuarial assumptions. The accounting policies for the recognition of responsibilities with pensions are disclosed in the notes do the financial statements (Notes 6.22, 7.4 and 14). The discount rate used in the calculation of the responsibilities with pensions is derived based on market yields of high quality corporate bonds, in the currency on which the liabilities will be settled, with a maturity similar to the responsibilities within the pension plan. Estimating the responsibilities with pensions requires the use of actuarial assumptions, which if different from the ones used by Management, could result in a materially different amount. For this reason, we consider this topic as a key audit matter.	Our audit approach included, amongst others, the execution of the following procedures: • Inspection of the actuarial note as of December 31, 2023 prepared by the independent actuary contracted by the Management; • inquiries of the key personnel of the Bank and with the independent actuary in order to understand the assumptions used; • assessment of the assumptions used as of December 31, 2023, in particular the discount rate, with the assistance of our internal actuarial specialists; and • analyzing the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Bank´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, the Corporate Governance Report and the Non-financial statement in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Bank´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures we took to eliminate those matters or the related safeguards we applied.

Our responsibility also includes the verification of the consistency of the Management Report with the financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code regarding corporate governance, as well as verifying that the Non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Bank, we have not identified any material misstatement.

As mentioned in article 451. Nr. 7 of the Commercial Companies Code, this opinion is not applicable to the Non-financial statement included in the Management Report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4 of the Commercial Companies Code, in our opinion, the "Corporate Governance" chapter included in the Management Report includes the information required to the Bank to provide as per article 29-H of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of nr.1 of the said article.

On the Non-financial statement

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Bank prepared the Sustainability Report separated from the Management Report, which includes the Non-financial statement, as required in article 66-B of the Commercial Companies Code, being the same disclosed together with Management Report.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Bank for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020. We were reappointed in the shareholders' general meeting held on 22 October 2020 for a second mandate from 2021 to 2024;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Bank on this date; and
- We declare that we have not provided any prohibited services as described in article 5 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and we have remained independent of the Bank in conducting the audit.

European Single Electronic Format (ESEF)

The accompanying financial statements of the Bank for the year ended 31 December 2023 must comply with the applicable requirements set out in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (ESEF Regulation).

Management is responsible for preparing and disclosing the annual report in accordance with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance about whether the financial statements, included in the annual report, are presented in accordance with the requirements set out in the ESEF Regulation.

Our procedures considered the OROC Technical Application Guide (GAT 20) on report in ESEF and included, among others gaining understanding of the financial reporting process, including the submission of the annual report in valid XHTML format.

Novo Banco S.A.
Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2023

In our opinion, the accompanying financial statements included in the annual report are presented, in all material respects, in accordance with the requirements set out in the ESEF Regulation.

Lisbon, March 5, 2024

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Antonio Filipe Dias da Fonseca Brás - ROC nr. 1661
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Evaluation Report from the General and Supervisory Board on the adequacy and effectiveness of the organizational culture in place in Group Novo Banco, S.A. and the governance and internal control frameworks as defined in b) c) and d) of Article 58th of the Notice from Bank of Portugal nº 3/2020

Introduction

1.
This evaluation report is presented to comply with b) c) and d) of Article 58th of the Notice from Bank of Portugal nº 3/2020 (the "Notice") and belongs to the annual report on the evaluation of the adequacy and effectiveness of the organizational culture in place in Group Novo Banco, S.A. (the "Group") and the governance and internal control frameworks with reference to the period from December 1, 2022, to November 30, 2023.

Responsibilities

2.
The management and the supervisory bodies are responsible, under their respective competencies, for promoting the existence in the Group of an organizational culture supported in high ethical standards which:

- promotes an integral risk culture which encompasses all activity areas of the Group and ensures the identifications, assessment, monitoring and control of the risks that the Group is or can become exposed;
- promotes a professional conduct prudent and responsible to be observed by all employees and members of the management and supervisory boards under their roles and aligned with high ethical standards documented in a code of conduct specific for the Group;
- reinforces the reputation and levels of confidence on the Group, both internally as in the relations with customers, investors, supervisory bodies and other third parties.

It is also the responsibility of the management and supervisory bodies to ensure that: the organizations culture of the Group and the governance and internal control frameworks, including the remuneration actions and policies and other matters included in the Notice, are adequate and effective and promote a sound and prudent management; the Group evaluates the adequacy and effectiveness of the organizational culture in place and the governance and internal control frameworks and issues an yearly report on the results of that evaluation (the "Report").

3.
It is our responsibility to issue this report as described in b) c) and d) Article 58th of the Notice in order to include in the Report.

Activities performed

4.
In order to comply with our responsibilities regarding the organizational culture and the governance and internal control frameworks, we performed the following activities, for which we present a summary:

- Maintained regular interactions with the Executive Board of Directors. For that purpose, we met with members of the Executive Board of Directors to clarify issues, we read the minutes of the meetings of the Executive Board of Directors; During these meetings, it was presented to us the situation of the Group, including matters related to the subsidiaries, which allows us to appreciate the internal control in place at Group level;
- We met with the managers responsible for the Risk Management, Compliance and Internal Audit functions

with responsibility at Group level and reviewed the annual activity reports. Regarding the annual report of the internal audit function, we considered the validation of the classification of deficiencies that was guaranteed for each of the entities of the novobanco group (novobanco, novobanco dos Açores and Best);

- We additionally assessed the self-assessment reports of the control functions, evaluated their declaration of independence and inquired about the existence of any fact or circumstance that could affect their independence, namely i) by analyzing the potential impact of the deficiencies identified in each of the functions of control, ii) by ensuring that there are no conflicts of interest; iii) the remuneration policy and rules do not constitute a risk, iv) the skills and preparation of the teams in each control function, v) the unobstructed access to all relevant bodies, or vi) the communication and reporting channels that are implemented .We assessed the audit plan for 2023 and the results of the internal audit actions;
- We met with the external auditor and analyzed the contents of the Audit report, Impairment Reports, Asset safekeeping Report, Additional Report to the Supervisory Board, the interim limited review reports for March 31, June 30 and September 30 of 2023 and the Factual Findings Report issued by Ernst & Young – Audit & Associados – SROC, S.A., including the test on the classification of the deficiencies. We appreciated the content of the communication of significant deficiencies of internal control of the Group sent by the external auditor on December 14, 2023;
- We read the Group Report and the individual reports of the relevant subsidiaries, including the deficiencies and planned measures to correct them and assessed the status of those measures;
- We requested the necessary information that would allow us to ensure the adequacy of the processes and controls implemented by the Group and compliance with the provisions of the internal policies and regulations of the most relevant subsidiaries, for example, “NG0025_2023 – Individual and consolidated financial statements consolidation and reporting rules” and “RG 0003_2022 – Regulation of the risk function of the Novo Banco Group”;
- We confirmed that for the most relevant processes, Policies are defined, approved and implemented across the Novobanco Group Entities, with the processes and controls being mostly applied across the board, but with due adaptation when applicable. We interviewed those responsible for the departments to confirm the consistency of the application of procedures for the Group’s most relevant subsidiaries;
- We confirmed that the Group has implemented processes and controls that ensure the obtaining of relevant information from subsidiaries for the consolidation process, including accounting information and other information elements;
- We met with the supervisory bodies of the most relevant subsidiaries and inquired about the main developments that occurred during the reference period with an impact on the internal control system, the consistency between the internal control systems, about compliance with the body’s activity plan and jointly identified potential concerns and/or deficiencies identified in the existing processes in each entity;
- We were aware of the deficiencies identified in each of the subsidiaries as well as their severity and the mitigation plans defined by the responsible departments in order to guarantee their mitigation;
- We assessed the coherence between the internal

control systems of the subsidiaries, using the conclusions of contacts with the supervisory bodies of the most relevant subsidiaries, the assessment of the content of the evaluation reports of these same supervisory bodies, in addition to all other procedures carried out and previously described;

- The members of the FAAC participated in a training session on the Policy for the Selection, Appointment and Assessment of the Statutory Auditor and the Hiring of Non-Prohibited Distinct Auditing Services.

Inherent limitations

5.

The General and Supervisory Board is aware of the inherent limitations of any internal control framework which, irrespectively its adequacy and effectiveness, may only provide reasonable assurance to the management and supervisory bodies on the purposes related to organizational culture, governance and internal control systems, as well as other matters described in the Notice. Additionally, an appropriate internal control in place regarding the financial and prudential reporting is not on itself sufficient to ensure the reliability of the disclosed financial and prudential information. In fact, there are prior processes in the different operational and support areas of the Group, where it is critical to have an adequate internal control in place to ensure the reliability of the information provided to the areas responsible for the prudential and financial reporting. Therefore, given the inherent limitations on any control system, deficiencies, fraud or errors may occur without being detected.

Given the usual dynamic in any internal control system, any conclusion on the adequacy or effectiveness of that system cannot be projected for future periods, as there is the risk that the controls and procedures in place may become inappropriate due to changes in the context or deterioration in the compliance with the policies, procedures and controls.

The evaluation of the impacts of the deficiencies is an estimate of the Executive Board of Directors and follows the criteria defined by the Group and the process to classify the deficiencies according to the criteria and assumptions. Given the judgment associated with the definition of the criteria, the assumptions and in the evaluation of the impacts, different classification could be given to the deficiencies in case different criteria or assumptions were defined. Equally, an evaluation performed in other date on the same deficiency could reach different conclusions, and the impact of a deficiency can materialize differently from what was estimated.

Conclusion

As described in the novobanco Group Report, deficiencies were identified and classified as F3 – High and F4 – Severe, which may have an impact on the financial situation, own funds requirements, internal governance, business model or risk management and control of the Group.

For each of these deficiencies, a mitigation plan and a proposed implementation calendar were presented to the supervisory body. Considering the importance of the matter in the Group, these deficiencies are being monitored by internal structures, in particular by the control functions and the Executive Board of Directors, and will periodically be subject to analysis of the implementation status by the supervisory body.

Considering the activities we performed and findings which are described in paragraph 4 above and except on the eventual impact of the matters described in paragraphs 6 to 7, notwithstanding the ongoing implementation the new requirements of the Notice and with reasonable assurance in respect to the material aspects:

- In our opinion, the organizational culture and the governance and internal control frameworks of Novo Banco, S.A. were adequate and effective on Nov\ember 30, 2023;
- We appreciated positively the completeness status of the defined measures from December 1, 2022, to November 30, 2023, to correct the deficiencies identified in the Report, confirming the effort to

implement mitigation measures during the period and the positive evolution recorded in terms of severity;

- We declare that the classification given to the deficiencies classified as level F3 "High" or F4 "Severe" is adequate;
- In our opinion, the internal control functions, including the outsourced operational procedures, are performed with adequate quality and we have considered demonstrated its independence;
- The financial and prudential reporting processes were, insofar as we could appreciate due to our procedures inherent to our responsibilities, reliable from December 1, 2022, to November 30, 2023;
- The processes to produce information disclosed to the public by the Group due to legal or regulatory requirements, including the financial and prudential disclosures were, insofar as we could appreciate due to our procedures inherent to our responsibilities, reliable from December 1, 2022, to November 30, 2023;
- The requirements to disclose information to the public resulting from applicable law or regulation and related with the matters described in the Notice were, insofar as we could appreciate due to our procedures inherent to our responsibilities, adequately complied with from December 1, 2022, to November 30, 2023;
- The internal control systems of the subsidiaries were, insofar as we could appreciate due to our procedures inherent to our responsibilities, coherent with the internal control system of the parent;
- The Group has no foreign branches or offshore institutions with remuneration policies, as these entities do not make payments of remuneration to any member of governing bodies or personnel.

Other matters

6.

This Evaluation Report is prepared and issued solely for information of the Executive Board of Directors of the Group and to be presented to the Bank of Portugal as required by the Notice and as an integral part of the Report. Therefore, cannot be used for any other purpose, or read outside the context of the Report, nor can be presented to third parties without our previous written consent.

Lisbon, December 14, 2023

General and Supervisory Board of Novo Banco, S.A.

Chairman

Member

(This report was approved by the General and Supervisory Board at a meeting held on December 14, 2023)

Report of the General and Supervisory Board and Opinion of the Financial Affairs (Audit) Committee on the Management Report and on the Individual and Consolidated Financial Statements of Novo Banco, S.A. for the year ended 31 December 2023

Pursuant to the mandate the General and Supervisory Board ("GSB") has been given and in compliance with the provisions of paragraphs h) and q) of paragraph 1 of article 441 and article 444 of the Commercial Companies Code and the Articles of Association of Novo Banco, S.A. ("novobanco"), the GSB is required to issue the Annual Report on the activity developed and the Financial Affairs (Audit) Committee is required to issue an opinion on the Management Report and the individual and consolidated financial statements of novobanco, which comprise the individual and consolidated income statement and individual and consolidated statement of comprehensive income, individual and consolidated balance sheet, individual and consolidated statement of changes in equity and individual and consolidated statement of cash flows and the respective Annexes, as well as on the proposed application of results, presented by the Executive Board of Directors ("EBD") of novobanco, for the year ended on 31 December 2023.

1. Report of the General and Supervisory Board for the year 2023

1.1. Composition and scope

In accordance with the applicable law, novobanco's articles of association and best practices at the date of this Annual Report, seven of the ten members who comprise the GSB, including the Chairman, are independent. During 2023 the composition of the GSB has undergone some changes: on 24 February, 2023 Benjamin Friedrich Dickgiesser presented his resignation; upon the conclusion of the fit & proper process, on 21 June, 2023 Monika Wildner has joined the GSB as an independent member; Evgeniy Kazarez joined the GSB as a non-independent member on 7 November, 2023 following the conclusion of fit & proper process; Donald John Quintin presented his resignation as a member on 14 December 2023; and on 22 December 2023, a fit & proper process was submitted for a new independent member to join the GSB for the current term of office (2021 to 2024), whose exercise of functions is subject to authorisation from the competent regulatory authorities and approval by novobanco's General Shareholders' Meeting.

The GSB has the powers foreseen by law, by the articles of association and by its own regulation, in particular the supervision of the EBD's management of the Bank and Group companies and the supervision of all matters related to risk management, compliance and internal audit.

During 2023, the GSB monitored the activity of the Bank and its most significant financial subsidiaries. The activity of the GSB is directly supported by 5 (five) Committees, some of them mandatory pursuant to applicable law, to which some of its powers have been delegated, namely, the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, as provided for in Articles 6 and 16 of the articles of association of novobanco, and in the GSB regulation.

These Committees are chaired and composed by members of the GSB, respecting the legal and regulatory composition requirements, and can also have the presence of EBD members or other managers responsible for the areas covered by the activities of these Committees.

The GSB meets on a monthly basis and whenever is deemed necessary.

1.2. Activity undertaken in 2023

General and Supervisory Board

During the year 2023, the GSB held 12 meetings, the several matters discussed, analysed and approved are identified in the agendas prepared for each meeting and are detailed in the respective minutes. These matters included, amongst others, the individual and consolidated financial statements of novobanco for the year ended 31 December 2023 and the consolidated financial statements for the six months period ended 30 June 2023, as well as the financial results for the first and third quarters of 2023, the 2023-2025 Strategic and Medium Term-Plans, the NPA Plan for 2023-2025, the strategy and risk appetite for 2023, the status of Bank rating agencies reviews, the approval and/or monitoring of the sale of assets by novobanco, the closure of the Spanish Branch and the opening of a Representative Office in that country, the strategic review of the Banco Best, the simplification of the GNBGA Group, the closing of the sale of non-performing loans (NPLs) portfolios and related assets (including Project Phoenix), the sale of REO assets, the external communication strategy, the monitoring of the activity of the Internal Audit Department, the approval of the Annual Internal Audit Plan for 2024, the monitoring of the main legal processes involving the Bank, including arbitration processes, the progress of headquarters project in Tagus Park, updates on the implementation of the Human Resources agenda including the People and Culture program and the monitoring of all the activity developed and decisions taken by the GSB Committees.

Throughout the year, the GSB was informed about the Group's operating results, the evolution of the retail, corporate, treasury and digital businesses, the capital and liquidity position of novobanco, as well as about the regular forecasts (capital and results) for the end of the 2023 financial year and Group's Impairment Report. In addition, within its responsibility for the oversight of the institution and for the implementation of governance arrangements that ensure effective and prudent management, the GSB has analysed and approved the changes made to the internal policies of novobanco, namely the Code of Conduct, Conflict of Interest Policy, Policy on Transactions with Related Parties, Policy for Reporting Irregularities (Whistleblowing), Anti-Bribery and Anti-Corruption Policy, Money Laundering and

Terrorism Financing Prevention Policies, as well as amendments to the Policy for Selection and Evaluation of the novobanco Group Statutory Auditor and Contracting of Non-Prohibited Non-Audit Services, Remuneration Policies for Management, Supervisory Bodies and Staff, Policy for Selection and Evaluation of Novo Banco' Management and Supervisory Bodies and Key Function Holders, as well as carried out a regular review and approved amendments to the GSB and GSB Committees' Terms of Reference.

With regard to matters relating to the CCA, the GSB regularly monitored all matters relating to the execution of the agreement, including the 2021 capital call, the activity of the Verification Agent and the progress of the arbitration matters in connection with the CCA.

The GSB also acknowledged the Monitoring Trustee DG Comp Final Report noting that the Bank complied with all of its viability commitments, including the Restructuring Period, which was formally ended during 2023 by reference to 31 December 2022.

On the organizational culture, the GSB followed the results of the Report on Organizational Culture, as well as the measures defined by the EBD to improve the culture within novobanco with the setup of a new project, Strategic Alignment and Cultural Transformation, designed with the support of external parties and monitored the progress and the implementation of such project during 2023.

At the end of the 2023 financial year, and within its responsibility for the supervision and oversight over the internal governance and control functions, the GSB concluded its assessment report on the adequacy and effectiveness of the organizational culture in force in the novobanco Group and the governance and internal control framework with reference to the period from 1 December 2022 up to 30 November 2023, assessing the Self-Assessment Reports of the Risk, Audit and Compliance Functions, in accordance with paragraphs b), c) and d) of Article 58 of Notice no. 3/2020 of the Bank of Portugal, in which the GSB recognized the deficiencies detected by the EBD, approved the respective mitigation plans and proposed implementation deadlines for each of them.

These deficiencies included 16 classified as F3 - High Risk and 4 classified as F4 - Severe. The GSB, through its Chairman, maintained an open and regular communication channel with the supervisory and regulatory authorities, monitored closely the MREL objectives set by the SRB and approved the operations implemented to achieve these objectives, including a Tier 2 New Insurance, reviewed and approved the ICAAP and ILAAP for 2023, as well as the Liquidity and Capital Plans, closely monitored the evolution of the implementation of the ESG Strategy, including its governance model and approved the ESG Policy, and also monitored the Group's ECB Stress Test exercise. In the performance of its functions, the GSB was regularly notified on regulatory changes and informed on material correspondence of novobanco.

The GSB also approved the 2023 Recovery Plan, the IRB Renovation Strategy and Operational Plan, the AML Annual Report 2023, and accompanied the SREP Supervisory Dialogue 2023.

During the year the GSB was updated on major topics and initiatives discussed at the Compliance Committee including transactions with related parties, Bank compliance activities and compliance regulatory matters including Bank inspections, execution of Project Darwin, APIC project and Whispli KPIs.

During 2023 the GSB acknowledged the new EBD organizational chart, which reflected the internal organizational changes including the Chief Commercial Officer Retail remit, the appointment of the new Chief Operating Officer (Seamus Murphy) to support novobanco in achieving its strategic objectives of digital transformation, operational efficiency and process simplification, and the appointment of the new CFO Benjamin Friedrich Dickgiesser.

The GSB also reviewed and approved the new composition of the GSB Committees following the changes occurred during 2023 and approved its 2024 activity plan.

Regarding the actions and initiatives taken by novobanco regarding the challenging macro-economic environment; the contagion effects of increased financial market volatility impact arising from the Russian / Ukraine conflict, and later in the year also from the Middle East conflict; the heightened levels of operational risk including cyber-attacks and outsourcing; and the increased focus on emerging risks like climate and environmental risk, were regularly discussed and assessed by the GSB.

In 2023 a Training Programme on IT and cybersecurity was set up to strengthen knowledge on information technology and improve the skills and experience of the members of the corporate bodies. Several training sessions were attended last year by the members of the GSB and EBD. Within the scope and for the purposes of performing its functions and carrying out the analyses and verifications necessary, the GSB requested, and obtained, documentation and clarification of the multiple questions raised, with full collaboration from Banks' internal structures and internal control functions' heads and staff.

The CEO, CFO and CRO attended GSB meetings as guests and whenever necessary other EBD members or senior staff members were invited to attend for specific agenda items.

Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee held 16 meetings during 2023 and focused its activity on assessing the Bank's financial statements and the Statutory Auditor's reports for the 2023 financial year, as well as supervising and monitoring the activity of Internal Audit (IA).
The oversight activity included, among others, the discussion and analysis of IA monthly update reports (covering topics such as the implementation of the agreed plan and related findings, follow-up on outstanding issues and issues related to IA resources and practices), and the assessment of the Annual Activity Execution Report for 2023, and the approval of the Internal Audit Plan for 2024 (including the multi-annual plan).

Throughout 2023, the Financial Affairs Committee monitored the closing of the sale of Non-Productive Assets, including Project Phoenix and the sale of REOs, the review process with the Rating Agencies, the RaRoc project, on-going M&A and Partnerships projects, as well as the status of the deferred tax assets ("DTAs") and the capital increases carried out relating to the exercise of 2018 and 2019.

During 2023, the Committee also monitored the evolution of novobanco's capital ratios, as well as the evolution of several other relevant projects, including the new Tier 2 issuance process, the RWA (Risk Weighted Assets) review process, the MREL requirements process and issuance, the RaRoc levels and the activity of the Valuation Unit. In addition, during 2023, the Financial Affairs Committee undertook legal entity reviews of novobanco´s subsidiaries and branches and monitored the assessment of novobanco's equity investments, including restructuring funds.

The Committee monitored, on a continued basis, the independence and the work of the external auditor, including the supervision and approval of other additional services provided to novobanco's Group by that auditor.

The meeting agendas included updates on the regulatory aspects of the Bank's activity, the follow-up of the 2023-2025 Medium-Term Plan (as well as the preparation of the 2024-2026 Medium-Term Plan) and the evaluation process for supervisory purposes (SREP) for 2023.

The Committee also followed the IT strategy, Data Governance and Data Quality, complying with BCBS239 principals, which will be reported to ECB and Bank of Portugal, and the 2023 Recovery Plan.

During the year, the Financial Affairs Committee undertook detailed business reviews of the main business segments: (1) Retail & Small Business; (2) Corporates & SME; and (3) Treasury & Capital Markets, including the progress and status of digital transformation. In addition, there were regular updates as to the performance of NB's Pension Fund and the approval of the new governance structure introduced for the monitoring and review of NB's Pension Fund's Assets and Liabilities. Specific reviews of the costs execution also took place.

The Financial Affairs Committee monitored the internal control systems during the year and concluded the annual review of the evaluation of the Internal Audit function, in accordance with Notice 3/2020 of the Bank of Portugal.

The members of the Financial Affairs Committee met with the Supervisory Boards (Audit Committees) of the Subsidiaries, namely, Banco BEST, novo Banco dos Açores, GNB Fundos Mobiliários – Sociedade Gestora de OIC (GNB FM), S.A., GNB Gestão de Patrimónios – Empresa de Investimento, S.A. (GNB GP), GNB Gestão de Ativos, SGPS, S.A (GNB SGPS), GNB Real Estate – Sociedade Gestora de OIC, S.A (GNB RE) and GNB Sociedade Gestora de Fundos de Pensões, S.A (GNB FP), having discussed the matters proposed by those Audit Committees.

A review of the Policy for selection, appointment and evaluation of the novobanco Group Statutory Auditor and contracting of Non-Prohibited Non-Audit Services was made following a principle of good internal governance of regular update of Bank's internal regulations. A proposal of review of the policy was submitted, in December 2023, to GSB's opinion, before its submission for approval by the next General Shareholders' Meeting. Additionally, since the Financial Affairs Committee is the body involved in the process of selecting and appointing a statutory auditor and contracting non-prohibited services, its members attended a training on the subject and on their responsibilities under the law, performed in November 2023.The Committee members met individually with the Statutory Auditor and the Head of Internal Audit, without the presence of EBD members.

Risk Committee

The Risk Committee held 14 meetings during 2023. In addition to approving loans to individual customers or groups of associated customers, in accordance with its Regulation, it also assessed and discussed the strategy, risk appetite and limits for 2023, in accordance with the Medium-Term Plan for 2023-2025, the NPA Plan for 2023-2025 and monitored the main initiatives and activities in 2023 relating to the challenging macro-economic environment; the contagion effects of increased financial market volatility impact arising from the Russian / Ukraine conflict, and later in the year also from the Middle East conflict; to the heightened levels of operational risk including cyber-attacks and outsourcing; and the increased focus on emerging risks like climate and environmental risk.. Other topics discussed and reviewed by the Risk Committee included the main monthly risk indicators (credit risk, market risk and operational risk), detailed portfolios, products and sector exposure analyses, non-financial risks, including cyber risks and outsourcing risks and the credit provisions and impairments contained in the financial statements for the 2023 financial year, as well as the approval of the Risk Activity Plan for 2024.

The Bank's non-performing loans portfolio (NPL) was also monitored and compared with the portfolio of similar institutions and with the European Banking Authority (EBA) benchmarks. The risk governance model was also subject to review in 2023.

The agendas of the meetings regularly included reports on the regulatory aspects relating to the risks faced by the Bank, particularly in the context of the IRB Plan, especially on LGD (loss given default), IRRBB (interest rate risk of the banking book) and the review of the risks inherent to the challenging macros-economic environment, the analysis of economic groups with high exposure to impacted sectors and the conclusions of the SREP. The calculation of the Bank's risk-bearing capacity was also a frequent topic at the Risk Committee meetings. Other regulatory risk matters were also discussed and analysed throughout the year, including the results of the OSI (On-Site Inspections) carried out in 2023.

The Risk Committee approved ICAAP, ILAAP, ECB Stress Tests, the IRB Renovation Strategy and Operational Plan, the RWA Framework, Early Warning System Project and the PMO Credit & Risk Transformation Implementation.

The Committee also followed the IT strategy, Data Governance and Data Quality complying with BCBS239 principals, which will be reported to ECB and Bank of Portugal, and the OSI on Digitalisation, on Credit Quality Review (CRE), and on IMI Retail SME.

At the end of 2023, the Risk Committee analysed the assessment of the risk management activities, in accordance with Bank of Portugal Notice 3/2020, including the Annual Self-Assessment Report (RAA).

The Head of the Risk Function, the CEO, the CFO, the CCO and the CRO attended the meetings as guests, whenever necessary.

Compliance Committee

The Compliance Committee held 7 meetings during 2023, monitoring and deciding on government, regulatory and legal issues related to the Bank's Compliance activity and analysing and discussing the Bank's regulatory compliance matters, including those relating to Notice 3/2020 of the Bank of Portugal and the EBA Guidelines on internal control and implementation in the areas of compliance, legislation on financial crime matters, where the prevention of money laundering, anti-bribery and corruption and market abuse are included, legislation on personal data protection, whistleblowing procedures, other legal and regulatory matters and relevant ongoing projects, such as APIC (updated information on clients), as well as if the activity plan of the Compliance Department was being followed. The Committee also analysed and discussed topics related to transactions with related parties and conflicts of interest, compliance matters relating to subsidiaries and the Luxembourg Branch, including local inspections and audits on AML topics and the remediation plan that encompassed the transfer of legacy accounts from Luxembourg to Lisbon, as well as regularly monitoring of the most relevant fines and sanctions applied to novobanco.

During the year, a new Whistle-blowing platform ("Whispli") was successfully launched across the novobanco Group, as part of the Strategic Alignment and Culture Transformation program and internal processes were revised, enhanced and reinforced. Annual review and amendment of compliance related policies were also completed during the year including, Code of Conduct, Conflict of Interest Policy, Policy on Transactions with Related Parties, Policy for Reporting Irregularities (Whistleblowing), Anti-Bribery and Anti-Corruption Policy, Money Laundering and Terrorism Financing Prevention Policies.

The Compliance Committee regularly monitored the execution of Project Darwin, the enhancement of the Target Operating Model enhancement of financial crime with focus on KYC / KYT and correspondents' banking.

At the end of 2023, the Compliance Committee analysed the assessment of the compliance management activities, in accordance with Bank of Portugal Notice 3/2020, including the Annual Self-Assessment Report (RAA), and approved the Activity Plan of Compliance for 2024.

Nomination Committee

The Nomination Committee held 4 meetings during 2023. The Fit & Proper Officer supported the Nomination Committee on the annual assessment (individually and collectively) of the adequacy and suitability of the members of the Executive Board of Directors of novobanco and of the members of the Board of Directors of the subsidiaries novobanco dos Açores, Banco BEST and GNB – Gestão de Ativos and of the Bank's Key functions holders.

During 2023, Fit and Proper processes were also submitted to supervisory authorities regarding certain members of the governing bodies of novobanco, as well as for the governing bodies of novobanco dos Açores, Banco BEST and GNB GA and its subsidiaries.

During 2023, the Nomination Committee discussed, reviewed and approved the new EBD organizational structure with updated roles and responsibilities as detailed previously. Also updated the Succession Planning coverage of novobanco, informed of the results of the measures defined by the EBD to improve the Bank's culture with a new project designed with the support of external parties and appointed the new Group Fit & Proper Officer.

On gender diversity, an Action Plan with specific targets was approved in March 2023 by GSB following an assessment made in the Nomination Committee and submitted to the supervisory authorities. The implementation of such plan is being monitored by the Nomination Committee and a year-end status was presented and assessed by the GSB.

The performance and potential of top management at novobanco was also analysed, together with the HR's reviews conducted with each of the members of the EBD in respect of each of their departments.

The Nomination Committee has assessed and approved the changes on the composition (members) of the General and Supervisory Board, being such approval always subject to the Fit & Proper process conducted by the competent authorities.

Remuneration Committee

The Remuneration Committee held 5 meetings during the year 2023. At these meetings, the Committee monitored the implementation of the remuneration policies concerning the management and supervisory bodies and the staff and adopted a set of decisions related to the variable component of the remuneration for the EBD and Identified Staff for the year 2023.

The Remuneration Committee also set and approved the main individual and collective performance indicators for the EBD members for the year 2023, based on the approved budget for that year and approved the 2022's EBD KPI results. The Remuneration Committee acknowledged and confirmed the List of Identified Staff for year 2023 following a recommendation of the EBD. It also approved the budget for 2023 variable remuneration and the amounts allocated to the Identified Staff and EBD members (subject to the rules in the respective policy).

Those functions were performed also with the involvement of the relevant Bank's internal areas and with the control functions.

Annual review and amendment of the remuneration policies for Management and Supervisory Bodies and Staff were also completed during the year. The Remuneration Committee also approved the selection of certain employees under the Shaping the Future Plan for 2023.

At the end of 2023, the Remuneration Committee concluded the independent internal analysis foreseen in Notice 3/2020 of Bank of Portugal aimed at verifying compliance of the remuneration, processes and policies in the Bank to be submitted to the Shareholders' Meeting, the General and Supervisory Board and the Executive Board of Directors.

1.3. Interactions with the Statutory Auditor

The GSB and the Financial Affairs (Audit) Committee held several working meetings throughout the year with the Statutory Auditor, Ernst & Young Audit & Associados - SROC, S.A., both within the scope of the audit of the individual and consolidated financial statements for the year ended on December 31, 2023, as well as within the scope of regular monitoring and discussion of the most relevant aspects arising from the evaluation of internal control.

Within the scope of the existing articulation with the Statutory Auditor, the GSB obtained the necessary and sufficient clarifications to the questions raised within the scope of its functions and, in particular to the following aspects:

- The completeness and adequacy of the accounting records and documents that support them;
- The existence of goods or values belonging to novobanco's Group or received in guarantee, deposit or other title; and
- If the accounting policies and valuation criteria adopted lead to an adequate representation of the assets and of the results of novobanco.

The GSB analysed all matters contained in the Auditor's Reports on the individual and consolidated financial statements issued by the Statutory Auditor for the year ended December 31, 2023, having obtained from the auditors all clarifications necessary for their understanding, in particular on the relevant audit matters included therein:

- Impairment for loans and advances to customers;
- Financial instruments measured at fair value and classified as level 3 under IFRS 13;
- Restructuring provisions;
- Restructuring funds valuation;
- Pension funds liabilities valuation;
- Measurement of real estate obtained through credit foreclosure;
- NPA sale transactions;
- Contingency on property tax;
- Disclosure of other contingent liabilities;
- Contingent Capital mechanism matters;
- Financial Disclosure matters; and
- Internal control matters, in particular compliance with Notice 3/2020 Bank of Portugal.

All these matters were monitored by the GSB and its Committees, which, on these matters, were kept informed by the EBD, by the internal control functions, by the relevant Departments and by the external auditors.

In preparation of the accounts of the financial year, the GSB analysed the management report as well as other documents submitted by the EBD, having proceeded to verifications, and obtaining the clarifications deemed necessary, which comply with the applicable legal and accounting requirements.

The accounts were audited by the audit firm Ernst & Young Audit & Associados SROC, S.A., which issued the Audit Report on the financial information for the year ended 31 December 2023 on 5 March 2024, without qualifications nor emphasis of matter, to which the GSB expresses its agreement.

The GSB reviewed the Additional Report to the Supervisory Board issued by the Statutory Auditor on the same date, which corresponds in substance to the matters that have been discussed during the year, and for which they have obtained all the necessary clarifications.

2. Opinion of the Financial Affairs (Audit) Committee on the Management Report and the individual and consolidated financial statements

Within the scope of our functions, and in accordance with article 444, number 2, of the Code of Commercial Companies, the GSB verified that:

a. the individual and consolidated balance sheet, the individual and consolidated income statement and the individual and consolidated statement of comprehensive income, the demonstration of changes in individual and consolidated equity, the individual and consolidated cash flow statement and the corresponding Annex, allow a proper understanding of the asset, liabilities and the individual and consolidated financial position of novobanco, its individual and consolidated results of changes in equity and the individual and consolidated cash flows;

b. the accounting policies and valuation criteria adopted are appropriate;

c. the management report is sufficiently clear as to the evolution of the business and the situation of the Bank and all the subsidiaries included in the consolidation, highlighting the most significant aspects, as well as a description of the main risks and uncertainties that the Bank faces;

d. the proposed application of results does not contradict the legal and statutory provisions applicable; and

e. pursuant to paragraph 5 of article 420 of the Commercial Companies Code, applicable by reference to article 441, paragraph 2, the information on corporate governance includes the elements required under the terms of article 29-H, no. 5 of the Securities Code and other applicable legislation.

Therefore, the Financial Affairs (Audit) Committee issues a favourable opinion to:

a. the management report as well as the individual and consolidated financial statements for the year of 2023, presented by the Executive Board of Directors, including the proposed application of results submitted by the EBD in its Management Report;

b. the Audit Report on the consolidated and individual financial statements of the Bank issued by EY for 2023.

Finally, the General and Supervisory Board would like to express its appreciation to the Executive Board of Directors, to the managers in charge of the various areas of the Bank and to the remaining employees, as well as to the auditors, for the cooperation and the support in the completion of its work.

Lisbon, 5 March 2024

General and Supervisory Board and the Financial Affairs (Audit) Committee

Byron James Macbean Haynes
Chairman of the General and Supervisory Board and member of the Financial Affairs (Audit) Committee

Karl-Gerhard Eick
Vice-Chairman of the General and Supervisory Board and Chairman of the Financial Affairs (Audit) Committee

Kambiz Nourbakhsh
Member of the General and Supervisory Board and member of the Financial Affairs (Audit) Committee

Mark Andrew Coker
Member of the General and Supervisory Board

John Herbert
Member of the General and Supervisory Board

Robert A. Sherman
Member of the General and Supervisory Board

Carla Antunes da Silva
Member of the General and Supervisory Board

William Henry Newton
Member of the General and Supervisory Board

Monika Helene Wildner
Member of the General and Supervisory Board

Evgeniy Kazarez
Member of the General and Supervisory Board

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