novobanco

Annual Report 2022

Additional Notes to this Report

This document is the PDF/printed version of the Annual Report 2022 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/investidores. In case of discrepancies between this version and the official ESEF package, the latter prevails.

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 €6 304 660 637.69 divided into 10 391 043 938 nominative dematerialised shares with no nominal value

The novobanco Cultura's mission is to reflect novobanco's commitment to uphold, promote and share its important cultural and artistic heritage with Portuguese society.

novobanco Cultura brings together novobanco's collections and cultural initiatives under a single concept, facilitating access and enjoyment of the various collections to art communities, students, researchers and the general public, both nationally and internationally.

The collections and library of novobanco Cultura are:

The Contemporary Photography Collection

Amongst the finest Corporate Collections in the World;

The Painting Collection

A set of over 90 important Portuguese and European artworks from various eras;

The Numismatic Collection

One of the largest and most complete collections of Portuguese numismatics;

The Humanities Library

One of the most valuable private libraries that specializes in the humanities.

www.novobancocultura.pt/en

In the 2022 Report and Accounts, are presented a set of works from the Painting Collection

The story of the beginning of a Collection

The Collection was created in 2017 from a dispersed set of works, from different origins and eras, coming from various rooms of the Bank's administration and branches from north to south of the country. The artistic heritage of the Bank was the starting point for the constitution of the Painting Collection, based on three objectives: the investigation and descriptive study of the works, making the works available to the public on an online platform, and above all, giving a useful meaning to the Collection, making it an active part in bringing art closer to diverse audiences, through partnerships with museums, from north to south of the country, continent and islands, with a particular focus on institutions located outside major urban centers.

Lisboa XXXII, Rua do Ouro 1986 – Maluda (Maria de Lourdes Ribeiro)

Oil on canvas 72 x 91cm

The city reinvents itself, through the geometric shapes of the buildings volumes, in an almost abstract image of reality, calm and silent.

MIRANDELA, Museu Municipal Armindo Teixeira Lopes

Abbreviations and Acronyms

ECB	European Central Bank
EBD	Executive Board of Directors
GSB	General and Supervisory Board
DGCOMP	Directorate-General | Competition
CCA	Contingent Capital Agreement
ESG	Environment, Sustainability and Governance
YTD	Year-to-date - change since the start of the year
YoY	Year-on-Year - change on a year earlier
NII	Net Interest Income
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

CONTENT

Message from the Chairman of the General and Supervisory Board

Dear Stakeholders,

Novo Banco S.A. (“novobanco”, or “the Bank”) delivered significantly improved profitability with net income of €561mn for the full year 2022, reflecting the strong growth of our banking businesses and confirming the sustainability and viability of our business model.

novobanco´s business model reflects its strategic program which during the year has been reshaped, simplified, and structured around four overarching pillars of being a “Customer-Centric Bank”, “Simple and Efficient Operations”, “Developing People and Culture” and “Delivering Sustainable Performance”, to better enable the Bank “to serve the needs and expectations of our customers”.

Year 2022 financial results have been underpinned by an increase in commercial banking income (+7.3%) and net loan growth (+3.8%) which has generated sustainable revenue and capital growth confirming the Bank´s accretive business model. Throughout the year novobanco has continued to make significant investment (including IT with €85mn) in support of our commercial businesses and our people while keeping underlying run-rate cost discipline despite inflationary pressure.

The viability of novobanco´s business model is confirmed with significantly strengthened year-end capital ratios complying with all regulatory and guidance requirements (Supervisory Review and Evaluation Process Compliance), solid year-end liquidity ratios were maintained following the partial repayment of €1.6bn of the TLTRO III in December and the year-end binding and linear (non-binding) MREL targets were exceeded.

In June 2022, following its annual review of the year-end 2021 financial statements, Moody´s Investors Service upgraded novobanco's baseline credit assessment (BCA) rating by two notches to b2, long-term deposit rating to Ba3 and senior unsecured debt ratings to B3, with unchanged positive outlook. The multi-notch upgrade reflects novobanco's “improved credit profile as a result of the continued de-risking of its balance sheet and the significant restructuring of its operations over recent years”.

In February 2023, the European Commission, State Aid Directorate General for Competition (“DG Comp”) announced the compliance of the Restructuring Plan and commitments (Structural, Behavioural & Viability) agreed with the Republic of Portugal in October 2017 have ended and that novobanco has now exited the Restructuring period following the Monitoring Trustee's final report which will be prepared after the submission of full year 2022 audited accounts.

During the year the Bank continued to execute the de-risking of legacy assets and non-core assets. Several real estate sales were successfully completed taking advantage of the positive market momentum in certain segments. The logistics portfolio sale completed in May 2022 had a positive impact on net income and capital. Project Crow, the sale of certain restructuring funds and assets, was successfully completed in December 2022 also on a capital accretive basis, with a neutral impact on net income. novobanco reduced the non-performing loan (“NPL”) ratio to 4.3% at year-end 2022 leaving the NPL stock less than €1.4bn. Following the completion of the Spanish business sale in 2021, the Bank is formally closing the Spanish Branch entity and a subsequent opening of a Representation Office in this jurisdiction.

The Bank continued to be very vigilant and cautious with respect to managing the many different aspects of risk. In particular, in 2022 the Bank was faced with the contagion impact of the Russian / Ukraine conflict on credit risk (direct & geographic proximity), heightened levels of market risk (interest rate and credit spread market volatility on investment portfolios) and operational risk (cyber-attacks and outsourcing); the end of the credit moratoria in Portugal; and the onset of a more uncertain macro-economic environment with the increased risk of recession, increased inflationary pressures, rising interest rates and the resulting cost-of-living crisis. In addition, there has been increased focus on emerging risks like climate and environment risk. The European Central Bank (“ECB”) concluded its first climate stress-test exercise on the Single Supervisory Mechanism (“SSM”) banks, with novobanco receiving a “Medium Classification” in-line with the overall SSM average.

During the year the General and Supervisory Board (“GSB”) appointed and approved the new Executive Board of Directors (“EBD”) mandate term 2022 to 2025 under the new CEO Mark Bourke´s leadership. The GSB decided to enhance and strengthen the governance structure of the EBD by increasing its members to seven and realigning certain roles & responsibilities, including the introduction of a clear separation between Risk and Credit at the executive level in line with best practices across the SSM banks in Europe.

In 2022, the Bank launched our “Sustainable Finance” project encapsulating novobanco´s group-wide ESG program covering the ESG governance and organization model including target operating model and institution-wide training and business and risk management. Sustainable Finance is expected to develop on an accelerated basis following the good progress made in 2022.

As part of the “Developing People and Culture” strategic program, the Bank has recently launched some key initiatives to continue to build and empower a diverse workforce and to deliver on our commitments to diversity, equity, and inclusion.

Throughout year 2022, 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 2022, the Bank delivered the key strategic goals and financial targets in our plans, including sustainable profitable growth supporting our corporate and retail banking customers and our people and the significant rebuilding and strengthening of our capital position.

For year 2023, realistic strategic goals and financial targets for novobanco have been set which include building further sustainable net income benefiting from positive momentum from the net interest income growth in the last quarter of 2022 and the continued investment in and support of our commercial businesses and our people, while at the same time being cautious and vigilant in managing risk through this difficult economic period.

On behalf of the GSB, I would like to thank our customers and our other stakeholders 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 the hard work, dedication and commitment that has allowed the Bank to better serve the needs and expectations of our customers and to realise its targets and goals, despite the challenging year of 2022.

Byron Haynes

Chairman of the General and Supervisory Board

CEO Talk with Mark Bourke

Mark Bourke, Chairman of Executive Board of Directors, gives an interview highlighting 2022 achievements and the prospects for the future of novobanco.

After the completion of the restructuring process, novobanco is now embarking on a phase of accelerated trajectory with consolidation of profitability and sustainable business growth.

Welcome to novobanco, and to our master branch in Lisbon. This branch is part of the 240 branches already operating under the new distribution model – redesigned to have a greater focus on customised service. In a nutshell, a customer-centric bank where face-to-face service experience is an important piece of the omnichannel architecture.

1: 2022 was the year of the consolidation of novobanco profitability. Which key achievements you highlight?

During the restructuring cycle, it was the belief that together we could rebuild the bank that made it possible: i) to normalise the balance sheet; ii) to optimize our operational model, and iii) to strength the risk management model, improving its resilience and allowing novobanco to reposition its activity in the domestic market.

In 2022, despite a challenging macro environment, it was the same belief in and continued focus on serving our clients, adapting and evolving our offering and service that delivered the financial results.

More than the bottom-line, it is really important to highlight improvements made in the following:

- Corporate segment - solutions to support the effectiveness of programmes towards development of the economy by stimulating innovation, digital transformation and energy transition; and the definition of a sectorial approach evolving our know-how and expertise;
- Retail segment – the progress made in the implementation our omnichannel strategy, highlighting not only the new distribution model and the 190 VTM (Virtual Teller Machine) already installed, but also the remote service and the investment in digital marketing tools towards and unique client's journey;
- ESG – creation of ESG Office and redefinition of our ESG Steering model, ensuring organization alignment towards integration of sustainability principles in our day-to-day activity and our strategy.

2: An impressive set of both operational and financial results were delivered in 2022. From the top to the bottom line what are the key takeaways?

In 2022 novobanco delivered sustainable growth of business, demonstrating the ability to generate increased revenue and capital. I would highlight three elements:

- Commercial Banking Income of €919mn (+7% YoY), with solid Net Interest Income performance, underpinned by improvement of average assets yield, which more than offset the cost with senior debt issued during the year and the change of TLTRO III interest rates;
- A Cost to Income ratio of 44% excluding exceptional items, keeping costs under control while investment in digital transformation and streamlined operations;
- Cost of Risk of 45bps (-50bps YoY) benefiting from the de-risking strategy executed over the years and reaching a NPL ratio of 4.3%, towards an NPL ratio in line with the European average.

The financial performance was backed by our commercial activity. In 2022 Net loan book increased by 3.8% YoY, moving towards expanding loan book with €3.9bn customer loans originated, of which 58% were corporate.

In summary, novobanco consistent performance allowed the bank to deliver on all our medium-term targets already in 2022, in detail:

- Expanding loan book with performing commercial loan book growing 4.7% YoY (vs 2-3% target per year);
- Net Interest Margin within the 1.30-1.50% range, at 1.47%;
- Efficient operations with Cost to Income of below 45%, reaching 44% on a recurrent basis;
- Achieving moderate risk profile with Cost of Risk below 50bps, at 45bps;
- NPL converging towards EU average – at 4.3%, being lower than 5%
- Delivering organic attractive returns with Return on Tangible Equity (pre-tax) above 10% target and totalling 14.4%;
- And accelerating capital generation with CET 1 phased-in at 13.7%, being above 12% target

Novobanco proved to have a capital accretive business model and is now positioned for its next stage of development.

3: Novobanco's objective is to be a customer-centric domestic bank. Apart from being customer-centric, what are the key drivers of its strategy?

Novobanco strategy is based on 4 pillars:

i) Customer-centric bank – as mentioned, aiming to improve customer experience through by implementation of an omnichannel delivery model on the retail side, a sectorial approach for SMEs, a journey for standard products, improve your customer tools and time-to-market;

ii) Simple and efficient operations – streamline operations and processes, transforming the core system and applications efficiency and risk;

iii) Developing people and culture – through i) transformation of our value proposition to attract and retain talent, ii) accelerating the development of internal talent; iii) developing current and future leaders and planning the succession, and last but not least, an environment where speaking-up is welcome and safe;

iv) Delivering sustainable performance – managing Risk and Capital, reshaping and simplification of internal risk and frameworks and assessment of climate and environmental risks, and efficient capital allocation backed by effectiveness of RAROC tools. Sustainable performance not only in the short term and financially but integrating sustainability and its principals in our day-to-day activities.

The combination of these gives novobanco the confidence that its ambitious objectives will continue to be met, while becoming an exemplar of customer-centric in the European financial sector.

4: Looking at the future, ESG has an increased relevance in the regulatory and business landscape. What is novobanco's approach to management of ESG risks towards more sustainable financial sector?

Our ambition is to position novobanco as the leading ESG Bank in Portugal, which is only possible with the integration of sustainability within the Group's business model. This strategy is focused on 3 main areas:

• Evolve the framework to manage ESG and Climate and Environmental risks, to accurately assess and monitor them, steering our portfolio to support our clients' transition journeys

• Improving the financial and social wellbeing of our people, clients and the communities we serve

• Being a responsible bank behaving fairly and responsibly, maintaining high standards of conduct.

In 2022, we reinforced our governance of ESG and climate and environmental risks through the creation of a dedicated ESG Office reporting directly to the Executive Board of Directors, the implementation of a specific team for ESG risks within the Risk function, and the revision of the composition and powers of monthly ESG steering meetings.

This will enable us to accelerate the integration of ESG into the business, ensure the integration of sustainability principles into the strategy, and support and boost ESG aligned business in commercial areas.

Our ESG monthly Steering, assisted by a Project Management Office team, oversees the implementation of the business model transformation workplan devised by 8 different cross-departmental teams, ensures the systematic discussion of the main ESG performance indicators, covers all the relevant areas of activity (business, operations, risk, human capital, among others), and monitors regulatory and legal developments.

5: In practical terms, how are environmental and climate risks being accessed in novobanco business model?

One of our main challenges is supporting our customers transition towards a low carbon economy, while managing risks and opportunities.

Reaching Net Zero by 2050 will only be possible if businesses, regardless of their size, are able to transform their business models and production processes. This will pose a great challenge specially for SMEs, and we recognize the key role that banks must play in financing that transition.

So, more than just sustainable finance, we talk about transition finance.

In integrating ESG risks into our loan origination frameworks and processes we are taking a structural approach, aligned with EU Taxonomy, that will allow us to assess materiality, define alignment targets, segment exposures with a sectorial scoring model, and pilot an ESG rating model that will inform decision making and pricing methodologies which will enable full ESG integration into loan origination in line with regulatory calendar.

In parallel, we will continue to strive to reduce our environmental footprint through energy efficiency initiatives in our offices and branches, the conversion of our car fleet to eletric, the strengthening of a paperless culture, or water saving and waste management initiatives.

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

2022 was the year to, with no restrictions, relaunch novobanco. This was recognized not only by rating agencies (with 2 notches upgraded in 2022) but also with the successful completion and end of novobanco's restructuring period as recognized by DGCOMP.

Novobanco is now in a position to grow in a sustainable manner and to support our clients, be they individual families or corporates (with focus on SMEs), to compete and endure as a strong and independent Portuguese bank.

This journey was only possible with the dedication of our people, the confidence of our customers and the commitment of all the governing bodies of the bank. Therefore, I would like to take this opportunity to thank all our stakeholders for their continued confidence in novobanco.

L’aube chromatique, 1969 - Vieira da Silva

Oil on canvas, 81 x 100 cm

In the 1960s Vieira da Silva was already a national and international renowned artist, with a work of great conceptual independence.

“L’aube chromatique” shows her deep interest in issues related with space, its structural complexity and its relationship with light, a theme of constant research in her painting. Here, the chromatic vibrations are translated into an irregular grid, dense and luminous, atmospheric, infinite and free of defined geometric lines. The mesh of hundreds shades of white, the notes in yellow and orange in horizontal brushstrokes, the thicker or diluted palette, reflects a unique and unmistakable pictorial grammar.

CRATO. Museu Municipal do Crato

RELATÓRIO
DE
GESTÃO

INDEX

Mulher, 1981 – Júlio Resende

Oil on canvas 153 x 123cm

In this painting, Resende works a luminous palette, in shades of turquoise blues, greens and yellows, marking the contrast between the face, melancholic, somber, and the abstract shapes of the body, suggested in patches of blue multiples.

CRATO, Museu Municipal do Crato

1 Who we are

1.1 novobanco

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

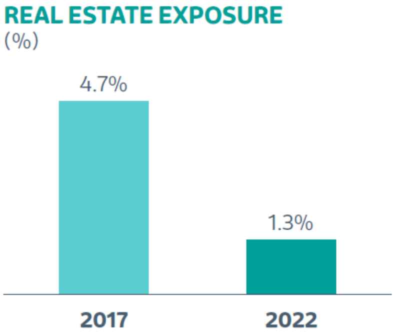
novobanco was born in 2014 upon the resolution of Banco Espírito Santo S.A. ("BES"). From the outset, novobanco has shown its resilience, overcoming the huge challenges resulting from its status as a transitional bank and from the new commitments imposed by the European Commission for the sale, in October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

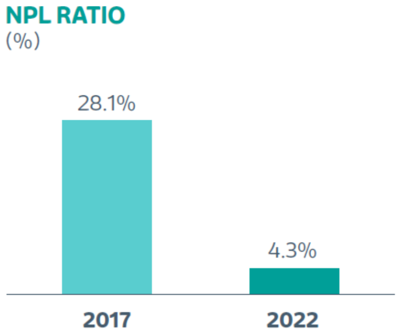
The first years of novobanco's life laid the foundation for its renaissance in 2021. After completion of its restructuring process, novobanco is now geared towards commercial transformation:

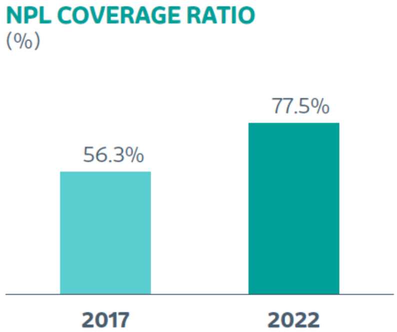
2014 **CREATION OF NOVOBANCO**	Creation of novobanco following the resolution applied to BES by Banco de Portugal
2017 **LONE STAR ACQUIRES 75% OF NOVO BANCO SHARE CAPITAL**	→ Lone Star acquires 75% share capital of novobanco, with the remaining 25% being owned by Fundo de Resolução → As part of state aid, 33 new commitments imposed by the European Commission were established, to be fulfilled by the Bank
2020 **RESTRUCTURING CYCLE**	Focus on reduction of legacy exposure and delivering commitments, denoting resilience and performance capacity
End of 2021 **RENOVATION & TRANSFORMATION**	In the final stage of the restructuring cycle, the Bank enters a new phase with a new image. A domestic commercial bank with a strong presence in the corporate sector and close customer relationships
2022 beyond **RELAUNCH**	New strategic plan focused on maximizing value for customers, maintaining profitable operations and capital efficiency

Legacy divestment carried out simultaneously with operational model optimization

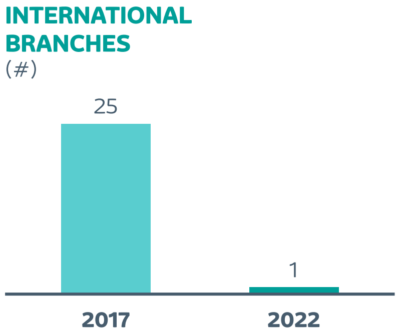
Execution of the process of divestment of non-productive assets despite the macroeconomic environment:

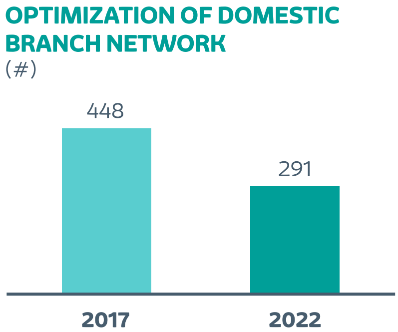


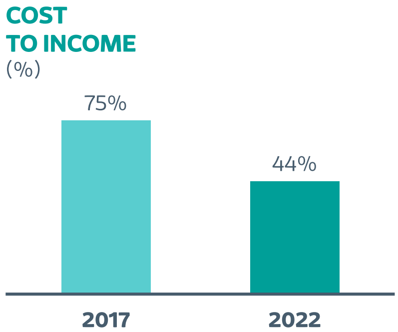




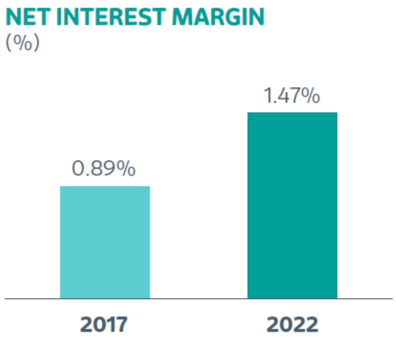
Business recalibration, leading a balance sheet reduction, while maintaining the core business[1]:

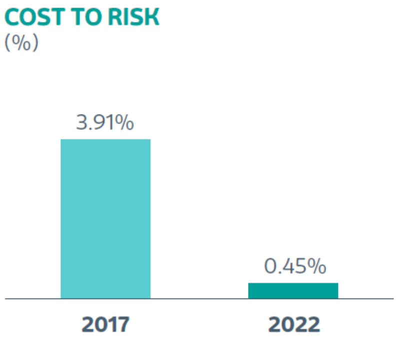


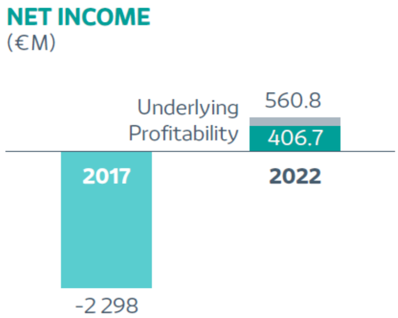




Significant profitability turnaround and a successful transition to capital-accretive performance[2]:







In October 2017, the Portuguese State and the European Commission agreed on the Commitments within the scope of the state aid process. The business plan designed to demonstrate the Bank's viability, by the end of the restructuring period, laid out a strategy for a comprehensive transformation of novobanco.

The successful and complete execution of the business plan, even with market conditions being more challenging than the ones embedded in the business plan (eg: negative Euribor rates; negative economic consequences of the pandemic crisis), enabled the achievement of the Commitments announced by the competent bodies, which will be assessed in the Monitoring Trustee’s final report and upon the release of novobanco 2022 year-end accounts.

[1] Cost-to-Income defined has Operational Costs divided by Commercial Banking Income; 2022 recurrent Cost-to-
[2]Income 2022 Cost of risk of 45bps considers loan impairments and corporate bonds

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

A relationship bank at the service of Portuguese economic growth, and brand with the following principles and values:

IDENTITY

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

Portuguese

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

Partner

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

Profissional

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

Proximate

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

PRINCIPLES AND VALUES

Collaboration	Collaborating with all stakeholders to reach better outcomes for customers and society.
Dynamism	Assuming continuous transformation, as expectations are evolving at exponential rates, and reinvention to remain relevant.
Diversity	Reflecting the different needs of customers and employees in solutions and plans.
Transparency	Remaining authentic and open exchanges of information across all stakeholders
Empathy	Incorporating the voice of customers and society into the way novobanco does business.

A PURPOSE TO SERVE THE PORTUGUESE ECONOMIC GROWTH, THROUGH RELATIONSHIP-LED BANKING FOR INDIVIDUALS, FAMILIES AND ALL BUSINESSES, IN A DIGITAL WORLD

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

1.1.1 Business Model

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

novobanco business model is based on two main commercial banking segments: i) corporate; and ii) retail. In both segments, novobanco seeks to anticipate and respond to the needs of its clients through its offer of innovative, effective and transparent banking products and services, based on high ethical and integrity standards and customer satisfaction assessment tools.

CORPORATE:
a historical know-how in the sector

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

Highlights: Main offerings of products and services

SUPPORT TO INVESTMENT
- Medium and long-term financing
- Leasing and renting solutions
- Credit lines under protocols with preferential conditions

SUPPORT TO TREASURY MANAGEMENT
- Factoring and confirming
- Current accounts and o verdrafts
- Online credit for Small Businesses
- IFAP credit lines (pre-disbursement)

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

SECTOR-SPECIFIC EXPERTISE
- Teams specialised in factoring, confirming, leasing and trade finance
- Team specialised in European funds (RRP and PT2030) with access to consultancy partners

EXPORTS AND IMPORTS
- Documentary credit and remittances
- External financing
- International factoring
- Forfaiting

SAVINGS AND INVESTMENT
- Deposits & retirement accounts
- Investment Funds, Unit linked, structured deposits
- Discretionary mgmt & advisory

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

MEANS OF PAYMENT AND COLLECTION
- 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

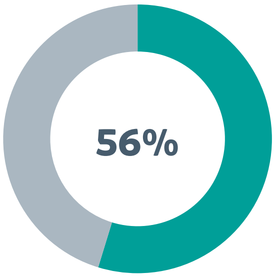
SMALL BUSINESS
- Special small business accounts
- Cash and payments management solutions
- Multi-risk business insurance

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

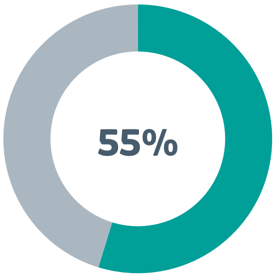
~1.5 MILLION CLIENTS[1]

Corporate segment includes SMEs and Large companies, being suppported by 2 corporate and 20 business centre

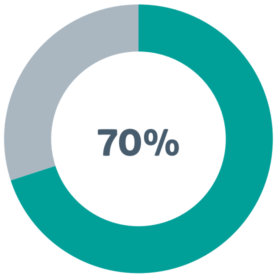
CORPORATE BANKING



Weight of corporate credit in overall novobanco portfolio



SMEs in Portugal that are novobanco clients



Large corporates in Portugal that are novobanco clients

RETAIL BANKING[2]

- Specialised, diversified and distinct product offering to meet client needs
- In addition to the 292 branches, novobanco has an omnichannel approach through helpdesk services, internet, phone and mobile banking
- Universal product offering including life/non-life insurance and asset management (through GNB Gestão de Ativos)

	Deposits (%; €bn)	Gross Loans (%; €bn)
Small Business	~20%	~20%
Affluent	~50%	~20%
Mass Market	~30%	~60%

MARKET SHARE[3]

18.6%	16.1%	14.5%	9.3%	9.1%	8.8%	5.2%
TRADE FINANCE	POS	CORPORATE LOANS	DEPOSITS	MORTGAGE LOANS	ASSET MGMT	CONSUMER & OTHER

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

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

novobanco DOS AÇORES

novobanco dos Açores is the result of a strategic alliance between novobanco (57.5%) and Santa Casa da Misericórdia de Ponta Delgada (30.0%), which was joined by the Bensaude Group (10.0%) and thirteen other Santa Casa da Misericórdia units from all the Azores islands (2.5%).

In 2022 novobanco dos Açores celebrated its 20th anniversary, which marked the historic strategic alliance established in 2002.

novobanco dos Açores has as its mission to serve its clients (individuals and companies) and the Azorean regional economy. Its strategy relies on key competitive advantages such as economic and financial strength, a culture of service to the benefit of the population of the Azores, wide experience of the local market and a strong tradition of close relationships with the Clients.

Moreover, novobanco dos Açores has set itself the important goal of becoming a benchmark ESG entity in the Azores, contributing to the promotion of sustainable investment practices and to accelerating the process of transition to a carbon-neutral economy. novobanco dos Açores is therefore developing a sustainability strategy in step with novobanco Group's, with special focus and priority given to the integration of climate risk into its business and risk management model.

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

Best Bank

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

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

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

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

Technology is part of Banco Best's DNA. The Bank's digital channels - App and Website - give Clients total autonomy in their relationship with the Bank and a pleasant and effortless experience. 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 various support tools, monitor market indicators and manage their portfolio - buy and sell, monitor returns -, perform the various operations and fulfil general duties, such as updating data.

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

GNB Gestão de Ativos
GRUPO novobanco

GNB Gestão de Ativos is one of the national management companies with the largest track record, and the quality of the management of its products and services has been recognised over the years both nationally and internationally. GNB Gestão de Ativos offers financial products and services, including several types of funds – mutual funds, real estate funds and pension funds - besides providing discretionary and portfolio management services. As of December 2022, GNB Gestão de Ativos had €7.8bn in assets under management in Portugal and Luxembourg.

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

A team of professionals committed…

PEOPLE

4,090
employees
of Grupo novobanco

€880k
investment in training
and development

40
training hours (average)
per employee

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

BUSINESS

1.5 million
clients

96.8%
satisfied and very satisfied clients
– Medium Enterprises

94.0%
satisfied and very
satisfied clients – Retail

…and to turning great difficulties into great opportunities…

FINANCIAL RESOURCES

€25.6bn
Loans granted
(+2.9% YoY)

€3.9bn
Loans origination
(+€0.9bn YoY)

€28.4bn
Deposits
(+4.0% YoY)

… using an omnichanel approach based on agile methodology,

TECHNOLOGY & EXPERIENCE

21
multidisciplinary agile teams
working on digital transformation

725
thousand active clients in the
digital channels (+11% YoY)

36.3%
of total sales
are digital

to give back to community the support it has received.

SOCIETY

€1.6mn
in donations

94
paintings loaned on
permanent exhibition in 37
Museums around the country

577
suppliers registered
(of which 92% domestic[1])

1. Supplier portal promotion program (suppliers with turnover >10k to the group in 2022

1.1.2 Main Events

JANUARY 2022

6 JANUARY
novobanco informs on SPA of Non-Performing Loans and related exposures – Addendum

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

MARCH 2022

9 MARCH
novobanco informs about FY2021 consolidated results

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

31 MARCH
novobanco announces CEO António Ramalho to step-down in August 2022

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

MAY 2022

3 MAY
novobanco informs about 1Q22 consolidated results

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

5 MAY
novobanco announces Mark Bourke for CEO and informs about EBD composition for a new mandate

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

23 MAY
novobanco informs about the signing of a SPA of a Real Estate Portfolio

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

25 MAY
novobanco informs about notification by Banco de Portugal of its MREL requirements

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

JUNE 2022

21 JUNE
novobanco informs about multi-notch rating upgrade from Moody's

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

AUGUST 2022

1 AUGUST
novobanco informs about 1H22 consolidated results

novobanco announces a net income of €266.7mn (1H21: €137.7mn; +93.7% YoY). A solid business performance delivering further improvement in profitability.

15 AUGUST
novobanco informs about the signing of a SPA for its current headquarters building

The Bank signed Sale and Purchase Agreement for the sale of its current headquarters building located in Avenida de Liberdade, Lisbon. The sale price totalled €112.2mn. The Campus novobanco in Tagus Park - Oeiras, currently under construction, will be the Bank's new headquarters.

23 AUGUST
novobanco informs about Restructuring Funds (Project Crow)

A purchase and sale agreement and other agreements were signed with investment funds managed by Davidson Kempner, related to the sale of shares in Restructuring Funds. The perimeter of the transaction comprises around 40% of the bank's exposure to the Restructuring Funds.

26 AUGUST
novobanco informs about Governing Bodies

Following the announcement of May 5th and the authorizations of the competent regulatory authorities, novobanco informs on the composition of the Executive Board of Directors for the new 2022-25 term.

SEPTEMBER 2022

19 SEPTEMBER
novobanco informs about Governing Bodies

novobanco informed about the submission of documentation related to the request for authorization - Fit & Proper - for the exercise of duties for a new member of the General and Supervisory Board ("CGS").

NOVEMBER 2022

4 NOVEMBER
novobanco informs about the share capital increase

Share capital increase, in the amount of €109,421,237.09, resulting from the conversion of conversion rights relating to fiscal years 2016 and 2017.

7 NOVEMBER
novobanco informs about 9M22 consolidated results

novobanco announces a net income of €428.3mn (Sep/21: €154.1mn; +178% YoY). Sustainable growth of business, demonstrating the ability to generate revenue and capital despite the uncertain macro background, increased inflationary pressures and rising interest rates.

DECEMBER 2022

15 DECEMBER
novobanco announces CFO Leigh Bartlett to leave by year-end 2022

novobanco informs that the CGS agreed with Leigh Bartlett to cease his duties at the EBD, where he held the position of CFO. In the period between the end of the year and the new CFO assumes his duties, Mark Bourke (CEO) will also act as interim CFO.

29 DECEMBER
novobanco informs about conclusion of Project Crow

novobanco informs on the completion of the Crow Project following verification of the stipulated contractual suspensive conditions.

FEBRUARY 2023

1 FEBRUARY
novobanco informs about new Chief Financial Officer

novobanco informs that GSB approved, subject to Fit & Proper, Benjamin Dickgiesser as a new member of the EBD for the current 2022-2025 term, becoming the next CFO.

13 FEBRUARY
novobanco informs about the end of the Restructuring Period

novobanco informed about notification from European Commission about the successful completion of novobanco's Restructuring Period, done in the context of the sale of 75% of the Bank's share capital, subject to the Monitoring Trustee's final report which will be prepared after the submission of full year 2022 audited accounts.

1.1.3 Awards

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

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

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

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

novobanco voted as Best Sub-Custodian Bank 2022 in Portugal

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

GNB Gestão de Ativos distinguished with 2 awards from Jornal de Negócios/APFIPP

Awards for asset management performance in 2021:
- NB Obrigações Europa in Best Other Bond Funds category
- Multireforma Plus in Best Risk 4 Pension Fund category

novobanco App wins at Banking Tech Awards 2022

For the second year running, novobanco App won an award at the Banking Tech Awards, this time in the Best Mobile Initiative. In the 2021 edition novobanco had already won in the Best UX/UI in Finance Initiative category, with the App, and received two honourable mentions in the 2020 edition with the Small Business Finance offer in the Best Digital Initiative category and with the Digital Onboarding solution in the Best Use of IT in Retail Banking category.

Novobanco was the winner at the HR Awards in the "Use of Technology" category"

With robotics solutions applied to human resources processing and management tasks. This award is the result of teamwork among several departments with the aim of continuously improving and innovating our processes.

NB PPR fund received an award in the IV Edition of the Rankia Portugal 2022 Awards

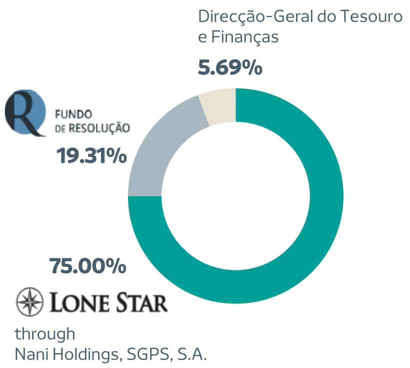
The fund managed by GNB Gestão de Ativos was considered the Best Retirement Saving Plan ("PPR") of 2022.

1.2 Organisation

The share capital of novobanco totals €6,304,660,637.69 divided into 10,391,043,938 nominative dematerialised shares with no nominal value and fully subscribed.

Novobanco's share capital is held by three entities: Lone Star (through Nani Holding S.G.P.S., S.A.), Fundo de Resolução and Direcção-Geral do Tesouro e Finanças.

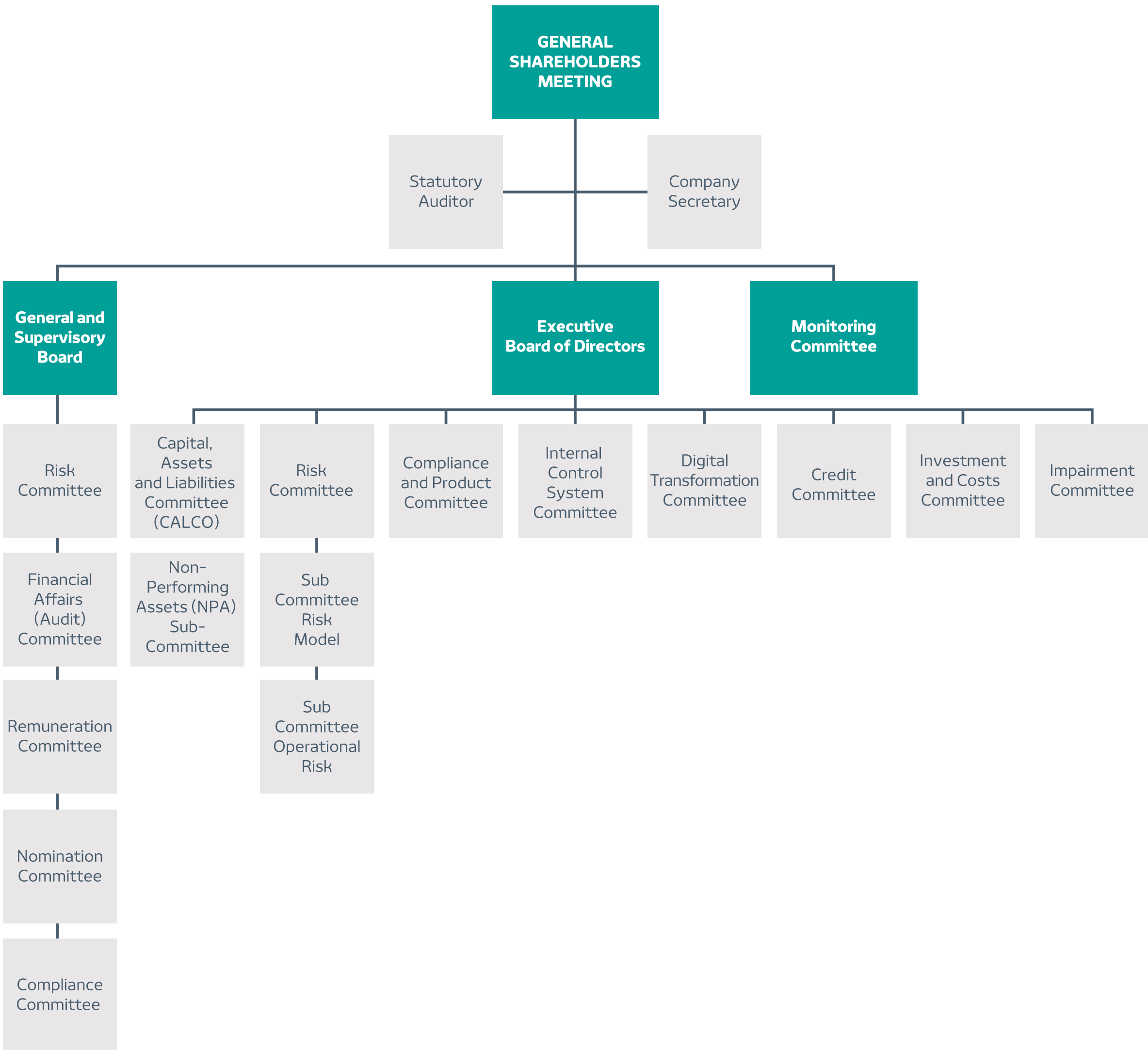
Further information on Shareholder Structure is provided Corporate Governance – chapter: 5.1 Shareholder Structure.



1.2.1 Governance Model

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

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



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

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

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

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 **Organisational structure**

Board of the General Meeting

Chairman: Fernando Augusto de Sousa Ferreira
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)

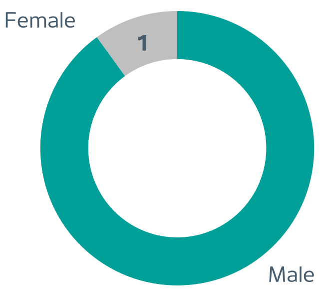
The composition of the corporate and statutory bodies, on 31 December 2022, was as follows:

General and Supervisory Board (GSB) [3]

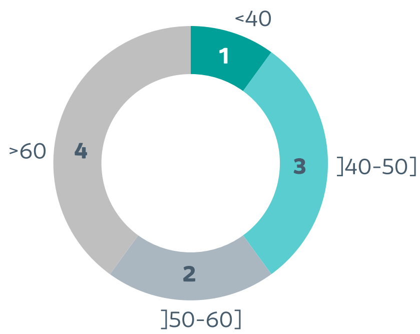
Chairman (C)	Vice-Chairman	Member		M/F	Independent	Date of 1st appointment	Expiry date	GSB Committes: Financial Affairs	Risk	Compliance	Nomination	Remuneration
•			Byron James Macbean Haynes	M	•	18-10-2017	31-12-2024	•	•			C
	•		Karl-Gerhard Eick	M	•	18-10-2017	31-12-2024	C	•			•
		•	Donald John Quintin	M		18-10-2017	31-12-2024				•	
		•	Kambiz Nourbakhsh	M		18-10-2017	31-12-2024	•	•			
		•	Mark Andrew Coker	M		18-10-2017	31-12-2024			•	•	
		•	Benjamin Friedrich Dickgiesser	M		18-10-2017	31-12-2024		•			•
		•	John Ryan Herbert	M	•	18-10-2017	31-12-2024			•	C	
		•	Robert Alan Sherman	M	•	18-10-2017	31-12-2024			C	•	
		•	Carla Antunes da Silva	F	•	06-06-2018	31-12-2024				•	
		•	William Henry Newton	M	•	29-04-2021	31-12-2024		C			

The Board is composed by 10 members, of which 6 are independent, showing diversity in several dimensions: age[4], geo provenance, education and areas of expertise[5]:

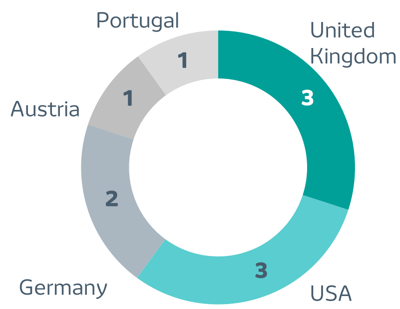
GENDER



AGE



GEO PROVENANCE



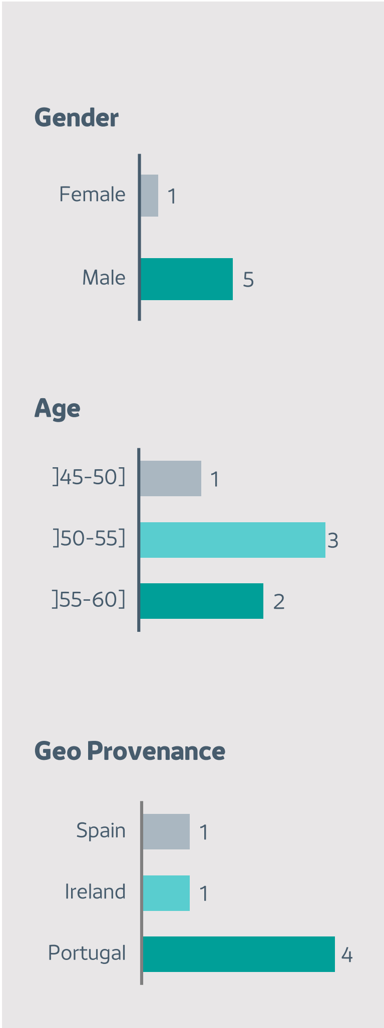
AREAS OF EXPERTISE

[3] On December 2022, was submitted the relevant Fit & Proper for Monika Wildner to become an independent GSB member for the current mandate. On February 2023, GSB approved, subject to Fit & Proper, Benjamin Dickgiesser as a new member of the EBD, becoming the next Chief Financial Officer, whose duties as a GSB member ended in February 2023. At the signature date of this Report, both F&P processes were under way, awaiting authorisation to assume duties. More information in chapter 5.2 Corporate Bodies.
[4] As of 31 December 2022
[5] Area of expertise assumes the appointment of Monika Wildner and the departure of Donald Quintin

Executive Board of Directors (EBD) [6,7]

A Board currently composed by 6 members and with diversity in several dimensions including age[8] and geo provenance:

	Name	Function	M/F	Date of 1st appointment	Appointment expiry date
	Mark George Bourke	Chief Executive Officer	M	04-03-2019	31-12-2025
	Luís Miguel Alves Ribeiro	Chief Commercial Officer Retail	M	18-09-2018	31-12-2025
	Andrés Baltar Garcia	Chief Commercial Officer Corporate	M	01-12-2020	31-12-2025
	Luísa Marta Santos Soares da Silva Amaro de Matos	Chief Legal Compliance Officer	F	18-10-2017	31-12-2025
	Carlos Brandão	Chief Risk Officer	M	25-08-2022	31-12-2025
	Rui Miguel Dias Ribeiro Fontes	Chief Credit Officer	M	18-10-2017	31-12-2025



Employees

Highlights

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

[6] Leigh Bartlett was Chief Financial Officer from August 25, 2022 to December 30, 2022. Mark Bourke (CEO) will also serve as interim CFO until the competent authorities authorise Benjamin Dickgiesser, appointed by GSB on February 2023, as the new member of the EBD and CFO. At the signature date of this Report, F&P is still under way. More information in chapter 5.2 Corporate Bodies.

[7] Luísa Soares da Silva Amaro de Matos and Rui Miguel Dias Ribeiro Fontes were members of the board in the governance model previous to the sale of 75% stake to LoneStar.

[8] As of 31 December 2022

4 090 Employees	46 Average Age	19.1 Average Seniority	46% Male / 54% Female
(-103 vs 2021)	(vs 45.6 in 2021)	(vs 18.7 in 2021)	(46.4%, 53.6% in 2021)

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.

Coladera, 1994– Júlio Resende

Oil on canvas 151 x 182cm

Resende's artistic path integrates multiple aesthetic experiences, resulting from the various movements that followed in Europe from the 40's to the 80's, such as Cubism, geometric abstraction, or expressionism.

GUARDA, Museu Municipal da Guarda

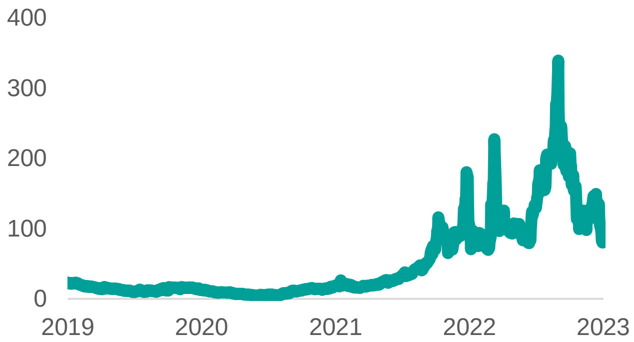
2 OUR STRATEGY

2.1 Business Environment

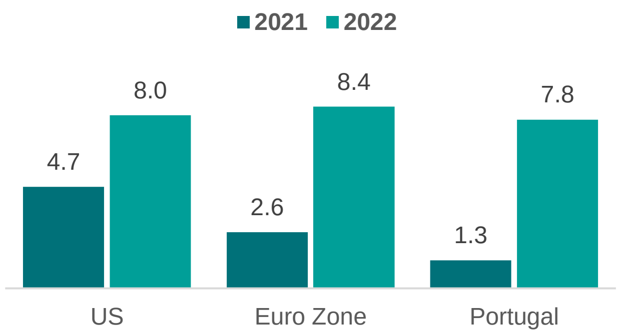
The performance of the world economy and the financial markets in 2022 was strongly conditioned by the impacts of the war in Ukraine, namely an increase in energy and food prices. The annual average oil price (Brent) rose by 42%, to USD 99.9/barrel, having spiked above USD 120/barrel in the first half of the year. Despite a sharp drop at the end of the year, the annual average price of natural gas in Europe increased 179% YoY, to EUR 133/MWh, peaking at around EUR 340/MWh in August. This reflected the sharp reduction in supply of Russian gas to Europe and fears of supply disruption.

Year-on-year inflation in the Eurozone rose from 5% to an annual high of 10.6% in October, before closing the year at 9.2%. Energy and unprocessed food prices rose by 25.7% and 12%, compared to December 2021. In addition to the adverse supply shock, which bloated production costs, the rise in inflation in 2022 reflected the ability of companies to pass on cost increases to final prices (thus improving their earnings) combined with the ability of consumers to accommodate these price increases. Private consumption growth was supported by persistently low unemployment, fiscal policy support to household income, and the use of savings accumulated during the pandemic. A gradual normalisation of global supply chains and energy price moderation in the 2nd semester allowed inflation to abate towards the end of the year, though remaining above target.

Price of natural gas in Europe (EUR/MWh)
Sources: Bloomberg, BLS, Eurostat



Average annual inflation rate (%)
Sources: Bloomberg, BLS, Eurostat, INE

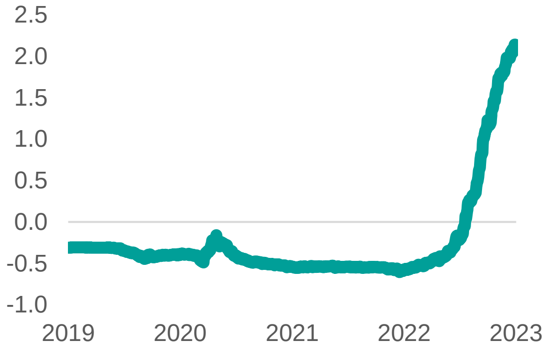


To tackle the risk of more persistent inflationary pressures, the main central banks brought forward and accelerated the withdrawal of monetary stimuli. The ECB raised its policy interest rates by a cumulative 250 basis points, leaving the rate on the main refinancing operations at 2.5% and the deposit facility rate at 2%. Moreover, the Eurozone monetary authority put an end to its net asset purchases under the PEPP and APP programmes.

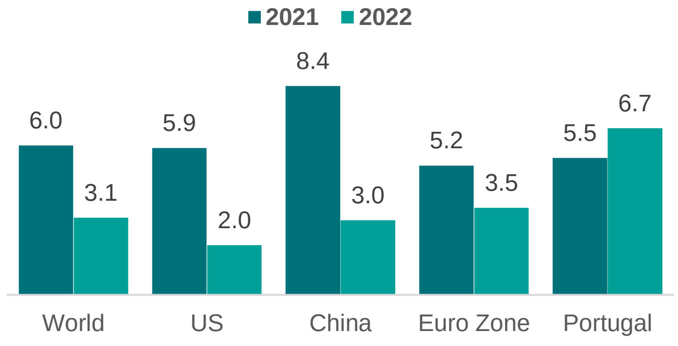
The 3-month Euribor rose by 270 basis points, to 2.132%, and the market raised its expectations regarding its future evolution. The yield on the 10-year Bund increased from -0.177% to 2.571%. Expectations of tighter monetary and financial conditions and growing fears of recession heightened volatility in the financial markets and penalised the equity and credit markets. In the US, the S&P 500 and Nasdaq stock market indices fell by 19.4% and 33.1%, respectively. In Europe, the Euro Stoxx and DAX retreated by 12.9% and 12.3%. The year 2022 was notable for the simultaneous negative returns observed in equities, public debt and credit. The euro lost 5.9% against the dollar to EUR/USD 1.0711, trading below parity with the US currency between the end of August and the beginning of November.

The Euro Zone GDP grew by 3.5% in 2022, slowing down from its 5.2% increase in the previous year. Domestic demand was constrained by rising inflation and interest rates, which penalised families' disposable income and purchasing power. At the same time, the sharp rise in energy costs and the cooling of external demand resulted in lower industrial activity and a slowdown in exports of goods. Still, growth in the Euro Zone economy was supported by the elimination of the Covid-19 restrictions and by the strong performance of services, particularly tourism, which mainly benefited the peripheral economies. The slowdown in private consumption was mitigated by the drop in the unemployment rate, from 7% to 6.6% of the labour force.

3-month Euribor (%)
Sources: Bloomberg



Annual GDP growth (%)
Sources: Bloomberg, FMI, BEA, Eurostat, INE.



In Portugal, GDP growth rose from 5.5% to 6.7% in 2022. The expansion of activity is mainly explained by the favourable performance of private consumption (+5.8%) and exports (+18.1%). The end of the pandemic restrictions in early 2022 allowed catching up on postponed expenses, including in tourism and leisure activities. Private consumption also benefited from measures to support household income and from the use of savings accumulated during the pandemic. The household savings rate is estimated to have fallen from 9.8% to 4.5% of disposable income. The unemployment rate retreated from 6.6% to 6% of the labour force, with companies still struggling with labour shortages. Private consumption, however, slowed down over the year, as rising inflation and interest rates eroded families' real disposable income and confidence. Annual average inflation measured by the CPI rose from 1.3% to 7.8%.

Exports benefited from the strong contribution of tourism services which, having surged by close to 80%, outperformed pre-Covid levels in the second half of the year. Exports of goods recorded relatively high growth (around 6%), but slowed down compared to 2021. In a context of high uncertainty, higher inflation, tighter financial conditions and shortages of productive resources, investment growth fell from 10.1% to 1.3%. Loans to non-financial companies decelerated throughout the year, with annual growth retreating from 4.6% in January to 0.6% in December. Loans to individuals showed greater resilience, although also slowing down towards the end of the year. Mortgage loans grew at a rate of 3.6% in the year to December, vs. 4.4% in the year to December 2021. Consumer loans, meanwhile, saw their annual growth rate increase from 2.4% to 6%. The Non-Performing Loans ratio trended downwards throughout the year, across all segments, falling from 3.7% to 3.2%.

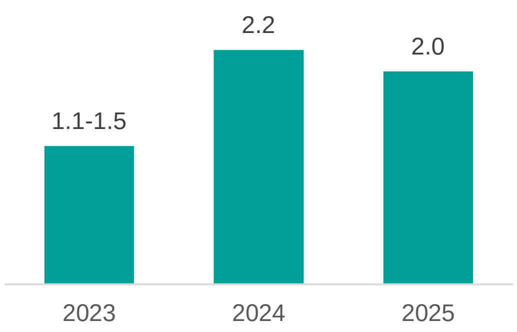
Activity in the real estate sector remained buoyant in 2022. Home prices grew at an average annual rate of 12.7% in the 3rd quarter, accelerating from 9.4% in 2021. This price escalation was supported by strong external demand, associated with the more highly-priced market segments, in a scenario of scarce supply. The number of transactions increased by 4.1% in the year. In a context of improved public accounts, the Portuguese sovereign rating was revised upwards from BBB to BBB+ by S&P and Fitch, and from BBB (high) to A (low) by DBRS. The yield spread of the Portuguese 10-year Government Bond versus the German benchmark widened in the first half of the year, from 64 bps to 108 bps, reflecting higher risk aversion bred by the beginning of the war in Ukraine, but reversed this trend as from the 3rd quarter and closed the year at 102 bps.

Outlook

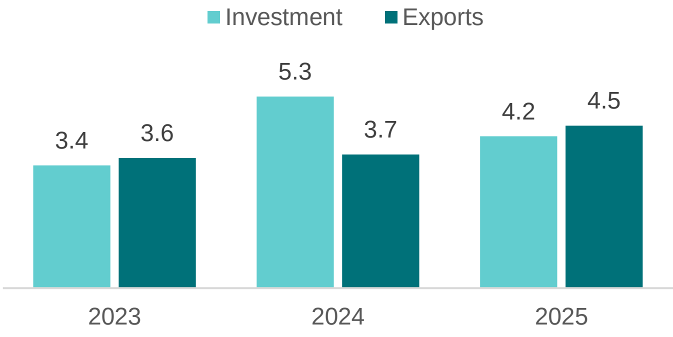
The year 2023 will likely see a slowdown in the global economy. In the Euro Zone, GDP growth is expected to fall from 3.5% to around 0.7%. This should stem from more restrictive monetary and financial conditions, with adverse impacts on demand. With inflation remaining above the 2% target, the ECB is expected to continue rising policy interest rates in the first half of the year, to around 3.5%. The economic environment should remain constrained by the high level of uncertainty surrounding the war in Ukraine. The slowdown in global activity will likely be toned down by lower inflation and the persistence of contained unemployment rates in the main economies. The reopening of China's economy following the abandonment of the Covid-zero policy should also support global demand. In the Euro Zone, growth is expected to benefit from fiscal support to households and businesses, as well as from the implementation of investment programmes under NextGenEU. The main downside risks include higher and more persistent than expected inflation, forcing further interest rate hikes and feeding a recessionary scenario. Tighter monetary and financial conditions could lead to a revaluation of assets, generating financial instability. The possibility of an intensification of the war in Ukraine, and an escalation of tensions between Russia and the West, are also relevant risks. In the US, a political and legislative stalemate in Congress could condition fiscal policy and propensity to risk in the financial markets. The main upside risks include a faster decline in inflation, halting or reversing the rise in interest rates; and a pause or end to the war in Ukraine, reducing energy and commodity costs.

In Portugal, GDP growth should retreat from 6.7% to between 1% and 1.5%. Private consumption should be penalised by higher interest rates and debt service, the loss of household purchasing power and the erosion of savings accumulated during the pandemic. Although retreating from 2022 levels, inflation should remain high, at around 4,5-5,5%%. The unemployment rate should remain contained, at around 6% of the labour force. Although constrained by rising interest rates and high levels of uncertainty, private investment is expected to grow more than in 2022, leveraged by the acceleration of public investment, in the context of the execution of the Recovery and Resilience Plan. In the real estate market, there should be a moderation in the number of transactions and a deceleration in prices, reflecting the more restrictive financial conditions. Exports of goods and services are expected to slow in 2023, but with tourism activity maintaining some momentum.

Baseline Scenario – GDP Growth (%)



Baseline Scenario – Investment and Exports (%)



In 2024-25, the growth of the Portuguese economy is expected to gradually converge to its trend, around 2%. Activity should be shored up by a recovery in private consumption, also growing at close to 2%, benefiting from the decline in inflation and the recovery of real purchasing power. The execution of the Recovery and Resilience Plan should support an increase in investment growth, to around 4%-5%. After double-digit growth in 2021-22, driven by the reopening of the economies in the post-Covid period, exports growth is expected to slacken to more sustainable levels, although accelerating slightly compared to 2023. Short-term market interest rates should stabilise at around 3%, following the hikes in 2022-23.

The medium-term outlook for the Portuguese economy should be conditioned by the need to adapt to several structural transformations underway in the global economy. These include the energy transition, involving the assessment and reporting of financial climate risks and a shift of financing towards carbon neutrality; the digitisation and automation of economic activity, and transformations in the labour market, forcing organisations to be highly agile and adaptive; changes in globalisation, leading to increased investment in production capacity and in locally and regionally sourced supply chains; and the ageing of the population, requiring an increase in spending and investment in healthcare.

2.2 Strategic Pillars

Following the launch of novobanco's new brand and the presentation of its new strategic plan ("Fazer Futuro" / "Shaping the Future") in 2021, 2022 was a year of implementation of the various initiatives and programmes sustaining this plan, and, above all, of fulfilling its main objectives. This is reflected in the results achieved, both in the financial statements and in the bank's solvency levels, which were significantly strengthened despite the challenges of the macroeconomic context.

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 to be focused on each of its customers, providing them with a simple and efficient experience, supported by an experienced and accessible team, and thus contributing to an organisation with robust and sustainable results.

PILLARS

Customer-centric bank	Simple and efficient operations	Developing people and culture	Delivering sustainable performance
Reflecting evolving customer expectations through **distinctive value propositions**	**Simplifying the banking experience,** through an superior usage of **technology and data**	Attracting and developing a team of **skilled and fulfilled professionals** that actively **live the bank’s values**	Delivering **sustainable returns** through **disciplined risk, capital and funding management**
Leveraging **digital and an omnichannel approach** as drivers of **service** and **proximity**	Improving **internal processes** to upgrade **productivity and efficiency**	Developing a **dynamic, collaborative culture** in an environment adapted to the **new ways of working**	Strengthening integration of **ESG across business** to support sustainable growth and key stakeholders

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

DIGITAL

PoS

ROLE

Collect payments and expand functionalities to enable value-added services

A/VTMs

ROLE

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

Web and Mobile

ROLE

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

HUMAN REMOTE

Contact Hub

ROLE

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

Remote RM & Mobile AC

ROLE

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

FACE TO FACE

Branches & corporate centers

ROLE

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

Partners

ROLE

Network of partners to promote and expand client acquisition capabilities

New channels, services and personalised customer experience allowed a rapid rise of digital…

2019

DIGITAL ACCOUNT OPENING - CMD

- Launch of the account opening using Digital Key Mobile solution

HOMEBUYING

- New Homebuiying Experience (intelligent simulations, pre-credit analysis document, document upload)

GUARANTEES

- Online guarantee request

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
- Simpler, quicker & 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, offering an omni-channel experience

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 EMPRESAS

- 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

INVESTMENTS

- 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

…unlocking current and future potential:

+ 74% YoY in digital Sales (exc. Deposits and investments)

+ 5pp YoY in % of digitally active clients to **60%**

+ 3pp YoY in % of self-service transactions to **68%**

+ 6pp YoY in % of mobile interactions to **65%**

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.

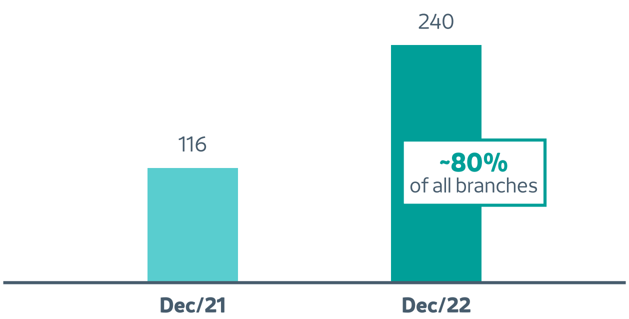
In the Retail segment, which serves families and small businesses, novobanco develops value propositions and solutions centred on these customers' needs at the most decisive moments of their professional or personal journeys, whether in consumer credit, mortgages, management of savings or means of payment,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

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.

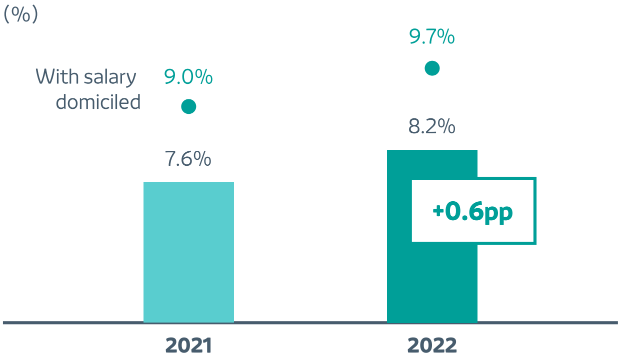
To effectively achieve these objectives, novobanco has been investing on a global transformation. The most visible faces of this reinvention are, *on the one hand*, the branch network, where novobanco has developed an innovative concept in the market that combines technology, proximity to the customer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

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

NEW DISTRIBUTION MODEL
(# branches)

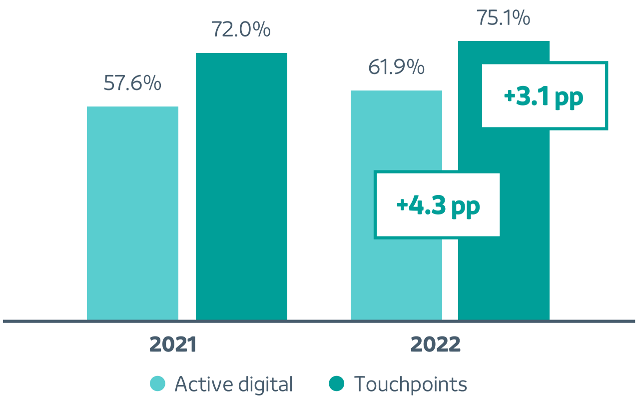


MARKET SHARE OF 1ST ACCOUNTS
(%)

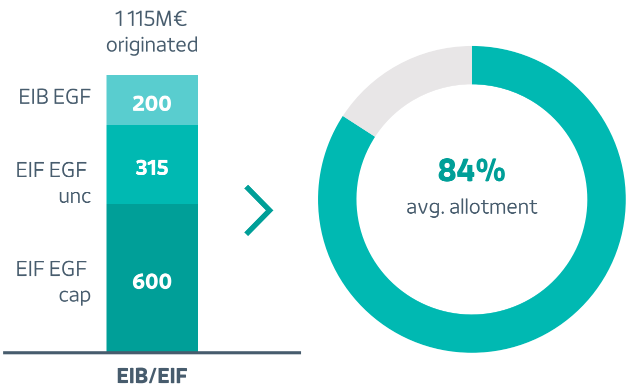


Source: BASEF, novobanco analysis

ACTIVE DIGITAL CLIENTS AND DIGITAL CUSTOMER TOUCHPOINTS
(%)



EIB/EIF LOANS ORIGINATION IN 2022

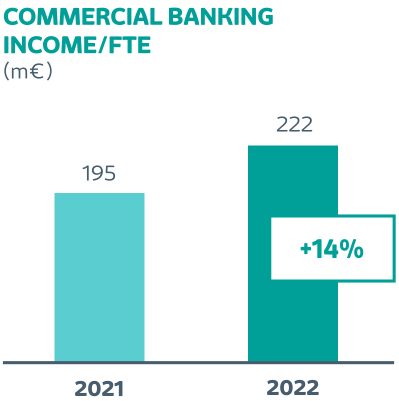


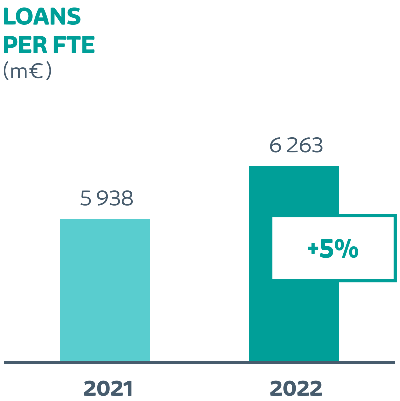
SIMPLE AND EFFICIENT

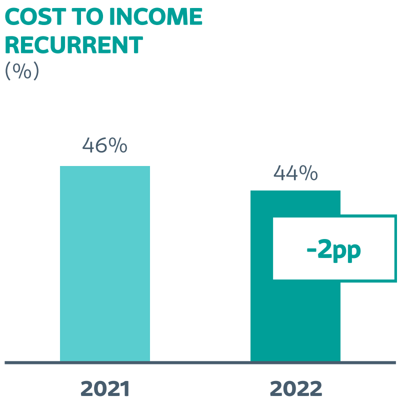
To address the market of today, with its very exacting clients and the challenges posed by new players, which spur the sector to evolve its operating model, the second pillar of novobanco's strategy is to accelerate its transformation into an organisation that provides customers with a lean and straightforward 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 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 internal decision support models and, naturally, the regulatory commitments and requirements to which the banking sector is subject.







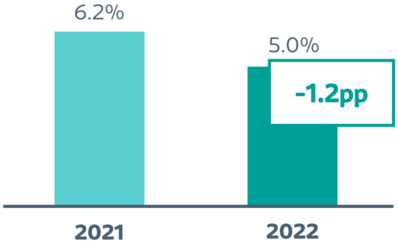
PEOPLE AND CULTURE

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.

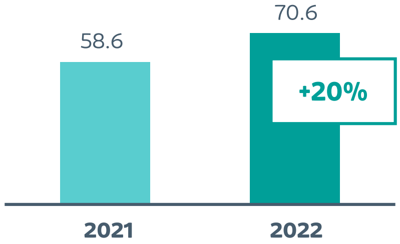
In this domain, novobanco's strategy seeks to ensure a clear distinctiveness (i) in the value proposition for its employees, (ii) in the development of internal talent and (iii) in the promotion of the organisational culture and values. With these dimensions in mind, novobanco seeks to assert itself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

- A strong capacity to attract, develop and retain the best talent in the sector;
- A concern with the principle of gender equity and with the importance of being able to count on diversified profiles and backgrounds;
- 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.

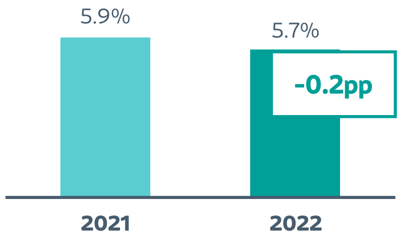
STAFF TURNOVER
(%)



ESG TRAINING HOURS
(k; cummulative)



GENDER PAY GAP
(%)



More information is available in the Management Report – 2.2) Strategic Pillars – People and Culture Development, 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 structure 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.

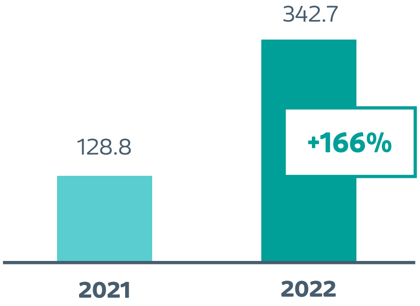
Based on the strategy and the 3 axes that reflect how material issues and Sustainable Development Goals (SDGs) are addressed, identified with the participation of stakeholders, was defined the Social Dividend model for 2022 - 2024 that integrates the three dimensions of sustainability: environmental, social and governance.

Comprising three programmes - Environment, Financial and Social Well-Being and Responsible Banking -, objectives for 2024 and various initiatives, the quarterly monitoring model of ESG performance meets novobanco's strategic objectives, which include adopting the best sustainability practices in order to become an ESG benchmark in Portugal.

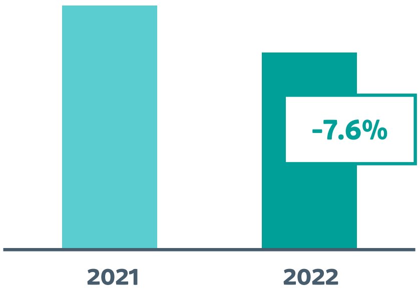
The optimised management of the Bank's capital and its various funding sources and the improvement of the risk management processes associated with its activity are also materially relevant for the sustainability of novobanco's performance. To achieve this goal, novobanco's strategic plan is deployed 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 the internal rating models (IRB).

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.

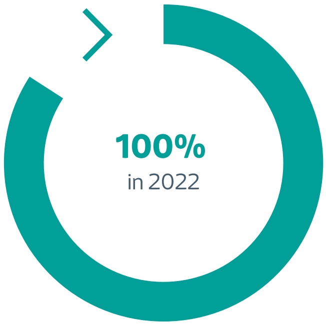
GREEN INVESTMENTS
(m€)



CO_2 EMMISSION
(%; 2021=100%)



ELECTRICITY SOURCED FROM RENEWABLE SOURCES



Consistent performance delivering medium-term targets already in 2022, positioning novobanco for its next stage of development.

	AS ANNOUNCED ON OCT/21:	MEDIUM-TERM TARGETS	2022 EXECUTION	
CUSTOMER -CENTRIC BANK	**Commercial Loan Book** (performing)	2-3% per year	**4.7% YoY** ✓	Expanding loan book
	Net Interest Margin	[1.30 - 1.50%]	**1.47%** ✓	Set to benefit from Euribor repricing
SIMPLE AND EFFICIENT OPERATIONS	**Cost-to-income**	< 45%	**44%** (recurrent basis) ✓	Efficient operations
	CoR	< 50 pb	**45 bps** ✓	Achieving moderate risk profile
DEVELOPING PEOPLE AND CULTURE	**NPL ratio**	< 5%	**4.3%** ✓	Converging towards EU average
DELIVERING SUSTAINABLE PERFORMANCE	**RoTE** (pre-tax)[1]	≥10%	**14.4%** ✓	Delivering organic attractive returns
	CET 1	> 12%	**13.7%** ✓	Accelerating capital generation

(1) Tangible Equity = average phased-in RWA x 12%; Annualized; Considers Underlying profitability pre-tax deducted by special tax on banks (€34mn on annual basis) and contributions to Resolution Funds (€40.9mn on annual basis)

2.3 Risk Management

Main Risks and Uncertainties

In 2021 and 2022, novobanco reported positive financial results, while the strategic lines it has been building become increasingly visible.

novobanco's activity going forward will naturally be influenced by several risk factors, and in particular by the following:

i) Regulatory risks, namely stemming from capital requirements (SREP), the various OSIs (On-Site Inspections) by the ECB, Liquidity Risk Stress Tests, the MREL (Minimum Requirement for Own Funds and Eligible Liabilities), and the various guidelines from the European Banking Authority (EBA), the ECB and the European Commission;

ii) The Non-Performing Assets (NPAs) portfolio and the implementation of the NPA plan, particularly the part relating to real estate owned (REO);

iii) Reputational, legal and compliance risks, arising both from the Group's current activity and from legacy issues;

(iv) the military conflict that started on 24 February 2022, ensuing a military operation by the Russian Federation on the territory of Ukraine, involving three countries (Russia, Ukraine and Belarus). In response, a group of countries, including the NATO and European Union countries, and others, approved several sanctions with the aim of impacting Russia's economy, and also the economy of Belarus. novobanco's exposure - Customer Loans and Securities - to the Russian Federation, Belarus and Ukraine as at 31 December 2022 totalled €8.3 million. More detail, including the breakdown by asset type and country, is given in Note 47 to novobanco Group's Consolidated Financial Statements - Exposure to Ukraine, Russia and Belarus.

v) Others relating to the national and international macroeconomic environment, namely political and trade tensions, and the performance of the Portuguese economy;

vi) The remaining factors linked to the various types of risk described in this chapter.

This environment generates risks for all Financial Institutions, namely linked to: i) the stock of non-performing assets and their potential growth; ii) cybercrime and disruption in Information Technology (IT); iii) fraud; and iv) growing competition from non-banking entities.

novobanco is naturally exposed to the various types of risk inherent to the banking business, arising from external and internal factors, namely from the nature of the markets in which it operates. These risks include credit risk, market risk, liquidity risk and operational risk.

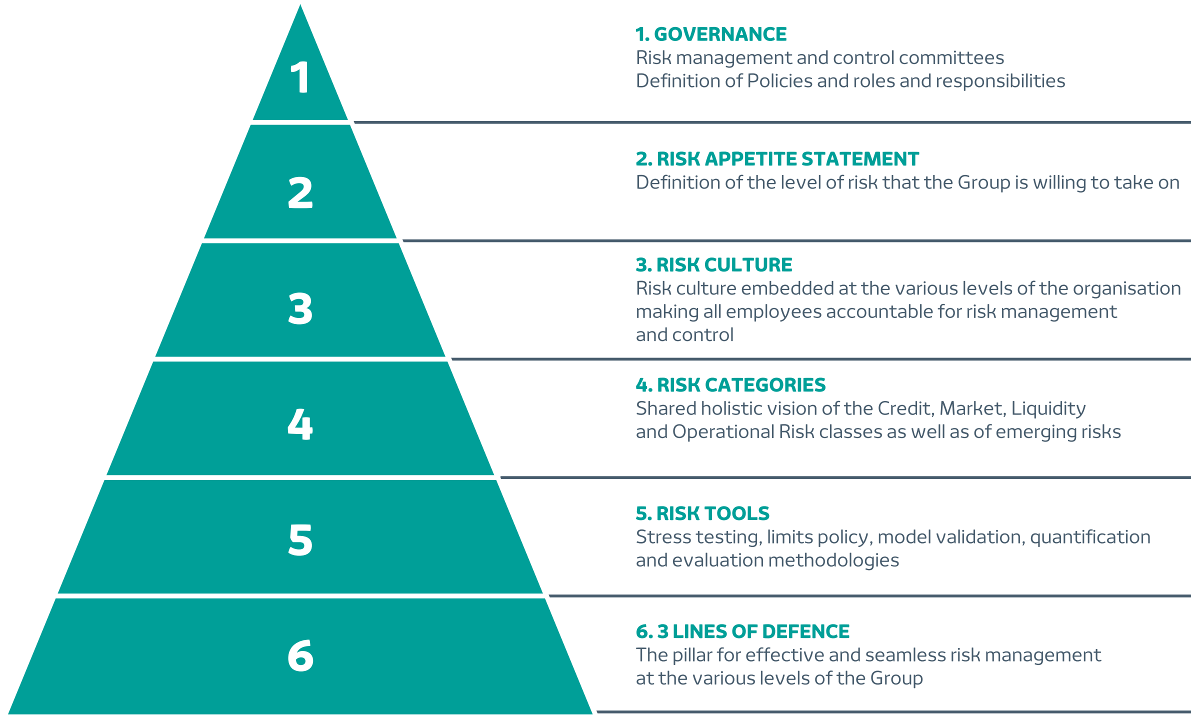
novobanco develops its Risk Management function with the ultimate objective of internalising a risk culture and pre-empting the materialisation of risks across all levels of the Organisation.

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.



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.

3 Lines of Defence Principle	1st Line of Defence	2nd Line of Defence	3nd 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		

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.

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

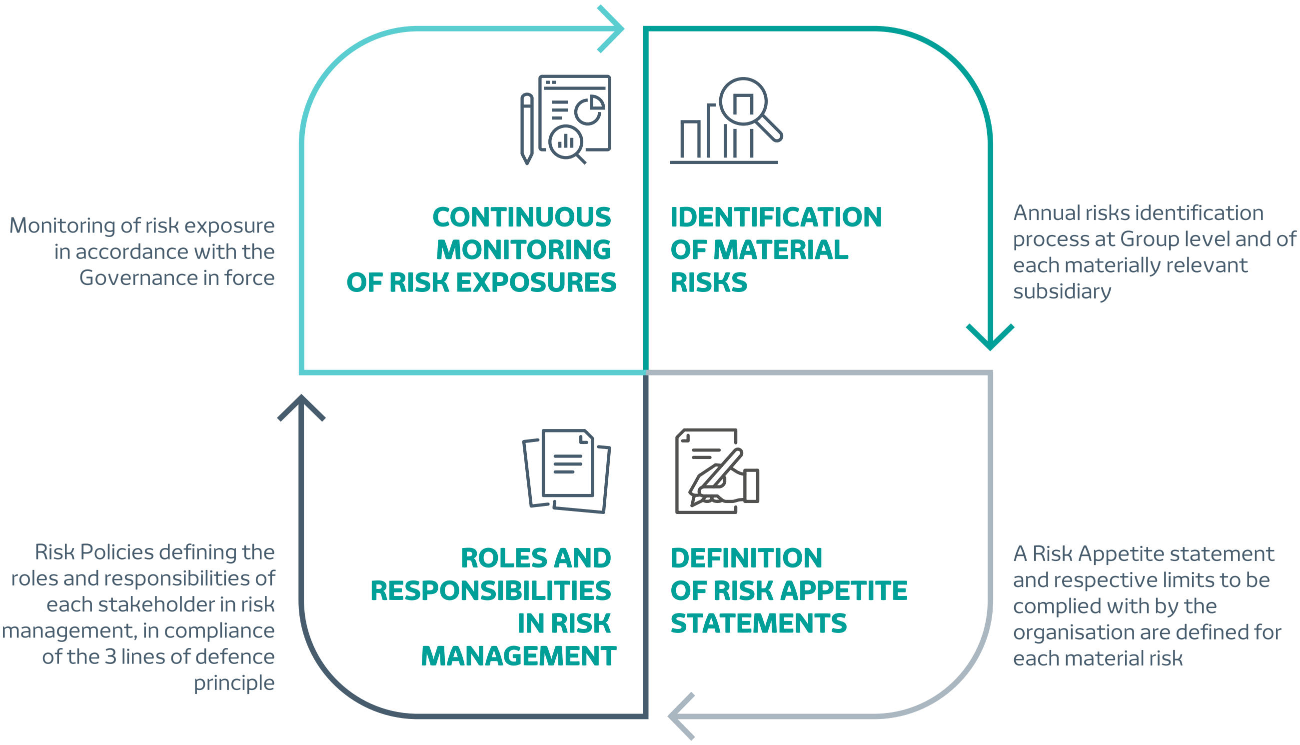
Risk Management, as a vital function for the development of novobanco Group’s activity, is centralised in the Risk Management Function, which comprises the Global Risk Department (GRD) and the Rating Department (RTD). It defines holistic principles for risk management and control, in close coordination 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.

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

The Head of novobanco Group’s Risk Management Function is the Head of the GRD. In order 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:



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.

CONCEPT	MANAGEMENT	RISK APPETITE	FOCUS IN 2023
Credit Risk			
The risk of financial loss arising from the failure of a borrower or counterparty to honour the contractual obligations established with novobanco within the scope of its lending activity.	Management and control of risks of this nature are based on an internal risk identification, assessment and quantification system, as well as on internal processes for assigning ratings and scorings by type of portfolio, the definition of Risk Appetite by portfolio, the delegation of credit powers that require the escalation of higher-risk operations and continuous monitoring in specialised forum.	Risk appetite with stable origination criteria.	Contribution to strengthen the bank's operational capacity to manage credit exposures in a context of rising interest rates, high inflation, rising energy and commodity prices, as well as disruptions in the distribution chains. Focus on the identification of early signs of financial deterioration and the definition of strategies for timely action with viable debtors that need support measures to continue to meet their debt service. Reinforcement of remote service models and creation and development of automated credit assessment and decision tools. Reinforcement of the continuous monitoring processes of the various loan portfolios.
Liquidity Risk			
The current or future risk deriving from an institution's inability to satisfy its commitments as they mature, without incurring excessive losses.	Based on the measurement of liquidity outflows from contractual and contingent positions in normal or stress situations, the management and control of this risk consists, on the one hand, in determining the size of the liquidity pool available at any given time and, on the other hand, in planning for stable sources of funding in the medium and long term.	Solid liquidity position. Funding of medium- and long-term assets through stable liabilities. Withstanding liquidity stresses for a minimum period of 12 months. Compliance at all times with the limits imposed by the legislation in force.	Maintenance and evolution of risk monitoring and management processes, ensuring the timely detection of changes in the risk profile, and the Bank's aligned compliance with the established risk appetite. Development and maintenance of internal models and stress testing exercises (Stress testing Framework) that allow liquidity risk to be measured and controlled. To be continuously updated on the regulatory framework.

CONCEPT	MANAGEMENT	RISK APPETITE	FOCUS IN 2023
Market and IRRBB Risk			
The risk of a potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices, real estate prices, volatility and credit spreads.	A GRD expert team centralises the management and control of the group's market risk and interest rate risk on the banking book (IRRBB), in line with the regulations and risk good practices.	Monitoring of net interest income, market investments as well as balance sheet interest rate risk through predefined risk appetite rules.	Processes for continuous monitoring of market risks and IRRBB 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 (stress testing framework) to measure and control market and IRRBB risks, as well as calculation of economic capital within the ICAAP exercise, calculation of market shock impacts within the EBA Stress testing exercise and regulatory capital reporting (alternative standardised 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.
Operational Risk			
The risk of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures or information systems, staff behaviour, or external events, including legal risk. Operational risk is, therefore, understood to be the sum of the following risks: Operations, Information Systems, Compliance and Reputational.	A GRD expert team defines the Operational Risk Policies, with other units, namely the Compliance Department and the Information Security Office issuing specific risk Policies. The effectiveness of operational risk identification and control methodologies is ensured by the actions taken by the operational risk management Representatives appointed for each organisational Unit, who promote the risk culture in the first line of defence in continuous collaboration with the GRD.	The operational risk appetite defined for the novobanco Group covers the various categories under this risk. It reflects the infeasibility of eliminating operational risk from a cost-benefit perspective as well as novobanco Group's high ethical and conduct standards, which impose zero tolerance for breaches of conduct.	Reinforcement of compliance with the established risk appetite across the Group. Strengthening of the risk culture, 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 risk, by enhancing the prevention and control mechanisms. Updating of the identification and assessment methodologies for non-financial risks, to include ESG risk.

CONCEPT	MANAGEMENT	RISK APPETITE	FOCUS IN 2023
ESG Risk			
Risks of occurrence of financial losses arising from current or future impacts of ESG factors on novobanco's clients, counterparties or assets. ESG factors are climate and environmental, social or governance issues that may have a positive or negative impact on the financial performance or solvency of an entity, institution or person.	Undertaken through the joint approach of specialised teams from the GRD, RTD, and GESC, which define the guidelines to be followed for any new business and for monitoring existing positions, in order to minimise novobanco's exposure, in particular to transition risks and physical risks. In addition, it is supported by methodologies to assess and monitor the risk factors, which, consistently with the applicable regulations, allow novobanco to monitor the evolution of the risk profile of its balance sheet positions.	Application of exclusion and policies and conditioning factors, namely for activities with higher ESG risk (in the environmental, social and governance dimensions). Definition of global goals and guidelines to steer new credit production according to ESG assessment criteria. Implementation of global risk assessment methodologies, at the level of the credit portfolio, to identify and monitor the main ESG risks on the balance sheet.	Climate Policy Relevant Sectors (CPRS), and Sectors emitting greenhouse gases, allowing the first characterisation of the bank's portfolios. Mapping of the physical risk of properties owned by novobanco or given as a loan collateral. Reinforcement of the 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 decision and monitoring. Development of ESC scorings and ratings.

More information available in the Sustainability Report - 3.2) ESG Risks.

2.4 DGCOMP[9] Commitments

Successful completion of novobanco's Restructuring Period

The Commitments were agreed in October 2017 by the Portuguese State and the European Commission in connection to the process of state aid to novobanco in the context of the sale of 75% of the bank's share capital to Lone Star.

These commitments are divided into three categories, and compliance therewith was being closely monitored and confirmed by the *Monitoring Trustee* appointed by the European Commission:

- **Structural commitments**, namely the divestment commitments in various geographies and businesses and the reduction of the bank's non-core assets, which included divestment of the insurance business - GNB Seguros -, concluded this year.

- **Behavioural commitments**, namely the establishment of ROE (Return on Equity) based pricing tools subject to defined minimum limits, restrictions on acquisitions, dividend distribution ban, ban on the exercise of voting rights by the minority shareholder (the Resolution Fund) and caps (of 10x the bank's average salary) on the remuneration of any employee or member of the bank's corporate bodies[10].

- **Viability commitments** - interim targets and 2021 targets, notably Full Time equivalent (FTE) reduction targets, branch reduction targets, and Cost-to-Income targets, and the reinforcement of risk management policies, already carried out.

In the commitment letter and in the business plan submitted by the buyer - which served as the basis for the viability commitments established by the European Commission - it is made clear that the CCA assets on the balance sheet would be cleaned by the end of 2020, with 2021 as the year from which the viability of the bank would have to be proven.

The business plan designed to demonstrate the Bank's viability, by the end of the restructuring period, laid out a strategy for a comprehensive transformation of novobanco, based on six pillars:
1) divestment of non-core assets and focus on the Portuguese market;
2) restoring a leading position in the corporate segment and a focus on risk-adjusted profitability;
3) digital transformation and streamlining of the retail franchise;
4) improving balance sheet efficiency;
5) restructuring the operational platform; and
6) strengthening the risk management model to improve the solvency and resilience of the Bank.

Faithful to the commitments' basic business plan intrinsic, and despite real market conditions being much worse than projected in the business plan (eg: negative Euribor rates; negative economic consequences of the pandemic crisis), novobanco demonstrated its viability, both by systematically posting positive results in all quarters of 2021 and 2022 and through the success of the MREL issues made to meet the interim targets imposed by the Single Resolution Board for 1 January 2022.

In February 2023, novobanco was informed about the successful completion of the Restructuring Period, with the Monitoring Trustee's final report will be prepared upon the release of novobanco 2022 year-end accounts.

The successful conclusion of the restructuring process is a significant milestone for novobanco, allowing it to support Portuguese corporates and households and to continue competing as a strong and independent bank, focused on the Portuguese market.

[9] Directorate-General Competition – European Commission
[10] In view of the fulfilment of the commitments for 2019, this latter restriction ceased to be effective in July 2020.

Pássaro 1983, Graça Morais

Acrylic on canvas 126 x 94cm

Reality becomes painting, with color, imagination, and a poetic vision of multiple associations that the painter's brush interprets in an unmistakable creative process.

LOUSÃ, Museu Municipal Professor Álvaro Vieira de Lemos

3 OUR PERFORMANCE

3.1 Highlights

CONSISTENT STRATEGY DELIVERING INCREASED PROFITABILITY

- Novobanco announces a **net income of €560.8mn** (2021: €184.5mn; 4Q22: €132.5mn).
  A strategic focus delivering a sustainable growth of business with increased revenues and capital generation despite the uncertain macro background, increased inflationary pressures and rising interest rates.
  Underlying pre-tax profitability totalled €406.7mn[11], equivalent to a **RoTE (before tax) of 14.4%** (2021: 8.8%).
- **Net Interest Income was €625.5mn (4Q22: €219.5mn), an increase of 9.1% YoY (+59% QoQ),** reflecting improvement of average assets yield, which more than offsets the cost of senior debt issued during the year and the change of TLTRO III interest rates. In 2022, **Net Interest Margin was 1.47% (2021: 1.42%; 4Q22: 1.99%)** with **Net customer loans at €24.6bn** (+3.8% YTD), reflecting an expanding loan book in both retail and corporate segments in a more favourable rates environment.
- **Fees and commissions increased to €293.3mn (+3.8% YoY; +8.9% QoQ),** highlighting accounts and payments fees performance as a result of a pick-up in business activity.
- **Commercial Banking Income was €918.8mn (+7.3% YoY; +42% QoQ). Banking Income was also strong at €1,126.3mn (+15.9% YoY),** including the positive contribution of Other operating results of €183.6mn, driven by an accelerated deleverage of the real estate portfolio, which also includes the gain on the sale of novobanco' headquarters.
- **Commercial Cost to Income ratio** was 48.8% (2021: 47.7%), equivalent to **44.1% excluding extraordinary items**. **Operating costs totalled €448.4mn (+9.8% YoY)**, reflects the continued strategic investment in digital transformation and streamlined operations. Excluding extraordinary items, Operating costs increased 2.4% YoY.
- **Cost of risk was 45bps** (2021: 70bps) considering loan impairments and corporate bonds (2022: €133.3mn).

SOLID BUSINESS MODEL WITH STRONG CUSTOMER OUTCOMES

- Net **Customers loans** increased to €24.6bn (+3.8% YTD), confirming trajectory of an expanding loan book in both retail and corporate segments in a more favourable rates environment. Total customer funds improved 3.1% YTD, with **customer deposits increasing 4.0% (+€1.1bn YTD).**
- **Further reduction of the Non-performing loans (NPL) ratio to 4.3% (Dec/21: 5.7%), with coverage ratio increasing to 77.5% (Dec/21: 71.4%)**, reflecting the execution of the de-risking strategy and progress towards an NPL ratio in line with the European average.

STRONG CAPITAL GENERATION WITH SOLID LIQUIDITY RATIOS

- **On a fully loaded basis, CET 1 increased 300bps in the year to 13.1% (13.7% on a phased-in basis) and Total capital ratio reached 15.5%** (+330bps YTD; 16.0% on a phased-in basis), reflecting the capital accretive business model, RWA discipline, which combined with specific management actions, ensure a buffer above the normalised post-pandemic capital requirements and comfortably exceeds SREP requirement.
  High liquidity levels, with the liquidity ratio (LCR) improving further to 210%[12] (Dec/21: 182%) and NSFR of 113% (Dec/21: 117%).

[11] Calculated as pre-tax net income adjusted by extraordinary items
[12] Preliminary

	31-Dec-21	31-Dec-22
Activity (€mn)		
Net Assets	44 619	45 995
Customer Loans (gross)	24 899	25 617
Customer Deposits	27 315	28 412
Equity	3 149	3 512
Solvency		
Common EquityTier I / Risk Weighted Assets	11.1%	13.7%
Tier I / Risk Weighted Assets	11.1%	13.7%
Total Capital / Risk Weighted Assets	13.1%	16.0%
Leverage Ratio	6.0%	6.1%
Liquidity (€mn)		
European Central Bank Funding (3)	2,742	385
Eligible Assets for Repo Operations (ECB and others), net of haircut	16 476	16 917
(Total Credit - Credit Provision) / Customer Deposits (2)	86%	83%
Liquidity Coverage Ratio (LCR)	182%	210%
Net Stable Funding Ratio (NSFR)	117%	113%
Asset Quality		
Overdue Loans > 90 days / Customer Loans (gross)	1.2%	1.2%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	5.7%	4.3%
Credit Provision / Overdue Loans > 90 days	430.2%	336.0%
Credit Provision / Customer Loans (gross)	5.0%	4.2%
Cost of Risk (1)	0.70%	0.45%
Profitability		
Net Income for the Period (mn€)	184.5	560.8
Income before Taxes and Non-controlling interests / Average Net Assets (2)	0.5%	1.2%
Banking Income / Average Net Assets (2)	2.9%	2.5%
Income before Taxes and Non-controlling interests / Average Equity (2)	7.1%	18.1%
Efficiency		
Operating Costs / Banking Income (2)	42.0%	39.8%
Operating Costs / Commercial Banking Income	47.7%	48.8%
Staff Costs / Banking Income (2)	24.0%	20.7%
Employees (No.)		
Total	4 193	4 090
- Domestic	4 165	4 071
- International	28	19
Branch Network (No.)		
Total	311	292
- Domestic	310	291
- International	1	1

(1) Includes credit and corporate bonds
(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 2022, novobanco Group reported a profit of €560.8mn (+€376.3mn YoY), with annual performance underpinned by the improvement of its operating results (+€114.2mn; +20.2%) and a lower level of impairments and provisions (-€241.5mn; -68.5%).

The underlying pre-tax profitability totalled €406.7mn, equivalent to a RoTE of 14.4% (2021: 8.8%).

Income Statement (mn€)	31-Dec-22	31-Dec-21	Change	
			absolute	%
Net Interest Income	625.5	573.4	52.1	9.1%
+ Fees and Commissions	293.3	282.5	10.8	3.8%
= **Commercial Banking Income**	**918.8**	**855.9**	**62.9**	**7.3%**
+ Capital Markets Results	24.0	75.9	- 51.9	-68.4%
+ Other Operating Results	183.6	40.4	143.2	...
= **Banking Income**	**1,126.3**	**972.2**	**154.2**	**15.9%**
- Operating Costs	448.4	408.4	40.0	9.8%
= **Net Operating Income**	**678.0**	**563.8**	**114.2**	**20.2%**
- **Net Impairments and Provisions**	**111.2**	**352.7**	**- 241.5**	**-68.5%**
Credit	34.5	149.4	- 114.8	-76.9%
Securities	67.6	47.8	19.9	41.6%
Other Assets and Contingencies	9.0	155.6	- 146.5	-94.2%
= **Income before Taxes**	**566.8**	**211.1**	**355.7**	**...**
- Corporate Income Tax	- 53.3	- 15.2	- 38.1	...
- Special Tax on Banks	34.1	34.1	0.0	0.1%
= **Income after Taxes**	**585.9**	**192.2**	**393.8**	**...**
- Non-Controlling Interests	25.1	7.7	17.4	...
= **Net Income for the period**	**560.8**	**184.5**	**376.3**	**...**

Net Interest Income

Net Interest Income was €625.5mn (+€52.1mn; +9.1% YoY), reflecting improvement of average assets yield, which more than offset the cost of senior debt issued during the year and the change of TLTRO III interest rates.

The performance of net interest income is in line with the expectations for 2022 and current macroeconomic context of generalized higher interest rates. The active management of assets and liabilities made it possible to mitigate the effects of inflationary pressure.

Net Interest Income (NII) and Net Interest Margin (NIM) (mn€)	31-Dec-22			31-Dec-21		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
Interest Earning Assets	41,914	1.79%	761.3	39,799	1.60%	645.4
Customer Loans	25,424	2.31%	595.4	24,954	2.01%	509.5
Mortgage Loans	9,836	1.36%	135.9	9,869	1.04%	104.0
Consumer Loans and Others	1,430	5.96%	86.4	1,380	5.86%	82.0
Corporate Lending	14,158	2.60%	373.2	13,706	2.33%	323.5
Money Market Placements	6,308	0.20%	12.7	4,602	0.07%	3.2
Securities and Other Assets	10,181	1.48%	153.3	10,243	1.28%	132.8
Interest Earning Assets And Other	**41,914**	**1.79%**	**761.3**	**39,799**	**1.60%**	**645.4**
Interest Bearing Liabilities	40,230	0.32%	131.2	38,148	0.18%	68.3
Customer Deposits	28,322	0.17%	48.5	26,580	0.19%	51.3
Money Market Funding	10,455	-0.09%	-10.0	10,497	-0.51%	-54.0
Other Liabilities	1,452	6.30%	92.7	1,070	6.53%	70.9
Other Non-Interest Bearing Liabilities	1,684	0.00%	0.0	1,651	-	0.0
Interest Bearing Liabilities And Other	**41,914**	**0.31%**	**131.2**	**39,799**	**0.17%**	**68.3**
NIM / NII (without stage 3 impairment adjustment)		**1.48%**	**630.1**		**1.43%**	**577.1**
Stage 3 impairment			-4.7			-3.7
NIM / NII		**1.47%**	**625.5**		**1.42%**	**573.4**

In the period, the average customer loan rate was 2.31% (+30bps YoY), and average balance increased by €470mn YoY (+1.9%).

The average balance of customer deposits was €28.3bn, with an average yield of 0.17% (2021: 0.19%), and of monetary market funding was €10.5bn, with an average yield of -0.09% (2021: -0.51%).

The performance of the average rate of interest earning assets (2022: 1.79%; 2021: 1.60%) offsets the increase in liabilities rates (2022:0.31%; 2021: 0.17%), with a positive impact in the overall net interest margin (2022:1.47%; 2021: 1.42%). This was biased towards the final quarter.

Fees and Commissions

Fees and commissions were €293.3mn (+3.8%; +€10.8mn YoY) with increased contribution of Accounts and Payments (+11.3%; +€12.9mn YoY) backed by higher volume of transactions.

Fees and Commissions (mn€)	31-Dec-22	31-Dec-21	Change	
			absolute	%
Payments Management	127.2	114.2	12.9	11.3%
Commissions on Loans, Guarantees and Similar	86.6	85.5	1.1	1.3%
Asset Management and Bancassurance	66.1	68.0	-1.9	-2.8%
Advising, Servicing and Other	13.5	14.8	-1.3	-8.9%
Fees and Commissions Total	**293.3**	**282.5**	**10.8**	**3.8%**

Capital Markets and Other Operating Results

In the period, the results of financial operations were positive by €24.0mn mostly due to gains from interest rate risk hedging, reflecting the volatility of sovereign debt in the market in the first half of the year. The fair value reserves of securities portfolio decreased by €267.1mn YTD.

Other operating results of €183.6mn, includes: i) a gain of €77.1mn from the sale of a real estate (logistics) assets in 2Q22 (€58.5mn net of non-controlling interests); ii) a gain of €71.5mn on the sale of headquarters building in 3Q22 (€67.0mn net of contingencies), and; iii) a gain of €40.4mn on the recovery of overdue loans. It also includes €40.9mn of contributions to resolution funds (Single Resolution Fund: €24.5mn; Portuguese Resolution Fund: €15.4mn).

Operating Costs

Operating costs increased +9.8% YoY (+€40mn). Staff costs amounted to €233.7mn (+€0.4mn vs 2021), general and administrative costs totalled €162.2mn (+€21.1mn vs 2021) and depreciation amounted to €52.5mn (+€18.5mn vs 2021).

Excluding exceptional items, these costs would have been €405.6mn (+2.4% YoY). Exceptional costs totaled €43mn, including €18mn of Intangible write-offs, €11mn Other investment in the business, €9mn of Restructuring related costs and €5mn of Legal and Regulatory nature.

Commercial Cost to Income ratio was 48.8% (2021: 47.7%), equivalent to 44.1% if adjusted by extraordinary items (2021: 46.3%).

Operating Costs (mn€)	31-Dec-22	31-Dec-21	Change	
			absolute	%
Staff Costs	233.7	233.3	0.4	0.2%
General and Administrative Costs	162.2	141.1	21.1	14.9%
Depreciation	52.5	34.0	18.5	54.4%
Operating Costs Total	**448.4**	**408.4**	**40.0**	**9.8%**

As of 31 December 2022, novobanco Group had 4,090 employees (Dec/21: 4,193; -103 YTD) and total number of branches was 292 (Dec/21: 311; -19 branches YTD), of which more than 240 already redesigned in line with the new distribution model and more than 190 of these equipped with VTM (Virtual Teller Machine). The investment made in the new distribution model is part of the omnichannel strategy being implemented by novobanco, providing closer and more tailored interaction with different customer segments, including advanced transaction management solutions (withdrawals and deposits of banknotes, coins and checks) which are one of the pillars towards branch efficiency, customer satisfaction and a digital and integrated experience.

Net Impairments and Provisions

In 2022, novobanco Group recorded net impairments and provisions amounting to €111.2mn, showing a reduction compared to 2021 (-68.5%; -€241.5mn).

The cost of risk was 45bps (including loans impairments and securities) benefiting from the de-risking strategy (vs 2021: 70bps on a comparable basis).

Net Impairments and Provisions (mn€)	31-Dec-22	31-Dec-21	Change	
			absolute	%
Customer Loans	34.5	149.4	-114.8	-76.9%
Securities	67.6	47.8	19.9	41.6%
Other Assets and Contingencies	9.0	155.6	- 146.5	-94.2%
Net Impairments and Provisions Total	**111.2**	**352.7**	**- 241.5**	**-68.5%**

Other assets and contingencies provisions include a provision for the taxation of real estate introduced by the 2021 State Budget Law, similarly to what happened in the last quarter of 2021 (2021: €116mn; 2022: €57mn).

3.2.2 Balance Sheet and Activity

Customer Loans

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

Customer Loans (mn€)	31-Dec-22	31-Dec-21	YTD Change	
			absolute	%
Loans to corporate customers	**14 244**	**13 710**	**534**	**3.9%**
Loans to Individuals	**11 373**	**11 189**	**184**	**1.6%**
Residential Mortgage	9 978	9 782	195	2.0%
Other Loans	1 395	1 406	- 11	-0.8%
Customer Loans (gross)	**25 617**	**24 899**	**719**	**2.9%**
Provisions	1 066	1 248	- 182	-14.5%
Customer Loans (net)	**24 551**	**23 651**	**900**	**3.8%**

Loans to customers (gross) totalled €25,617mn (+2.9% YTD), of which corporate customers represented 56% (+1pp vs Dec/21), mortgage loans to households 39% (in line with Dec/21) and other loans to households 5%. Origination in the year totalled €3.9bn (4Q22: €1.0bn), of which 58% corporate, 32% mortgage and 10% consumer and others.
The 3.9% annual growth in loans to corporate customers reflects novobanco commitment to Portuguese companies, increasing its offer and enhancing products dedicated to support clients' funding needs while also promoting credit lines with financial guarantee by Banco Português de Fomento, financing lines with EIF/EIB guarantee to support companies' liquidity needs.

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

Asset Quality and Coverage Ratios (mn€)	31-Dec-22	31-Dec-21	YtD Change	
			absolute	%
Overdue Loans > 90 days	317	290	27	9.4%
Non-Performing Loans (NPL)[1]	1 376	1 749	- 372	-21.3%
Overdue Loans > 90 days / Customer Loans (gross)	1.2%	1.2%	0.1 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	**4.3%**	**5.7%**	**-1.4 p.p.**	
Credit Provisions / Customer Loans	4.2%	5.0%	-0.8 p.p.	
Coverage of Overdue Loans > 90 days	336.0%	430.2%	-94.2 p.p.	
Coverage of Non-Performing Loans [1]	**77.5%**	**71.4%**	**6.1 p.p.**	

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

In the period, the new entries of non-performing loans were reduced. This together with the improvement in commercial activity led to a continuous decrease of the non-performing loans, and consequently an improvement in the respective asset quality ratio to 4.3% (2021: 5.7%). As of December 2022, NPL coverage by impairments increased to 77.5% (+6.1pp vs Dec/21).

Securities

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), is €10.9bn on 31 December 2022, representing 23.6% of assets.

Securities portfolio (mn€)	31-Dec-22	31-Dec-21	YTD Change	
			absolute	relative
Portuguese sovereign debt	995	3 056	-2 061	-67.5%
Other sovereign debt	5 415	3 197	2 218	69.4%
Bonds	4 067	3 413	655	19.2%
Other	387	805	- 418	-51.9%
Securities portfolio Total (net of impairment)	**10 864**	**10 471**	**394**	**3.8%**

Funding

As of December 2022, total customer funds were €34.8bn, an increase of 3.1% YTD, driven by the solid customer deposits performance (+4.0% YTD), which represent 81.7% of total customer funds.

Total Funds (mn€)	31-Dec-22	31-Dec-21	YTD change	
			absolute	%
Deposits	28 412	27 315	1 097	4.0%
Other Customer Funds (1)	866	267	599	...
Debt Securities (2)	1 169	1 054	115	10.9%
Subordinated Debt	416	415	0	0.0%
Sub -Total	**30 862**	**29 052**	**1 811**	**6.2%**
Off-Balance Sheet Funds	3 933	4 711	- 778	-16.5%
Total Funds	**34 795**	**33 762**	**1 032**	**3.1%**

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

(2) Includes funds associated to consolidated securitisation operations.

3.3 Business Segments

3.3.1 Corporate

We continue to support Companies.

In 2022, novobanco continued to support companies, side-by-side, with the proximity, partnership, professionalism and experience that are part of its DNA. Positioning as a customer-centric bank offering a distinctive experience, novobanco has 2 hubs dedicated to large corporate customers (Porto and Lisbon) and 20 business centres distributed throughout the country, with specialised teams dedicated to the medium-sized companies' segment.

Even in a context of uncertainty, novobanco continued, in 2022, to strengthen its commitment to the Portuguese companies, to which it provided a set of solutions for investment and working capital needs, leading to the origination of €2.3bn in medium-long term loans, of which 57% to SMEs, with significant growth in short-term loans, especially through Factoring and Confirming. This underpinned the continued growth of the corporate customer base, with high levels of penetration in the Portuguese SMEs and large companies, of which more than 55% and 70%, respectively, are novobanco customers.

The bank thus occupies a leading position in terms of support provided to the Portuguese companies, with market shares of 14.5% in loans to and 12.2% of deposits from Non-financial Companies[13], reflecting companies' confidence in novobanco.

[13] novobanco analysis with Bank of Portugal, APS and APFIPP data as of December 2022

We support the day-to-day business of Companies

novobanco maintains a strong presence in the exports sector, with more than 65% of national exports made by novobanco clients. In Trade Finance, novobanco provides a wide range of products and specialised advice for international trade. Know-how in this segment is valued and recognised, as reflected in a market share of 18.6%[14] and by being, for the 5th consecutive year, elected the best Trade Finance Bank in Portugal by Global Finance.

In 2022, support to companies' treasury was reinforced with Factoring and Confirming solutions, driving annual increases of 11% in cumulative invoicing undertaken and 16% in the balance on the balance sheet, and a market share increase of 12% in Factoring.

With regard to Payments Solutions, the simplification and innovation was reflected in an annual increase of POS (point of sale) market share to 16.1% (+0.5pp). Some of the initiatives included: i) NB Express Cash; ii) virtual teller machines (VTMs) to simplify companies' cash deposits (notes and coins); and ii) launch of the digital payments gateway, a solution that optimises e-commerce collection.

We are Partners when it comes to investing

In 2022, novobanco continued to develop and reinforce its position as a financial partner for Portuguese companies, with programmes designed to accelerate economic growth, stimulate innovation, digital transformation and energy transition, such as PT2020, RRP and PT2030. As a partner, novobanco provided solutions to streamline investment projects, including support in the application stage, advances on approved incentives, preliminary financial analysis, financing of liabilities, issuance of bank guarantees for the prepayment of incentives, Factoring and Confirming solutions, as well as a specialised team and a network of partners to support companies when applying projects backed by European Funds.

In this context, in the year, novobanco made available support lines with financial guarantee provided by Banco Português de Fomento (BPF) and €1,325mn in financing lines guaranteed by the EIF/EIB for companies' liquidity and investment, of which more than €1,100mn was disbursed in only ten months. In addition, a €250mn ceiling and preferential conditions were allocated to support the treasury of companies operating in sustainable sectors as well as climate- and energy transition-related investments.

Boosted by the investment made in digitisation and customer experience, novobanco's online corporate banking service has a 78% penetration rate. With a deep redesign of the user experience, the new version of the online corporate banking service was launched at the end of 2021. Throughout 2022, new functionalities were introduced in novo banco's online corporate banking service, aimed at simplifying and providing a straightforward and distinctive customer experience, including: i) new Factoring and Confirming area in the corporate online bank; ii) new Trade Finance functionalities; and iii) financial aggregator of all bank accounts.

3.3.2 **Retail**

During 2021 and 2022, novobanco's Retail segment 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. The diversity of consumer behaviours, underscored by the evolution of ways of contact, led novobanco to develop an articulated relationship between the convenience of the digital channels and the importance of face-to-face service to clients - omnicanality.

Reflecting the strategy implemented by novobanco, customer acquisition in the Retail segment showed strong growth in 2022 (+80% YoY), allowing the bank to significantly raise its share as 1st bank, while salary domiciliation also recording a significant increase. The Cross-Segment Programme, which gives the employees of companies with which the Bank has protocols access to more favourable conditions, accounted for 22% of all individual clients onboarded in the year.

[14] novobanco analysis with Bank of Portugal, APS and APFIPP data as of December 2022

Omnichannel Approach

The process being now concluded of the full revamping of the branch network denotes the importance that novobanco gives to face-to-face customer experience - focused on personalisation and promoting a relaxed and deep engagement with clients. In addition to the layout and architectural elements where transparency is a key feature, the master branches are opened to the community through a space dedicated for social use. The concept of branch extensions for intermittent presence in smaller locations was also created. Currently, more than 240 branches operate under the new distribution model and more than 190 have a VTM (Virtual Teller Machine), which offers advanced transaction management solutions (withdrawals and deposits of banknotes, coins and cheques) and stands out as a tool towards branch efficiency and customer satisfaction.

On the other hand, omnicanality also requires the development and implementation of technologies that enable interaction with the customer through digital, remote or face-to-face means with the appropriate intelligence to understand, in each situation, the added value that each channel brings to the client and redirecting contacts accordingly. In this context, the following developments were carried out:

- Analysis of remote service performance: new journeys were designed to improve the way novobanco interacts with its customers, either by phone, e-mail or messaging, depending on the issue at stake and the channel best suited to address it;
- Investment in digital marketing tools: sharp growth in the use of these tools to contact clients through digital journeys with value propositions that best suit each customer's situation, also involving face-to-face and remote channels;
- Customer-centric information: shared by channels, enabling issues to be addressed by any means.

Credit

In 2022, novobanco granted more than €1.2bn in mortgage loans, strongly leveraged on the strategy of partnerships with Credit Intermediaries, which represents the bank's largest mortgage loan acquisition channel, and on the weight of affluent/360º clients (this segment accounts for 52% of loans granted).

Saving and Investment

novobanco continues to pay particular attention to the new saving and investment trends and market environment. In 2022, 16 new funds from the most prestigious international fund managers were included in the offer, and 7 structured products were launched, which promote, through their underlying assets, issues such as environmental and sustainability factors, healthy food, robotics or luxury, as well as an offer linked to the evolution of interest rates.

As regards financial life Bancassurance, in 2022, offer was reinforced with a Unit Linked Capitalisation Insurance product, based on Portuguese and Spanish public debt - *Rendimento Soberano Ibéria 2030* -, along with a new product aimed at the young public, with an associated life insurance policy - *Investimento Vida Júnior* -, and also a Retirement Savings Plan dedicated to the over 55 age group - *Super PPR 55+*.

In August 2022, novobanco launched the Sustainability Preferences Questionnaire. Based on their replies to the questionnaire regarding their sustainability preferences, clients subsequently receive advice on the products that best suits their sustainability and ESG goals, as part of the Investment Advisory Service. According to the investor's profile and initial portfolio, the advisory service submits the most suitable investment proposal based, among others, on a strategic analysis of different asset classes and sectors, the macroeconomic environment and the definition of asset allocation.

Small businesses

Despite macroeconomic uncertainty, small businesses segment remained close to its clients allowing for a 14% increase in the customer base. This focus on the relationship also underpinned an 8% increase in the loan book, with production of investment loans reaching around €550mn, supporting the segment's significant contribution to net interest income and fee income.

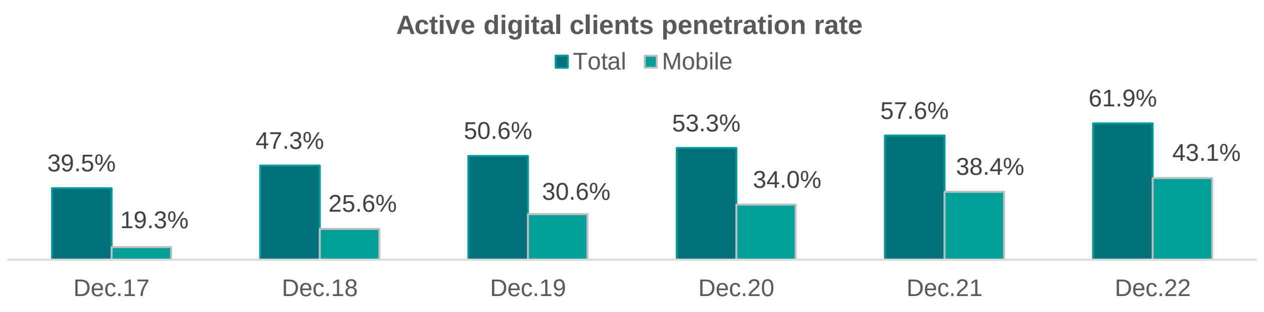
Digital Transformation

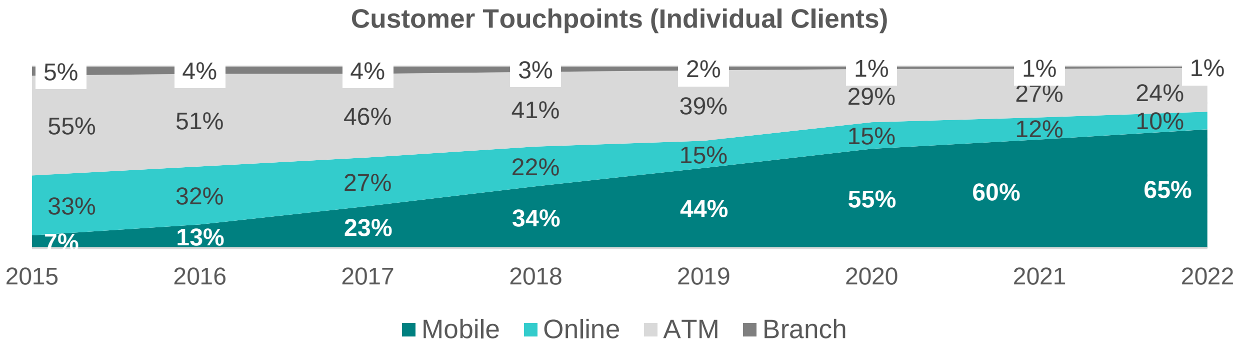
As a customer-centric Bank, novobanco pursues the following goals through digital transformation, in both the Corporate and Retail segments:

- 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 61.9% by December 2022 (Dec/21: 57.6%; the number of digital customers increased by 11% YoY) and annual growth of 16% in the number of active mobile customers (48% of customers are mobile).

In 2022, more than 67% of the operations in the individual client's segment were carried out in self-service mode, this figure increased to 83% and 95% in the small businesses and medium-large companies segments, respectively. In turn, this underpinned an increase in the share of digital sales of Personal Loans (+207%; 14% of segment sales; +9pp YoY), Life and Non-Life Insurance (+101%; 5% of segment sales; +2pp YoY), and Credit Cards (+84%; 2% of sales; +0.4pp YoY).

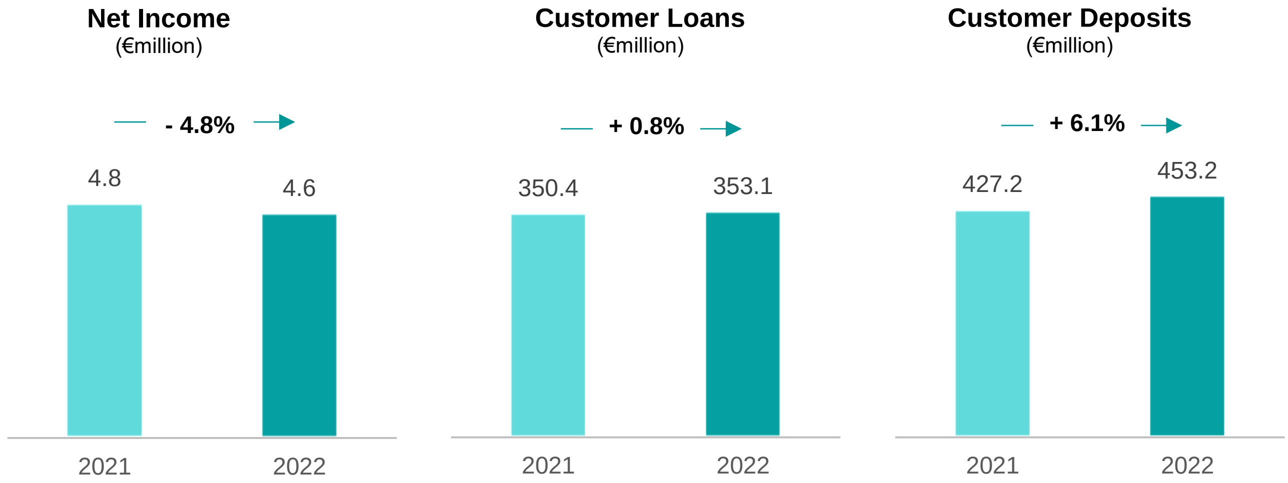




In 2022, 75% of individual clients' contacts with novobanco were made through the digital channels (+3 pp vs. 2021). Reflecting a reinforced focus on a "mobile digital first" strategy, mobile continues to be the main means of contact of individual clients, with annual interactions (as measured by the number of *logins*) growing by 24%.

novobanco dos Açores

The strategy of novobanco dos Açores is particularly focused on supporting the Azorean regional business fabric, namely SMEs and companies that incorporate innovation in their products, services or production systems. In 2022 novobanco dos Açores continued to work closely with its clients, providing support for the pressing and growing needs of the Azorean society. As a result of the activity developed and the proximity maintained with the market, novobanco dos Açores captured more than 1 300 new clients in 2022.



novobanco dos Açores posted a net profit of €4.6 million in 2022, down by -4.8% on 2021. This performance is mainly explained by the booking, in 2021, of an extraordinary movement related to a readjustment in Revaluation Reserves (+€1.7 million in net income). In addition, in 2022, novobanco dos Açores distributed *Liberalidades* (donations) to its shareholders Santas Casas in the amount of €776 million, which is €323 million more than in 2021. Excluding these extraordinary factors, the result obtained through current activity increased by approximately €2 million.

In 2022 novobanco dos Açores increased net assets by €7.9 million (+1.3%), to €635 million, and net customer loans by €2.7 million (+0.8%), to €353.1 million. At December 2022, overdue loans totalled €6.0 million, which corresponds to an overdue loans ratio of 1.6% only.

As to customer funds, at December 2022 the total amount of customer deposits was €453.2 million, which represents a year-on-year increase of 6.1%.

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

As in the last two years, in 2022 Banco Best increased the number of new Clients (+5%), who showed their preference for digital means, with nearly 40% of accounts being opened by video call or Digital Mobile Key. The use of the App increased by 22%, underpinned by more users, more operations and more products. The Customer satisfaction survey conducted in September 2022 revealed that 90% of respondents are satisfied or very satisfied with Best, with 50% of Customers considering that Best is better than the other banks they work with.

Despite the negative performance of the financial markets, Best increased its banking income by 3.8%, with a strong contribution from net interest income.

The ratio of overdue to total loans remained at a very good level (0.5%), thanks to a prudent risk policy based on loan collateralisation by financial assets.

Banco Best closed 2022 with a positive net profit of €1.7 million, down from €3.3 million in the previous year. The annual performance benefited from the increase in net interest income, to €6.9 million, while being impacted by the costs of outsourcing to novobanco, which rose by more than €4.5 million.

Highlights in 2022:

Digital Channels (App and website)	***Offer***
Multiple evolutions in the product offer and introduction of several adjustments in the Customer's digital journey. ***Web - investment and deposits micro quiz**: the answer to 3 simple questions permits to present the main savings and investment options among thousands of products available in the offer.* ***App - data update**: more functionalities so that Customers can easily and simply change their data.* ***App - transfers**: revision of the Customer journey, making the process more efficient for the Customer.* ***App - protection insurance** - Under a partnership with the largest national broker, MDS, BEST increased to 17 the types of insurance available (e.g.: car, health, golf, pleasure boats and cyber risk protection).*	***Retirement products added on the app and website, increasing the offer to 16 options** (e.g.: RSPs, pension and retirement funds). The App allows making long-term simulations with regular deposits and several return scenarios.* ***Digital Margin Account process** to apply for investment credit through the App by selecting collateral and amounts.* ***App - introduction of investment dashboard**, giving the Client an X-ray view of their portfolio, which shows, in addition to gains and losses, how it compares to the average for other customers, and also real profitability and volatility.* *Participation in the largest public sale/exchange offers in the market, with considerable relevance at national level.* *Launch of a structured product to diversify the offer.*

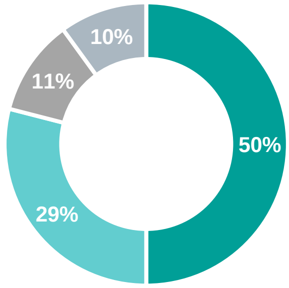
Sustainability
In November 2022, the digital channels were responsible for 99.2% of the Bank's operations, there being a focus on personal contact combined with digital execution. *Growth in the offer of products with sustainability objectives from prestigious independent entities.* *Readjustment of 'Margem Plus' account loans, for which allowed collaterals are financial assets classified by external entities.* ***Circular economy** initiative consisting in the donation of furniture and office materials, when moving premises, to be reused by Employees.* *Dissemination on the **social networks** of its ESG products and services, as well as promotion of ESG principles. **Digitally broadcast face-to-face conferences** to increase literacy in the areas of financial investments.*

GNB Gestão de Ativos

2022 was a particularly challenging year for the asset management segment, with a sharp devaluation of the main financial markets, in a context of high geopolitical risk, rising inflation and reference interest rate hikes by the central banks. However, the quality of GNB Gestão de Ativos's management was once again recognised through various awards and distinctions. For the 11th consecutive year, in 2022, the Refinitiv Lipper Fund Awards distinguished 'NB Euro Bond' with the award for Best Euro Bond Fund sold in Europe at 3, 5 and 10 years. 'NB Obrigações Europa' and the 'Multireforma Plus' Pension Fund earned the Jornal de Negócios/APFIPP Best Funds Awards in the categories of Best Other Bond Funds and Best Pension Fund with Risk 4. 'NB PPR' received the prize for Best RSP in the Rankia Portugal 2022 Awards and also retained the "Right Choice" Seal awarded by DECO PROTESTE in November 2021.

In terms of activity, GNB Gestão de Ativos continues to provide a diversified offer of products and value-added services aimed at fully meeting the various financial needs of its clients. In the mutual funds segment, the Management Company offers bond funds, where the widely awarded 'NB Obrigações Europa' fund stands out (€137 million in assets under management), equity funds, such as 'NB Momentum Sustentável' (€162 million in assets under management) and mixed funds, which include conservative, balanced and dynamic strategies – 'NB Conservador', 'NB Equilibrado' and 'NB Dinâmico' (€72 million in assets under management). In retirement solutions, the offer includes the Multireforma family of open-ended pension funds (4 funds totalling €350 million), 14 closed-end pension funds associated with company plans and 2 retirement savings products. The Management Company also offers a portfolio management service that includes discretionary management provided to more than 800 clients. GNB Real Estate manages open- and closed-end real estate funds.

Assets under Management
(December 2022)



Total assets under management at the end of 2022 were €7.8 billion, which represents a reduction of 21.2% compared to the end of 2021. This reduction is mostly justified by the strong devaluation of the financial markets since the beginning of the year.

Highlights in 2022

- Underpinned by GNB Gestão de Ativos' commitment to sustainability, two open-ended pension funds now promote environmental and social issues under Article 8 of Regulation (EU) 2019/2088 of the European Parliament. These are the 'Multireforma Ações' and 'PPR Vintage Sustentável' funds, which joined the 'NB Momentum Sustentável' fund. The Company will continue to expand its offer of products with the ESG seal.
- According to APFIPP data, in 2022, several funds managed by GNB Fundos Mobiliários beat the competing funds, ending the year among the top places of the profitability rankings of the respective categories: At year-end, 'NB Momentum Sustentável', 'NB Conservador', and 'NB Capital' ranked #1 in their categories while 'NB Equilibrado' and 'NB Dinâmico' finished in #2 position.
- GNB Real Estate's management remained faithful to its mission of creating financial value, pursuing its main objective of reducing exposure to non-strategic real estate and reorganising the portfolio of real estate funds under its management. At 31 December 2022 the volume under management of real estate investment funds totalled approximately €678.9 million (-37.3% vs. vs 2021). In line with the strategy of reducing exposure to real estate, the logistics portfolio was sold as part of the Connect Project, yielding significant capital gains for the 'NB Logística' and 'NB Património' funds. The reorganisation of the portfolio of real estate funds was continued, involving the merger of 'Fungere' into 'Fungepi NB', the liquidation of the 'NB Logística' and 'Rendifundo' funds and the start of the liquidation process of the 'NB Alta Vista' and 'NB Património' funds.
- In the area of discretionary portfolio management for individual and institutional customers, new types of portfolios more suited to the prevailing market conditions were created, thus broadening the existing offer.
- In the Pension Funds segment, the Management Company continues to play a very active role, having presented various proposals not only for new company plans, but also for the renewal of existing plans. The client base in collective and individual subscriptions grew by around 4%, to nearly 17 thousand clients.

3.4 Novo Banco Separate

Results

novobanco reported a net profit of €453.8mn in 2022, which compares with a net profit of €225.9mn in 2021.

Commercial banking income reached €895.0mn (+7.6% YoY), driven by the increase in net interest income (+7.6%) and in fees and commissions (+7.6%).

Capital market results were negative, at €20.2 million, which compares with +€78.0mn in 2021.

Operating costs totalled €423.7mn (+11.3% YoY increase), reflecting the continued strategic investment in digital transformation and streamlined operations.

Net operating income was positive, at €512.8mn. Impairments and provisions registered a notable reduction of 69.0% relative to the previous year, to €83.9mn.

Income Statement (mn€)	31-Dec-22	31-Dec-21	Change
			absolute
Net Interest Income	625.0	581.1	43.9
+ Fees and Commissions	270.0	251.0	19.1
= **Commercial Banking Income**	**895.0**	**832.0**	**63.0**
+ Capital Markets Results	- 20.2	78.0	- 98.2
+ Other Operating Results	61.7	- 23.6	85.2
= **Banking Income**	**936.5**	**886.4**	**50.1**
- Operating Costs	423.7	380.8	42.9
= **Net Operating Income**	**512.8**	**505.7**	**7.1**
- **Net Impairments and Provisions**	**83.9**	**270.4**	**- 186.5**
Credit	36.9	147.1	- 110.2
Securities	66.9	47.3	19.6
Other Assets and Contingencies	- 19.8	76.0	- 95.8
= **Income before Taxes**	**428.9**	**235.3**	**193.6**
- Corporate Income Tax	- 58.3	- 24.0	- 34.3
- Special Tax on Banks	33.4	33.4	0.0
= **Income after Taxes**	**453.8**	**225.9**	**227.9**
= **Net Income for the period**	**453.8**	**184.5**	**269.3**

Activity

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

At 31 December 2022, deposits totalled €27.6bn, an increase of €0.8mn compared to December 2021 (€26.7bn).

Gross customer loans totalled €24,013 million (+3.7% vs. Dec-2021), reflects novobanco commitment towards its domestic market and the Portuguese companies, increasing its offer and enhancing products dedicated to support clients' funding needs, promoting credit lines with financial guarantee by *Banco Português de Fomento*, financing lines with EIF/EIB guarantee to support companies' liquidity needs and investments and sectoral financing lines, among others.

Activity Evolution (mn€)	31-Dec-22	31-Dec-21	Change	
			absolute	%
Assets	**45 464**	**44 341**	**1 123**	**2.5%**
Customer Loans (gross)	**24 013**	**23 165**	**848**	**3.7%**
Loans to Individuals	9 918	9 599	318	3.3%
Residential Mortgage	8 632	8 334	298	3.6%
Other Loans	1 286	1 265	21	1.6%
Loans to corporate customers	14 095	13 566	529	3.9%
On Balance Sheet Funds	**29 982**	**28 432**	**1 550**	**5.5%**
Deposits	27 570	26 739	831	3.1%
Other Customer Funds (1)	855	259	597	...
Debt Securities	1 141	1 019	122	12.0%
Subordinated Debt	416	415	0	0.0%

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

Asset Quality	31-Dec-22	31-Dec-21	Change	
			absolute	%
Customer Loans (gross)	24 013	23 165	848	3.7%
Overdue Loans	338	301	37	12.2%
Overdue Loans > 90 days	326	283	44	15.4%
Forborne Loans	1 425	1 537	- 112	-7.3%
*Non-Performing Loans (NPL)**	1 356	1 708	- 353	-20.7%
Customer Loans Impairment	1 058	1 236	- 178	-14.4%

Asset Quality And Coverage Ratios (%)	31-Dec-22	31-Dec-21	Change
Overdue Loans / Gross Loans to Customers	1.4%	1.3%	0.1 p.p.
Overdue Loans > 90 days / Gross Loans to Customers	1.4%	1.2%	0.1 p.p.
Forborne Loans / Gross Loans to Customers	5.9%	6.6%	-0.7 p.p.
Non-Performing Loans (NPL) / Gross Loans to Customers + Gross Loans to Credit Institutions*	4.5%	5.9%	-1.5 p.p.
Impairment / Total Loans to Customers	4.4%	5.3%	-0.9 p.p.
Impairment / Overdue Loans	312.8%	409.9%	-97.1 p.p.
Impairment / Overdue Loans > 90 days	324.2%	437.3%	-113.1 p.p.
Impairment / Non-Performing Loans*	78.0%	72.3%	5.7 p.p.

* includes Credit Institutions

In the year 2022, 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 improvement in the NPL ratio to 4.5% (2021: 5.9%). In December, the NPL coverage ratio was at 78.0% (+5.7 p.p. vs 2021).

3.5 Relevant Facts from the Activity and Subsequent Events

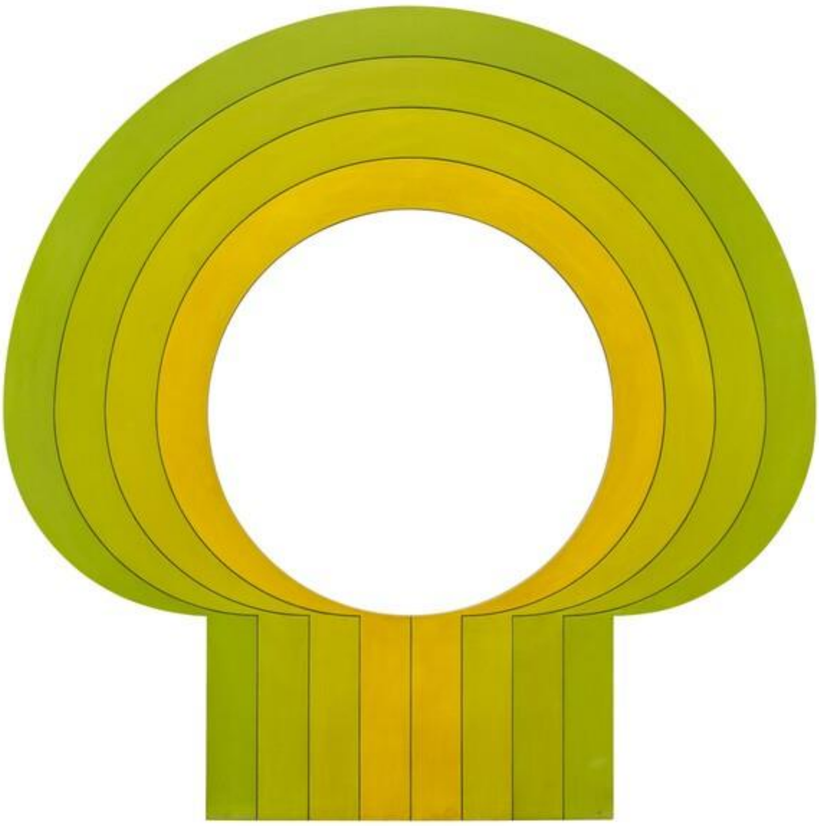
Relevant Facts of 2022 are mentioned in point 1.1.3 Main Events of the Management Report.

Sem título, 1968 – Jorge Pinheiro

Oil on plywood 160 x 160cm

Jorge Pinheiro discovers new forms of expression, such as geometric abstractionism and constructivism. This experience led him to his first rupture with figuration, beginning one of his most fertile periods of work.

FUNCHAL, MUDAS. Museu de Arte Contemporânea da Madeira



4 CAPITAL AND LIQUIDITY

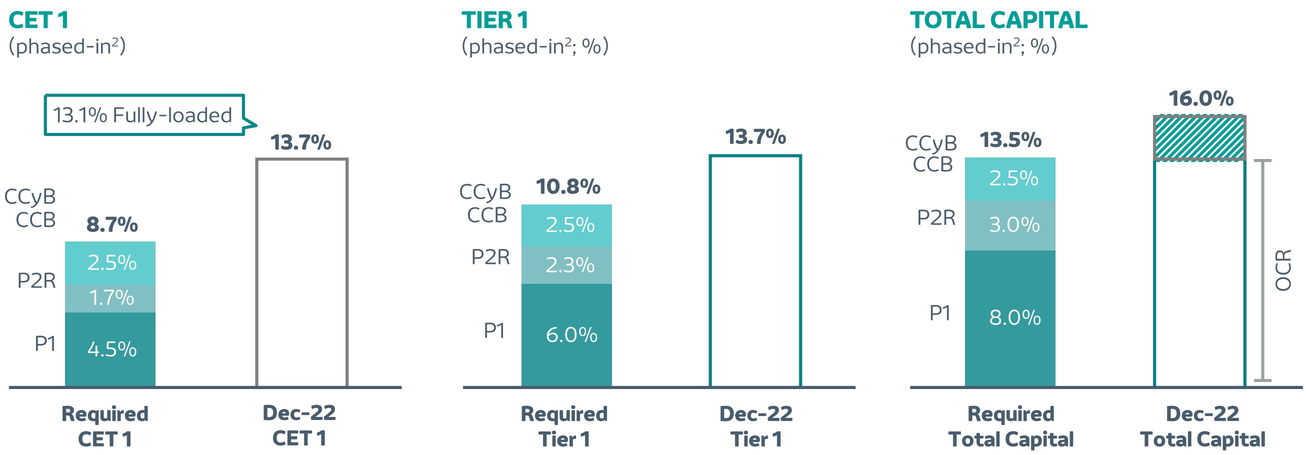
4.1 Capital Ratios

Driven by strong bottom-line profitability and RWA reduction, as of 31 December 2022, CET 1 ratio was 13.7% (+260bp YTD; Dec/21: 11.1%) and Total capital ratio reached 16.0% (+290bp vs Dec/21: 13.1%), above 13.5% OCR requirement (applicable as of 1 January 2023) and P2G buffer.

Capital Ratios (CRD IV/CRR) (€mn)		31-Dec-22 (Phased-in)	31-Dec-22 (fully loaded)	31-Dec-21 (Phased-in)	31-Dec-21 (fully loaded)
Risk Weighted Assets	(A)	21 355	21 233	24 929	24 689
Own Funds					
Common Equity Tier 1	(B)	2 927	2 787	2 768	2 507
Tier 1	(C)	2 928	2 789	2 769	2 509
Total Own Funds	(D)	3 418	3 279	3 276	3 016
Common Equity Tier 1 Ratio	(B/A)	13.7%	13.1%	11.1%	10.1%
Tier 1 Ratio	(C/A)	13.7%	13.1%	11.1%	10.1%
Solvency Ratio	(D/A)	16.0%	15.5%	13.1%	12.2%
Leverage Ratio		**6.1%**	**5.8%**	**6.0%**	**5.4%**

The compensation from the Resolution Fund under the Contingent Capital Agreement requested with reference to 2021, in the amount of €209.2mn, was calculated based on the losses incurred on the assets covered by the Contingent Capital Agreement, as well as verification of the minimum capital conditions applicable at the end of that year under the Contingent Capital Agreement. However, as instructed by the ECB, this amount was not considered in the calculation of regulatory capital with reference to 31 December 2022 as it was not paid by the Resolution Fund. novobanco considers this amount as due under the Contingent Capital Agreement and has triggered the legal and contractual mechanisms at its disposal to ensure its receipt.

With respect to the amount requested to the Resolution Fund for the year 2020, two differences remain between novobanco and the Resolution Fund, concerning (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, which are being settled in an arbitration proceeding in progress, under which the difference regarding the application by novobanco, at the end of 2020, of the dynamic approach of the IFRS 9 transitional arrangements is also being assessed.



(1) P2G of 1.5% applicable as of 1-Jan-23; (2) Preliminary; The inclusion of positive results depends on an authorization from the ECB

4.2 Liquidity and Funding

Highlights

- Liquidity ratios were maintained above regulatory requirements.
- Stable funding structure, relying mainly on customer deposits which increased by €1.1bn YoY.
- Given the significant market disruption, the bank did not access the public markets in 2022 but managed to secure compliance with regulatory requirements through alternative transactions.

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 a diversified panel of funding sources.

Short-term liquidity is monitored through daily mismatch reports, prepared in accordance with pre-established guidelines and internally defined metrics, which allows the bank to make 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.

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

Additionally, the bank prepares a monthly liquidity report (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.

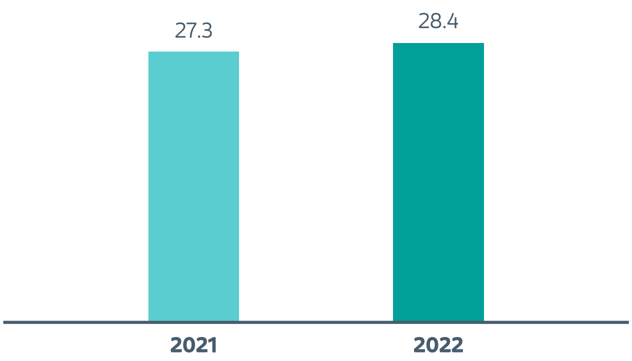
Funding Structure and Liquidity in 2022

As the financial markets experienced a major disruption in 2022, which translated into significant credit spread widening, the Bank adjusted its market funding plans and managed to comply with all regulatory requirements, without having to access the financial markets. As such, the bank did not exercise the call option on its €275mn senior preferred bond as the replacement would not have been at attractive terms.

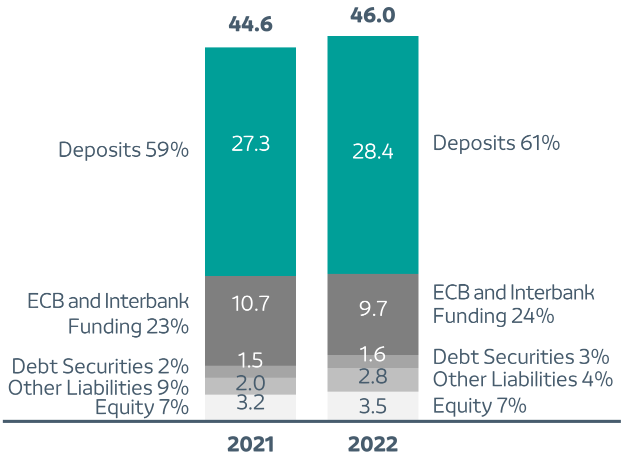
Throughout 2022, novobanco managed to improve its liquidity position. As of 31 December 2022, deposits at the ECB totalled €5.9bn (Dec/21: €5.3bn; +€0.7bn YoY), while net funding from the ECB (funding taken from the ECB minus deposits with the Europeans Central Banks) reduced to €0.4bn, from €2.7bn in 31 December 2021.

At the end of 2022, novobanco' s customer deposits totalled €28.4.bn (€27.3bn bn in 2021), having increased by €1.1bn YoY, with a strong contribution from the retail segment.

CUSTOMER DEPOSITS
(€bn)



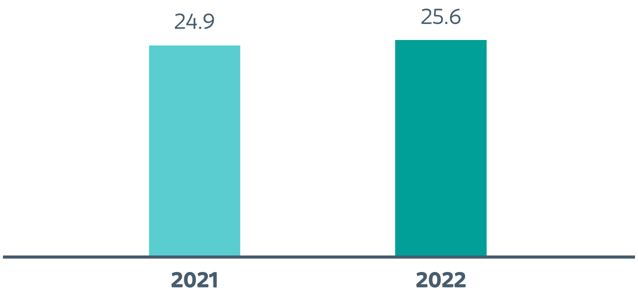
FUNDING STRUCTURE
(€bn)



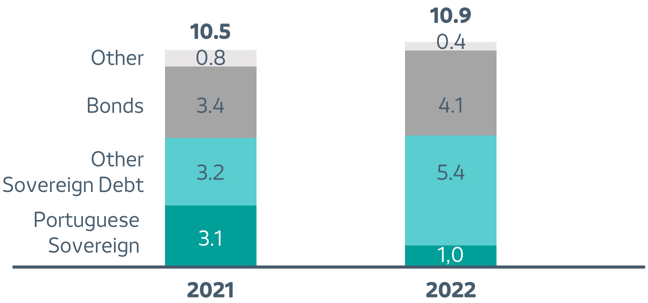
At the end of 2022, customer deposits remained the bank's main funding source, accounting for 62% of its funding structure (61% at the end of 2021), of which 73% were deposits from the retail segment.

In terms of asset evolution, the loan portfolio (gross) increased by €0.7bn to €25.6bn as of December 2022 (Dec/21: €24.9bn).

LOAN BOOK EVOLUTION (GROSS)
(€bn)



SECURITIES PORTFOLIO
(€bn)



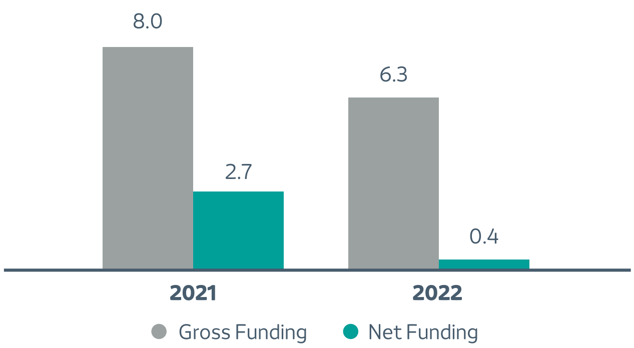
On the other hand, in 2022, the securities portfolio increased by €0.4bn, to € 10.9bn, mostly reflecting a reduction of non-core securities (including restructuring funds and real estate funds) and an increase in the Sovereign debt portfolio. novobanco's security portfolio remained substantially (more than 70%) composed of high-quality liquid assets ("HQLAs"), and among these more than 84% are sovereign or supranational debt securities.

In addition to the sale of the non-core securities mentioned above, the bank also concluded the sale of other non-core assets throughout 2022 which had a positive impact on liquidity and capital/MREL ratios.

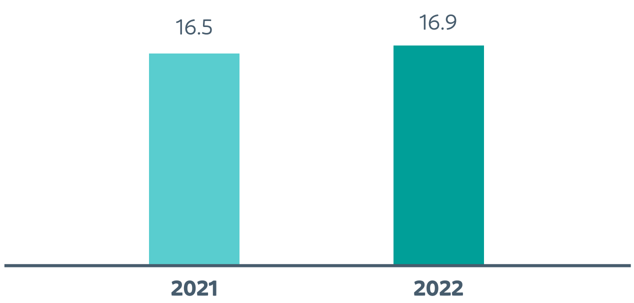
In 2022 deposits at ECB remained consistently above €5.0bn staying at €5.9bn at the end of the year (Dec/21: €5.3bn). As a result, net funding from the ECB was €0.4bn in December 2022, decreasing €2.3bn YoY (Dec/21: €2.7bn).

On 31 December 2022, gross funding from the ECB amounted to €6.3bn fully composed of the TLTRO III representing a decrease of €1.6bn YoY, as a result of a prepayment executed in December 2022. Throughout 2023 an additional amount of €5.4bn of the TLTRO III will mature, and the remaining €0.95bn are set to mature in December 2024. Given the maturity of these lines novobanco adopted as an exit strategy from TLTRO III, including among others, the reduction of the size of the balance sheet and the increase of other stable financing instruments, mainly collateralised interbank funding and customer deposits. In 2022, collateralised funding through medium-term repo agreements increased by €2.5bn.

EVOLUTION OF FUNDING FROM THE ECB
(€bn)



EVOLUTION OF ELIGIBLE ASSETS AT THE ECB
(€bn)



On 31 December 2022, the eligible assets portfolio available for use as collateral with the European Central Bank increased by €0.4bn versus 31 December 2021, totalling €16.9bn. In this context, in 2022, novobanco improved its liquidity buffer. The available amount of eligible assets for rediscount with the ECB totalled €7.0bn (net of haircuts), an increase of €0.8bn 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 €13.7bn, composed of high-quality liquid assets (+€1.3bn YoY).

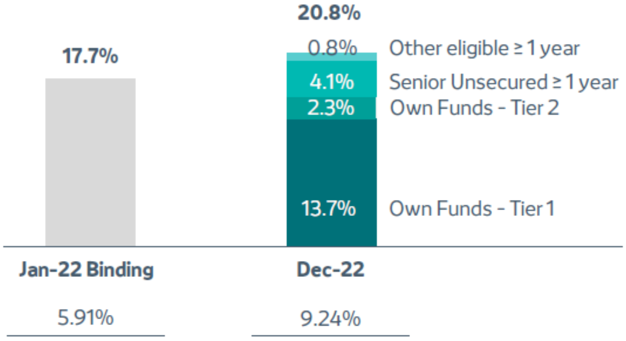
As a result, in December 2022, novobanco maintained (i) the liquidity ratios above the regulatory levels, with LCR standing at 210% (Dec/22: 182%), and the NSFR at 113% (Dec/22: 117%). The NSFR reduction is mostly explained by TLTRO III maturity profile and other medium long-term funding maturity shortening; ii) a diversified and stable funding structure, with deposits representing the majority of the funding structure.

From 1 January 2022 the regulatory requirement, in force is the following:

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

	Jan-22	Jan-26
TREA[1]	15.14%	23.16%
Combined Buffer	2.52%	n.a.[2]
Total	**17.66%**	**23.16% + CBR**
LRE[3]	5.91%	5.91%

MREL RATIO
(% RWA)



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

Natureza morta XXV, 1967– Nikias Skapinakis

Oil on canvas 98 x 148cm

Skapinakis takes the classic theme of Still Life, rethought in a synthesis between figuration and abstraction. Some objects on top of a table appear in a mixing of color planes, that intersect with reality, in the stylized representation of the vase with flowers and some fruits.

GUARDA, Museu Municipal da Guarda

5 CORPORATE GOVERNANCE

5.1 Shareholder Structure

5.1.1 Qualified holdings in Novo Banco's share capital

Novo Banco has a share capital of €6,304,660,637.69 (six thousand, three hundred and four million, six hundred and sixty thousand, six hundred and thirty-seven euros and sixty-nine cents), divided into 10,391,043,938 (ten thousand million, three hundred and ninety-one million, forty-three thousand, nine hundred and thirty-eight) nominative shares, in book-entry form, with no nominal value, and fully subscribed and paid up.

Qualified holdings in Novo Banco's share capital on the date of signature of this Report:

Shareholder	Number of shares	% of share capital
Nani Holdings S.G.P.S., S.A.	7 793 282 953	75.00%
Fundo de Resolução	2 006 717 044	19.31%
Direcção-Geral do Tesouro e Finanças	591 043 941	5.69%

5.1.2 Equity holders with special rights

There are no shareholders with special rights.

5.1.3 Restrictions on voting rights

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

5.2 Corporate Bodies: Composition and Functioning

5.2.1 Composition and functioning of the management and supervisory corporate 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 Shareholder's General Meeting, the General and Supervisory Board, the Executive Board of Directors, the Monitoring Committee, the Statutory Auditor and the Company's Secretary. The members of the corporate bodies are elected for four-year mandates 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 Shareholder's General Meeting, General and Supervisory Board, and Monitoring Committee are elected by the Shareholder's General Meeting. The Shareholder's General 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's Secretary and Alternate Secretary are appointed by the EBD, after consulting with the GSB.

5.2.2 Amendments to the Articles of Association

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

In October 2022, Article 4 (Share Capital and Shares) of the Articles of Association of Novo Banco was amended, and now reads as follows:

"*1. The share capital of Novo Banco is €6,304,660,637.69 (six thousand, three hundred and four million, six hundred and sixty thousand, six hundred and thirty-seven euros and sixty-nine cents), divided into 10,391,043,938 (ten thousand million, three hundred and ninety-one million, forty-three thousand, nine hundred and thirty-eight) nominative shares, in book-entry form, with no nominal value, and fully subscribed and paid up*".

5.2.3 **General and Supervisory Board**

The GSB is the supervisory body of novobanco and its members are elected by the Shareholder's General Meeting.

In October 2020, the General Meeting of novobanco appointed the following members of the General and Supervisory Board for the 2021-2024 mandate:

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

At the General Meeting of Shareholders of novobanco that took place on 22 December 2022, Monika Wildner was appointed as an independent member of the General and Supervisory Board for the current mandate (2021-2024). The commencement of Monika Wildner's duties is subject to approval by the competent authorities under the Fit & Proper process, which at the signature date of this Report was still under way.

On 1 February 2023, the General and Supervisory Board approved, subject to Fit & Proper, Benjamin Dickgiesser as a new member of the Executive Board of Directors for the current 2022-2025 mandate, becoming the next Chief Financial Officer. Following this announcement, on 24 February 2023, Benjamin Dickgiesser resigned as member of the General and Supervisory Board. At the signature date of this Report, the authorisation process by the competent regulatory authorities was still under way.

The GSB has the powers vested upon it by law and by the Articles of Association, having as main functions to regularly monitor, advise and supervise the management of novobanco and of the Group entities, as well as to supervise the EBD with regard to compliance with the relevant regulatory requirements of banking activity. Additionally, the GSB has specific powers to elect the members of the EBD and responsibilities in granting consents for approval by the EBD of certain matters established in the Articles of Association, namely in what concerns the approval of (i) credit, risk and accounting policies, (ii) business plan, budget and activity plan, (iii) change of registered address, and closure or changes to representation structures abroad, (iv) capital expenditure, debt or refinancing, sales or acquisitions, creation of liens or granting of loans above certain limits and within certain conditions, (v) practice or omission of any material act related with the Contingent Capital Agreement; and (vi) hiring of employees with annual remuneration above certain limits.

The GSB holds meetings on a monthly basis. 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, the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, these holding the legal required powers and other powers delegated to the GSB.

These Committees are composed of and chaired by independent members of the GSB. Their meetings may also be attended by members of the EBD responsible for the matters that are dealt with by said committees.

> Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee has monitoring and supervision responsibilities concerning the financial performance of the bank and other financial entities included in the prudential consolidation perimeter, the accounting and accounts reporting policies and procedures and the follow-up of the external auditor, and in particular, has the powers provided for in the Companies Code.

This Committee also has delegated powers of the GSB with regard to, among others, material changes to accounting policies, the approval of the annual budget, and prior consent to the issuance of certain debt instruments.

In addition, this Committee supports the GSB in overseeing the effectiveness of the internal control system, risk management system and internal audit system of the Bank and of the financial entities within its scope of prudential consolidation.

As of 31 December 2022, the members of the Financial Affairs (Audit) Committee were the following:

Chairman: Karl-Gerhard Eick
Byron James Macbean Haynes
Kambiz Nourbakhsh

> Risk Committee

The Risk Committee advises and supports the GSB in monitoring the bank's actual and future global risk appetite and risk strategy as well as the effectiveness of the internal control system and risk management system of the Bank and the financial entities included in its prudential consolidation perimeter.

This Committee also has the powers provided for by law and the delegated powers of the GSB with regard to certain credit transactions and changes in risk policies.

As of 31 December 2022, the members of the Risk Committee were the following:

Chairman: William Henry Newton
Byron James Macbean Haynes
Karl-Gerhard Eick
Kambiz Nourbakhsh
Benjamin Friedrich Dickgiesser

> Compliance Committee

The Compliance Committee advises and supports the GSB, among others, in monitoring compliance issues pertaining to the Bank, including those relating the members of corporate bodies and employees, internal policies and processes related to compliance, policies on business conduct and ethics, and compliance risk.

In addition, it has delegated powers in matters related to related parties (except for transactions between the Bank and shareholders and their related parties, a non-delegable matter that falls to the GSB).

The above functions also extend to the following financial subsidiaries: BEST, novobanco Açores and GNB Gestão de Ativos.

As of 31 December 2022, the members of the Compliance Committee were the following:

Chairman: Robert Alan Sherman
John Ryan Herbert
Mark Andrew Coker

Monika Wildner will become a member of Compliance Committee, thereby expanding the number of members of this Committee after Fit & Proper approval by the regulatory authorities.

> Nomination Committee

The Nomination Committee supports the GSB in overseeing the EBD' action in the establishment of, and in ensuring compliance with, consistent and well-integrated nomination policies at the bank, including the following financial subsidiaries: BEST, novobanco Açores and GNB Gestão de Ativos companies.

As of 31 December 2022, members of the Nomination Committee were the following:

Chairman: John Ryan Herbert
Robert Alan Sherman
Donald John Quintin
Mark Andrew Coker
Carla Antunes da Silva

> Remuneration Committee

The Committee advises and supports the GSB in the establishment of adequate, consistent and well-integrated remuneration policies in the bank and in monitoring the implementation of remuneration policies in the bank, including the following financial subsidiaries BEST, novobanco Açores and GNB Gestão de Ativos companies.

This Committee also has several delegated powers, including with regard to the remuneration of the members of the EBD and identified employees, as well as to the hiring of employees with annual remuneration above €200,000.00.

As of 31 December 2022, members of the Remuneration Committee were the following:

Chairman: Byron James Macbean Haynes
Karl-Gerhard Eick
Benjamin Friedrich Dickgiesser

The company documents and main regulations can be accessed at www.novobanco.pt > Institutional > Governance > Company Documents

5.2.4 Executive Board of Directors

The members of the Executive Board of Directors (EBD) are appointed by the General and Supervisory Board, which also appoints 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") and interim Chief Financial Officer ("CFO")[15]
- 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 Officer ("CLCO")
- Carlos Jorge Ferreira Brandão – Chief Risk Officer ("CRO")
- Rui Miguel Dias Ribeiro Fontes - Chief Credit Officer ("CCO")

The composition and mandate of novobanco's Executive Board of Directors underwent changes in the course of 2022.

Following the communication of the resignation of António Manuel Palma Ramalho from the position of CEO, the GSB decided to appoint a new Executive Board of Directors, which took office on 26 August 2022 after the authorisations from the competent entities under the Fit & Proper process had been obtained.

[15] Leigh James Bartlett resigned as CFO on 30 December 2022. Mark George Bourke will accumulate his duties as CEO with those of interim CFO until the new CFO takes office.

Aware that the EBD's structure and duties and responsibilities would be increased with the creation of a new executive position, that of Chief Credit Officer ("CCO"), the GSB decided to increase the number of members from 6 (six) to 7 (seven). The GSB also concluded that because there were two new EBD members - Leigh James Bartlett and Carlos Jorge Ferreira Brandão - and because the roles and responsibilities of two of the current members - Mark George Bourke and Rui Miguel Dias Ribeiro Fontes - had changed substantially, there should be a new four-year mandate (2022-2025). The remaining EBD members were reappointed.

On 15 December 2022, the General and Supervisory Board accepted the termination of duties of Leigh James Bartlett (CFO), at his request, with effect from 30 December 2022. Until the new CFO takes office, the CEO will also act as interim CFO.

On 1 February 2023, the General and Supervisory Board approved, subject to Fit & Proper, Benjamin Dickgiesser as a new member of the Executive Board of Directors for the current 2022-2025 mandate, becoming the next Chief Financial Officer. At the signature date of this Report, the authorisation process by the competent regulatory authorities was still under way.

Committees of the Executive Board of Directors

The activity of the EBD is supported by several Committees. In accordance with its rules of procedure, the EBD may establish committees to complement its own management activity, ensuring the monitoring of the Bank's activity in areas that are considered relevant.

> Risk Committee

Responsible for issuing an opinion on, approving, under the powers delegated by the EBD, and monitoring novobanco Group's policies and risk levels. In this context, the Risk Committee is responsible for monitoring the evolution of Grupo Novo Banco's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, market, liquidity and operational.

Chairman: Carlos Jorge Ferreira Brandão

> Credit Committee

Responsible for deciding the main credit operations in which the novobanco Group participates, in line with the risk policies defined for novobanco Group.

Chairman: Rui Miguel Dias Ribeiro Fontes

> Capital, Assets and Liabilities Committee (CALCO)

Responsible for the definition of the balance sheet management policies (capital, pricing, and interest rate, liquidity and foreign exchange risk) and for monitoring their impact at novobanco Group level. The CALCO also monitors early warning indicators with regard to the Recovery Plan and Liquidity, proposing mitigation measures, and if necessary, triggering the recovery plan and/or the liquidity contingency plan.

Chairman: Mark George Bourke (enquanto CFO interino)

> 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 and other Committees in place at novobanco Group, namely the Risk Committee, the Operational Risk Subcommittee and the Compliance and Product Committee.

Chairman: Carlos Jorge Ferreira Brandão

> Compliance and Product Committee

Responsible for approving, from a compliance standpoint, products and services to be developed and/or distributed by the bank, issuing an opinion on all of them within the scope of the products' sign-off process in force, as well as monitor the issues related to control implementation, without prejudice of competences of other governing bodies and GSB Committees.

Chairwoman: Luísa Soares da Silva

> Digital Transformation Committee

Responsible for defining and driving digital transformation at novobanco.

Chairman: Mark George Bourke

> Costs and Investments Committee

Responsible for approving the execution of expenses, within the limits of the powers conferred upon it. Its objectives include the definition of an annual expenditure plan and the revision of the acquisition's strategy.

Chairman: Mark George Bourke (enquanto CFO interino)

> Impairment Committee

Responsible for defining the amount of impairment to be allocated to each client, when novobanco has an exposure above €100 million to that client or group of clients.

Chairman: Mark George Bourke (enquanto CFO interino)

In addition, the Executive Board of Directors has set up 3 (three) subcommittees, (i) Non-Performing Assets (NPA) Subcommittee; (ii) Extended Models Risk Subcommittee; (iii) Operational Risk Subcommittee and 7 (seven) steering groups for the areas of (i) Retail, (ii) Corporate Clients, (iii) Human Capital, (iv) Management Information System (MIS), (v) Investment, (vi) Business Monitoring and (vii) ESG. The Steering Groups have no rules of their own, their composition and rules of procedure being decided on a case-by-case basis by the members of the EBD.

5.2.5 **Monitoring Committee**

The Monitoring Committee is a statutory advisory body ruled by the Articles of Association and deriving from the CCA. It is composed of three members elected by the Shareholders' General Meeting, one of whom to act 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 tasks to discuss and issue (non-binding) opinions on any Relevant Issue 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 all meetings of the GSB.

5.2.6 **Supervision**

Supervision is the responsibility of the GSB and the Statutory Auditor.

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

5.2.7 **Powers of the management body**

Including regarding resolutions on share capital increases

The EBD is the corporate body in charge of the management of the bank. Under the law and the Articles of Association, and respecting the powers of the other corporate bodies, it is responsible for defining the general policies and strategic objectives of the Bank and of the group and for ensuring the activity not comprised within the functions of other bodies of the Bank, in compliance with the rules and standards of good banking practice.

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

5.3 Internal Control

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 management and supervisory bodies, and Institution's employees, who perform their duties in accordance with internal policies and standards of ethics, integrity and professionalism, also applying to the structural units responsibilities and to all the institution's business segments, 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 is the body with ultimate and global responsibility for the institution and that which defines, supervises and is responsible for the implementation of an adequate Internal Control System, with a clear organisational structure and independent and efficient functions in terms of risk management, compliance and audit.

In turn, it is incumbent upon the GSB, among other duties detailed in the Bank's Articles of Association, to ensure 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 where management control exists, without prejudice to additional requirements of host territories and of the specificities of the functions involved in the System.

General Principles

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

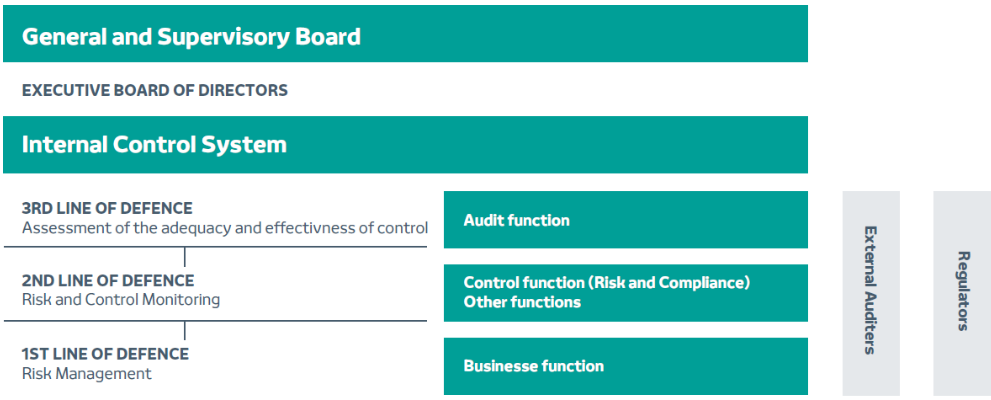
- Adequate control environment reflecting the importance recognized by novobanco Group for the Internal Control System and whose organization is supported by a model of 3 lines of defence, which defines the levels of responsibility in terms of governance and risk management for the different functions that integrate each line, including permanent, independent and effective Internal Control functions;
- Solid risk management system, designed to identify, assess, monitor and control all risks that may influence the strategy, risk appetite and objectives of novobanco Group (as detailed in section 4.3 – Risk Management);

- Efficient information and communication system that guarantees the capture, treatment and exchange of relevant, reliable, complete, comprehensive and consistent information, in a timely manner and in a way that allows 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 that will enable the Internal Control System to be strengthened, promoting the triggering of corrective actions.

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 in the Annual Self-assessment Report itself.

3 Lines of Defence Model

The Internal Control System is grounded on the 3 lines of defence model, which clearly defines the levels of intervention and responsibility in risk management and in the execution of controls, in order to guarantee the adequacy and overall effectiveness of Internal Control within in the organisation.



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

These units are responsible for the continuous identification, assessment and control of risks in the activities under their responsibility. It is up to them to defend the institution from 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 maintain the Bank within its risk limits by controlling, measuring and monitoring risks and reporting any deviations relative to the risk policies in force. This line of defence comprises the "Risk Management" and "Compliance" Control Functions, for which the Global Risk and the Rating Departments, and the Compliance Department are respectively responsible, being 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, exercising functional supervision and monitoring over 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 competent external authorities, when applicable.

The **3rd line of defence** is held by the Internal Audit Department, and its mission is to assess, independently and based on risk, the adequacy and effectiveness of the entity's organizational 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;
- 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 acknowledged by 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, bearing in mind its functions, acts as an additional line of defence, essentially of an account's supervision nature, including within the scope of the internal control report; and
- the Supervision Authorities (European Central Bank and Banco de 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, including through detailed assessments and regular interaction with the EBD and top management; (ii) 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 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 of 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 employees (at both the bank and in its branches and subsidiaries);
- Remuneration: the remuneration of control functions employees is not linked to the results of the activities which they supervise and control, nor does it compromise, in any other way, 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 control functions carry out supervision and articulation activities over the control functions of its branches and subsidiaries.

5.4 Main Policies

For novobanco Group, the legal framework that regulates its activities is as decisive for its course of action as the set of values, principles and good practices which it assumes and which steer its actions and define the standards that shape the manner in which the Group does business and carries out its activities. The existence and application of a Code of Conduct, policies on the Prevention of Conflicts of Interest, a Whistleblowing Policy and an Anti-Bribery and Anti-Corruption Policy are therefore paramount across the entire novobanco Group. Additionally, but no less importantly, the scrutiny and transparency requirements of the Related-Party Transactions Policy, the strict application of the Law and Policies on the Prevention of Money Laundering and Terrorist Financing, the care and transparency towards clients and investors derived from the Investor

Protection and Market Transparency Policies, and the assurance of 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 attributes to the compliance culture dimension.

The commitment assumed by 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.

> Code of Conduct

The novobanco Group Code of Conduct came into force in 2015 and was revised and updated in 2021. The code applies to all the members of the management and supervisory bodies of the novobanco Group companies, to the employees of Novobanco and the novobanco Group entities, and also to providers of goods and services when such is contractually provided for, or mandatorily in the case of some outsourced services. The Code of Conduct promotes a set of rules and good practices to be followed by the employees in their relationship with the clients and with the bank itself and aims to ensure that everyone knows the ethical and professional principles and standards that should guide their performance and is aware of the need and importance to follow them so as to ensure that the interests of shareholders, employees and clients are at all times respected.

The Code of Conduct is available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

Monitoring the application of the Code of Conduct and clarifying employees' doubts about its content and application is the responsibility of the Compliance Department.

In 2022, in novobanco, as a result of non-compliance with internal regulations in the performance of their duties, 6 employees received sanctions, including: 3 dismissals without any indemnity or compensation; 2 cases of days of suspension without pay and with loss of seniority; and 1 registered reprimand.

> Policy of Conflicts of Interest

The Policy of Conflicts of Interest establishes rules on the identification, management and monitoring of potential conflicts of interest in the various activities of novobanco and the novobanco Group, but also with respect to their corporate bodies, employees, and ultimately, their suppliers. It enables compliance with the applicable legal and regulatory provisions, and seeks to ensure that any possible situation of conflict of interests identified is recorded, assessed, and, as the case may be, mitigated or, at limit, abstaining from action, by the group, the bank and its agents.

The Conflicts of Interest Policy is available at novobanco 's website, in Portuguese and English, at **www.novobanco.pt > Institutional > 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 s with the applicable legal and regulatory provisions, namely the 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.

In this context, the control system implemented identifies those involved in transactions contracted with the bank, in strict compliance with the applicable legislation. The process of identification, analysis and validation is described in 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, proposed transactions with Related Parties must be submitted for analysis and opinion to the Compliance Department and the Risk Management function, for subsequent submission to the opinion of the Compliance Committee of the GSB (with subsequent ratification by the GSB), and for approval by the EBD and subsequent GSB ratification.

The Related-Party Transactions Policy is available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

During 2022, transactions were carried out with Related Parties (credit transactions, provision of services and other contracts) under which credit transactions, including extensions and renewals of limits, with persons and entities that as at 31 December 2022 were Related Parties of novobanco, were €1 105 million.

Article 85 of the Legal Framework of Credit Institutions and Financial Companies stipulates that credit institutions may not grant credit, in any form or type, including the provision of guarantees, to members of their management or supervisory bodies and their relatives, or to companies or other collective bodies directly or indirectly controlled by them. However, the granting of credit to companies and other collective bodies not included in paragraph 1, of which they are managers or in which they have a qualifying holding is allowed under paragraph 8 of the same article 85. In this context, the Compliance Department issued favourable opinions on two credit transactions allowed under said paragraph 8 of Article 85, which subsequently received a favourable opinion and the approval of the Compliance Committee of the GSB, the approval of the EBD and the ratification of the GSB.

In addition, under Article 109 of the Legal Framework of Credit Institutions and Financial Companies, credit granting to qualifying shareholders, or entities directly or indirectly controlled or in a group relationship with them is allowed, subject to certain limits. During 2022 novobanco did not conclude any credit transactions with qualifying shareholders, under said legal rule.

> Whistleblowing Policy

novobanco remains strongly committed to the growing internalisation of a culture of compliance, namely entailing the reporting of undue or irregular behaviours or behaviours that go against the law, the 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, as well as by service providers or any third parties, and its objectives are to preserve the bank's reputation, effectively protect its assets and those of its clients, and prevent or detect in advance any irregularities that may be committed.

This Policy also aims to ensure compliance with the provisions of the Legal Framework of Credit Institutions and Financial Companies, Bank of Portugal Notice No. 3/2020, the Securities Code, and Law No. 83/2017 of 18 August establishing measures to combat money laundering and terrorist financing (the "LBCFT").

Whistleblowing reports may also be submitted through the following channels, at the choice of the whistleblower:

a) By letter to the Compliance Officer, address Avenida da Liberdade, 195, 10º andar, 1250-142 Lisboa;

b) Through the Form available at www.novobanco.pt or, alternatively, if the whistleblower is a novobanco employee, through ‘Somos novobanco’ (intranet); ou

c) By e-mail to: irregularidades@novobanco.pt

At the end of the current financial year, a new irregularity communication channel was implemented where it is possible to communicate irregularities in a safe and anonymous way, thus providing an alternative to the current channels.

Whistleblowing reports may also be submitted verbally.

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 2022, two reports of irregularities were received which, following enquiries, proved to be unfounded.

The General and Supervisory Board is responsible for managing the irregularities communication system, ensuring the confidentiality of communications.

The Whistleblowing Policy is available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

> Anti-Bribery and Anti-Corruption Policy

Corruption and bribery represent one of the key challenges in modern society and fighting them requires a joint effort by all sectors of society, including banking, which plays an important role in promoting a culture of public integrity. The fight against practices of corruption and bribery becomes 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 Anti-Corruption Policy approved by the Compliance Committee of the GSB, and by the EBD aims to prevent and mitigate the risk of corruption and bribery, and related practices, reaffirming novobanco's commitment to building up integrity in society.

The Anti-Bribery and Anti-Corruption Policy is available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

> Policies on the Prevention of Money Laundering and Terrorist Financing

A bank's ability to detect and prevent activities capable of constituting money laundering and terrorist financing is directly linked to the knowledge, by banks, of certain elements about their counterparties and respective transactions.

The novobanco Group, through its Compliance Department, sets up the conditions that enable the bank to detect and prevent, through adequate policies and procedures, the possibility of the Bank and the Group being used as vehicles for money laundering or terrorist financing activities, such risks materialising to a significant extent within the financial system.

Aware of the challenge that this control and preventive action represents, the novobanco Group maintains the ongoing reassessment of the risks it incurs, by virtue of its business, operations and the geographies where it operates, endeavouring to identify weaknesses and areas of greater exposure, in order to ensure it has in place adequate methods of control and mitigation of money laundering or terrorist financing risks. The ability to prevent and, if possible, detect 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 contract or change of a party in an existing contract, through what is known as KYC (Know Your Customer) - i.e., the identification of contract parties, representatives and beneficial owners must be effectively established;
- Monitoring contracts' transactions - KYT (Know Your Transactions), spotting unusual situations, either beforehand or by contacting the client after the situation was detected.
- Analysis of counterparties 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 software tools with internationally recognised results to complement the experience of its human capital, has created and developed assessment models that will ensure that greater scrutiny is applied where this proves more necessary.

novobanco Group, complying with its regulatory obligations, develops training exercises in preventing money laundering and terrorist financing for all its employees (commercial and central structures, including senior management, members of the management and supervisory bodies). Training can be remote or face-to-face, the latter mainly directed to new employees, and the objective is to equip them with skills that enable them to collaborate with the control functions in mitigating the risks inherent to the execution of their functions.

In 2022, novobanco maintained the training on money laundering and terrorism financing prevention, having provided 11 532.5 hours of online training (including 1 283 hours for senior management).

Training is seen as a key tool for a correct flagging by the employees of potential situations of money laundering and terrorist financing. On the other hand, it is also crucial for the purpose of the adequate fulfilment of the legal and regulatory duties to which the bank is subject.

The prevention of money laundering and terrorist financing is one of the foundations of confidence in the financial system and as such will continue to deserve permanent operational and strategic attention by the novobanco Group.

In 2022 the novobanco Group examined 10 745 new contracts, of which 185 were rejected. In addition, 1 860 other contracts were analysed, upon which their ownership was changed. It also analysed 15 375 transactions under existing contracts, of which 616 were reported to the competent authorities.

The bank's Policies on the Management of the Risk of money laundering and terrorist financing are available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

> Policies on Investor Protection and Market Transparency

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

To address the international trend towards a tightening of the duties of financial intermediaries - of transparency, legality, completeness of information, diligence and protection of investors -, as well as changes in the rules for marketing financial instruments, novobanco has adopted the best practices in terms of the governance of products and services, ensuring the prior assessment and subsequent monitoring of its offer, with the Compliance Department having extended responsibilities in this area.

In compliance with the legal framework, novobanco has approved its standards and policies, and discloses them in a dedicated area of its website, at **www.novobanco.pt > Produtos > Poupança e Investimento > Informação ao Investidor.**

The most salient aspects of these standards and policies are summarised below:

Recording and register of communications. novobanco is obliged to keep recordings and registers of all communications with Customers and potential Customers, with regard to all services, activities and operations carried 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 allocated 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 adequacy. In order to ensure that the financial instruments or investment services it provides suit its Customers’ investment profile, novobanco asks its Customers and potential Customers to complete investor profile questionnaires, in order to obtain a more comprehensive and detailed image of, *inter alia*, their experience and knowledge of investment, their financial situation, their investment objectives (including capacity to withstand losses) and their risk tolerance. This sharing of information and knowledge permits to assess whether a given investment product or service is adequate to the specific situation of the investing client.

Safeguard of Customer Assets. The Securities Code sets forth that in all acts performed, as well as in accounting and transactions records, the financial intermediary should adopt procedures and implement measures permitting to maintain a clear distinction between its assets and the assets of each of its clients to ensure that the opening of proceedings for the insolvency, recovery of the company or reorganisation of the financial intermediary does not have effects on actions carried out by the financial intermediary on behalf of its clients. The financial intermediary may not utilise, for its own or a third party’s benefit, the clients’ financial instruments or exercise the rights inherent thereto, unless the holders have agreed thereto. 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 provide for the screening of new products and services offers, and the monitoring of the existing offer.

> Remuneration Policies for the Management and Supervisory Bodies and Staff Members

Under the terms and for the purposes of RGICSF, Bank of Portugal Notice no. 3/2020, and in compliance with the disclosure duties related to the remuneration policies provided therein, the Remuneration Committee shall undertake an annual review and assessment of the implementation of the remuneration policies and procedures. A report prepared by the Remuneration Committee regarding the annual review and assessment of the implementation of the remuneration policy for the Management and Supervisory Bodies and for the Staff Members is to be submitted to the GSB, to the General Shareholders' Meeting of novobanco and to the EBD, which shall implement any identified measures to correct possible deficiencies that may be included in such annual review.

Prior to the closing of the 2022 accounts, the Remuneration Committee has made such evaluation of the remuneration policies and procedures, with no deficiencies identifed. Also, an assessment and review of the remuneration policies for the Management and Supervisory Bodies and for Staff Members of novobanco has been made by several departments (Human Capital, Legal, Compliance and Risk), to ensure alignment of procedures and practices and also to reflect changes in legislation. In particular, the following was reflected in the Remuneration Policies (as applicable):

- Variable Remuneration Deferral Period for Identified Staff and Board Members: updated to 5 years since novobanco is considered a significant institution for regulatory purposes;
- Weight of Deferred Variable Remuneration for Identified Staff: introduction of a maximum of 60% upfront in the year of the award and defer 40% over the next 4 years (10% each year). The upfront amount shall consider the defined retention period regarding the Remuneration Units portion;
- Weight of Deferred Variable Remuneration for Board Members: introduction of a maximum of 50% upfront in the year of the award and defer 50% over the next 4 years (12,5% each year);
- Introduction of deferral exclusion conditions for Identified Staff when the total annual award is less than 50,000 € and it does not represent more than 1/3 of total annual remuneration for that employee;

The Remuneration Policies have been prepared in accordance with the legislation in force on that date, and in particular with the RGICSF, Notice no. 3/2020, the EBA Guidelines 2021/04 relating to sound remuneration policies, and related legislation and reflect the objectives, strategy, structure and culture of the Bank, steered by principles of meritocracy and transparency.

The Remuneration Committee considers that the Remuneration Policies are adequate to the current situation of novobanco and 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 those incentives, are aligned to the long-term objectives of the institution and of the various stakeholders.

The Governance of the Remuneration Policy provides for the involvement of several internal structures, namely the Remuneration Committee, the Risk Committee of the GSB, and also several Departments of the Bank, including the Risk, Compliance, Audit, Legal, and Human Capital Departments, ensuring full alignment of the established practices with the applicable regulatory requirements.

i) Limits to remuneration in novobanco

Following the sale process of novobanco, and in the context of the State aid granted, the Portuguese State assumed certain commitments before the European Commission (State Aid no.SA.49275 (2017 / N)) up to the end of the Restructuring Period, whose termination is currently being reviewed by the European Commission and is pending confirmation (hereinafter the "Restructuring Period").

This situation entailed certain limitations to the remuneration of the members of the Management and Supervisory Bodies and to Employees of novobanco.

These limitations will no longer be applicable upon the end of the Restructuring Period, without any review of the Remuneration Policies being required. Deferred amounts that were created as a result of this remuneration cap will then be due for payment.

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

Policy Approval Powers. The approval of the Remuneration Policy of the Management and Supervisory Bodies is the responsibility of the General Meeting, upon proposal of the Remuneration Committee of the GSB, and this Committee is also responsible for, among others:

- Decide on the remuneration to be attributed to the members of the EBD, as well as their KPIs, and define and approve the budget for the total variable remuneration of employees, based, among other factors, on the operating results in the period;
- Verify if the existing remuneration policies are updated and if necessary propose the appropriate changes;
- Review the mechanisms and systems used to ensure that remuneration systems are consistent with sound and effective risk management and assess the criteria used to define remuneration and *ex ante* risk adjustment based on actual risk outcomes (Clawback or Malus);

General and Supervisory Board. Only the independent members of the GSB shall receive remuneration from novobanco, approved by the General Shareholders' Meeting, such remuneration being fixed only and paid 12 times per year. If applicable, the members of the GSB were also subject to the limitations referred to in i) above.

Executive Board of Directors. The remuneration of the EBD consists of a fixed component and a variable component. The fixed remuneration is established according to the complexity, level of responsibility and skills required for the function, and is paid 14 times per year. The variable component of the remuneration is awarded on a discretionary basis, according to individual and collective performance assessment that takes into account quantitative and qualitative criteria. These criteria are set by the Remuneration Committee and informed in due time to the members of the EBD.

The following criteria are also considered in the process of attribution of variable remuneration:

- It may only be attributed if it does not jeopardise the Bank's ability to maintain a solid own funds base, if the Bank has achieved positive operating results, and if its attribution is consistent with sound and effective risk management practices;
- It is subject to a maximum cap of 100% of the annual fixed remuneration, or as otherwise approved by the General Shareholders' Meeting;
- It is phased over a multi-year framework, being deferred over a period of five years from the reference year with 50% paid upfront in the first year and 12.5% in the following four. During the Restructuring Period, the amounts awarded relating to years 2019, 2020 and 2021 were 100% deferred and will only become a vested right and, consequently, will only be paid, at the end of that period and under the terms defined in the respective Policy.
- 50% of the Variable Remuneration awarded shall take the form of Remuneration Units, whose terms and conditions regarding the award, vesting and payment are defined in the Remuneration Units Regulation. The value of each Remuneration Unit is determined by the Remuneration Committee, according to financial indicators of the Bank, prior to settlement of any deferred amount.
- Any possible severances must be determined by Remuneration Committee.

Besides any commitment agreed in the hiring process under the form of a sign-on bonus, no other Variable Remuneration shall be guaranteed in any way.

All Variable Remuneration amounts paid or deferred, regardless of whether they constitute vested rights, are subject to risk-based adjustments, Clawback and/or Malus, including those that are deferred as a result of the application of the limits established in point i) (Limitations on remuneration at novobanco).

In what concerns other benefits, such as Health Insurance or Mobile Phone, the internal policies defined for the purpose shall apply.

iii) Description of the Remuneration Policy to Employees

Policy Approval Powers. The approval of the Remuneration Policy for Employees is the responsibility of the Executive Board of Directors, upon a proposal of the Remuneration Committee.

Identified Staff

Selection of employees. The Bank's Employee Remuneration Policy includes specific chapters applicable to employees who have or may have a significant impact on novobanco's risk profile - classified as Identified Staff, as set forth in the Policy.

The list of Identified Staff is reported annually to the Bank of Portugal, under Bank of Portugal Instruction no.18/2020.

Components of Remuneration. The Fixed Remuneration shall reflect the skills, experience and responsibility inherent to the function performed, and shall not depend on performance. The attribution of Variable Remuneration to the Identified Staff, as well as its annual amount, depends on the decision of the Remuneration Committee and of the EBD. When a Variable Remuneration exists, it is calculated based on individual and collective performance, taking into account the following principles:

- Performance must be assessed according to quantitative and qualitative criteria and through financial and non-financial variables;
- The period of assessment of performance and attribution of variable remuneration must be multi-annual - which implies that a substantial part of the amount attributed be deferred so as to take into account economic cycles and the management of risk and promote the retention of Identified Staff. novobanco Policy defines that Variable Remuneration shall be deferred over a period of 5 years from reference year, with 60% paid upfront in the first year and 10% in the following four;
- Identified Staff Variable Remuneration shall be excluded from deferral, when total annual award is less than 50,000 € and it does not represent more than 1/3 of total annual remuneration for that employee;
- All Variable Remuneration amounts paid or deferred are subject to risk adjustment mechanisms (Malus and Clawback), as described in the Remuneration Policy;
- The amount attributed is limited to 100% of the annual Fixed Remuneration or as otherwise approved by the General Meeting;
- 50% of the Variable Remuneration awarded shall take the form of Remuneration Units, whose terms and conditions regarding the award, vesting and payment are defined in the Remuneration Units Regulation. The value of each Remuneration Unit is determined by the Remuneration Committee, according to financial indicators of the Bank, prior to settlement of any deferred amount.
- Variable remuneration, in the form of a sign-on bonus, can only be guaranteed in the first year of hiring.
- Retention Plans can be setup to Identified Staff and they might result in a Variable Remuneration award higher than 100% of annual Fixed Remuneration, with the exception detailed in a specific internal regulation that was approved in a General Meeting of shareholders.
- Besides any commitment agreed in the hiring process under the form of a sign-on bonus or possible compensation for retention under a retention plan, no other Variable Remuneration shall be guaranteed in any way.
- All Variable Remuneration amounts paid or deferred, regardless of whether they constitute vested rights, are subject to risk-based adjustments, Clawback and/or Malus, including those that are deferred as a result of the application of the limits established in point i) (Limitations on remuneration at novobanco).

iv) 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 in place a Policy for Selection and Assessment of the Management and Supervisory Bodies and Key Function Holders (the "Policy"), thus ensuring compliance with the legal and regulatory framework in force and the implementation of the required governance standards for Significant Financial Institutions. The Policy was approved by the Nomination Committee, the EBD, the GSB, and the General Shareholders' Meeting.

The Policy aims to ensure that the members of the Management and Supervisory Bodies and Key Function Holders (essentially the holders of the Risk, Audit, and Compliance Functions, branch general managers and other managers identified by the Bank as having risk-taking functions, currently the heads of Treasury and Marketing) meet all the fit and proper criteria to perform their functions, both at the time of appointment and throughout their mandates. This suitability to the function basically refers to the capacity to permanently ensure a sound and prudent management of the institution, which is assessed in accordance with the following requirements: i) Experience; ii) Repute; (iii) Independence; iv) Availability; and v) Collective Suitability.

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

Novobanco revised in 2021 its Policy for the Selection and Evaluation of novobanco' Statutory Auditor and for the contracting of non-prohibited non-audit services, in compliance of the applicable regulations. This Policy was approved by the Financial Affairs (Audit) Committee of the GSB, by the GSB and by novobanco's General Shareholders' Meeting.

This Policy applies to the selection, designation and assessment of the 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, dimension and complexity of novobanco' activity and the responsibilities inherent to the specific tasks to be performed.

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

In addition, the Policy defines the criteria and procedures to apply in case non-audit services are contracted with the Statutory Auditor and defines the ones which are allowed and the ones which are prohibited.

In 2022, under this policy, the novobanco' Statutory Auditor was assessed for the year 2021.

5.5 Credit to Members of the Corporate Bodies

At 31 December 2022 the outstanding amount of loans to persons and entities falling under the provisions of art. 85 of the Legal Framework of Credit Institutions and Financial Companies is presented below:

Name	Position	Amount (in euros)
Members of the Corporate Bodies in office at 31 December 2022		
Executive Board of Directors		
Luís Miguel Alves Ribeiro	Member of the Executive Board of Directors	€ 140 888.43
Closely related persons		€ 126 491.72
Carlos Jorge Ferreira Brandão	Member of the Executive Board of Directors	€ 83 507.63
General and Supervisory Board		
Carla Alexandra Severino Antunes da Silva	Member of the General and Supervisory Board	
Closely related persons		€ 323 188.42

Entity where a member of the Executive Board of Directors holds a management position	
APB – Associação Portuguesa de Bancos	€ 275.43
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.	€ 139 187 534.82
NOVO BANCO dos AÇORES	€ 12 294 560.00
SIBS - SGPS SA	€ 10 625 000.00
UNICRE - Instituição Financeira de Crédito SA	€ 38 050 000.00

The amounts of loans to members of the Corporate Bodies in office on 31 December 2022 refer to mortgage loans, except for the loan to Carlos Jorge Ferreira Brandão, which is a personal loan made prior to his appointment, and the amount outstanding of loans to persons closely related to the member of the GSB, which consists 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 credit to the Entity where a member of the EBD holds 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 Art. 109 (7) of the RGICSF, on 31 December 2022 there were no outstanding loans to direct or indirect holders of qualified holdings.

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

i) Corporate Bodies

		Total 2022		Fixed Remuneration		
	Role	Total Paid and Deferred	Paid	Salary	Other post-EBD benefits	Deferred
Executive Board of Directors		**1 914 065**	**1 736 077**	**1 733 679**	**2 398**	**177 988**
Mark Georges Bourke (1)	CEO	495 000	387 118	387 118	0	107 882
Rui Miguel Dias Ribeiro Fontes	Member EBD	321 199	321 199	320 000	1 199	0
Luis Miguel Alves Ribeiro	Member EBD	321 199	321 199	320 000	1 199	0
Luisa Marta Santos Soares da Silva Amaro de Matos	Member EBD	320 000	320 000	320 000	0	0
Carlos Jorge Ferreira Brandão (2)	Member EBD	106 667	36 561	36 561	0	70 106
Andres Baltar Gracia	Member EBD	350 000	350 000	350 000	0	0
General Supervisory Board		**1 155 000**	**1 117 118**	**1 117 118**	**0**	**37 882**
Byron James Macbean Haynes	Chairman GSB	425 000	387 118	387 118	0	37 882
Karl - Gerhard Eick	Vice-Chairman GSB	300 000	300 000	300 000	0	0
Benjamin Friedrich Dickgiesser	Member GSB	0	0	0	0	0
Kambiz Nourbakhsh	Member GSB	0	0	0	0	0
Donald John Quintin	Member GSB	0	0	0	0	0
John Ryan Herbert	Member GSB	95 000	95 000	95 000	0	0
Robert Alan Sherman	Member GSB	95 000	95 000	95 000	0	0
Mark Andrew Coker	Member GSB	0	0	0	0	0
Carla Alexandra Severino Antunes da Silva	Member GSB	75 000	75 000	75 000	0	0
Willian Henry Newton	Member GSB	165 000	165 000	165 000	0	0
Resign from EBD mandate during 2022						
António Manuel Palma Ramalho (3)	Former CEO	244 861	225 680	225 680	0	19 181
Leight James Bartlett (4)	Former Member EBD	166 792	166 792	166 732	60	0

(1) Additionally, an expat allowance of 142.835€ was granted, of which 102.000€ was paid in 2022. As previously agreed with the Monitoring Trustee, appointed by DG Comp, this amount was not considered a component of the total remuneration for the purpose of the remuneration limitations.
(2) Member of the EBD since 25 August 2022. In addition to the fixed remuneration in the table above, a sign-on bonus of 80,000€ was paid.
(3) Member of the EBD until 1st August 2022. From August 2022, this EBD member entered into a consultancy agreement for a period of one year, which can be extended by mutual consent.
(4) Member of the EBD between 25 August and 30 December 2022. In addition to the fixed remuneration in the table above, a sign-on bonus of 180,000€ was awarded (of which 90,000€ was paid in year 2022) and allowances in the total amount of 82,626€ were paid in 2022.

In 2022, there were no amounts paid to the members of the Corporate Bodies of novobanco by other group companies.

For year 2022, regarding Variable Remuneration, there was a conditional award, of 1.931 thousand € to the members of the EBD (including members who resigned during the reference year), subject to the verification of several conditions. This award was based on individual and collective performance of each member, which was assessed by the Remuneration Committee. This award did not create any vesting rights, no payment to the members was made and is subject to the verification of the conditions defined in the Remuneration Policy.

Additionally, this award was fully deferred and there shall be no payments until after the end of the Restructuring Period. This Variable Remuneration does not constitute an acquired right until after the end of the Restructuring Period and will be subject to the risk adjustment mechanisms provided for in the Remuneration Policy, namely, Malus and/or Claw back.

According to the Remuneration Policy, Variable Remuneration award is subject to the maximum limit of 100% of the annual Fixed Remuneration of each member, 50% of which is attributed in the form of cash and 50% in the form of Remuneration Units. 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.

The 2022 Variable Remuneration awarded to the members of the Executive Board of Directors is subject to future adjustments. In particular, there is no vested right or certainty as to what the final Variable Remuneration amount will be received or when payments will be made.

> 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

In 2022, two Members of the EBD left the Bank prior of the expiration of their mandates and a total of 460,000€ is due to be paid in 2023.

> 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 47 employees was classified as Identified Staff and the table below indicates their Fixed and Variable Remuneration awarded for 2022, of which 50% is awarded in cash and 50% in remuneration units.

The 2022 Variable Remuneration will be paid and subject to deferral in accordance with the Remuneration Policy, as amended in 2023. These amounts may be subject to future adjustments in accordance with the conditions set out in the Remuneration Policy. Regarding the deferral exception introduced in the Remuneration Policy for Staff following latest changes to RGICSF, it applies to a total of 18 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.

	# Employees	Total 2022 (1)		Remuneração Fixa		Variable Remuneration awarded 2022 (2) (3)
		Total Paid and awarded	Paid	Salary	Other post-employment benefits	
Identified Staff	**47**	**9 765 269**	**6 323 931**	**6 291 156**	**32 775**	**3 441 338**
Commercial	8	1 427 998	939 656	933 023	6 634	488 342
Control Functions	3	780 551	491 466	489 609	1 857	289 085
Suport	36	7 556 720	4 892 809	4 868 524	24 285	2 663 911

(1) In 2022, regarding Variable Remuneration, the following was paid to Identified Staff Members: 1/3 of 2019 Bonus (714.122€), 1/3 of 2020 Bonus (807.225€) and 1/3 of 2021 Bonus (729.151€).

(2) The 2022 Variable Remuneration is going to be paid and deferred according to Remuneration Policy. At the date of this report, the amounts presented above are still subject to adjustments and approval.
(3) Additionally, following the approval in the General Shareholder's Meeting, the Shapping the Future retention program was implemented. Six members of Identified Staff have been selected for this program and a total 942.630€ was awarded. According to the applicable regulation these amounts shall be paid in 2025 if these members are still in the Bank at that time.

During 2022, three Identified Staff members left the Bank and the severances were agreed in a total amount of 648.756€.

5.7 Securities Held by Members of the Management and Supervisory Bodies

As of 31 December 2022, and with regard to fiscal year of 2022, the members of the management and supervisory bodies of novobanco did not hold any securities issued by novobanco or by companies in a control or group relationship with novobanco.

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

5.8 Non-Material Indirect Investment in Novo Banco

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

Le Pianiste, 1950– Vieira da Silva

Mixed technique on card 49 x 37cm

In "Le Pianiste", the interior space organized into multiple structures closely linked by color (brown, black, gray, beige and white tones, with small touches of blue) creates an intimate atmosphere of concentration between the pianist and his piano.

CHAVES, Museu de Arte Contemporânea Nadir Afonso

6 CONSOLIDATED FINANCIAL STATEMENTS AND FINAL NOTES

6.1 Consolidated Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2022 AND 2021

thousands of Euros

	31.12.2022	31.12.2021
Interest Income	834 679	740 459
Interest Expenses	(209 204)	(167 065)
Net Interest Income	**625 475**	**573 394**
Dividend income	5 035	11 096
Fees and commissions income	337 335	325 511
Fees and commissions expenses	(47 155)	(47 357)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(88 255)	(5 123)
Gains or losses on financial assets and liabilities held for trading	149 212	50 896
Gains or losses on financial assets mandatorily at fair value through profit or loss	(40 493)	46 697
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	116	21
Gains or losses from hedge accounting	(1 713)	14 195
Exchange differences	6 789	10 805
Gains or losses on derecognition of non-financial assets	83 289	7 551
Other operating income	214 005	163 875
Other operating expenses	(118 357)	(181 604)
Operating Income	**1 125 283**	**969 957**
Administrative expenses	(395 870)	(374 359)
Staff expenses	(233 707)	(233 261)
Other administrative expenses	(162 163)	(141 098)
Cash contributions to resolution funds and deposit guarantee schemes	(41 155)	(40 535)
Depreciation	(52 493)	(34 004)
Provisions or reversal of provisions	(39 245)	(127 835)
Commitments and guarantees given	2 685	9 840
Other provisions	(41 930)	(137 675)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(101 882)	(198 903)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	21 546	315
Impairment or reversal of impairment on non-financial assets	8 375	(26 314)
Profit or loss before tax from continuing operations	**532 913**	**172 116**
Tax expense or income related to profit or loss from continuing operations	53 301	15 186
Current tax	(10 048)	(12 737)
Deferred tax	63 349	27 923
Profit or loss after tax from continuing operations	**586 214**	**187 302**
Profit or loss from discontinued operations	(270)	4 887
Profit or loss for the period	**585 944**	**192 189**
Attributable to Shareholders of the parent	**560 842**	**184 504**
Attributable to non-controlling interests	25 102	7 685
	585 944	**192 189**

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2022 AND 2021

thousands of Euros

	31.12.2022	31.12.2021
ASSETS		
Cash, cash balances at central banks and other demand deposits	6 599 078	5 871 538
Financial assets held for trading	171 810	377 664
Financial assets mandatorily at fair value through profit or loss	313 702	799 592
Financial assets designated at fair value through profit or loss	13	-
Financial assets at fair value through other comprehensive income	2 331 099	7 220 996
Financial assets at amortised cost	32 777 693	26 039 902
Securities	8 183 209	2 338 697
Loans and advances to banks	43 548	50 466
Loans and advances to customers	24 550 936	23 650 739
Derivatives – Hedge accounting	562 845	19 639
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(383 689)	30 661
Investments in subsidiaries, joint ventures and associates	119 744	94 590
Tangible assets	798 831	864 132
Tangible fixed assets	299 264	238 945
Investment properties	499 567	625 187
Intangible assets	69 832	67 986
Tax assets	956 000	779 892
Current Tax Assets	32 570	35 653
Deferred Tax Assets	923 430	744 239
Other assets	1 618 484	2 442 550
Non-current assets and disposal groups classified as held for sale	59 587	9 373
Total Assets	**45 995 029**	**44 618 515**
LIABILITIES		
Financial liabilities held for trading	99 386	306 054
Financial liabilities measured at amortised cost	40 987 177	40 215 994
Deposits from central banks and other banks	9 705 154	10 745 155
(of which: repos)	2 150 824	1 529 847
Due to customers	29 277 858	27 582 093
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 628 897	1 514 153
Other financial liabilities	375 268	374 593
Derivatives – Hedge accounting	119 578	44 460
Provisions	413 432	442 834
Tax liabilities	8 427	15 297
Current Tax liabilities	7 582	12 262
Deferred Tax liabilities	845	3 035
Other liabilities	839 919	443 437
Liabilities included in disposal groups classified as held for sale	15 492	968
Total Liabilities	**42 483 411**	**41 469 044**
EQUITY		
Capital	6 304 661	6 054 907
Accumulated other comprehensive income	(1 234 573)	(1 045 489)
Retained earnings	(8 577 074)	(8 576 860)
Other reserves	6 439 418	6 501 374
Profit or loss attributable to Shareholders of the parent	560 842	184 504
Minority interests (Non-controlling interests)	18 344	31 035
Total Equity	**3 511 618**	**3 149 471**
Total Liabilities And Equity	**45 995 029**	**44 618 515**

6.2 Separate Financial Statements

NOVO BANCO, S.A. SEPARATE INCOME STATEMENT AS AT 31 DECEMBER 2022 AND 2021		
		thousands of Euros
	31.12.2022	**31.12.2021**
Interest Income	838 291	748 592
Interest Expenses	(213 295)	(167 508)
Net Interest Income	**624 996**	**581 084**
Dividend income	17 452	18 400
Fees and commissions income	302 126	287 013
Fees and commissions expenses	(39 816)	(40 296)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(88 444)	(7 234)
Gains or losses on financial assets and liabilities held for trading	146 715	51 222
Gains or losses on financial assets mandatorily at fair value through profit or loss	(95 948)	42 734
Gains or losses from hedge accounting	(535)	14 896
Exchange differences	7 305	10 653
Gains or losses on derecognition of non-financial assets	82 159	(4 582)
Other operating income	56 579	79 753
Other operating expenses	(68 778)	(141 545)
Operating Income	**943 811**	**892 098**
Administrative expenses	(369 730)	(346 975)
Staff expenses	(216 821)	(214 994)
Other administrative expenses	(152 909)	(131 981)
Cash contributions to resolution funds and deposit guarantee schemes	(40 717)	(40 172)
Depreciation	(53 961)	(33 799)
Provisions or reversal of provisions	(10 894)	(111 770)
Commitments and guarantees given	2 555	9 900
Other provisions	(13 449)	(121 670)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(103 265)	(196 230)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	16 166	49 691
Impairment or reversal of impairment on non-financial assets	14 081	(12 069)
Profit or loss before tax from continuing operations	**395 491**	**200 774**
Tax expense or income related to profit or loss from continuing operations	58 339	24 043
Current tax	(4 611)	(4 249)
Deferred tax	62 950	28 292
Profit or loss after tax from continuing operations	**453 830**	**224 817**
Profit or loss from discontinued operations	-	1 091
Profit or loss for the period	**453 830**	**225 908**

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2022 AND 2021

thousands of Euros

	31.12.2022	31.12.2021
ASSETS		
Cash, cash balances at central banks and other demand deposits	6 387 295	5 674 461
Financial assets held for trading	170 847	377 709
Financial assets mandatorily at fair value through profit or loss	1 537 670	2 250 308
Financial assets designated at fair value through profit or loss	13	-
Financial assets at fair value through other comprehensive income	2 183 034	7 133 508
Financial assets at amortised cost	31 719 489	24 977 300
Securities	8 618 778	2 893 829
Loans and advances to banks	145 464	186 089
Loans and advances to customers	22 955 247	21 897 382
Derivatives – Hedge accounting	562 886	20 150
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(382 933)	28 787
Investments in subsidiaries, joint ventures and associates	251 457	241 066
Tangible assets	258 963	231 419
Tangible fixed assets	258 963	231 419
Intangible assets	69 640	67 515
Tax assets	947 500	776 769
Current Tax Assets	30 298	35 448
Deferred Tax Assets	917 202	741 321
Other assets	1 713 116	2 555 852
Non-current assets and disposal groups classified as held for sale	45 071	6 601
Total Assets	**45 464 048**	**44 341 445**
LIABILITIES		
Financial liabilities held for trading	99 317	305 512
Financial liabilities measured at amortised cost	40 904 697	40 346 362
Deposits from central banks and other banks	10 506 509	11 497 829
(of which: repos)	2 150 824	1 529 847
Due to customers	28 425 223	26 997 858
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 601 454	1 479 066
Other financial liabilities	371 511	371 609
Derivatives – Hedge accounting	120 612	44 460
Provisions	423 190	478 170
Tax liabilities	4 505	4 703
Current Tax liabilities	4 505	4 703
Other liabilities	844 779	362 836
Total Liabilities	**42 397 100**	**41 542 043**
EQUITY		
Capital	6 304 661	6 054 907
Accumulated other comprehensive income	(1 155 271)	(968 987)
Retained earnings	(8 577 074)	(8 576 860)
Other reserves	6 040 802	6 064 434
Profit or loss attributable to Shareholders of the parent	453 830	225 908
Total Equity	**3 066 948**	**2 799 402**
Total Liabilities And Equity	**45 464 048**	**44 341 445**

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 2022 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

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

(iii) the management report describes accurately the evolution of the businesses, the performance and the financial position of novobanco and of novobanco Group in 2022 and includes a description of the main risks and uncertainties faced.

The management report and the individual and consolidated financial statements have been approved at the meeting of the EBD held on 2 March 2023.

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 2022, in the amount of €453 830 131.85, be allocated as follows: €45 383 013.19 to the Legal reserve, pursuant to article 97 of the Legal Framework of Credit Institutions and Financial Companies, and €408 447 118.66 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, 2 March 2023

O Conselho de Administração Executivo

Mark George Bourke

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

Paysage de la Vallée des Rois VII, 1979– Nikias Skapinakis

Oil on canvas 44 x 51cm

In the 1980s, Nikias Skapinakis carried out a serie of pictorial research around landscapes inspired and imagined from the Valley of the Kings, in Egypt, which he visited in 1979.

MIRANDELA, Museu Municipal Armindo Teixeira Lopes

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:

euro thousands

Official Income Statement		Management Income Statement													
		Net Interest Income	Fees and Commissions	Market Results	Other Operating Results	Staff Costs	General and Administrative Costs	Depreciation	Restructuring funds - independent valuation	Credit Impairment	Securities Impairment	Other Assets and Contingencies Provisions	Resultado antes de Impostos	Taxes	Special Tax on Banks
		625 475	293 323	23 963	183 583	(233 707)	(162 163)	(52 493)	-	(34 535)	(67 634)	(9 037)	566 775	53 301	(34 132)
Interest Income	834 679	834 679													
Interest Expenses	(209 204)	(209 204)													
Net Interest Income	**625 475**														
Dividend income	5 035			5 035											
Fee and comission income	337 335		337 335												
Fee and comission expenses	(47 155)		(47 155)												
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(88 255)			(89 296)	1 041										
Gains or losses on financial assets and liabilities held for trading	149 212			149 212											
Gains or losses on financial assets mandatorily at fair value through profit or loss	(40 493)			(40 493)											
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	116			116											
Gains or losses from hedge accounting	(1 713)			(1 713)											
Exchange differences	6 789			6 789											
Gains or losses on derecognition of non-financial assets	83 289				83 289										
Other operating income	214 005		3 143	1 722	209 140										
Other operating expenses	(118 357)			(7 409)	(76 816)										(34 132)
Operating Income	**1 125 283**														
Administrative expenses	-														
Staff expenses	(233 707)					(233 707)									
Other administrative expenses	(162 163)						(162 163)								
Contributions to resolution funds and deposit guarantee schemes	(41 155)				(41 155)										
Depreciation	(52 493)							(52 493)							
Provisions or reversal of provisions	-														
Commitments and guarantees given	2 685											2 685			
Other provisions	(41 930)											(41 930)			
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(101 882)									(34 535)	(67 634)	287			
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	21 546											21 546			
Impairment or reversal of impairment on non-financial assets	8 375											8 375			
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	8 354				8 354										
Profit or loss before tax from continuing operations	**532 913**														
Tax expense or income related to profit or loss from continuing operations	-														
Current tax	(10 048)													(10 048)	
Deferred tax	63 349													63 349	
Profit or loss after tax from continuing operations	**586 214**														
Profit or loss from discontinued operations	(270)				(270)										
Profit or loss for the period	**585 944**														
Attributable to Shareholders of the parent	**560 842**														
Attributable to non-controlling interests	25 102														
	585 944														

ii) Alternative performance measures

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

INCOME STATEMENT			
Designation	**Definition**	**Calculation Basis**	**Conciliation with the Financial Statements**[16]
Fees and Commissions	Indicator of results of financial activity directly related to services provided to clients Historical financial performance indicator	Fee and commission income less fee and commission expenses	(IS): Fee and commission income and Fee and commission expenses
Commercial banking income	Indicator of the results of commercial activity most directly related to customers Historical financial performance indicator	Financial margin + Customer services	
Capital markets results	Indicator of results of activity in the financial markets Historical financial performance indicator indicator	Results from trading hedging operations, assets at fair value through other comprehensive income and at amortized cost	(IS): Dividend income, gains or losses on the derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets that must be accounted for at fair value through profit or loss, gains or losses on financial assets and liabilities accounted for at fair value through profit or loss, gains or losses from hedge accounting and exchange differences
Other operating results	Indicator of other diverse results, not directly related to activity with customers and markets Historical financial performance	Gains or losses on the derecognition of non-financial assets + Other operating income + Other operating expenses + Proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equity method	(IS): Gains or losses on the derecognition of non-financial assets, other operating income, other operating expenses, proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equivalence method
Banking Income	Financial activity results indicator Historical financial performance indicator	Net interest income + Fees and commissions + Capital markets results + Other operating results	
Operating costs	Indicator of structural costs that support commercial activity and whose analysis allows to assess the trajectory of progression of costs Indicator of 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 Historical financial performance indicator	Banking income - Operating costs	
Provisions, net of replacement / Impairments	Indicator of net reinforcements of impairments made in the year Historical financial performance indicator	Provisions or reversal of provisions + Impairment or reversal of financial assets not measured at fair value through profit or loss + Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates +	(IS): Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates and Impairment or

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

		Impairment or reversal of impairment of non-financial assets	reversal of impairment of non-assets financial

BALANCE SHEET/LIQUIDITY

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[17]
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

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

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

ASSET QUALITY AND COVERAGE RATIOS

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[18]
Overdue loans ratio	Loans quality indicator, showing the proportion of the gross loan portfolio that is in default Historical financial performance indicator	Ratio between overdue loans and total loans	(BS): Overdue loans, that is, loans with installments of capital and interest in default and loans to customers, gross
Ratio of loans overdue for more than 90 days	Loans quality indicator, reflects the proportion of the gross loan portfolio that has been in default for more than 90 days. Historical financial performance indicator.	Ratio between loans overdue for more than 90 days and total loans	(BS): Loans overdue for more than 90 days, that is, loans with installments of capital and interest in default for more than 90 days and loans to customers, gross
Non-performing loans ratio	Loans portfolio quality indicator, reflects the proportion of the gross loans portfolio including cash and deposits with credit institutions that are in a non-performing situation. Historical financial performance indicator.	Ratio between the total balance of loans agreements with customers and cash equivalents and investments in credit institutions identified as: (i) being in default (internal definition in line with Article 178 of the Capital Requirements Regulation, that is, contracts with higher material defaults) 90 days and contracts identified as unlikely to pay, according to qualitative criteria; and (ii) having specific impairment and total loans	(BS). Loans identified as non-productive loans and Gross customer loans
Forborne ratio Instruction No 32/2013 of Banco de Portugal	Loans quality indicator, reflects the proportion of the gross loan portfolio that was restructured. Historical financial performance indicator.	Ratio between forborne and total loans	(BS). Loans identified as restructured due to financial difficulties of the customer and loans to customers gross
Overdue loans coverage	Indicator of the ability to absorb potential losses related to loans default Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and the amount of overdue loans	(BS): Provisions for loans and overdue loans to customers
Coverage of loans overdue for more than 90 days	Indicator of the ability to absorb potential losses related to loans default for more than 90 days. Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and loans overdue for more than 90 days	(BS): Provisions for loans and loans to customers overdue by more than 90 days

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

Non-performing loans coverage	Indicator of the capacity to absorb potential losses related to non- performing loans default. Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and non-performing loans	(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. Historical financial performance indicator.	Ratio between balance sheet loan impairments and gross loans to customers	(BS): Provisions for loans and gross loans to customers
Cost of Risk	Measure of the cost recognised in the year to cover the risk default in the customer loans book 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

EFFICIENCY AND PROFITABILITY RATIO			
Designation	**Definition**	**Calculation Basis**	**Conciliation with the Financial Statements[19]**
Efficiency I Instruction No 16/2004 of Banco de Portugal	It expresses the proportion of income necessary to cover the staff costs incurred. The lower the value of the indicator, the higher the level of efficiency of the organization's human resources. Historical financial performance indicator.	Ratio between staff expenses and banking income	(IS): Staff expenses
Efficiency II Instruction No 16/2004 of Banco de Portugal	Expresses the proportion of income necessary to cover operating costs incurred. The lower the value of the indicator, the greater the level of efficiency of the organization. Historical income financial performance indicator.	Ratio between [administrative expenses and depreciation] and banking income	(IS): Operating costs include Staff expenses, Other administrative expenses and Depreciation
Cost to Income	It expresses the proportion of income necessary to face the operating costs incurred and allows to measure the progression of efficiency levels. The lower the value of the indicator, the greater the level of efficiency of the organization. Historical financial performance indicator.	Ratio between operating costs and banking income	
Profitability Instrucao n°16/2004 do Banco de Portugal	Expresses the banking income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate income per unit of assets used. Indicator of historical financial performance.	Ratio between banking income and average net assets	(BS): Active; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered.

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

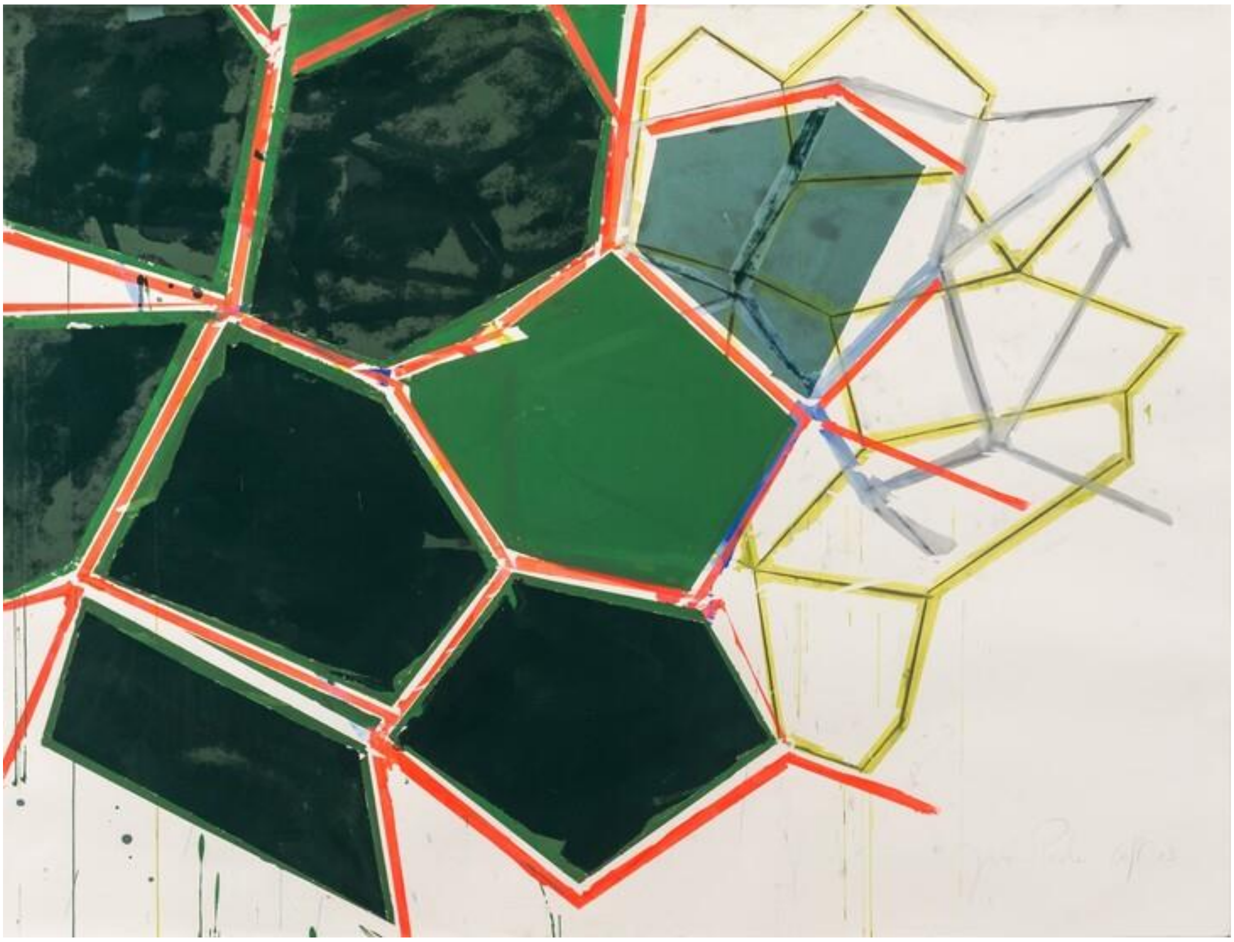
Return on average net assets Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate results per unit of assets used. Indicator of historical financial performance.	Ratio between profits or losses 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.

Estudo, 2003 – José Pedro Croft

Mixed media on paper 122.5 x 160cm

José Pedro Croft develops a plural work, which traverses the experience of sculpture and three-dimensionality, simultaneously dealing with issues of design and its limits.

REGUENGOS DE MONSARAZ, Núcleo de Arte Contemporânea de Reguengos de Monsaraz



SUSTAINABILITY REPORT

CONTENTS

Achilles (series "Ulysses"), 1981 - Jorge Pinheiro

Acrylic on canvas, 120 cm x 187 cm

Painting inspired by the Iliad and the Odyssey. It is part of a vast series, entitled Ulysses. For Jorge Pinheiro, "the fact that each work in the Ulysses series stems from a reflection on a narrative, of a literary nature, obviously contaminates the pictorial work with that same semantic message". At the time, one of the roots of his work was "the organisation of the arts according to number, proportion, and rhythm, based on the beauty of the Greek concept of art". This research path towards a reflection centred on the countless possibilities of geometry and mathematical calculations, such as the Fibonacci sequence, integrates in the inspiration process areas as diverse as philosophy, literature, or classical mythology and history. In 1982 the series "Ulysses" was part of the Portuguese representation at the São Paulo Biennial.

FUNCHAL. MUDAS - Madeira Contemporary Art Museum

1 ESG PERFORMANCE IN 2022

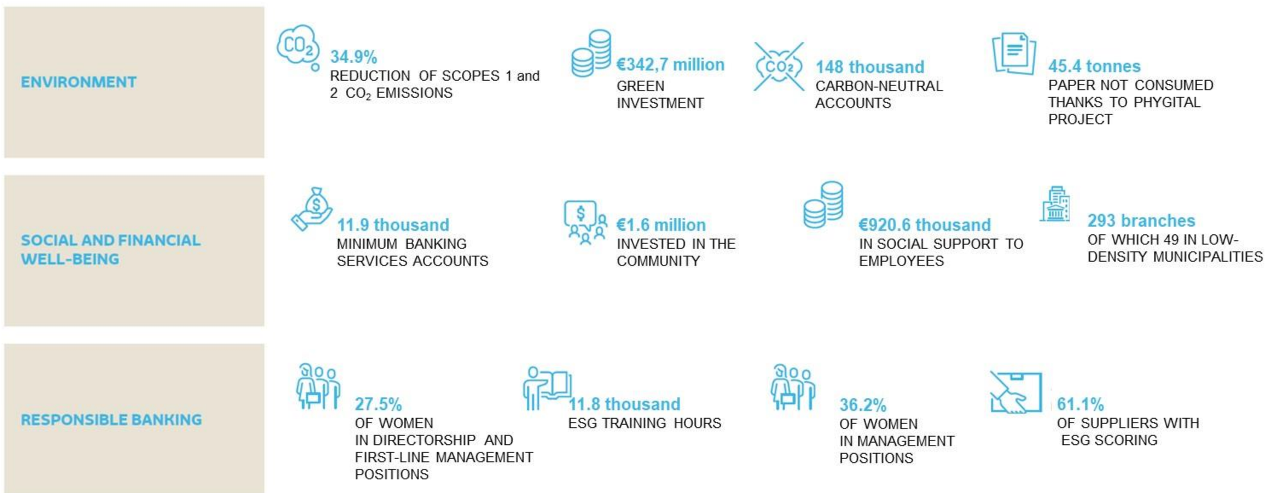
In 2022 novobanco continued to implement its sustainability strategy, further integrating environmental, social and governance issues into the way it runs its business, with the ambition of reducing the direct and indirect impact of its activity on the environment, supporting its clients in their transition to a carbon-neutral economy and contributing to the financial and social well-being of its clients, employees and the communities it serves.

Particular attention was paid to including products that support the clients on their ESG journey (both in the corporate and retail finance offering), and to evolving the models for assessing, quantifying and managing ESG risks, with a particular focus on climate and environmental risks.

In its own operations, novobanco Group continued to align its activity with the objectives set out in the Paris Climate Agreement, reducing consumption and emissions of greenhouse gases (GHG).

The Group supported social entrepreneurship, promoted financial, digital and sustainability literacy in the communities it serves, and developed initiatives to foster greater diversity in its team and equal opportunities, both internally and externally.

novobanco incorporates sustainability and ESG criteria across the whole business.



This report aims to share novobanco Group's vision and agenda regarding the main sustainability challenges in the financial sector.

Seas (6), 2003 - Ricardo da Cruz-Filipe

Acrylic on digital print on canvas, 117 cm x 177 cm

In 1970, Cruz-Filipe used photosensitive canvas for the first time. This was the starting point for a body of work that confronts painting and photography as a way of seeing and expressing reality and the imaginary. On the canvas, simultaneously pictorial and photographic support, timeless spaces and atmospheres emerge, scenarios that project us to various thematic and spatial planes, like successive screens, articulated in multiple imaginaries. "Seas (6)" develops a dialogue of images which, having reality as a reference, are removed from it by the will of the painter/photographer, who rethinks and manipulates them, in an elaborate intellectual work, creating a landscaped scenography marked by the technical ambiguity between photography and painting. This gives rise to a reflection on the place of photography and the place of painting and their numerous possibilities of confrontation and representation.

FUNCHAL. MUDAS - Madeira Contemporary Art Museum

2 SUSTAINABILITY STRATEGY

novobanco recognizes its important role in the current context where combating climate change is an imperative and sustainability issues dominate the world agenda. This is a defining moment, and one that calls for 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 of an inclusive and fair society.

In this context, novobanco Group inscribed in its strategy the important goal of becoming a reference entity in ESG in Portugal, contributing to promote sustainable investment practices that accelerate the transition to a carbon-neutral economy and further the social and governance criteria that this transition requires.

The alignment between novobanco's sustainability strategy and its business strategy is achieved through a set of action streams aimed at transforming the business and management model to structurally incorporate ESG issues as well as internal and external communication initiatives. Such initiatives aim at gradually integrating ESG into the group's culture and promoting sustainability literacy among customers and the community.

novobanco’s strategic approach addresses ESG (Environment, Social and Governance) issues not only as risks, but also as opportunities that it incorporates into the business strategy, ensuring the evolution of the governance and risk management model and a culture of transparency in the disclosure of information. Listening to the stakeholders and defining the priorities together with them.

2.1 Our ESG approach

The definition of the Group’s business strategy is intrinsically linked to a collaborative and proactive approach to all its stakeholders.

novobanco’s stakeholders are 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. Based on this definition, novobanco recognises 7 main groups of stakeholders: customers, employees, regulators, investors, suppliers, the media and the community.

To build and nurture a seamless relationship with the stakeholders and integrate their concerns and expectations, the Group set in place a wide range of communication channels.

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 for 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)

In addition to recurring interactions, novobanco also regularly assesses the materiality of ESG issues through a questionnaire, relying on the strong involvement of the various stakeholders to identify ESG opportunities, risks and challenges in the management of the Group's business. This survey allows for the analysis of the main concerns and the definition of the issues with the greatest impact on management and value creation, not only in the medium term but also in the long term.

MATERIALITY MATRIX

Recognising the ecosystem nature of novobanco's business environment and activity, the materiality analysis incorporates not only a vision of the financial impacts that ESG risks may have on the Group's performance, but also the impacts that the Group's activity may generate from an environmental and social point of view.

Impacts	Impacts of environmental and social risks on novobanco	novobanco's impacts on the Environment and Society
Environment and Climate	• Direct financial impact through the materialisation of physical risks with an impact on the bank's own assets, on loan collaterals, the supply chain or its employees • Direct financial impact through the materialisation of transition risks with an impact on the financial capacity of customers, impacting the loan book and the capacity to develop future business • Direct financial impact due to the adoption of new processes and more efficient technologies in terms of consumption and energy • Direct financial impact from innovation opportunities in the bank's offer and the support provided to the transition efforts of corporate and individual customers	• Direct environmental impact resulting from the bank's own operations and supply chain • Indirect environmental impact resulting from the bank's financing and investment activity • Direct economic and environmental impact through support for investment in the transition of the Portuguese business community to more sustainable business and production models • Indirect environmental impact from promoting, through the offering of financial services and products, more sustainable consumption and production practices that further the circular economy and the use of renewable energy sources

	• Direct reputational impact through the materialisation of greenwashing risks upstream on the Bank's supply chain, operations and activity, or downstream, on its customers • Direct financial impact from the implementation of environmental and climate legislation and regulations	• Indirect environmental impact through the inclusion of ESG criteria in the selection of the bank's suppliers
Social	• Financial and reputational impact through the Bank's performance regarding labour rights, employee benefits and Human Rights in its own operations, and upstream in the supply chain • Financial and reputational impact through the Bank's performance regarding gender equality and equal opportunities, diversity and inclusion within its own operations	• Economic impact in terms of job creation, improving families' well-being and the resilience of the productive fabric through its financing activity and the provision of other financial services and products to companies and individuals • Direct economic impact through furthering the preponderance of national suppliers in the supply chain and thus stimulating domestic production and the national economy • Direct social impact from fostering more socially responsible behaviours within the supply chain through the inclusion of ESG criteria in the selection of suppliers • Direct social and economic impact from providing a straightforward financial offer and a service model that promotes financial and digital inclusion

In 2023 the Group will review its materiality matrix, incorporating its stakeholders' assessment of how sustainability issues affect the performance, positioning and development of the group's business, as well as the assessment of the impact of the group's activity on the economy, people and the environment.

The sustainability materiality assessment allowed novobanco to define the material issues and Sustainable Development Goals (SDGs) and to structure its ESG approach based on 3 strategic axes:

For each of these 3 strategic axes, novobanco defined action priorities and medium-term objectives:

PILLAR 1: SUSTAINABLE BUSINESS
INDIRECT IMPACT ON THE ENVIRONMENT AND CLIMATE

To contribute to a more sustainable economy and socio-economic development by supporting clients on their sustainability journey and integrating ESG principles into investment decisions.

- To promote "green investment", through dedicated products and services, supporting clients in taxonomy-aligned investments;
- To support investment in the Circular Economy, Climate Transition, Renewable Energies, and Low-Carbon Mobility at both corporate and individual level.

8 DECENT WORK AND ECONOMIC GROWTH

13 CLIMATE ACTION

PILLAR 1: SUSTAINABLE BUSINESS
DIRECT IMPACT ON THE ENVIRONMENT AND CLIMATE

To act within an operational model that minimises the direct impact on the environment, reducing consumptions and CO2 emissions.

- To promote the continuous reduction of paper consumption, becoming an increasingly digital bank;
- To reduce electricity consumption and use of renewable energy sources;
- To promote green and sustainable mobility, both through fleet vehicles and available infrastructures, and through travel policies.

13 CLIMATE ACTION

Aware of the important role of the financial sector in sustainability, the need for its alignment with the Paris Agreement objectives, as well as of the new European directives, and in particular the Taxonomy regulation, the Bank defined as one of its strategic priorities the integration of ESG risks in its business model, with a special focus on climate and environmental risks.

novobanco adopted a structured and effective approach to face the challenges arising from the transition to a sustainable and low-carbon economy. This approach responds not only to the European Union's initiatives under its action plan on sustainable finance, but also to the expectations and recommendations of regulators, supervisors and sector associations, as well as to the needs and expectations of clients and the market.

In order to steer cash flows towards financing the transition and sustainable activities, in 2022 novobanco devoted particular efforts to developing methodologies for assessing and quantifying the materiality of ESG risks in its operations, from upstream to downstream, as well as methodologies for assessing ESG risks in its counterparties. These developments will allow to:

- Assess the impact of the bank's portfolio and activity on the environment and climate change and define their management framework in order to reduce the environmental impact and thus contribute to the European carbon-neutrality objectives;
- Assess the impact of environmental and climate risks on the Bank's activity and portfolio and define the framework to manage these risks at portfolio and individual exposure levels.

The holistic and integrated incorporation of these two visions will be instrumental for:

- The innovation and development of product and service offerings that better support customers, particularly corporate customers, in formulating a robust plan and making the necessary investment for energy transition and the transformation of business models;
- The integration of ESG criteria in the credit decision and pricing processes;
- The definition of portfolio alignment targets and the revision of risk appetite.

With this positioning we want the bank's activity to be steered by the goal of limiting the planet's temperature increase to below 2 degrees centigrade, reducing scope 1, 2 and 3 CO_2 emissions.

+ see how in the chapter ESG Risk and Sustainable Business (ESG products in Retail, Corporates and Asset Management)

PILLAR 2: SOCIAL AND FINANCIAL WELL-BEING

We run our business based on social criteria, promoting the social and financial well-being of our employees while also contributing to the social and financial well-being of our customers and the community we serve	→ To promote the development and fulfilment of our employees' potential and their physical and mental well-being; → To contribute to increasing the digital skills of the population in the day-to-day management of financial services; → To provide our customers with skills on how to deal with finances in our daily lives and a range of products suited to each family budget.

Bearing in mind that the well-being and prosperity of the community in which we operate depends on access to simple, safe and transparent financial services that enables customers to manage their financial resources appropriately, the Bank, under the second pillar of its ESG strategy, has set to develop an intervention plan aimed at improving the population's financial literacy skills. In this context, it provides financial products and services tailored to the profile and needs of each customer, based on a fair value exchange, both for financing and savings solutions, consequently furthering social well-being.

Also under the second axis of its strategic plan and integrated into its operations, the Bank wants to provide the best experience to its employees so that they can develop and fulfil their potential. To this end, it has reinforced its programmes to promote holistic well-being (physical, mental, social and financial) and to attract, develop and retain talent.

novobanco also supports the most vulnerable both internally and externally, contributing to minimise the vulnerabilities that may compromise their social well-being.

With this positioning and being aware that financial concerns play an important role in mental health and stress levels, novobanco aims to contribute to the health and financial well-being of its employees and customers, thus precluding significant risks in the future.

+ see how in the chapter Sustainable Business (employees) and Sustainable Attitude

PILLAR 3: RESPONSIBLE BANKING

To do banking in a responsible, ethical and transparent manner that maximises long-term financial sustainability and promotes a culture of diversity and inclusion.	→ To promote gender equality; → To respect ESG conduct principles and demand respect for them from suppliers and partners; → To select our suppliers with a responsible attitude and based on ESG criteria; → To ensure the integration of ESG risks in the bank's management and performance assessment models.

Responsible Banking involves the voluntary adoption of a business model based on environmental, social and governance (ESG) factors. Accordingly, novobanco has focused its activity under a responsible business model based on values of equity, equal opportunities and gender equality, while also furthering its sustainable performance through the inclusion of ESG criteria in the relationship with its suppliers. To ensure sustainability across its value chain - downstream and upstream - it provides specialised ESG training to all its employees.

With this positioning novobanco intend to align its culture and commercial strategy by increasing sustainable practices, favouring economic activities that create prosperity and a positive impact, with the proactive collaboration of all stakeholders, thus implementing a culture of responsible banking.

+ see how in the chapter Sustainable Business (Sustainability Governance, employees and suppliers)

2.2 Our commitments

As part of its ESG strategy, in 2022 both the Group and the Bank made commitments anchored in the Paris Agreement targets and the priority SDGs for the Group.

novobanco Group commitments

Carbon Footprint			Gender Equality
To reduce the Greenhouse Gasemissions in our own operations (scopes 1 and 2) by 50% by 2030	To increase the weight of low emission vehicles (electric and hybrid) in the group's fleet to 20% by 2024 and 100% by 2030	To consume 100% of electricity from renewable sources by 2024**. ** In all locations where this is possible, and the contract is signed by the group	To increase the representation of women in senior leadership positions by 4.5 p.p. by 2024

*In 2022, due to contingencies in the automotive market, highly conditioned by disruptions in the production chain, it was necessary to revise the objective of low-emission vehicles (electric and hybrid) in the Group's fleet downwards.

novobanco's Social Dividend 2024 commitments

The second edition of the Social Dividend model was developed to substantiate novobanco's sustainability strategy. This model, which integrates the three dimensions of sustainability - **environmental, social and corporate governance** -, both in the business model and in the social responsibility framework, is a commitment made by novobanco to giving back to society and its employees. It comprises 3 programmes, namely i) Environment, ii) Financial and Social Well-Being and iii) Responsible Banking, defined on the basis of the material issues identified by the Bank's stakeholders, with concrete objectives for 2024 and different initiatives for their achievement, allowing the monitoring of the Bank's ESG performance.

ENVIRONMENT	FINANCIAL AND SOCIAL WELL-BEING	RESPONSIBLE BANKING
Focused on reducing the direct negative impact on the environment and promoting a more sustainable economy, supporting our clients in their journey towards a carbon-neutral economy.	**Focused on managing the business with social criteria, promoting the well-being of employees and contributing to the financial well-being not only of clients but also of the communities we serve.**	**Focused on a responsible business model, based on values of transparency, equity, inclusion and diversity, further positioning ESG criteria in our value chain.**
See how in the chapters Sustainable Business (Environmental Footprint and Clients - products with ESG impact)	See how in the chapters Sustainable Business (Employees and Clients - products with ESG impact) and Sustainable Attitude	See how in the chapters Sustainable Business (Sustainability Governance, Suppliers and Employees)

2024 novobanco standalone commitments

ENVIRONMENT	**+ €600 mn** of Green Investment[1] (vs. 2021)	**€0 mn** of financing to excluded sectors[2]	**30%** of investment products with ESG[3] characteristics	**- 30%** of Paper consumption[4] (tonnes, vs. 2021)	**-28%** Of CO_2 emissions from own operations[5] (tonnes. vs. 2020)
SOCIAL AND FINANCIAL WELL-BEING	**40%** of the employees benefiting from the social Well-being programme[6]	**+ 3 p.p.** of employees with psychosocial risk assessment of "Healthy"[7]	**+ 8 p.p.** in employee engagement level [8] (vs. 2021)	**+ 11.8 points** in clients NPS indicator[9] (vs. 2021)	**+ 9.594** hours of employees' voluntary service hours [10] (vs. 2021)
RESPONSIBLE BANKING	**+ 2.5 p.p.** of Women in senior leadership positions[11]	**- 0.9 p.p.** in gender pay gap[12]	**+ 3** Partnerships with organisations to promote the employment of people with disabilities[13]	**90%** of suppliers with sustainability score[14]	**+ 39.160** ESG training hours to the employees

1. Origination of financing or own portfolio investments in companies whose main economic activity is eligible to the EU Taxonomy and origination of financing or own portfolio investments where the use of funds by the borrower or the projects are directed to economic activities eligible to the EU Taxonomy or are aimed at investments in energy transition or the transition

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

SDGS ON WHICH OUR ACTIVITY HAS AN IMPACT:

TO ENSURE ACCESS TO INCLUSIVE, QUALITY AND EQUITABLE EDUCATION AND PROMOTE LIFELONG LEARNING OPPORTUNITIES FOR ALL

We want to contribute to an inclusive and quality education for all and promote lifelong learning with a special focus on financial and digital literacy

Course of Action - To promote financial, digital and ESG literacy initiatives for customers and the community in general; To promote the continuous empowerment of employees to achieve professional and personal fulfilment.

Commitment - +39,160 hours of ESG training to employees by 2024 (vs. 2021).

TO ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

We promote gender equality in our activity as a strategic lever to create value for the business. We want our acts to set an example for our stakeholders and the communities we serve.

Course of Action - To promote a balanced gender representation in the employee base at all functional levels; Participation in initiatives and support for social causes that promote gender equality in society.

Commitment - 30% of women in senior leadership positions (Executive BoD and 1st line Managers) by 2024.

TO PROMOTE INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, FULL AND PRODUCTIVE EMPLOYMENT AND DECENT WORK FOR ALL

We are focused on serving Portugal's economic growth through relationship and proximity banking in a digital world, for individuals, families and companies of all sizes.

Course of Action – Financing for families and businesses; Inclusive banking offer.

Commitment – To promote job creation in the national economy and improve the well-being of families through lending activity with socially and environmentally responsible criteria.

TO ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

We are committed to ensuring sustainable consumption and production patterns, providing our customers with products and services with ESG criteria while reducing our environmental footprint.

Course of Action – Innovation in financial products that leverage the circular economy; Financing and investment products with sustainability concerns; Inclusion of ESG criteria in the selection of suppliers.

Commitment – Commitment - 30% of investment products with ESG criteria by 2024; 90% of suppliers with sustainability assessment in 2024.

URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS

We are committed to reducing direct and indirect impacts on the environment. We will continue to reduce our scope 1, 2 and 3 CO2 emissions and support our customers in the transition to a carbon-neutral economy.

Course of Action – To reduce energy, paper and water consumption and opt for less carbon-intensive solutions; To ensure efficient waste management; To support our customers in the energy transition to low-carbon production models.

Commitment – Commitment - €600 million of green investment by 2024 (vs. 2021); -28% of CO2 emissions in own operations (vs. 2021).

+ information in the chapter Separate Financial Statements

2.3 novobanco's ESG journey

2022

- Creation of ESG Office and reinforcement of governance of ESG issues and environmental and climate risks
- Reinforcement of Exclusion and Minimum Safeguards policies 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 the questionnaire on sustainability preferences to assess and incorporate customer preferences into their investment portfolio
- Reformulation of the sustainability scoring for suppliers
- Organisation of the ESG Talks, a cycle of conferences dedicated to ESG issues
- Participation in the climate stress tests carried out by the European Central Bank

2021

- Commitment to reduce greenhouse gas emissions in own operations by 50% by 2030 and achieve100% of electricity consumption from renewable sources by 2024
- Establishment of the Sustainability Steering to accelerate implementation of priority ESG initiatives
- Disclosure of targets for the promotion of gender equality in senior management positions
- Publication of the Sustainability Policy
- Personal loans with preferential conditions for the purchase of hybrid/electric vehicles

2020

- Marketing of ESG/ECO structured products promoting investment instruments with environmental and social concerns
- Inauguration of the 1st branch in the new distribution model, remodelled with social and environmental concerns
- Launch of programme and multidisciplinary working groups to redesign the Bank's ESG strategy
- Marketing of ECO Mortgage Loans with preferential conditions for high-energy efficiency properties
- Association of bundle/ service accounts to social responsibility causes with social, cultural and environmental concerns

2019

- Signature of the "Letter of Commitment for Sustainable Financing in Portugal" to promote sustainable investment practices in the country and accelerate the process of transition to carbon neutrality by 2050
- Signature of United Nations Global Compact's "Business Ambition for 1.5ºC" commitment

2.4 novobanco's partners

The ESG path cannot be travelled alone, and therefore in this journey collaboration with relevant partners is a priority for the execution of the sustainability strategy:

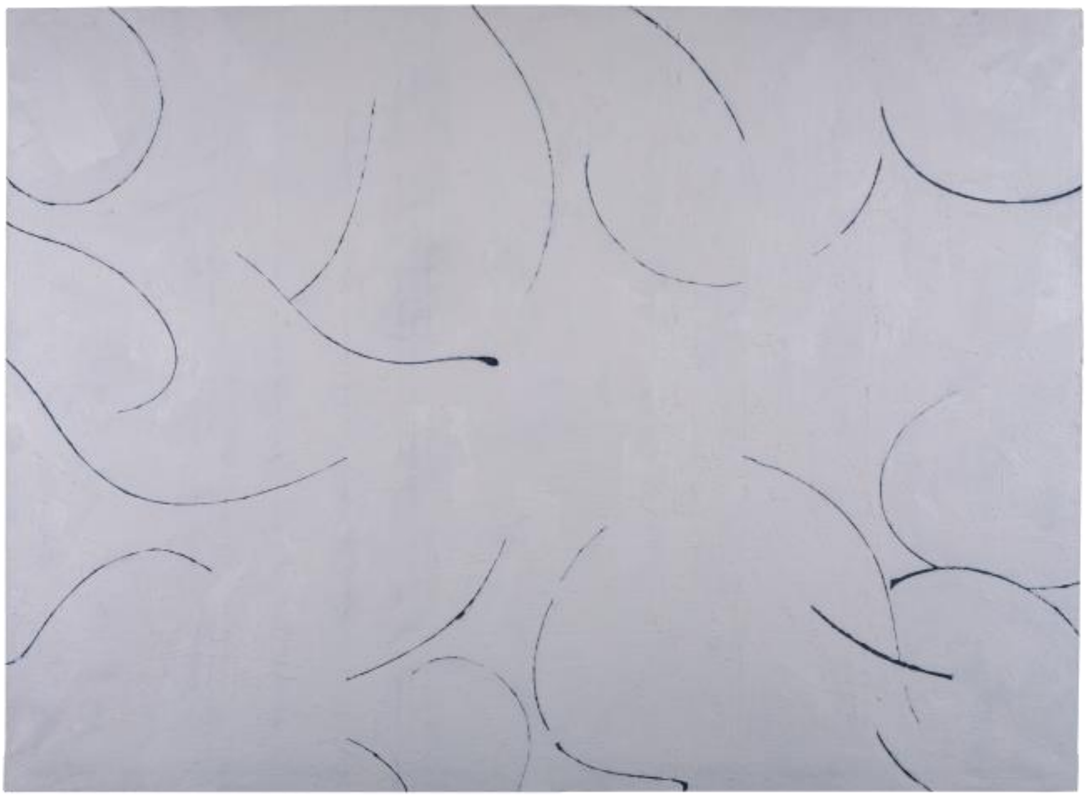
Signatory		Corporate citizenship initiative which had its origin, in 2000, in a proposal by the then UN Secretary-General, Kofi Annan. It is based on ten fundamental Principles, in the areas of human rights, labour practices, environmental protection and anti-corruption, and aims to promote businesses'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

Abstract 2, 2003 - Paulo Quintas

Influenced by the diverse plastic experiences that marked the 20th century, Paulo Quintas explored aesthetic and technical possibilities, in experimental registers with references to abstract expressionism, abstraction, or geometry and signage. "Abstract 2" is essentially experimental, with an interest for the exercise of matter and the countless technical possibilities surrounding painting and its relationship with the space of the canvas. The painter himself says: "My paintings are always unfinished objects. I prefer art that sets me off wandering rather than depicting."

Oil on canvas, 120 cm x 180 cm

CHAVES. Nadir Afonso Museum of Contemporary Art



3 SUSTAINABLE BUSINESS

Based on the Sustainability Policy novobanco assumed a clear position and defined priorities to develop a sustainable business based on the following objectives and guiding principles:

- Contribute to the transition to a low carbon economy;
- Support and promote financial well-being;
- Promote equity, diversity and equal opportunities;
- Perform according to the highest standards of ethics, responsibility and transparency.

3.1 Sustainability governance

To novobanco Group it is essential to conduct its activity with the firm purpose of having 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.

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, as reflected in the following bodies:

- **Executive Board of Directors and front-line management** - To appoint a director responsible for ESG and ensure that the Executive Board of Directors (EBD) and remaining elements of the management team have specialised knowledge on this topic, through the implementation, since 2021, of training courses adapted to the Group's strategic priorities. In 2022, a total of 875 hours of ESG training was provided to these executives. The EBD is in charge of defining and implementing the ESG strategy.
- **Sustainability Steering Committee** - To strengthen the Steering Committee that leads the ESG and Climate and Environmental Risk discussions and initiatives, supported by a specialised team responsible for coordinating novobanco Group’s ESG approach and for assigning specific duties and responsibilities to relevant departments so that these ensure the integration of ESG in the Group's various activities. This Steering Committee 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 the meetings on a quarterly basis.
- **ESG Office** - To create a structure within novobanco Group that is exclusively dedicated to ESG issues and whose mission is to promote the integration of sustainability principles in the organisation, strategy and activity of the Group, also assuming responsibility for supporting and driving the activity of the business and commercial units, as well as for supporting the ESG performance of the support, risk and internal control central units.

SUSTAINABILITY STEERING

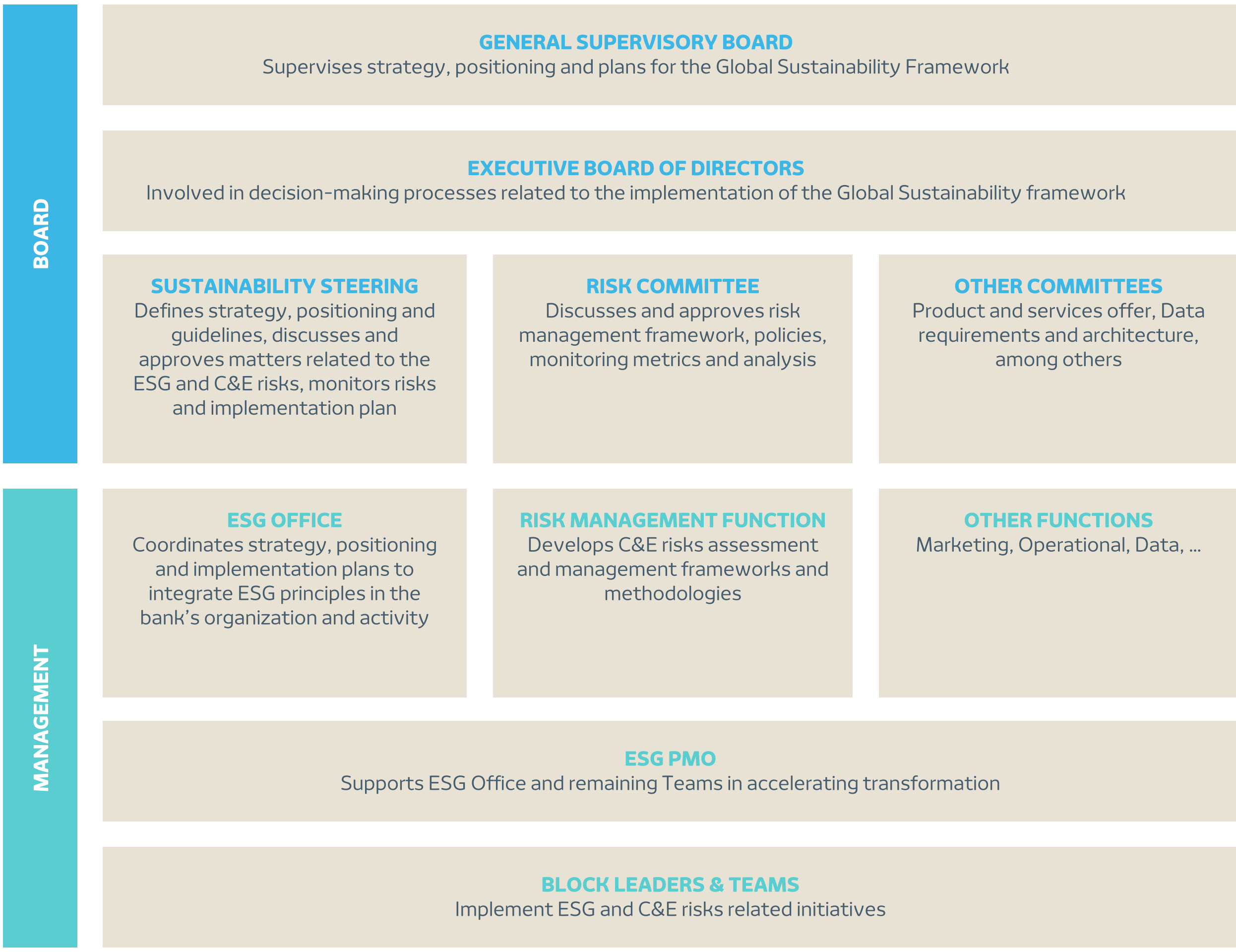
Given the high pace of transformation in all matters of Sustainability, ESG and Climate and Environmental Risks, this monthly forum promotes efficient decision-making and the preparation of management and supervisory decisions on all sustainability-related issues, thus adding the environmental, social 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.

The Sustainability Target Operational model, which applies to the whole Bank and involves various structures that support the execution of the Bank's ESG action plan, is essentially based on the Steering Committee which, in 2022, met 11 times to ensure the integration of ESG issues in all business lines and activities.

A governance and organisation model, was also established in 2022 for the integration of the ESG topics and the management of climate and environmental, social and governance risks into the business across the whole Group, which is based on 2 principles:

- To identify all existing activities that are affected or changed by the ESG programme, as well as additional activities that are expected to be created;
- To formally establish an operating model leveraged on the existing structures, with roles and responsibilities allocated to the different Group structures throughout their ESG journey.



3.1.1 Our ESG policies

The fulfilment of the ESG strategy and objectives defined by novobanco Group can only be achieved if the management of the business is grounded on behaviours that everyone values and believes in. Therefore, the ESG commitments are underpinned by various policies and principles that define the Group's culture and describe the principles and actions to achieve the defined purposes.

novobanco Group's Sustainability Policy, published in 2022, aims to establish and develop the following commitments:

- The mapping of the main ESG topics, including climate change and other topics considered relevant after scenario and materiality analysis;
- The integration of sustainability and ESG issues, along with risk factors, in the Group's strategy, namely in its business model and risk management;

- The implementation of a culture and actions that foster the transition to a sustainable economic and social development model, which promotes responsible growth, job creation, valuing people and respect for the environment, including the promotion of sustainable financing and the incorporation of environmental concerns in the supply of products and services.

SUSTAINABILITY POLICY

Guiding principles of the Group's ESG actions and commitments to integrate sustainability into the business model.

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.

HUMAN RIGHTS POLICY

Principles of respect for human rights and procedures to deal with any transgression of these rights.

ENVIRONMENTAL STATEMENT

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.

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.

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.

GUIDING PRINCIPLES OF THE VOLUNTEER PROGRAMME

Establish preferential areas for action aligned with the sustainability strategy, with conditions to stimulate participation in the programme.

WHISTLEBLOWING POLICY

POLICY ON HANDLING COMPLAINTS

REMUNERATION POLICY OF NOVOBANCO EMPLOYEES

REMUNERATION POLICY OF THE MANAGEMENT AND SUPERVISORY BODIES

ANTI-BRIBERY AND ANTI-CORRUPTION POLICY

CONFLICTS OF INTEREST POLICY

RELATED-PARTY TRANSACTIONS POLICY

+ Policies in the Management Report - Governance chapter and the novobanco institutional website.

3.2 ESG Risks

3.2.1 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, materialised by the ESG policies and principles that guide the bank's activity, but also by the commitments undertaken, in which novobanco discloses its sustainability objectives and main practices, and in particular: a) reduction of direct of financed GHG emissions, in line with the global objectives of the Paris agreement; b) increased use of sustainable finance instruments, namely through the commercial offer and its own investment policies, channelling direct financial support to the

transition of the Portuguese economy; and c) adequate management of climate transition risks, systematically identifying and controlling their main factors;
- 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 the 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&A);
- Implementation of enhanced procedures for ESG risk management, adjusted to the activity of the novobanco Group, in particular: a) assessment and quantification of the materiality of these risks; b) routines for global monitoring of ESG risk exposure; c) integration in the business of specific controls for ESG risk factors that guide the origination and monitoring of risk exposures - including the necessary procedures to implement the European Taxonomy for sustainable activities; and d) implementation of risk assessment practices, considering sensitivity analysis or scenarisation methodologies.

3.2.2 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 the novobanco Group's internal taxonomy, focusing on the climate change component (and respective impacts on the traditional risk categories).

The Group is currently in the process of reviewing and updating its risk taxonomy - as part of the internal risk identification and assessment exercise - with the objective of recognising and assessing the impacts of each of the following components:

- 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, well-being 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 development of communities.
- 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, as much as internal factors are 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).

3.2.3 Strategy of alignment with the Paris Agreement objectives

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' investment, which orient commercial and financial action, and are supported by the reinforcement of the structuring of 'green' or sustainability-related products (including the 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.

In this way, novobanco Group assumes the objective of gradually aligning its balance sheet with the general objectives of reducing carbon emissions while at the same time limiting exposure to transition risk.

3.2.4. Implementation of the European Taxonomy for sustainable activities

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (e.g., the European Taxonomy Regulation) establishes a regime for the promotion of sustainable financing, setting out the criteria for determining whether a given economic activity qualifies as environmentally sustainable.

Supplementing this Regulation, the Delegated Regulation (EU) 2021/2178, of 6 July 2021, of the European Parliament and of the Council, specifies the content and presentation of the information to be disclosed by institutions subject to the European Taxonomy, as well as the methodology to comply with that disclosure obligation. In this context, the clarifications provided by the European Commission (between the end of 2021 and the end of 2022 - "FAQs"), as well as the recent notice on disclosures under Article 8 of the Taxonomy Regulation (2022/C 385/01), should also be taken into account.

novobanco Group recognises the centrality of the European Taxonomy for the integration of sustainability objectives in its business and, simultaneously, for improving the assessment and management of its clients' transition risk factors. Hence the global aim of the risk management and control approaches is to ensure alignment with the Taxonomy criteria, reinforcing the alignment between internal management procedures and the prudential framework of sustainable banking activities.

novobanco has been taking steps to a) assess and control the eligibility and alignment of its operations under the Taxonomy criteria; and b) implement, until the end of 2023, the operational requirements, in terms of collection, confirmation and analysis of information - with its customers - with a view to determining whether its operations are aligned with the Taxonomy.

In line with the applicable requirements, and in particular with article 10 of the European Taxonomy Regulation, the novobanco Group complies with the following mandatory disclosures[1]:

- The proportion in its total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities;
- The proportion in its total assets of the exposures referred to in Article 7 (1 and 2) of the Regulation;
- The proportion in its total assets of the exposures referred to in Article 7(3) of the Regulation;
- The qualitative information referred to in Annex XI of the Regulation.

[1] According to the European Commission's clarifications (December 2021 FAQ), eligibility estimates may only be reported on a voluntary basis. Bearing in mind the timetable for implementation of the European Taxonomy, particularly with regard to the non-financial business sector, no information is yet available (e.g., prepared by novobanco's clients) to enable eligibility reporting on a factual basis.

Quantitative disclosures under Regulation (EU) 2020/852

Requirements of Article 10 of the European Taxonomy Regulation, paragraph 2:

Thousand Euros	Eligible	Non-eligible	% of total assets
Total assets	40.9%	59.1%	100.0%
Of which the proportion of the trading portfolio and on demand inter-bank loans in total assets.			0.9%
Exposures to central governments, central banks and supranational issuers			27.0%
Exposures to derivatives			1.2%
Exposures to companies not subject to the Non-financial Reporting Directive	13.1%	16.6%	29.7%

Qualitative disclosures under Regulation (EU) 2020/852

Contextual information in support of the quantitative indicators

The data reported in the previous section relate to consolidated financial information, collected directly from the systems of the novobanco Group with reference to 31 December 2022. With regard to eligibility reporting, this information considers:

- The classification of the profiles of counterparties, transactions and collateral received, based on information collected during the account opening and loan granting and monitoring processes;
- The identification of the (main) activity of each non-financial company, based on the collection of official/legal data of each company;
- An internal survey[2] of companies subject to non-financial reporting obligations, considering the applicable legal requirements.

In line with the principles of Notice 2022/C 385/01, novobanco has launched processes to collect and check information from its corporate customers in order to obtain data on the application of the Taxonomy, in terms of both eligibility and alignment.

The first full report on alignment with the Taxonomy is to be disclosed by non-financial companies during 2023 (with reference to 31.12.2022).

However, in 2023, the timing of reporting disclosures does not allow novobanco to have all the information (namely public information) on alignment available for this first annual reporting cycle, albeit voluntary. This situation will be enhanced in the next reporting cycles, and the information published by each company with reference to 2022 will be considered.

With regard to eligibility reporting, novobanco endeavoured to collect public information about its customers. In total, 230 of the Bank's largest customers as of 31 December 2022 were analysed, corresponding to an exposure of approximately €6.3 billion.

Despite the Bank's efforts to collect public information on the eligibility of its clients' activities, it was not possible to achieve a satisfactory share of assets covered that would allow reporting with a significant degree of reliability. Of the customers analysed, less than 15% presented complete information on the European Taxonomy in 2022 (with reference date 31 December 2021) or already in 2023 (with reference date 31 December 2022). Therefore, it can be concluded that factual information, resorting exclusively to novobanco's clients' public disclosures, is not yet available to meet the reporting requirements on eligibility.

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

[2] Using external databases to obtain: a) a list of companies classified as Public Interest Entities (PIE) and, as such, obliged to apply the NFRD; and b) the number of employees. In addition, the transparency reports of the main national audit firms were also analysed to confirm this information.

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 new production and balance sheet exposures;
- Definition of operational requirements for the implementation of the Taxonomy in lending and investment processes, including: a) establishment of principles of segmentation of clients and operations, to enhance the definition of the information to be collected; b) controls to be carried out on the information provided by the clients; and c) adaptation of the information system for the collection and maintenance of the Taxonomy indicators;
- Consideration of the objectives and criteria of the European Taxonomy in the design of new products and financing solutions
- Definition of the operational requirements for the implementation of the Taxonomy in the loan granting and investment processes, including: a) establishment of client and operation segmentation principles, aiming at the best definition of the information to be collected; b) controls to be carried out on the information provided by 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 depend on information collected from customers (in progress). This information already considers the collection of data for application of the European Taxonomy.
- 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 timely adoption of any expected developments regarding the European Taxonomy.

3.2.5 Application of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

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 through application of these reporting recommendations, climate information will become 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.

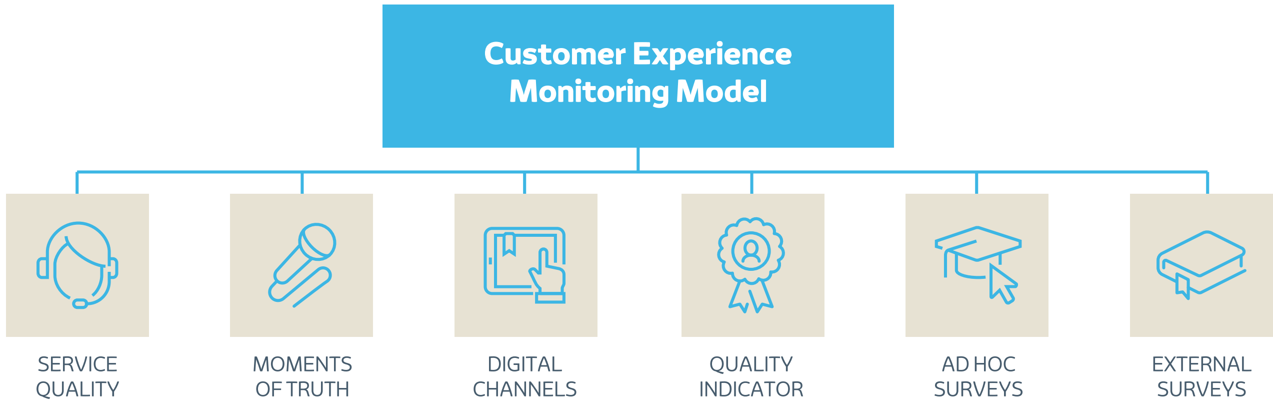
This year, for the first time, we are reporting climate-related risks and opportunities in accordance with the disclosures recommended by the TCFD. The report will be publicly disclosed on the novobanco website, in a stand-alone document - 2022 TCFD Report.

In the table below we briefly disclose our approach on the four TCFD core elements: governance, strategy, risk management, and metrics and targets.

Core Elements	Novobanco approach (summary)
GOVERNANCE *Novobanco's governance around climate-related risks and opportunities*	Climate-related issues are managed in accordance with its Sustainability Governance model, led directly by the Executive Board of Directors and overseen by the General and Supervisory Board. In 2021, was created the Sustainability Steering Committee, with the participation of Executive Board members and multidisciplinary teams, responsible for coordinating the ESG approach at novobanco.
STRATEGY *To analyse the actual and potential impacts of climate-related risks and opportunities on the business, the strategy and financial planning at novobanco*	novobanco develops its activities with the firm objective of making a positive contribution to the entire ecosystem in which it operates. Based on its Sustainability Policy, we assume a clear position of developing a sustainable business that wants to contribute to the transition to a low-carbon economy. To this end, novobanco has subscribed to the "Business Ambition for 1.5ºC" initiative, which aims to define scientific targets for reducing novobanco's GHG emissions. The Bank 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 Sustainability Governance model allows novobanco to integrate physical and transitional climate risks into its risk management models, as well as to take advantage of opportunities associated with climate change
RISK MANAGEMENT *The processes used by novobanco to identify, assess and manage climate-related risks*	Identifying, assessing and managing climate-related risks is part of the novobanco's overall risk management framework. Novobanco is progressively incorporating environmental and climate risks into its business model 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.
METRICS & TARGETS *Metrics and targets used to assess and manage relevant climate-related risks and opportunities*	Novobanco has developed a set of metrics and targets to track the progress of its climate strategy (e.g., carbon footprint, water and paper consumption). In line with this objective, the Bank has defined a set of commitments that incorporate novobanco's ESG strategy on climate-related issues. 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. These metrics and progress are reported on a semi-annual basis. .

3.3 Clients

In order to offer the best experience to its customers, novobanco Group's model to monitor its clients' satisfaction is based on several pillars. The aim is to bring the customer's voice into the organisation, allowing a better insight into their needs and satisfaction throughout their life cycle, and permitting to identify 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.

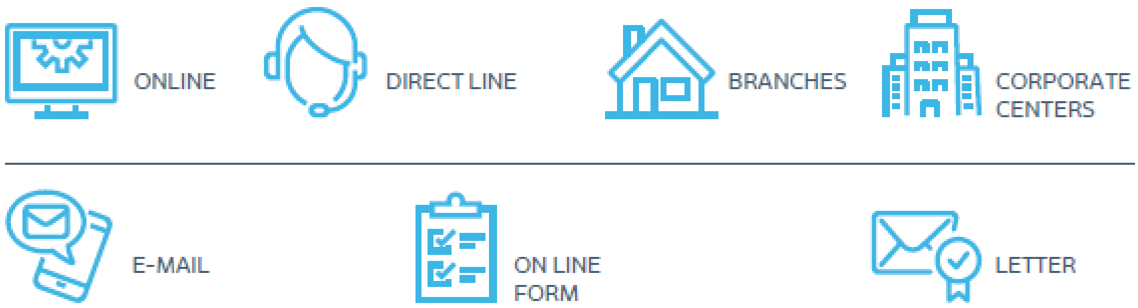


SERVICE QUALITY	Monitoring the customer experience in all the commercial structures of the bank, through a questionnaire designed to measure their satisfaction with the various dimensions of service, as well as other global indicators.
MOMENTS OF TRUTH	Continuous monitoring of the customers' experience immediately after the main moments of their relationship with the bank, in order to identify improvements that will allow us to meet their expectations and needs.
DIGITAL CHANNELS	Customer satisfaction survey targeting the different aspects of the digital channels (available features, ease of use, security, visual attractiveness) and peer comparison.
QUALITY INDICATOR	Development of a Quality Indicator for the commercial network that reflects the quality of service and other elements that impact the customer experience.
AD HOC SURVEYS	Carrying out specific surveys on a case-by-case basis and using different methodologies, depending on the critical topics of the moment.
EXTERNAL SURVEYS	Monitoring of external benchmark market surveys such as the ECSI (developed by APQ and NOVA IMS), BASEF Banca (developed by Marktest), and the Financial Services Barometer (developed DATA E).

In 2022 were collected approximately 50.8 thousand replies to the satisfaction questionnaires made to novobanco individual and corporate clients.

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 Banco Best, the rate of complaints in 2022 was 0.39 per one thousand active clients, a significant reduction compared to 2021 that reflects the customers' satisfaction with the service provided. In recent years clients have shown increasing preference for using the digital channel to submit their complaints, especially at Banco Best where all clients have online access. At novobanco dos Açores this rate was 0.15.

Channels for submission of complaints

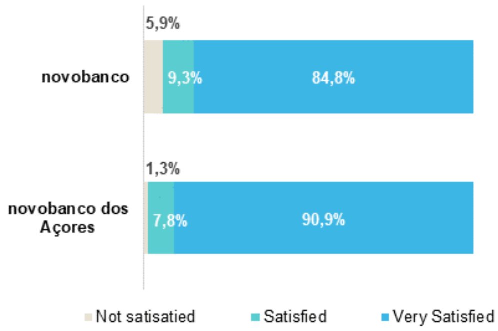


3.3.1 Retail Banking and products with ESG impact

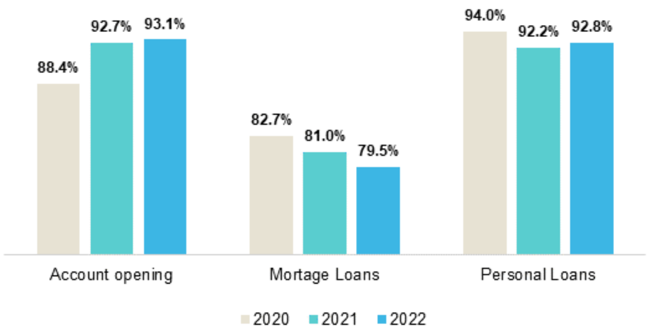
novobanco purpose is to create a value proposition that enables the Bank to give an adequate response to its clients. To this end the Bank constantly seeks to learn about their needs at every step of their lives, actively listening to what they have to say through the various channels available, so as to keep delivering the product and service offering that best suits their expectations.

In 2022, approximately 4.9 thousand replies to the questionnaires were obtained in the Retail segment. Around 84.8% of novobanco's clients and 90.9% of novobanco dos Açores' clients are very satisfied with the quality of the service provided to them, which is 2.2 p.p. and 1.7 p.p., respectively, less than in 2021. One of the essential pillars of novobanco's strategic positioning is to be, by design, a customer-centric bank determined to provide an increasingly better service. In line with this positioning, the Bank decided to create the Customer Experience and Satisfaction Office, whose mission is to work with the entire organisation to promote the improvement of customer service in its various dimensions. Retail continues its innovation effort, progressively developing and launching the omni-channel capabilities associated with 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.

Service Quality I Retail
(%)



Moments of truth I Satisfaction with the process
(%)



The opinion of more than 2.9 thousand clients about their experience in the main moments of truth in their relationship with the Bank was also collected, namely account opening, mortgage loans, and personal loans.

In 2022 the customer confidence index was 78.6% at novobanco and 86.0% at novobanco dos Açores, which compares with 77.5% and 85.9% in 2021. The Net Promoter Score (an index that measures the intention to recommend the Bank) was 31 at novobanco and 57 at novobanco dos Açores, compared to 29 and 58 in the previous year.

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.

Action guidelines for sustainable and inclusive financing and investment

With the firm resolve of contributing to the promotion of sustainable investment practices in the country and accelerating the path towards a carbon-neutral economy by 2050, the Group has in place a vast offering of ESG products available to its customers, with a focus on supporting the transition to a low-carbon economy and incorporating social and governance criteria.

148 thousand carbon neutral accounts

We have neutralised the CO_2 emissions of 148 thousand accounts, even those resulting from our clients' usage - use of computers, ATM enquiries, and cards, among others.

The emissions neutralised are equivalent to 383 return economy class flights for one passenger between Lisbon and London

Bank Accounts

The novobanco and novobanco dos Açores service accounts are bundle accounts that combine a set of products and services that meet the day-to-day needs of our customers and are associated with socially responsible causes of a social, cultural or environmental nature

18.25 I 26.31 I 18.31 Accounts

Fully carbon-neutral accounts, with a lower environmental impact due to their low carbon footprint, as they are online accounts; most of the day-to-day services are free of charge when used online, and the Bank neutralises the resulting emissions by supporting sustainable projects. The emissions produced are calculated according to the PAS 2050:2008 methodology, which takes into account the entire life cycle of products and services. To neutralise these emissions novobanco supports Parque Solar Tamil Nadu, in India, a photovoltaic solar park that replaces the power generation from coal-fired power stations. This project not only reduces carbon emissions but also contributes with social and economic benefits for local communities and sustainable development by creating 285 jobs for people from villages close to the solar park. The 18.25 and 26.31 Accounts have an estimated carbon impact of about 944g CO2eq/year. In 2022, they accounted for 12% of the total service accounts of individual and small business clients at novobanco and 15% at novobanco dos Açores.

100% and 360º 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, through the support provided to the following projects:

Semear **(sow) project**	***Este Espaço que habito* (This Space I inhabit)**	**Replay**
Social inclusion programme for young people and adults with intellectual and developmental difficulties, organised by BIPP, Associação Inclusão para a Deficiência. The programme provides certified training and development of skills for employability and professional integration in the processing and production of components. This programme minimises the limitations of these young people and adults by encouraging them to develop their full potential and become autonomous. With this project the Group enabled the professional training and employability of 14 young people with intellectual and developmental difficulties living in socio-economic need and unable to afford the	Project promoted by the Photographic Expression Movement (MEF) in 5 Educational Centres hosting 77 young people in compulsory institutionalisation. The project uses photography as a technical tool and a tool for personal expression to develop, from the photographed spaces, a search and discovery of the identity of these young people. This gives these youths the freedom they have always lacked - a burden of their exclusion from society -, a freedom which, according to them, is made up of spaces they never felt were made for them. Each young person used 2 rolls of film, making a total of 154 rolls and 3,850 photos. From these, only a selected few were used in the preparation of the photo albums. This	Developed by ZERO WASTE LAB, the project helped address the problem of used plastic toys for which there is no adequate destination. By promoting recycling and the circulation of plastic and other toy materials for new purposes, it educated and raised awareness among citizens for the problems arising from the increase in waste production. More than 8,500 toys were collected through an initial network of 44 drop-off points in 11 cities throughout mainland Portugal and more than 120 partners from all areas of society. Around 1.2 thousand toys were donated and more than 80 thousand materials were separated and given a new life through an adequate recycling process. The Replay project was distinguished by

monthly fees to attend the Semar project.	project, developed in partnership with the Ministry of Justice and the Juvenile Justice Services, drove a positive transformation in the attitude of these young people during their time of institutionalisation, working as a huge force for change. The selected photos were published in a book, displaying their images and feelings.	the European Commission with a European New Bauhaus Award, in the category "Shaping a circular industrial ecosystem and supporting life-cycle thinking". novobanco's support allowed REPLAY to develop the foundations of a solution with potential for national expansion, which may finally be able to divert the more than 30 million toys that end up every year in landfills or are incinerated in Portugal.

The story of Maria from the Semear project

SEMEAR

Maria is a 26-year-old young woman and one of the persons supported by the Bank under the "*Contas com Gestos que Contam*" (accounts with Gestures that Count) project. Before joining the Semear Programme, she attended an occupational activities centre. Shy, with a wonderful smile and always in a good mood, she made significant progress in terms of spirit of initiative and confidence in her training skills. She showed more interest for the tasks in the vocational area of storage, but was always willing to work in contact with the public, preferring a smaller team.

In June 2022 she entered a new stage, of work experience, spending three days at the internship site (Único restaurant), and two days of training in psychosocial skills at Semear Academia. In October she started her On-the-Job Training, spending the five days of the week at the internship site.

From the start of her internship experience Maria has been making progress, increasingly showing more confidence in her skills for the tasks, coming up with solutions for minor unexpected events, and taking the initiative in her interaction with her colleagues. Her development is striking, considering her prior insecurities in doing things and relating to other people.

Maria's journey shows that the Bank's support had a positive impact on her life and that of her family members, giving her the chance of a very different life path from what could previously be expected.

Capacity-building and the opportunity to express her skills, giving wings to her potential, will drive her to become a successful professional, ensuring her social well-being and active participation in society.

In 2023, the 100% and 360º accounts will continue to support social, environmental and cultural causes, with the launch of the 2nd edition of the "Accounts with Gestures that Count" programme.

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 that 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 11,900 Minimum Banking Services Accounts.

ESG financing

In 2022, novobanco and novobanco dos Açores reinforced the commercial offering with environmental criteria by making available a new credit line - Personal Loan for Renewable Energies - aimed at the acquisition of equipment to produce renewable energy, such as photovoltaic panels. At a more attractive interest rate, this allows customers to become producers and consumers of energy from renewable sources. Besides reducing the impact on the environment, it also reduces energy consumption costs, thus contributing to improve families' monthly budget.

Individual customers also have the following loans with ESG criteria available to them:

Loans with ESG criteria	Description	Performance 2022
ECO residential mortgage loans	Home loans with a clear environmental focus where the client can benefit from a bonus on the spread when choosing to acquire a property with A+, A and B energy certification.	**€18.2 m** 114 Clients 1.4% of Mortgage loans production in the year
Personal Loan - Hybrid and Electric Vehicles	1% bonus in the Car Credit Line strategy for the acquisition of green mobility vehicles, new or used (plug-in, hybrid electric and non-electric hybrids)	**€2.9 m** 10.7% of Car Loans
Microcredit	This type of loan, which fosters social inclusion and self-employment, is provided in close collaboration with the entities on the ground that promote entrepreneurship, specific training and professional reorientation, access to markets and social support.	**€130.1 th**

We closed the year 2022 with €151.2 m in loans with ESG criteria.

ESG Factors in the Investment Advisory Service

novobanco's advisory service model has been enriched with new ESG and sustainability dimensions. This means that ESG and sustainability are taken into account in the identification of the financial products that best meet the preferences of each client, as expressed through 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

Products whose remuneration is linked to the share performance of companies that stand out for their capacity to lead social and governance change subject to environmental and social criteria. In 2022, novobanco and novobanco dos Açores made another nine ESG and ECO structured products available to their clients. The selection of companies to integrate these products is subject to a rigorous assessment process and criteria, which was further strengthened in 2021. These not only are aligned with the Bank's risk policy, but also follow industry-sector exclusion criteria (companies producing or selling tobacco, or engaged in coal mining and nuclear energy are not eligible), and criteria that dictate the exclusion of companies engaging in practices involving violations of human and labour rights, including child and/or forced labour. When manufacturing, construction, transport, tourism, agriculture and forestry, electricity, gas and oil companies are at stake, the Bank undertakes to assess their environmental and social performance, and will not include companies with:

- Air pollutant activity: > 50% of turnover, or
- Reduction of the share of their air polluting activity in the last 5 years by: < 5%, or
- No defined environmental objectives

Performance 2022 – novobanco	Performance 2022 – novobanco dos Açores
• €32.7 m in ESG/ ECO products subscribed in 2022, out of a cumulative total of **€193.2 m** on the customers' portfolio at the end of 2022 • 58.8% of the total portfolio of structured products	• €627 th in ESG/ ECO products subscribed in 2022, out of a cumulative total of **€2.7 m** on the customers' portfolio at the end of 2022 • 55.9% of the total portfolio of structured products

ESG Funds - Funds that invest in companies committed to the environment and society, and to high standards of governance. In 2022 the Group offered more than 1,100 ESG funds with investment made by its clients. The Group classifies these funds into two categories:

- Article 8 SFDR (Sustainable Finance Disclosure Regulation) - funds that invest in companies that have environmental, social and governance concerns;
- Article 9 SFDR - Funds that have sustainable investment as their objective, and have environmental, social and governance concerns.
-

Performance 2022	Article 8	Article 9
novobanco	43 funds with an investment of **€399.5 m** 1% of the total portfolio of distributed funds	5 funds with an investment of **€11.7 m** 31.0% of the total portfolio of distributed funds
Banco Best	1160 funds with an investment of **€257.8 m** 39.0% of the total portfolio	132 funds with an investment of **€18.1 m** 3.0% of the total portfolio 27 ETF with an investment of **€1.7 m**
novobanco dos Açores	1 fund with an investment of **€61.8 th** 6.0% of the total portfolio of distributed funds	-

At Banco Best, the share of funds and ETFs that follow ESG criteria increased by **28%** compared to the previous year (from 30.5% to 39.2% of total client investments). This was essentially due to the restructuring of the *Margem Plus* Account, for which the permitted collaterals are financial assets classified by the management company under articles 8 and 9.

The adaptation of products to the needs of customers also involves the integration of social concerns. novobanco intends to increasingly adapt its products to the new realities of its clients. Accordingly, its saving products permit to build up a nest according to each family's budget. This positioning was at the basis of a package of Micro Saving solutions, comprising three products:

Savings	Description	Performance 2022
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.	**€364.1 m** in savings 61.8 th subscriber clients
Micro Saving	Allows any client to start saving money by small amounts through the rounding up of debits of day-to-	**€8.1 m** 39.8 th subscriber clients

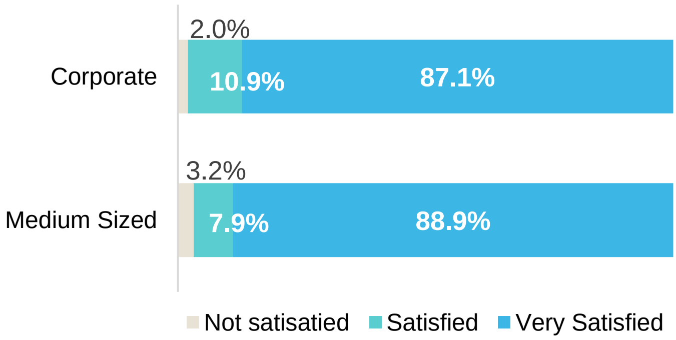
	day expenses (such as residential mortgage loan instalments or personal loan repayments, insurance premiums, or direct debits), which are transferred to a saving account.	
novobanco App Targeted savings Best Bank App Targeted Savings	Exclusive products for clients who have installed the novobanco or 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.	**€31.9 m** 19.1 th subscriber clients **€286.5 th** 186 subscriber clients
At novobanco, these savings products make up a total of €404.1 m and represent 2% of the total in term deposits and saving accounts (excludes saving accounts linked to service accounts).		

Branch network and accessibility
Accessibility may be one of the main factors of social exclusion within people with motor disabilities. In our new distribution model (NDM) we restructured our branch network and installed ramps and stair lifts, whenever and as much as possible. This was undertaken under our Social Well-being Programme, to develop a set of practices aimed at building a more inclusive society. Most of our NDM branches are thus accessible to people with reduced mobility for whom digital is not an alternative or a preference.

3.3.2 Corporate Banking and products with ESG impact

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.

Service Quality I Commercial Banking
(%)



In 2022, corporate banking collected approximately 1.4 thousand replies to customer service satisfaction surveys. The results show that 88.9% of medium-sized corporate customers and 87.1% of large companies are very satisfied with the service, with the same value for medium-sized companies and an increase of 2.2 p.p. in large companies compared to 2021.

In 2022 the customer confidence index was 78.1% for Medium-sized Companies and 76.1% for Large Companies, which compares with 77.0% and 76.1%, respectively, in 2021. The Net Promoter Score was 32.4% in 2022, which compares with 32.2% for Medium-sized Companies and 31% for Large Companies in 2021.

The positive evolution of the Corporate segment's indicators shows that the Bank's performance has been meeting its needs.

Action guidelines for sustainable and inclusive financing and investment

To create a proposition with sectoral-specific value for companies, focusing on European funds programmes, that drives more investment, more innovation, more digitalisation and more sustainability, and drives an increase in productivity and competitiveness in the business community. To continue to strengthen proximity and partnership with Portuguese companies, providing investment and working capital support solutions tailored to customers' needs, continues to be our mandate.

BUSINESS AMBITION FOR 1.5°C OUR ONLY FUTURE

Novobanco signed up to the "Business Ambition for 1.5ºC" initiative, undertaking to set science-based targets to reduce the group's greenhouse gas emissions with a special focus on Scope 3.

We signed the "Letter of Commitment for Sustainable Finance in Portugal"

novobanco also offers the **Credit Line for Decarbonisation and the Circular Economy**, which aims to facilitate access to finance for the implementation of sustainable projects. This credit line is available for, among many others, investment in the replacement of existing equipment for more innovative, modern and efficient equipment, 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 for the implementation of monitoring, control and action devices that optimise the conditions of use, energy consumption and raw material consumption.

We were also coordinators of issuances linked to sustainability, such as the Mota-Engil Sustainability-Linked Bonds, in which novobanco acted as Joint Global Coordinator of the Mota-Engil Sustainability-Linked Bonds 2022-2027, in the amount of 70 million euros and maturity of 5 years. This was the Company's 2nd issue in the sustainable format placed in the Portuguese market, the previous one having occurred in 2021, also with novobanco acting as Joint Global Coordinator. Also in 2022, we formalised two Sonae Group Sustainability-Linked Commercial Paper Programmes totalling up to 175 million euros and maturing in 2028.

novobanco has set a Green Investment target of €600 million for financing companies or investing in its own portfolio from 2022 until the end of 2024. This target is integrated in its Social Dividend model, under the Sustainable Business programme, and the objective is to promote projects that support energy transition and are aligned with the main goals of the European taxonomy.

Taxonomy six environmental objectives

- **Climate change mitigation**
- **Climate change adaptation**
- **The sustainable use and protection of water and marine resources**
- **The transition to a circular economy**
- **Pollution prevention and control**
- **The protection and restoration of biodiversity and ecosystems**

In 2022 the Bank committed €342.7 million to this target. The criteria for classification as "Green Investment" are very strict. We check if the purpose of the funding or the activities are included in the EU Taxonomy (taxonomy eligible activities), to which objectives they contribute substantially, and which criteria they have to meet, tapering more than just taxonomy eligibility. We consider for "Green Investment":

- A very restricted selection of companies in 8 CAE codes, which, due to the characteristics of their main activity the bank considers to be aligned with the Taxonomy;
- In cases of Green Project Finance operations, or Sustainability Bonds/ Loans, the purpose of the funds should be aligned with the Taxonomy;
- In the case of Commercial Paper and Sustainability-Linked Bonds/Loans, the bank checks if the activity is eligible, and if the loan contributes to the client's energy transition according to the taxonomy criteria;
- In the case of real estate financing, the property must have, or be expected to have, a level A or BREEAM excellent energy certificate, or LEED gold.

3.3.3 Asset Management and investments with ESG impact

Through GNBGA, novobanco Group offers two funds with ESG criteria:

- *Fundo NB Momentum Sustentável*, which gives unit holders access to a diversified portfolio of assets of companies that adopt the best practices in terms of ESG criteria with the purpose of achieving a consistent long-term value increase based on the three pillars of Sustainability. A minimum of 75% of the direct investment component of the Fund is invested in companies with an ESG rating from Eikon above 50 points. The Fund will invest at least 85% of its net asset value in shares and other securities which are convertible into shares or give the right to subscribe shares. The fund had €161.4 million in 2022.

- *Fundo de Pensões Aberto Multireforma Ações* - Pension fund that as of December began to consider ESG criteria, having closed the year with €11.0 million.

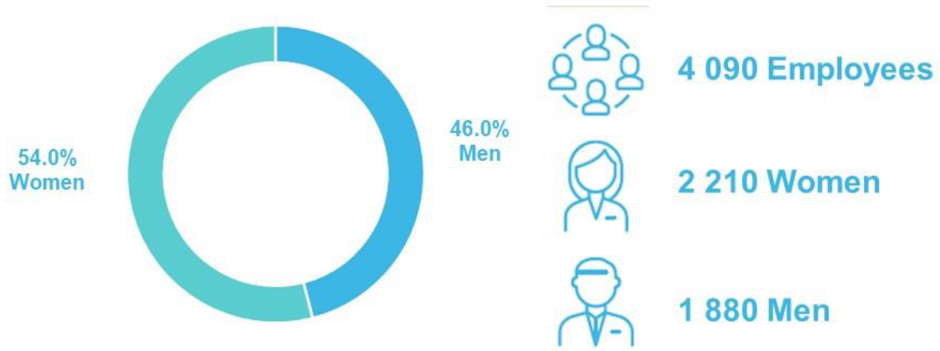
Both funds promote sustainability characteristics and are classified under Article 8 of the SFDR Regulation.

On 30 December 2022, the *Fundo de Investimento Mobiliário NB Momentum Sustentável* represented 21.8% of all the Securities Funds domiciled in Portugal managed by GNB Gestão de Ativos.

On the same date the *Multireforma Equities Pension Fund* accounted for 2.5% of the stock of open pension funds managed by this company.

3.4 Employees

novobanco's employees are at the core of our business strategy. The Group is aware that they are its most valuable asset. That is why developing a robust talent and merit programme is one of novobanco's priorities, as a means of retaining and attracting the best and fostering an inclusive culture that allows employees to realise their full potential.

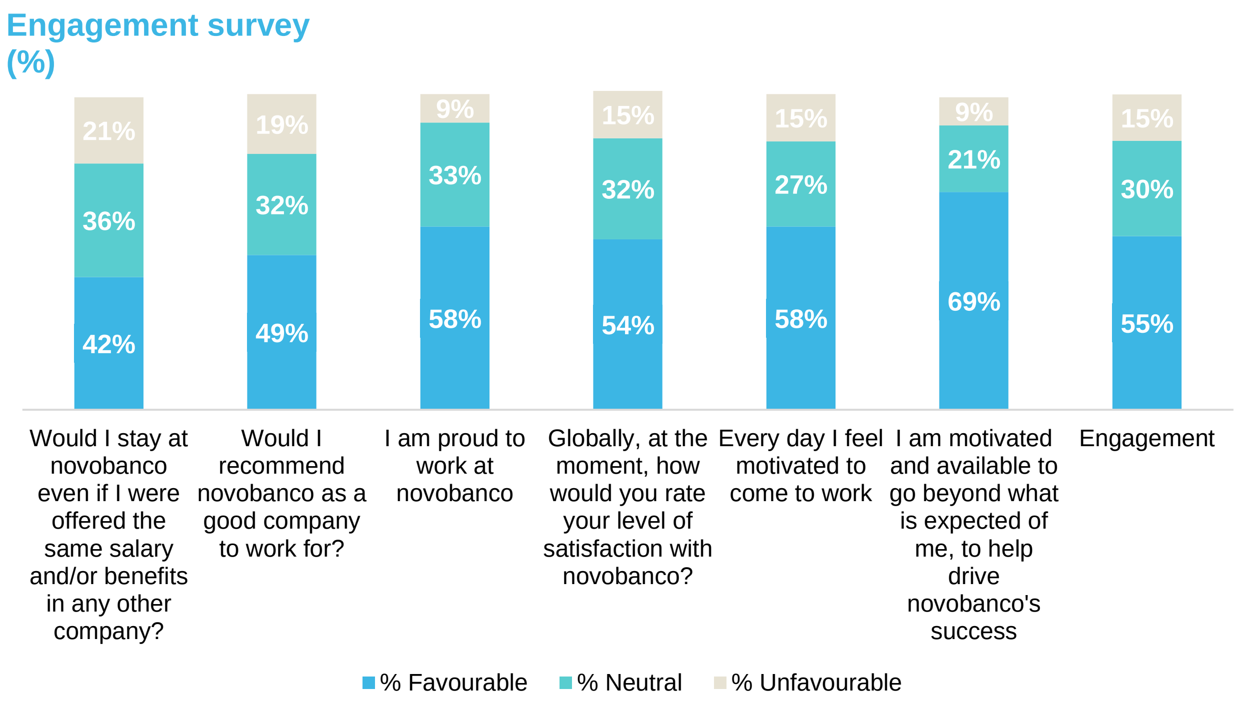


novobanco Group firmly believes that good results come from an organisational culture that promotes and values diversity as a strategic lever for transformation, innovation and growth, fostering an inclusive environment that allows its employees to fully realise their potential. The Human Capital Agenda is therefore one of the fundamental pillars of the Bank's strategic plan which, based on solid governance policies and guiding principles, aims to respond to five major challenges:

To implement its human capital strategy, novobanco strives to follow the best fair-process practices in decision-making, focusing not only on results, but also deploying a fair and reasoned process with strong engagement of the employees, in order to deliver results. novobanco thus endeavour to be aware of the needs and difficulties experienced by employees throughout their life cycle and to meet their expectations, so as to contribute to their full development, and allow them to fully unlock their potential and maintain their motivation.

During 2022, novobanco continued to invest in its communication through live broadcast events via Teams, thus reaching a large part of the employees, at the same time and anywhere in the country. Live events provide a broad base to reach the bank's employees and communicate issues such as the bank's strategy, the presentation of periodic results, and relevant projects, where the employees have the opportunity to ask and have their questions clarified. This reinforces transparency, clarity and the bilateral nature of communication, bringing the leadership closer to all employees.

Every six months novobanco conducts an Engagement Survey - one of the main tools to evaluate the organisational climate of the Bank, which had a participation rate of around 80% and a favourability rate of 55% -, as well as an Internal Customer Satisfaction Survey and a Psychosocial Risk Questionnaire.



At novobanco dos Açores, the employee favourability rate stood at 37% in 2022, down by 16 p.p. on the results of the survey conducted in October 2021. Notwithstanding the large investment made and still being made in this area, the results of the various initiatives that have been developed in various dimensions and will allow the employees to feel novobanco dos Açores as their second home are not yet fully visible.

At Banco Best the employee favourability rate was 61%, down by 16 p.p. on the results of the survey conducted in October 2021.

Attracting and retaining talent continues to be one of our major objectives. To this end we have in place a set of means and initiatives not only to capture new talent but also to retain existing talent from within the personal and professional development of all our employees, which are deployed under a 4-stage model:

1. **Attracting talent** - The following programmes respond to the bank's staff recruitment and rejuvenation needs while at the same time enabling young students to acquire new skills that will enrich their curriculum and expand their network of contacts:
    - Talent Attracts Talent - in 2022 novobanco hosted 21 young graduates, who were distributed by several departments for a 12-month professional internship. In January 2023, 8 of these 21 young people were integrated into the bank's staff.
    - novobanco UP Programme - a programme for young university students with the duration of one month. In the 2022 edition, between July and September, a total of 85 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** - novobanco encourages 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 2022, 140 employees decided to take their professional path in hand and apply to new internal challenges. Of these, 12 were given the opportunity to change their jobs. This contributed to the development of a more motivating work environment as well as to retain talent.
3. **Performance Assessment** - all employees’ performance is assessed through the Employee Portal (called “My Portal”), which includes a personal development programme where each employee can define their objectives in terms of continuous improvement in the performance of their functions.
   Performance Assessment, carried out annually, focuses on two aspects:
   - fulfilment of objectives;
   - skills and behaviour observed (general, specific and technical).

   It is an important tool in the alignment between the organisational strategy and the performance of each employee/team, supporting a constructive and continuous dialogue between each Employee and his or her line manager.
   The "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** – novobanco is attentive to the employees’ knowledge requirements at any given time and promote their continuous development, to ensure they have the necessary skill to achieve the objectives that the Group has set out to reach. The bank provides 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.

3.4.1 Training

The development of its employees justifies the bank’s increased investment in their continuous training. This ensures the acquisition and updating of the necessary skills to achieve the best professional performance. To ensure adequate training, in 2022 the Group invested approximately €880 thousand and provided a total of 164 thousand hours of training (40.1 hours per employee), in 4 main areas of knowledge:

- **Leadership Training Programme** - within the scope of its Leadership Academy, novobanco invested in the development and implementation of a Leadership Programme with the duration of 50 hours, for all its 1st and 2nd Lines. 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.
- **New Distribution Model** - novobanco continued to invest in the transformation of its branch network, which involves not only the physical transformation of the spaces, but above all the transformation of the way we serve our customers and deliver innovative solutions for a better customer experience. In 2022, novobanco continued to train its employees on the new distribution model.
- **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 mainly focused on the Markets and Financial Instruments Directive, the Insurance and Reinsurance Distribution Law, the Mortgage Credit Marketing Directive, the Prevention of Money Laundering and Terrorist Financing, Conflicts of Interest and Related Parties, the Code of Conduct, Pari & Persi (Action

Plan for Default Risk & Out-of-Court Procedure for the Regularisation of Defaults) and Information Security.

- **ESG Training** - In 2022, due to the strategic importance of the topic, it was decided to invest in training on ESG-related contents for all the Group's employees. This training initiative focused on the importance of this issue in the transformation of and integration of ESG criteria into business models throughout the economy, and in particular in the financial sector, which is subject to a strong regulatory framework.

3.4.2 Gender equality, equal opportunities and inclusion

The topic of gender equality, equal opportunities and inclusion remains on novobanco Group's agenda as a strategic priority. We continue to consolidate the bases for long-term sustainability, taking measures to promote inclusion and equality, with a particular focus on decision-making and management positions.

Gender parity is a reality at novobanco Group, with women representing 54.0% of the workforce. However, the need to reinforce the gender balance in top management remains.

In 2022, the following initiatives stand out:

- Maintenance of subscription of the Target Gender Equality programme – with the aim of strengthening and accelerating our journey towards gender equality in leadership.
- Gender equality integrated in the Responsible Banking pillar - quarterly monitoring of gender equality indicators with quarterly reporting to the bank's CEO.
- Internal Report on Gender Equality - gender-sensitive monitoring of several human capital management processes (admissions, departures, performance assessment, distribution of each functional group, professional training, promotion and career progression process, and use of benefits for reconciling personal and professional life, among others).
- Active participation in the iGen Forum for Gender Equality – with the objective of promoting gender balance, this is a forum for sharing successful practices that catalyse performance in order to achieve the established goals.

As an integral part of its strategy, the novobanco Group set the target of increasing the share of the under-represented gender in directorship and first-line management positions to 30% in 2024. At the end of 2022 this share was 27.5%. The share of women in management positions is 36.6%, which represents a slight increase compared to 2021.

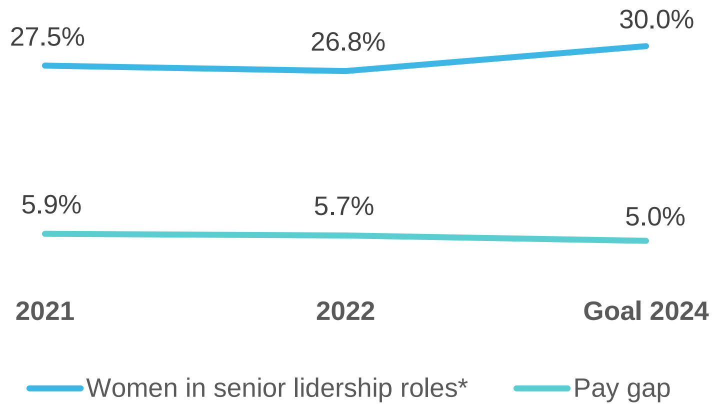
Gender Equality novobanco Group (Under-represented gender %)	2022	2021
Under-represented gender in directorship and first-line management positions*	27.5%	25.5%
Management staff	36.7%	36.2%

*Scope Novobanco Group includes: Board of directors of novobanco and Group companies (novobanco + novobanco dos Açores Banco Best + GNBGA) + First line managers of novobanco.

The novobanco Group's pay gap, adjusted for function, stands at 5.7%. The absolute pay gap is 18.6%.

As part of the bank's strategy, novobanco monitors two gender equality indicators under the social dividend model (novobanco standalone scope).

Social Dividend I Gender Equality (%)



* Scope novobanco includes: Executive Board of Directors +First line managers

novobanco Group's positioning in terms of Responsible Banking does not target gender equality only, but also equal opportunities, diversity, equity, respect for freedom of association, Human Rights and repudiation of forced and child labour and discrimination. The Bank 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).

The Group also includes in its staff people with a certified disability or incapacity, who account for 2.7% of the Bank/Group's workforce, corresponding to 111 employees. This is more than required under Law no. 4/2019, which establishes the employment quota system for people with disabilities.

In 2022 novobanco participated in NOVA SBE's Inclusive Community Forum, which addressed the lives of people with disabilities and aimed to promote a more inclusive community, and we endorsed a commitment to Inclusion.

3.4.3 Work-life balance and internal social responsibility

novobanco believes that the balance between employees' professional, personal and family life is crucial for their holistic well-being, and consequently to foster motivation, productivity, satisfaction, and a relationship of commitment to the Bank. On this basis, the management of our human capital is supported by instruments that aim to enhance the employees' well-being at all levels.

The Bank offers a set of measures that, by promoting flexibility at work, improve the conciliation between employees' work and their personal and family life. These measures are included in the Social Dividend Model, under the Social Well-being pillar. This programme is also an instrument to attract and retain talent. The

Measures to reconcile work with personal life

- **Leave on special dates** (employee's birthday; children's birthday; 1st day of school of children in compulsory school years)
- **Purchase of vacation days**
- **Home Office**
- **Early Friday or Late Monday**
- **Takeaway meals**

measures for reconciling personal and professional life, initially implemented with the main focus on novobanco, have been extended to the Group's companies.

The Bank supplements these initiatives with support initiatives that strengthen the employees' sense of belonging and pride in the Group and their personal satisfaction, and allow them to save on their monthly budget. These benefits are included in the internal social responsibility programme.

Education support for children of active employees	Special conditions on the commercial offer
Christmas presents for employees and their children and dependent stepchildren	Specific pandemic-related support
Support to Retirees	Additional employee support measures

By the end of 2022 920.6 thousand euros were allocated to support 3,160 employees.

2022 was a particularly challenging year for families. The general rise in the prices of essential goods, and the increase in interest rates and inflation to levels not seen for a long time, affected everyone's lives. In this context and in line with novobanco's Social Well-being program, a set of support measures were made available to the employees aimed at mitigating the impacts on their family budget.

- one-off €500 support for employees with gross annual income below €30,000, and €250 for employees with income above this amount (not applicable to corporate bodies and first-line management);
- possibility of interested employees to:
    - increase the repayment period to 75 years of age for mortgage loans under the CHPP-ACT (permanent home loan under the collective wage agreement) scheme, limited to a maximum of 45 years;
    - transfer the permanent home loan (HPP) from the general scheme to the CHPP-ACT scheme up to a maximum of €50,000.

In 2022 the criteria for the allocation of social support in 2023 was revised to allow for a fairer and more efficient allocation. In 2023, the amount of support for children and young people with disabilities or special needs will be increased; the calculation of per capita income will be redefined; and three per capita income scales will be introduced for scholarship purposes.

To further its work-family conciliation goal and in line with its tradition of giving employees one day off during the Christmas season, in 2022 novobanco gave its employees 2 days off.

Employees, both active and retired, also have three canteens at their disposal where they can have lunch. These canteens serve low-cost nutritionally balanced meals, with 3 to 4 options to choose from each day, each coming with a nutrient information sheet (nutrition traffic light). In addition to providing meals at a low cost, the aim is also to encourage the employees to make responsible choices in terms of healthy eating. Awareness-raising initiatives sometimes also take place in the canteen areas.

3.4.5 Looking after the Safety, Health and Well-being of our employees

The holistic well-being (physical, psychological, emotional, social, and financial) of its employees is essential for the development and success of the Group's activity. To this end, the Group has in place a health and well-being policy based on five lines of action:

1	**Communicate and raise awareness:** enhancing continuous and relevant communication about the Bank's path and strategy, as well as providing contents in various formats about health and well-being, encouraging employees to make conscious and healthy choices.
2	**Diagnose and prevent:** risk situations in a timely manner, so as to act preventively.
3	**Foster and promote:** moments of focus on certain topics to increase employee involvement and accelerate positive results.
4	**Offer and provide:** benefits aligned with best practices in healthy habits that contribute positively to the holistic well-being of employees.
5	**Reconcile and flexibilise**: practices for a balance between professional, personal and family life.

As part of the management of its business, novobanco also undertakes to strengthen a culture of safety and health in the workplace so as to minimise the risks of accidents and illnesses among its employees.

All employees have access to free-of-charge health services, provided in three clinical centres: in Lisbon, Porto and Oeiras. These offer a set of privileged support services and conditions to employees, at preventive and curative level.

Because the Safety, Health and Well-Being of novobanco's employees is at all times one of the Bank's management priorities, the area dedicated to the topic of "Employee Well-Being and Experience", deserved special attention, with the following main initiatives having been taken:

- Launch of the new E-Learning on Safety and Health at Work (having as main improvements: the introduction of Well-being moments throughout the course and the reconciliation of SHW concepts with the good practices and well-being programmes in place in novobanco);
- Inclusion of nutrition consultations in the Porto Clinical Services (3 hours per week);
- Increase in the number of hours of psychology consultations in all novobanco Clinical Services (to a total of 7 hours per week);
- Increase in the number of Employees supported with the allowance "Sickness Benefit Supplement", applicable in cases of prolonged illness;
- Implementation of the 5+ programme.

5+ program

+ physical health | + mental health | + well-being | + balance | + happiness

The 5+ programme, launched in 2022, has 5 objectives: +physical health, +mental health, +well-being, +balance, and +happiness. Its aim is to look after and promote the well-being of the employees by providing, through a set of initiatives, well-being experiences in various dimensions: health, nutrition, physical exercise, emotional management, family and home, interpersonal relationships, personal image, culture and leisure. In this context, a series of initiatives such as workshops, webinars, ateliers, conversations with experts and lectures are carried out, in virtual and face-to-face format.

Every month a theme and respective timetable are defined, including: 5+ measures, 5+ Talk, 5+ Experiences and commemorative dates. In this context, a series of initiatives such as workshops, webinars, ateliers, conversations with experts and lectures are carried out in virtual and face-to-face format. Training, assessments, diagnoses and screenings may also be included in the initiatives, depending on the theme of the month.

Within the scope of the 5+ programme, mental health deserved special attention in 2022. Talking about mental health and sharing experiences and testimonies was the first step towards combating the stigma and prejudice that still exists in society on this subject. At the end of the year, the Bank became a founding member of Mind Alliance Portugal, a non-profit global network of leading companies in their sectors committed to putting mental health at the top of their organisations' priorities, and making the mental health of their employees a strategic priority, by raising awareness and training their leaders.

5+ Measures developed

- "Leadership and Mental Health" training (pilot project for 1st line officers and Regional Managers);
- Mental Health Base Kit
- First-Person Testimonies
- Visits by Occupational Doctors to the branch network's employees

Still within the scope of mental health and to guarantee an adequate response to the real needs of the employees, an assessment of Psychosocial Risks is carried out on an annual basis. The global results of this survey are subject to a careful and rigorous analysis, being used as the rationale for the definition of an action plan of measures to be implemented in this area. A summary of the overall results is shared with the heads of all the Bank's Departments, who can also contribute with mitigation proposals. The employees are at the heart of our business strategy. We are aware that they are our most valuable asset. That is why developing a robust talent and merit programme is one of our priorities, as a means of retaining and attracting the best and fostering an inclusive culture that allows employees to realise their full potential.

3.5 Suppliers

novobanco Group is aware that the management of a sustainable business covers the entire value chain, with suppliers playing an essential role in its ESG journey. The Group has therefore established a set of tools that allow the relationship with this group of stakeholders to be based on environmental, social and governance criteria.

As a relevant buyer of products and services in the market, the Group has put in place a relationship model with its suppliers based on a commitment to good practices and principles established at international level and on the recognition of the importance of the economic, environmental and social impacts produced by this group of stakeholders. The model is structured along two 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**, which 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:
    - Fairness - equal treatment, without privileges or cronyism, and always seeking to avoid conflicts of interest;
    - Transparency - with adequate disclosure of information;
    - Quality and Efficiency as criteria for selecting the best suppliers.

novobanco Group's suppliers are invited to subscribe to these principles, which imply the adoption of strict conduct, namely with regard to the environment, employment conditions and ethics. In this context, in 2022, the Supplier Relationship Principles were revisited and reinforced with the introduction of the novobanco Group's Sustainability Policy, in the expectation that all suppliers will follow and act in accordance with what is established 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, the Supplier Portal (https://fornecedores.novobanco.pt/) is the place where any supplier, actual or potential, may introduce itself and register. In 2022 there were 2.9 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. The percentage of suppliers with billing above €10 thousand that had completed their registration or were in the process of registering (pre-registered) in the Portal was 95% at 31 December 2022.

For a more rigorous selection of this group of Stakeholders and based on the information provided, novobanco Group calculates the “sustainability scoring”, which takes into account ethical, labour, hygiene and safety at work, and environmental aspects.

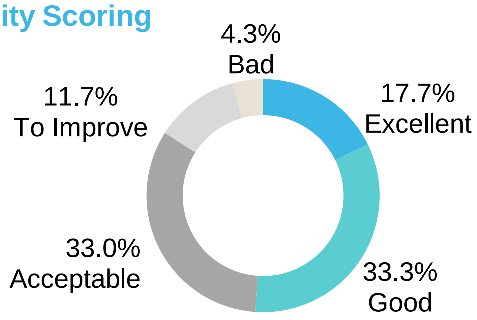
In 2022, new criteria were introduced in the calculation of the "sustainability scoring", such as new certifications (ISO 45001, ISO 2700, ISO 50001) and aspects related to suppliers' Sustainability and Environmental Policies. Additionally, this scoring is now included in the technical assessment of suppliers carried out by the Group's procurement structures, and is one of the criteria/elements considered and weighted in the overall rating.

On 31 December 2022, suppliers with completed registration in the Suppliers' Portal represented approximately €163 million of invoicing to novobanco Group, with the following industry sectors standing out:

novobanco Group suppliers - main sectors of activity (%)	2022
IT Services	27.1%
Consulting and auditing	17.3%
Electronic payment system	7.6%
Communications and dispatch	7.2%
Conservation and repair	5.1%
Judicial, litigation and notary services	4.2%
Advertising and publications	3.4%
Others	28.1%

17.7% of the Group's registered suppliers have a score of Excellent. The decrease compared to the previous year is explained by the introduction of new criteria in the calculation of the "sustainability score", which made the assessment stricter and more robust. However, cumulatively, around 84% of suppliers have a positive score, maintaining their score of 2021.

Sustainability Scoring (%)



In 2022, the Bank continued 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 our branch network into spaces where the financial experience is not limited to a simple visit to the bank. novobanco ended the year with 247 totally revamped branches, in which:

- National products were clearly promoted, and the projects were executed with national suppliers - a large majority of the suppliers were Portuguese companies with 100% national capital;
- Supplier selection took into consideration if the entities could attest that they developed their business based on sustainability criteria, proven by environmental certifications, and presented sustainability scores of good and 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 2022, the payment period was 29 days compared to 22 days in 2021.

3.6 Environmental Footprint

Climate change is one of the greatest world challenges, 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 loans granted and investments made: → Loans to Companies → Loans to Individuals → Supply Chain → Investment Products → Other	Resulting from its own operations within the scope of its activity: → CO_2 Emissions → Electricity Consumption → Paper Consumption → Water Consumption → Other resources	→ Raising awareness for a rational consumption of resources at work. → Providing ESG training to support employees, customers and the community 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.

Aware that its largest impact on the climate arises from its lending activity, novobanco's ESG strategic programme mainly focuses on:

- Assessing environmental and climate risks when granting loans to companies;
- Defining "Green Investment" objectives as key indicators of its ESG performance;
- Incorporating environmental criteria in the products and services made available to customers.

These priorities clearly reflect the importance given by the Bank not only to the indirect impact on the environment and to accompanying clients on their journey towards a carbon-neutral economy, but also to meeting the expectations of the Bank's other stakeholders, including regulators and supervisors.

+ information in chapter 3.2 ESG Risks and in TCDF Report.

But novobanco Group's operations also have a direct impact on 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.

Photocopy Paper

2022 vs. 2020

- 46.6%
- 60.1 tonnes

We promote a "paperless" culture by reinforcing dematerialisation processes:

- Phygital project - formalisation with digital signature
- Reduction of prints in back office activities;

Most of the obligatory communications with clients are digital. Most of the banking documents provided by the Bank to its customers are in digital format.

Electricity

2022 vs. 2020

- 37.8%
- 7,9m kwh

When redesigning the branches under the New Distribution Model, we exclusively used energy-efficient LED lighting and HVAC (Heating, Ventilation and Air Conditioning) systems.

We reduced the operation of the promotional screens of the novobanco and Banco Best branches in all locations.

CO_2 Emissions

2022 vs. 2020

- 21.1%
- 2.9k tonnes

We used green electricity, from renewable sources, in all our buildings and branches where this option is available (more than 95% of our facilities), and this measure has been certified by our electricity supplier.

We reduced by 832 thousand Kms the journeys made with the bank's car fleet, promoting the use of public transport.

Paper

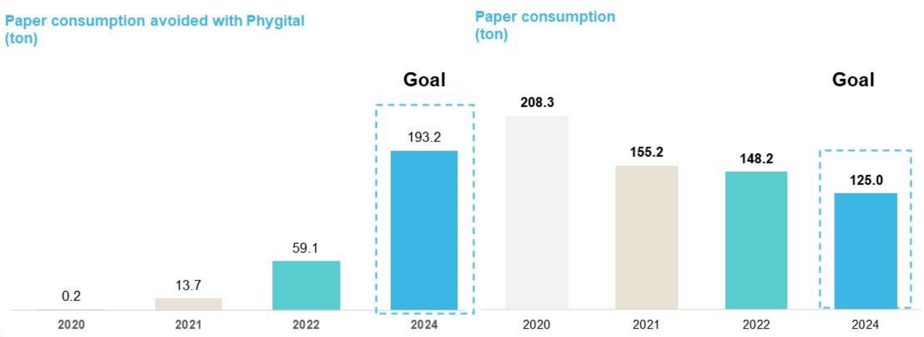
As a result of the measures implemented, including the digitalisation of processes, the Group has been reducing its paper consumption from one year to the next. In 2022 paper consumption decreased by 4.5%, or 6.9 tonnes, compared to 2021.

In 2020, novobanco started its Phygital project, whereby, through the dematerialisaton of business processes and their formalisation through a digital signature, it contributes to a paperless organisation and fosters a paperless culture. 95% of the reduction in paper consumption was due to the Phygital project.

Phygital Project

In the second year of the phygital rollout, we avoided the consumption of 45.4 tonnes of paper and the 47.5 million litres of water required for its production.

The Bank expects that by 2024 the Phygital project will have avoided a cumulative consumption of around 147.4 tonnes of paper (minus 154.2 million litres of water per year).



Electricity

In line with the measure implemented in November 2021, the Group's electricity consumption (novobanco, GNBGA and Banco Best) is fully green, i.e., from renewable sources, in all its buildings and branches in Portugal where this option is available (more than 95% of its premises). This measure, certified by the electricity supplier, had a strong contribution towards reducing CO_2 emissions.

This is one of the initiatives under the commitment to reduce scope 2 CO_2 emissions, attesting to the Bank's transition to a low-carbon economy and to its full alignment with SDG 13 - Climate Action, one of its 5 priority SDGs.

The teleworking scheme adopted since the beginning of the pandemic gave a key contribution to the reduction in electricity consumption. Among other factors, the reduction in space resulting from the move of Banco Best's premises to one of novobanco's buildings, which represented around 50% in office occupation in Lisbon, contributed to reduce this company's electricity consumption by around 30.1%.

As a result of the war in Ukraine and the need to restrict energy consumption, all external lighting at Best's Investment Centres and Best Offices was completely switched off. In novobanco's branch network, the screens' working hours were reduced, and they are now mostly switched off at midnight and switched on again at 8:00. In the branches located in rural regions or small villages, these communication channels are now switched off at 22:30.

CO_2 Emissions

novobanco Group set the goal of reducing our Scope 1 and 2 CO_2 emissions by 50% by 2030. This is a bold claim, but one that we intend to fulfil, and so we will continue to reduce the CO_2 emissions that result from our various consumptions.

To this end, in 2022, novobanco Group defined a new Vehicle Policy to regulate and homogenise fleet management, clarifying the rules of eligibility and responsibility in the use of 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 protocoled vehicles.

The teleworking scheme adopted from the beginning of the pandemic contributed decisively to a reduction of the environmental footprint, due to the reduction in commuting and the experience gained in the adaptation to digital of internal work processes and commercial relations with customers.

Environmental Indicators - Emissions (tCO2e)*	2022	2021	2020	22 vs 21
Direct emissions (Scope 1)	4 158.1	4 696.1	4 888.3	-5.4%
Indirect emissions (Scope 2)**	811.3	2 937.5	4 490.3	-86.5%
Indirect emissions (Scope 3)***	6 102.6	4 184.2	4 663.2	45.9%
Total (Scope 1, 2 e 3)	**11 072.0**	**11 817.8**	**14 033.8**	-3.2%

*See methodological notes.
**Scope 2 calculation by location-based method since 2018 only. The Total (A1+A2) was calculated using 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.

The increase in scope 3 CO_2 emissions is essentially due to the return of the employees to their offices and the increase in air travel after the end of the lockdowns, but the Group is are making every effort to ensure that this increase is limited only to the year of return to normality.

With regard to scope 3 emissions - category 15 (investments), novobanco is aware that accounting for emissions in this category is crucial for financial institutions to assess the climate and environmental risks to which they are exposed and define objectives and strategies to reduce these emissions. Therefore, these are reported in the TCFD Report, published this year for the first time.

Recycling

The Group maintains an efficient management of waste, namely by recycling paper and printer toners. In 2022, the amount of paper sent for recycling dropped by 15.7%, which was due to lower paper consumption.

In 2022, the Bank started the process of recycling its bank cards. The card treatment process involves the collection and destruction of customers' 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 the second half of 2022 the Bank sent to Extruplás approximately 1.4 tonnes of bank cards for recycling, thus giving a new life to plastic.

As another measure to reduce its direct impact on the environment, the Group stopped using single-use plastic, providing its employees with paper coffee and water cups and recyclable wooden straws. At Banco Best, all employees were given ceramic coffee cups and glass water bottles.

Plastic

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.

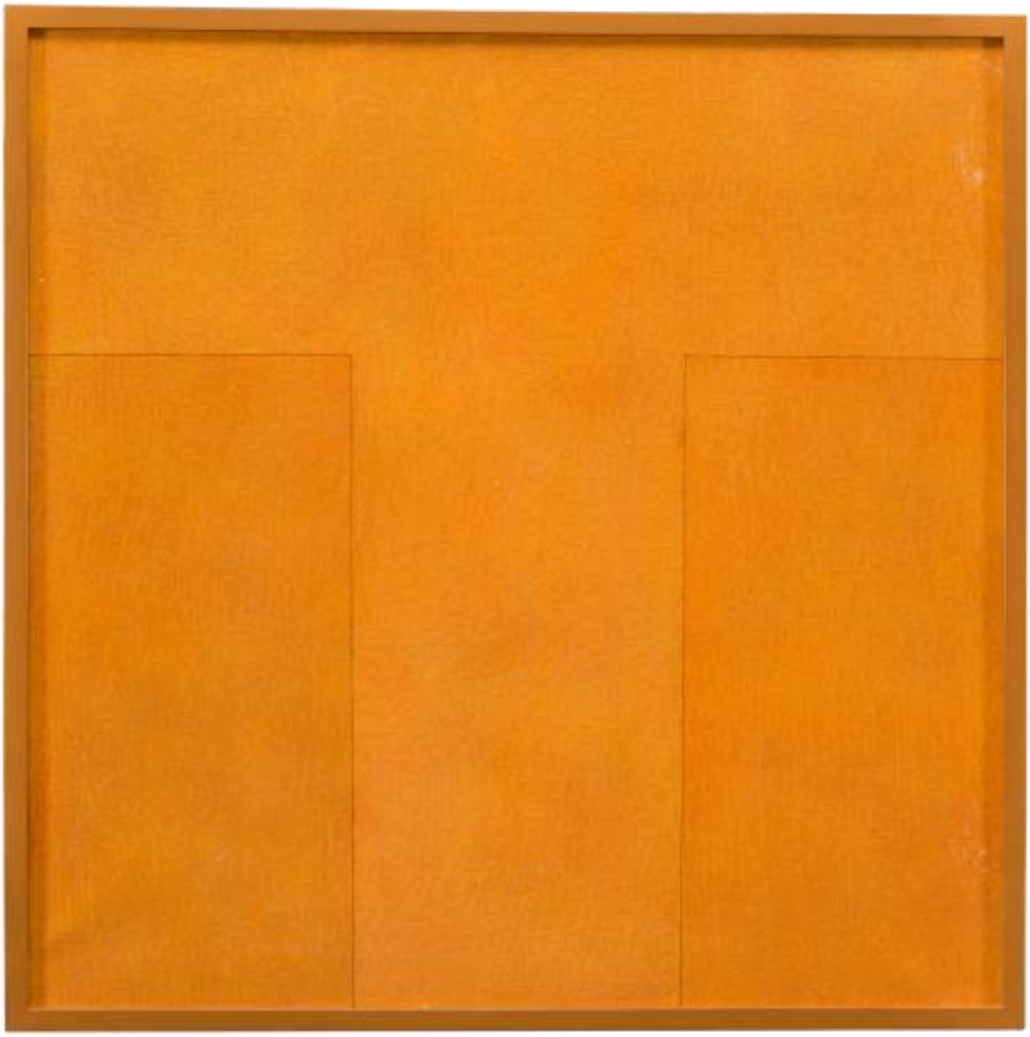
It should also be noted that due to the move of Banco Best's head office to new premises, located in a building belonging to novobanco, all furniture intended for scrapping was offered to the employees, thus reducing the environmental impact that would result from its destruction and encouraging its reuse for private purposes.

Summer of 83, 1983 - Ângelo de Sousa

Oil on canvas, 80 cm x 80 cm

A multifaceted artist, Ângelo de Sousa works in painting, sculpture, serigraphy, ceramics and photography. In the 1970s his painting focused mainly on abstraction, on surfaces that, while appearing monochrome, resulted from rigorous colour work that brought together, opposed, and overlayed minute chromatic particles that built up a surface that is depurated and simultaneously vibrant with light and colour. "Summer of 83" is part of a series of pictorial experiments in which the painter was engaged in the early 1980s. They are minute combinations of colour, diluted in a very simple geometry of fine lines, in an abstraction of absolute depuration.

CHAVES. Nadir Afonso Museum of Contemporary Art



4 SUSTAINABLE ATTITUDE

One of the challenges taken on by the novobanco Group is the financial and social well-being of the community in which it carries out its activity. Therefore, its concern with initiatives of an environmental, social and cultural nature with a positive impact on the community is reflected in its corporate social responsibility architecture, which consists of three pillars.

In 2022, novobanco Group continued to develop internal and external actions that allow meeting the needs of its employees and the community, seeking to respond to new opportunities and assuming an active role in a society which it wants be sustainable and fairer.

The bank's Corporate Social Responsibility framework was developed based on its ESG strategy and Social Dividend Model. With this positioning the Bank aims to continue to integrate the dialogue with and the expectations of stakeholders in the construction of the business strategy and give back to the community, thus reinforcing the trust they place in novobanco.

Social Responsibility Architecture

novobanco developed a Corporate Social Responsibility (CSR) action plan focused on community service and integrated in its strategic plan:

1. Not exclusively based on financial support.
2. Integrates CSR in business model.
3. Establishes partnerships that serve the Bank's strategy.
4. Mobilises the employees

CSR ARCHITECTURE

ENVIRONMENT

ENVIRONMENTAL LITERACY

Employees

- Awareness-raising campaigns to reduce the Bank's direct impact
- Training sessions on the bank's direct impact

Clients and the Community

Organisation and participation in conferences and training sessions

- Awareness-raising
- Knowledge sharing
- Sustainable finance

WELL-BEING - SOCIAL AND FINANCIAL

FINANCIAL AND DIGITAL LITERACY

Financial and ESG literacy for

- Corporate clients and the community
- Individual clients and the Community

SOCIAL INCLUSION

- Support for people and families in need
- Children and families with oncological diseases
- Support and organisation of Christmas charity initiatives in close cooperation with the bank's employees

WELL-BEING AND MENTAL HEALTH

- Employees
- Partnerships promoting mental health in organisations
- Financial and social support to employees

TRAINING AND R&D

- Training and internships programmes
- Partnerships with academia for knowledge development

RESPONSIBLE BANKING

DIVERSITY, EQUITY AND INCLUSION

- Gender equality programmes
- Integration of disabled people in the labour market

CSR ACCOUNTS

Contas com Gestos que Contam - (Accounts with Gestures that Count) novobanco service accounts linked to social responsibility causes (social, cultural and environmental)

NOVOBANCO VOLUNTEER PROGRAMME

Environmental initiatives | Social initiatives | Inclusion initiatives

4.1 Shaping the future together

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 or strategies that further social and financial well-being, responsible growth, job creation, capacity-building in people and respect for the environment.

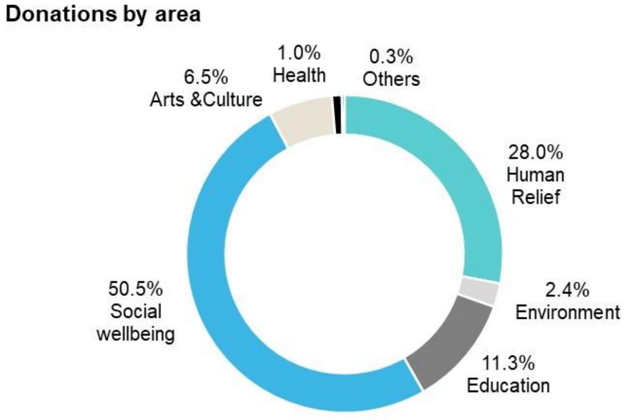
Among these there stands out in 2022 the first edition of the ESG Talks, a cycle of novobanco conferences dedicated to sustainability, held with the strategic partners Nova SBE and PwC Portugal and the media partners VISÃO and EXAME. This cycle, comprising a full-day major conference, **ESG Talks - Rebuilding the Future,** and 3 deep dives, addressed, through lectures, reflections and coffee table talks, the most important issues of the ESG universe, including the Future of Work, Diversity and Gender Equality in Companies, the Challenges of Sustainable Transition in a Low Carbon Economy, Sustainable Financing, and Circular Economy and Oceans, always within the context of the national economy. All the conferences were attended by renowned entrepreneurs, political decision-makers and academics.

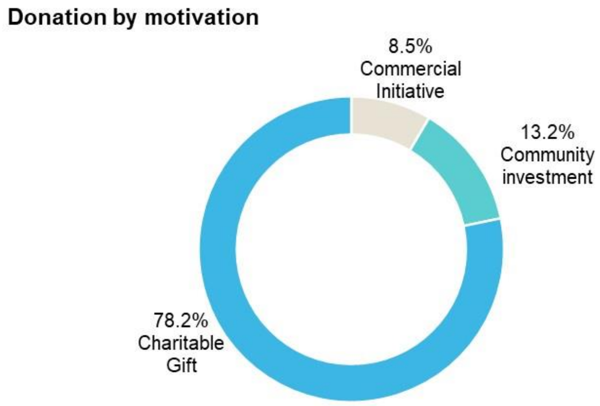
In order to recognise excellence and promote the sharing of best practices and experiences of companies with their peers and with society, the Bank also organises annual events such as the Portugal Exportador and the Export & Internationalisation Awards, and actions to promote the PME Líder and PME Excelência statuses, sponsoring the Publituris Portugal Awards and the Portuguese-French Trophies.

The integration of environmental concerns in events that stimulate the national economy is one of the Bank's intervention streams, including the sponsorship of the Plastics Summit Global Event, one of the most important conferences on recycling and the circular economy in the plastics sector, and also events such as Ovibeja and the National Agricultural Fair, in which organic farming received special attention.

novobanco once again placed its experience and knowledge at the service of the players and decision-makers of the country's economic future and shared specialised and technical information with its customers and society in general.

Based on a sustainable attitude that aims to support the creation of solutions for important issues in the community where it carries out its activity, in 2022 the novobanco Group donated €1.6 million, distributed as follows:





4.2 Well-being – Financial and Social

One of the challenges facing the banking sector is how to contribute to increasing the levels of financial knowledge and fostering the adoption of adequate behaviours that promote the well-being of the population and the stability of the financial system. With the creation of the Financial Literacy Programme, novobanco assumes its role as an institution that bases its positioning and management on principles of sustainability and corporate citizenship, contributing to train a new generation of consumers of financial services that is increasingly informed and has greater power of analysis and decision. In this context, the architecture of the Bank's financial literacy intervention is based on 2 pillars: Digital Literacy and Financial Literacy.

4.2.1 Financial well-being

Digital Literacy Programme

To address the fast pace of digitalisation of society and services in general and the need to develop financial literacy, it is a priority of novobanco not only to ensure a complete and innovative digital financial services offer, but also to promote and educate for the safe use of these channels in everyday financial management. With a special focus on the consumer and the people who everyday use digital channels to interact with the bank, novobanco has developed different initiatives:

Everything you need to know about online banking - Digital Financial Education Project of the Portuguese Banking Association (APB) and its associates, consisting of 12 informative sessions on the basics of using banks' digital channels for the execution of essential daily operations. Aimed at the general public and the senior population, this programme, which is also articulated with Parish Councils and Senior Universities nationwide, and with Lisbon's network of Municipal Libraries, enabled 600 participants to acquire basic digital skills from the user's perspective, contributing to the safe use of the digital channels.

Restructuring of the digital literacy website - An initiative that showcases the advantages of online banking and explains to customers everything they need to know about the digital channels. Online banking is an essential tool in the customer experience, as it ensures that the bank is always available, with all convenience and security, for a better management of customers’ financial and daily life.

+ information digital channels and information security

Financial Literacy Programme

The social and financial well-being of its customers is one of the Bank's main challenges. Therefore, one of its main priorities is to provide a range of saving and credit products suited to each family budget and addressing the customers’ new realities, for which it has developed different initiatives during 2022.

Commercial Offer - Savings products adjusted to customers' realities, including not only microcredit but also savings products tailored to each one's family budget. In 2022, the Bank created an additional everyday offer specifically targeting the Ukrainian population that arrived in Portugal: a bank account with no maintenance fee for 1 year, availability of cards and temporary exemption of commissions on transfers to Ukraine.

Personal Finance and Family Budget - Application that makes it easy to monitor and manage the monthly budget at the touch of a finger.

Mental Right (*Direito Mental*) - Partnership with Associação Direito Mental, an association that fosters the creation of a positive culture of support for mental health in the legal community, advocating, among others, that mental health also involves financial well-being. novobanco's contribution in this partnership involves providing tips and advice for the development of appropriate financial skills.

#Corporate Talks - Road Show on financial literacy for small and medium-sized companies that during the year travels the country from north to south, debating several financial topics. The aim is to contribute to increase the level of financial culture within companies and individuals. This cycle included a session dedicated to Sustainable Finance, which dealt with the main challenges faced by national companies due to the new European directives.

+ information offer of products trade with social criteria

4.2.2 Social well-being

The intervention of novobanco also involves contributing to the Social Well-being of the community in which it operates. Helping organisations that provide social support in areas such as equal opportunities and combating social exclusion and poverty with the aim of mitigating these inequalities and seeking to respond to new opportunities for progress, are part of the challenge taken on by the Bank in its corporate social responsibility strategy.

WeHelpUkraine Platform - As a founding member, the Bank supported the development of the www.wehelpukraine.org platform which connects those in need of help with those in Portugal and abroad who are willing to help (with accommodation, financial, medical and psychological support, refugee status, logistics, employment and local language classes), thus uniting efforts from around the world, including from Canada, the USA and the United Kingdom. Under this partnership, the Bank has proactively contributed in various ways, namely account opening, donations and volunteer work, to welcoming the Ukrainian people to Portugal.

Care International - Also as part of its support for the Ukrainian people, novobanco supported CARE International with a financial donation to the fund designed to help with the humanitarian crisis in Ukraine and the around 4 million people fleeing the conflict, through immediate emergency assistance in that country and in border countries.

Play for Children | Special Edition Madeira 2022 - novobanco supported the solidarity football match between former football players and public figures, in which everyone was a winner. The ticket box income was donated to the Liga Portuguesa contra o Cancro - Núcleo Regional da Madeira (Portuguese League Against Cancer - Madeira Regional Centre).

Quality-of-Life Action - novobanco was once again present at the Quality-of-Life Action of the Associação Salvador, an IPSS (private social solidarity institution) that operates in the area of motor disability. This year marked the 15th edition of this Action. In 2022 there were 82 applications, and a total of approximately 130 thousand euros to be distributed, under three categories - home works, training and employment, and adapted sports equipment. 36 people with reduced mobility were supported, 13 of whom in the training and employment category, which is supported by the bank. novobanco is a patron of Associação Salvador and has been associated with this project since its first edition. Over 15 years the project has supported more than **587 people** with reduced mobility, with more than **€1.7 million**.

Christmas hampers from novobanco's employees to AMI (International Medical Aid) users - The Christmas festivities at novobanco Group began with the usual internal solidarity action. Following a registration process to donate, participate in the preparation and deliver the Christmas hampers, **€4.5 thousand** were collected from employees to provide a decent Christmas for about 150 families, AMI users, throughout the country, including the Azores and Madeira. novobanco and novobanco Azores also joined this initiative by making a donation.

Acreditar - Every year novobanco finances one of the 12 rooms of the Acreditar Association's home in Lisbon. The Acreditar Association is an IPSS whose mission is to "treat children and young people with cancer and not only the cancer in children and young people", promoting their quality of life and that of their families. The Lisbon home is being rehabilitated and novobanco maintained its support for families who are housed in other residences in the Lisbon area. This annual support makes it possible for several children who have to leave their area of residence for oncological treatment in Lisbon to live with their families.

Volunteering Programme - Created in May 2022, it encourages the involvement of employees in community support actions that contribute to addressing important socio-economic and environmental issues in the community. Any employee can participate, for which he or she has one day of leave per year 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 teamwork. With the volunteering actions the Bank strengthened the sense of belonging of its employees, consequently increasing their well-being. A total of 406 hours were worked in 2022 in voluntary service, grouped into 4 actions: WeHelpUkraine, Make a Wish, Reforestation of Natural Parks and AMI's Christmas Mission - Christmas Hampers.

WeHelp Ukraine

- Reception support
- Translator
- Preparation of food baskets
- Separation of clothes
- Home recovery
- Accommodation
- Transport
- Legal and other support

Wish Challenge

Planning session with Make-A-Wish for one of the wishes of the solidarity project "Constellation of Christmas Employees of novobanco Group".

Reforestation of Natural Parks

- Reforestation of the Carvalhais Biopark, in São Pedro do Sul, with 400 trees, together with the Montis Association
- Reforestation of the Sintra - Cascais Nature Park, with 200 trees, together with the Plant a Tree Association.

Christmas Mission AMI 2022

Preparation and delivery of Christmas hampers to users of AMI's Porta Amiga Centres

VOLUNTEERING






"Volunteering is a win-win situation: it's good for us as novobanco employees and good for society"
Mónica Pereira

"It was very rewarding to have participated in today's Wish Challenge.
To have the notion that we contributed with ideas and suggestions for the process of preparation, anticipation and fulfilment of a child's wish is something fantastic that I will never forget."
Paulo Teixeira

"It will be fun to pass by one day and find out which part of this green was made by us."
Nelson Bertassoni

4.3 Cultural Patronage

novobanco Cultura is one of the Bank's main cultural patronage programmes. Its mission is to reflect novobanco's commitment to preserve, promote and share with Portuguese society its relevant cultural and art heritage, grouped in four collections:

novobanco Photography Collection
With around 1,000 works by more than 300 artists from 38 nationalities, it includes all the great names of the national and international art scene. It is one of the world's most important collections of photography, the only corporate collection to represent Portugal and also one of the most awarded collections and one that stands out in the global art scene, ranking among the 80 best corporate collections in the world.

The exhibition of novobanco's photography collection "Art in time of Ecological Disruption", was the first event of the ESG Talks conference cycle, held at Universidade Nova SBE, placing art at the centre of the promotion of the national and international debate on the issues and challenges facing humanity, including ecological challenges and the human condition. This exhibition was the motto for the public presentation of the international book with the same name "Art in Time of Ecological Disruption", a project developed by the IACCCA - The International Association of Corporate Collections of Contemporary Art, of which novobanco's photography collection is a founding member, and which brings together curators from more than 50 corporate collections around the world and represents more than 150,000 works of art. Once again, novobanco's photography collection is in the limelight, ranking second by number of works and texts selected to integrate this catalogue, published in 2022.

Several works from the collection were also exhibited in various national and international exhibitions, namely "*Chegar à Boca da Noite*", at the Contemporary Art Centre of Coimbra, "*Arte e Território*" at the novobanco space, and "*Horizonte Y Limite*. *Visiones del Paisaje*", in Spain, thus continuing to spread internationally the contemporary photography of novobanco.

The study visits for students of Photography, Technologies, Innovation and Creation, Master in Artistic Photography, and Degree in Photography and Culture, among others, proved an important tool and resource to complement learning with the direct viewing and understanding of the works, awakening critical thinking, broadening horizons, promoting the sharing of knowledge and experiences, and thus providing a pedagogical service to society.

The novobanco photography collection thus acts as a catalyst in filling up cultural gaps and contributing to the well-being of society.

novobanco Painting Collection
Comprising Portuguese and European paintings from the 16th to the 20th century, this collection is available to the public through the permanent exhibition circuit of museums from the north to the south of the country, under a protocol with the Ministry of Culture. At the end of 2022, 94 works were on permanent display in 37 museums throughout the country. The Bank provides in its platform the itinerary of the various regions and respective museums in the country where the works of its Painting Collection can be visited.

Numismatics Collection
The collection comprises 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. Through this collection, it is possible to travel the entire history of Portugal. It portrays, through money, our formation as a people and a nation, and our culture, over a time span of more than 2000 years.

Library of Humanistic Studies
With about 1,100 Old Books, including 8 incunabula, around 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 University of Lisbon (FLUL).

The partnership with Cais in **REFLEX - CAIS photography Award | novobanco** remained active in 2022. This award, which combines photography with socially relevant themes, is dedicated to the enhancement of photography in Portugal and strengthens and amplifies the positive impacts of a national initiative of artistic scope. The 15th edition of this award portrays and celebrates the diversity (ethnic, social, racial, gender, religious, political, among others) that surrounds us, through a multiplicity of images representing a world that one wants to be increasingly heterogeneous, promoting a sense of belonging and reducing exclusion. This edition was once again aligned with the Bank's positioning, more precisely with its Responsible Banking programme.

Solitude, 1968 - Manuel D'Assumpção

Oil on canvas, 128 cm x 190 cm

D'Assumpção made this painting during his last stay in Berlin. In full artistic maturity, he works rigorously with forms and their fragmentation, in a structure between abstraction and cubist reminiscences, inseparable from a palette of dark hues - blacks, browns, greys - that contrast with the blues and reds of the central composition, achieving a dense composition of intense plastic force. A painter constantly questioning himself, disillusioned with the world and with life, D'Assumpção lived for several years in France, travelled throughout Europe, and absorbed new plastic languages such as expressionism, cubism and geometric abstraction. Moved by a strong mysticism, which he projects onto his painting, from the late 1950s he found in abstraction a field of transcendence and escape from reality.

CRATO. Crato Municipal Museum

5 ESG PERFORMANCE INDICATORS

5.1 Environmental Indicators

Environmental Indicators - Materials consumed	2022	2021	2020	22 vs 21
White paper				
Internal use (tonnes)	148.2	155.2	208.3	-4.5%
Paper for Internal use (Kg/employee)	36.2	37.0	45.0	-2.1%
Forms - printing and finishing area (tonnes) 1	114.9	100.1	112.9	14.8%
IT and electronic consumables				
Toner cartridges and Ink cartridges(units)2	45	41	67	9.8%
Batteries	2 695.0	2 144.0	2 496.0	25.7%
Environmental Indicators - Energy				
Electricity				
Electricity consumption (kWh)	13 183 802.0	16 296 473.1	21 181 218.0	-19.1%
Total electricity consumption (GJ)	47 461.7	58 667.3	76 252.4	-19.1%
Electricity consumption (kWh/employee)	3 223.4	3 886.6	4 622.7	-17.1%
Diesel				
Generator diesel consumption (litres) [2]	3 610.8	504.2	400.0	616.1%
Generator diesel consumption (GJ)[2]	130.2	18.2	14.4	616.5%
Vehicles diesel consumption (litres)	1 563 746.0	1 620 056.6	1 680 495.6	-3.5%
Vehicles diesel consumption (GJ)	56219.8	58 244.3	60 417.2	-3.5%
Gasoline				
Vehicles gasoline consumption (litres)	1 680.0	840.0	840.0	100.0%
Vehicles gasoline consumption (GJ)	55.1	27.5	27.5	100.0%
Total energy consumption (GJ)	**103 867,0**	**116 957.3**	**136 711.5**	-11.2%
Total energy consumption per employee (GJ)	**25.4**	**27.9**	**29.8**	**-9.0%**
Trips				
Number of vehicles	922	957	987	-3.7%
Number of flights	783	517	463	51.5%

1 novobanco
2 Diesel consumption is an estimate based on the number of hours generators were operating novobanco, Banco Best and GNBGA

Environmental Indicators - Emissions (tCO2e)*	2022	2021	2020	22 vs 21
Direct emissions (Scope 1)	**4 158.1**	**4 696.1**	**4 888.3**	**-11.5%**
Emissions from trips in company cars	3 999.2	4 311.8	4 472.6	-7.3%
Emissions from emergency generators	10.2	1.3	1.1	759.6%
Emissions from leaks of fluorinated gases	148.7	382.9	406.6	-61.2%
Indirect emissions (Scope 2)**	**811.3**	**2 937.5**	**4 490.3**	**-72.4%**
Emissions from the production of electricity purchased (market-based method)	811.3	2 937.5	4 490.3	-72.4%
Emissions from the production of electricity purchased (Location based method)	2 013.3	2 386.5	3 757.9	-15.6%
Total (Scopes 1 and 2)	**4 969.4**	**7 633.6**	**9 370,5**	**-34.9%**
Indirect emissions (Scope 3)	**6 102.6**	**4 184.2**	**4 663.2**	**45.8%**
Emissions from Employees' business trips, including flights	357.4	149.4	186.6	139.2%
Emissions from employees' home/ work daily trips***	5 649.5	3 909.8	4 323.1	44.5%
Emissions from wastewater treatment	71	76.6	96.4	-7.3%
Emissions over the life cycle of the paper consumed	3.21	3.9	3.6	-17.6%
Emissions from the paper recycling process	10.6	11.0	12.4	-3.6%
Emissions from water consumption	10.8	-	-	-
Total (Scopes 1, 2 and 3)	**11 072.0**	**11 817.8**	**14 041.8**	**-6.3%**

*See methodological notes in GRI table**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	2022	2021	2020	22 vs 21
Water consumption from public supply network (m3)	39 870.2	41 355.10	46 772.60	-3.6%
Water consumption per employee (m3/employee)	9.7	9.9	10.2	-1.5%

Environmental Indicators - Waste management	2022	2021	2020	22 vs 21
Paper sent for recycling (tonnes)	99.0	117.4	106.1	-15.7%
Cardboard sent for recycling (tonnes)	51.9	66.3	61.3	-21.7%
Plastic Bank Cards sent for recycling (tons)	1.4	**0**	**0**	
Toner cartridges and Ink cartridges sent for recycling (units)	2 988	5 944	8 344	-49,7%
Pilhas	108	na	na	-

5.2 Social Indicators

Employees	2022	2021	2020	22 vs 21
Total	**4 090**	**4 193**	**4 582**	**-2.5%**
Men (#)	1 880	1 944	2 159	-3.3%
Men (%)	46.0%	46.4%	47.10%	-0,4 p.p.
Women (#)	2 210	2 249	2 423	-1.7%
Women (%)	54.0%	53.6%	52.90%	0,4 p.p.

Employment contract	2022	2021	2020	22 vs 21
Total permanent workforce	**4 026**	**4 153**	**4 417**	**-3.1%**
Men (#)	1 857	1 929	2 088	-3.7%
Men (%)	46.1%	46.4%	47.3%	-0,3 p.p.
Women (#)	2 169	2 224	2 329	-2.5%
Women (%)	53.9%	53.6%	52.7%	0,3 p.p
Total Fixed-term Employees	64	40	165	60.0%
Men (#)	23	15	71	53.3%
Men (%)	35.9%	37.5%	43.0%	1.6 p.p.
Women (#)	41	25	94	64.0%
Women (%)	64.1%	62.5%	57.0%	1.6 p.p.

Trainees and independent professionals*	2022	2021	2020	22 vs 21
Estagiários	**10**	**14**	**54**	**-28.6%**
Men (#)	4	5	19	**-20.0%**
Women (#)	6	9	35	**-33.3%**
Temporary work	**42**	**30**	**34**	**40.0%**
Men(#)	10	7	11	**42.9%**
Women (#)	32	23	23	**39.1%**
Provision of service	2	4	**5**	**-50.0%**
Men(#)	0	2	2	**-**
Women (#)	2	2	3	**-**
Total(#)	**54**	**48**	**93**	**12.5%**

* 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.

Employee distribution by gender and professional category	2022	2021	2020	22 vs 21
Management				
Total	**481**	**472**	**472**	**1.9%**
Men (#)	307	301	299	2.0%
Men (%)	7.5%	7.2%	6.5%	0,3 p.p.
Women (#)	174	171	173	1.8%
Women (%)	4.3%	4.1%	3.8%	0,2 p.p.
< 30 years old	1	2	2	-50.0%
30 a 50 years old	265	292	322	-9.2%
> 50 anos years old	215	178	148	20.8%
Leadership				
Total	**388**	**461**	**513**	**-15.8%**
Men (#)	218	257	291	-15.2%
Men (%)	5.3%	6.1%	6.4%	-0,8 p.p
Women (#)	170	204	222	-16.7%
Women (%)	4.2%	4.9%	4.8%	-0,7 p.p.
< 30 years old	0	0	0	-
30 a 50 years old	272	346	387	-21.4%
> 50 anos years old	116	115	126	-0.9%
Specific				
Total	**2 170**	**1 973**	**2 176**	**10.0%**
Men (#)	955	891	985	7.2%
Men (%)	23.3%	21.2%	21.5%	2,2 p.p.
Women (#)	1 215	1 082	1 191	12.3%
Women (%)	29.7%	25.8%	26.0%	3,9 p.p.
< 30 years old	101	111	122	-9.0%
30 a 50 years old	1 524	1 459	1 658	4.5%
> 50 anos years old	545	403	396	35.2%
Administrative				
Total	**1 044**	**1 279**	**1 413**	**-18.4%**
Men (#)	393	487	576	-19.3%
Men (%)	9.6%	11.6%	12.6%	-2.p.p
Women (#)	651	792	837	-17.8%
Women (%)	15.9%	18.9%	18%	-3 p.p.
< 30 years old	84	61	115	37.7%
30 a 50 years old	639	831	865	-23.1%
> 50 anos years old	321	387	433	-17.1%
Auxiliary				
Total	**7**	**8**	**8**	**-12.5%**
Men(#)	7	8	8	-12.5%
Men (%)	0.2%	0.2%	0.2%	-
Women (#)	0	0	0	-
Women (%)	-	-	-	-
< 30 years old	0	0	0	-
30 a 50 years old	4	4	4	0.00%
> 50 anos years old	3	4	4	-25.0%

Employess Academic Qualifications	2022	2021	2020	22 vs 21
University Education	**3 117**	**3 100**	**3 313**	**0.5%**
Men (#)	1 356	1357	1 461	-0.1%
Men (%)	33.2%	32.4%	31.9%	0,9 p.p.
Women (#)	1 761	1 743	1 852	1.0%
Women (%)	43.1%	41.6%	40.4%	1,5 p.p.
High school/Basic Education	**973**	**1 093**	**1 269**	**-11.0%**
Men (#)	524	587	698	-10.7%
Men (%)	12.8%	14.0%	14.4%	-1,2 p.p.
Women (#)	449	506	571	-11.3%
Women (%)	11.0%	12.1%	11.8%	-1,1p.p.

Admissions and departures	2022		2021		2020		22 vs 21	
	A	D	A	D	A	D	A	D
Total	**159**	**262**	**66**	**455**	**192**	**479**	**140.9%**	**-42.4%**
Gender								
Men	77	141	39	254	98	276	97.4%	-44.5%
Wowen	82	121	27	201	94	203	203.7%	-39.8%
Age bracket								
< 30 anos	83	49	27	68	135	28	207.4%	-27.9%
30 a 50 anos	68	85	34	156	53	202	100.0%	-45.5%
> 50 anos	8	128	5	231	4	249	60.0%	-44.6%

A - Admissions;D- Departures

Staff Turnover (%)	2022	2021	2020	22 vs 21
Total	**5.0%**	**6.2%**	**7.3%**	**-1,2 p.p.**
Men (%)	2.6%	3.5%	4.1%	-0,9 p.p.
Women (%)	2.4%	2.7%	3.2%	-0,3 p.p.
Age bracket				
< 30 years old	1.6%	1.1%	1.8%	0,5 p.p.
30 a 50 years old	1.8%	2.3%	3.2%	-0,5 p.p.
> 50 anos years old	1.6%	2.8%	2.8%	-1,2 p.p.

Staff turnover including trainnees, Temporary work and Provision of Services (%)	2022			2021	2020
	A	D	Rate		
Total	218	314	6.3%	-	-
Gender					-
Men	92	155	3.0%	-	-
Women	126	159	3.5%	-	-
Age bracket				-	-
< 30 years old	124	88	2.5%	-	-
30 a 50 years old	84	97	2.2%	-	-
> 50 anos years old	10	129	1.7%	-	-

Performance Evaluation	2022			2021			2020			22 vs 21		
	M	F	T	M	F	T	M	F	T	M	F	T
Employees (#)	**1 884**	**2 173**	**4 057**	**2 074**	**2 318**	**4 392**	**2 089**	**2 237**	**4 326**	**-9.2%**	**-6.3%**	**-7.6%**
Management (#)	286	166	**452**	294	168	**462**	260	132	**392**	-2.7%	-1.2%	**-2.2%**
Leadership (#)	254	199	**453**	285	220	**505**	307	226	**533**	-10.9%	-9.5%	**-10.3%**
Specific (#)	860	1 041	**1 901**	951	1 152	**2 103**	976	1 156	**2 132**	-9.6%	-9.6%	**-9.6%**
Administrative (#)	476	767	**1 243**	536	778	**1 314**	538	723	**1 261**	-11.2%	-1.4%	**-5.4%**
Auxiliary (#)	8	0	**8**	8	0	**8**	8	0	**8**	0.0%	-	**0.0%**

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

Promotion	2022	2021	2020	22 vs 21
Function change (#)	283	251	337	12.7%
Merit (#)	1 002	811	1 081	23.6%
Seniority (#)	0.00	53	65	-100.0%
Total (#)	1 285	1 115	1 483	15.2%

Training hours / employee	2022		2021		2020		22 vs21	
	T	A	T	A	T	A	T	A
Total	**164 052.3**	**40.1**	**179 294.0**	**42.8**	**196 958.0**	**43.0**	**-8.5%**	**-6.3%**
Gender								
Men	75 368.4	40.1	79 999.0	41.2	89 359.0	41.4	-5.8%	-5.9%
Women	88 683.9	40.1	99 295.0	44.2	107 600.0	44.4	-10.7%	-9.2%
Professional Category								
Management	**18 270.2**	38.0	**9 372.0**	**19.9**	**9 297.0**	**19.7**	**94.9%**	**90.9%**
Men	12 021.8	39.2	5 838.0	19.4	5 690.0	19.0	105.9%	101.9%
Women	6 248.3	35.9	3 534.0	20.7	3 607.0	20.8	76.8%	73.5%
Leadership	**18 287.6**	47.1	**9 914.0**	**21.5**	**8 217.0**	**16.0**	84.5%	119.2%
Men	10 288.9	47.2	5 436.0	21.2	4 758.0	16.4	89.3%	122.6%
Women	7 998.7	47.1	4 478.0	22.0	3 460.0	15.6	78.6%	113.9%
Specific	**79 284.4**	36.5	**94 958.0**	**48.1**	**99 218.0**	**45.6**	-16.5%	-24.0%
Men	34 207.6	35.8	43 078.0	48.3	46 210.0	46.9	-20.6%	-25.8%
Women	45 076.9	37.1	51 880.0	47.9	53 008.0	44.5	-13.1%	-22.5%
Administrative	**48 191.1**	46.2	**65 049.0**	**50.9**	**80 226.0**	**56.8**	-25.9%	-9.3%
Men	18 831.1	47.9	25 647.0	52.7	32 701.0	56.8	-26.6%	-9.1%
Women	29 360.0	45.1	39 403.0	49.8	47 525.0	56.8	-25.5%	-9.4%
Auxiliary	**19.0**	2.7	0.0		0.0	0.0	-	-
Men	19.0	2.7	0.0		0.0	0.0	-	-
Women	0.0	0.0	**0.0**		**0.0**	**0.0**	-	-

T-Total
A-Average

Parental Leave	2022		2021		2020		22 vs 21	
	M	F	M	F	M	F	M	F
Employees who took parental leave	58.0	107.0	39	88	82	130	48.7%	21.6%
Employees who returned to work after parental leave ended	58.0	58.0	39	50	82	85	48.7%	16.0%
Employees who returned to work after parental leave ended and remained in service after 12 months	-	-	36	80	74	116	-	-
Return to work rate	100%	54.2%	100.00%	56.8%	100%	65.4%	-	-2,6 p.p.
Retention rate after 12 months of work			93.2%	90.0%	90.2%	89.2%	-	-

M-Male; F- Female

Health Services	2022	2021	2020	22 vs 21
Occupational Health - Occupational Medicine				
Medical Exams	2 493	3 007	1 508	-17.1%
General Practice Consultations	7 038	7 597	8 345	-7.4%
Curative Medicine consultations and prescriptions	583	11 952	9 444	-95.1%
Consultations in other medical specialities				
Mental health consultations (psychology and psychiatry)	1057	928	751	13.9%
Nutrition Consultations	457	383	348	19.3%
Nursing				
Total procedures (treatments, vaccination, medication, ECG)	4 337	6 772	5 760	-36.0%
Risk Prevention and Control Programmes				
Cardiovascular screening	2 091	2 408	1 100	-13.2%
Cancer screening	659	724	354	9.0%
Vision screening	1 875	2 674	1 212	-29.9%
Executive Check-up (for senior executives)	510	186	86	174.2%

Health and Safety Indicators	2022	2021	2020	22 vs 21
Work related accidents	29	27	29	7.41%
Men	11	10	11	10.00%
Women	18	17	18	5.88%
Occupational diseases	-	-	-	-
Men	-	-	-	-
Women	-	-	-	-
Deaths	0	0	0	-
Men	0	0	0	-
Women	0	0	0	-
Accident rate	3.9%	3.8%	3.5%	0,1p.p.
Men	3.2%	3.0%	3.5%	0,2 p.p.
Women	4.6%	4.6%	4.3%	-
Lost days rate	0.06%	0.05%	0.05%	0.01 p.p.
Men	0.06%	0.04%	0.03%	0.02 p.p.
Women	0.06%	0.04%	0.07%	0.01 p.p.
Absenteeism rate	2.7%	3.2%	4.5%	-0,5 p.p.
Men	1.9%	2.3%	2.7%	-0.4 p.p.
Women	3.4%	3.9%	6.1%	-0.5 p.p.
Health and Safety Training				
Health training hours (#)	3 844.0	29.0	50.0	13 155.2%

Safety training hours (#)	4 409.0	520.5	1 292.1	747.1%
Hours of health awareness promotion(#)	6 013.0	2 938.0	1 085.0	104.7%
Total (#)	14 266.0	3 487.5	2 127.1	309.1%
Safety audits to the premises (#)	178	107	155	66.4%
Ergonomic assessments (#)	16	2	2	700.0%
Expert identifications and risk assessment of activities (IPAR) (#)	168	150	110	12.0%
Thermal environment assessments (#)	2	1	1	100.0%
Indoor air quality assessments (#)	0	0	1	-
Lighting assessments (#)	0	0	6	-100.0%
Investigation of Causes of Work Injuries (#)	11	6	13	83.3%
Evaluation of conformity with COVID-19 requirements (#)	3	-	-	-
Investigation of Causes of Occupational Illnesses (#)	15	-	-	-
Elaboration/Follow-up of Integrated Action Plan (#)	184	-	-	-
Risk Assessment and List of Work Equipment (#)	164	-	-	-

Employee Benefits	2022	2021	2020	22 vs 21
Education support (thousand €)	**833**	**833**	**905**	**0.0%**
Early childhood benefits (#)	367	398	436	-7.8%
Early childhood benefits (thousand€)	423.4	454.4	511.6	-6.8%
School grants (#)	268	224	262	19.6%
School grants(thousand €)	196.5	164.1	192.8	19.7%
Support to children and youths with special needs (#)	94	91	81	3.3%
Support to children and youths with special needs (thousand €)	86.6	87.4	79.9	-1.0%
Christmas gift (#)	3 160	3 340	3024	-5.4%
Christmas gift (thousand€)	126.4	126.8	121.0	-0.3%
Support to retired employees (thousand€)	87,7	124,7	108,6	29.7%
Expenses with senior residences, day-care centres, home support, medicines and other basic necessities. (#)	67	68	60	-1.5%
Under the ACT (Collective wage agreement) (thousand €)	**18 455.9**	**17 833.2**	**18 409.8**	**3.5%**
Residential mortgage loans (thousand€)	16 896.3	15 799.8	15 812.0	-6.9%
Acquisition of consumer goods (thousand€)	1 559.6	2 033.4	2 597.8	-23.3%
In portfolio:	**289 699.1**	**271 856.0**	**289 632.6**	**6.6%**
Residential mortgage loans (thousand€)	280 142.4	260 419.1	276 094.4	7.6%
Individual loans (thousand€)	9 556.6	11 436.9	13 538.2	-16.4%

Associativism	2022	2021	2020	22 vs 21
Employees covered by Collective Bargaining Agreements (#)	3 964	4 032	4 392	-2.1%
Employees covered by Collective Bargaining Agreements (%)	96.5%	96.2%	95.9%	0,3 p.p.
Unionized employees (#)	3 786	3901	4239	-3%
Unionized employees (%)	92.6%	93.0%	92.5%	-0,3 p.p.

Employees with disability more than 60% (Law No. 4/2019)	2022		
	M	F	T
Diretores (#)	3	5	8
Chefias (#)	4	4	8
Specific (#)	16	42	58
Administrativos (#)	14	22	36
Auxiliares (#)	1	0	1
Total (#)	**38**	**73**	**111**

5.3 Governance Indicators

Gender Equality (under-represented gender (Género sub-representado %)	2022	2021	2020	22 vs 21
Board of Directors and 1st line managers (under-represented gender)	27.5%	25.5%	-	2.0 p.p.
Management staff	36.7%	36.2%	36.7%	0,5 p.p.
Pay gap	5.7%	5.9%	9.4%	-0,2 p.p.
Ratio of women's total remuneration to men's total remuneration per employee category				
Management staff	0.90	0.88	0.87	0.02 p.p.
Lidership	0.97	0.97	0.95	0.0 p.p.
Specific	0.90	0.90	0.89	0.00 p.p.
Administrative	0.91	0.90	0.89	0.01 p.p.
Auxiliary	-	0.00	0.00	-
Total	**0.81**	**0.78**	**0.76**	**0.03 p.p.**

Sustainability scoring (%)	2022	2021	2020	22vs 21
Suppliers that endorsed novobanco Group's relati4onship principles and have a sustainability scoring (%)	61.1%	52.0%	41%	9.1 p.p.

5.4 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 190 and 191.

The 2022 Sustainability Report complements and details the information contained in the 2022 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.

5.5 Methodological Notes

Social

Staff Turnover	((Number of admissions + departures)/2) / total employees)
New hires rate	New hires in 2022/total number of employees in 2022
Accident Rate	Number of accidents at work/Hours worked*1000000
Absenteeism Rate	Number of absences (without maternity / paternity leave)/Possible working hours*100
Return to Work Rat	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
Remuneration ratio	Ratio of average base remuneration and average total remuneration of women to men by employee category - (women remuneration / men remuneration)*100

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
Generators diesel	Diesel consumption in 2021 is an estimate based on the number of hours generators were operating.
Energy	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) 0.84 kg/l (Source: DGEG 2017, data on 9/21/2019)
PCI petrol (road)	44.3 GJ/t (Source: Order No. 17313/2008 (SGCIE) 0.74 kg/l (Source: DGEG 2017, data on 09/21/2019)
Density of diesel (generators)	43.07 GJ/ (Source: APA - Density values of fuels to be used under the CELE regime) 0.837 kg/l (Source: APA - Density values of fuels to be used under the CELE regime)
Electricity	1 kWh = 0.0036 GJ (Source: International Energy Agency and GRI)
CO_2 Emissions Scope 1	To calculate emissions from energy consumption, the following formula was used: • PCI diesel (generators) - 0,078 ton CO2eq/GJ/ (Source: APA - Fuel density values to be used under the EU ETS) • Density of diesel (generators) - 0.837 kg/l Source: APA - Fuel density values to be used under the EU ETS) • It also takes into account the following emission factors and parameters used to calculate Greenhouse Gases (GHG) emissions: • Light vehicle, petrol, engine cubic capacity < 1 400 cm3 0.173 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, petrol, engine cubic capacity 1 400 and < 2000 cm3 - 0.215 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, petrol, engine cubic capacity ≥ 2000 cm3 - 0.299 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, diesel, engine cubic capacity < 2 000 cm3 - 0.181 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, diesel, engine cubic capacity ≥ 2 000 cm3 - 0.245 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Hybrid vehicle - 0.144 kg CO2e/km (Source: APA - NIR 2020) • Electric vehicle - 0.018 kg kg CO2e/km (consumption - 13.3 kW/100 km) (Source: APREN, 2020)
CO_2 Emissions Scope $_2$	To calculate emissions from energy consumption, the following formula was used:= Consumption X * Emission factor (EF)X It also takes into account the following emission factors and parameters used to calculate GHG emissions: • Electricity production mainland - market based method - 0.251 kg CO2e/kWh (Source: 2022 offer mix – EDP Business Customers) • Electricity production mainland - location based method - 0.137 kg CO2e/kWh (Source: APREN, 2022 energy mix) • Electricity production on the island of Madeira – location and market method - 0.487 kg CO2e/kWh (Source: EE Madeira 2022) • Electricity production on the Azores island – location and market method - 0.487 kg CO2e/kWh (Source: EDA, 2020 Report and Accounts)

CO_2 Emissions Scope 3	The calculation includes the emissions resulting from employees' business trips and home/work/home (HWH) trips, using the following formula: Emission = Trip (km) X * EFX It also takes into account the following emission factors and parameters used to calculate GHG emissions: • Diesel vehicle - 0.210 kg CO2e/km (Source: APA - NIR 2021) • Petrol vehicle - 0.208 kg CO2e/km (Source: APA - NIR 2021) • LPG vehicle - 0.193 kg CO2e/km (Source: APA - NIR 2021) • Hybrid vehicle - 0.144 kg CO2e/km (Source: APA - NIR 2021) • Electric vehicle - 0.018 kg CO2e/km (consumption of 13.3 kW/100 km) (Source: APREN 2021) • Bus - 0.131 kg CO2e/km (Source: DEFRA 2020); 1.420 kg CO2e/km (Source: STCP 2011) and 0.189 kg CO2e/km (Source: Carris 2020) • Subway - 0.06 kg CO2e (Source: Metro Lisboa 2016) and km, 0.040 kg CO2e/km (Source: Metro do Porto 2018) • Train - 0.024 kg CO2e/km (Source: CP 2019) and 0.021 kg CO2e/km (Source: Fertagus 2013/2014) • Boat - 0.190 CO2e/km (Source: Transtejo+Soflusa, 2014) • Motorcycle (pertrol) - 0.133 kg CO2e/km (Source: APA - NIR 2021) • Motorcycle (electric) - 0.012 kg CO2e/km (Consumption of 9 kW/100 km) (Source: APREN 2021)
CO_2 Emissions Scope 3	• Plane emission = Trip (Km) X * EFX * Takeoff factor * RFI2 • It also takes into account the following emission factors and parameters used to calculate GHG emissions: • Plane, Domestic flight FE CO2 - 0.17147 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Plane, short-distance flight FE CO2 - 0.09700 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Plane, long-distance flight FE CO2 - 0.11319 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Plane, domestic flight FE CH4 - 0.0001 kg CO2e/km (Source: DEFRA 2020) • Plane, short-distance flight FE CH4 - 0.00001 kg CO2e/km (Source: DEFRA 2020) • Plane, long-distance flight FE CH4 - 0.00001 kg CO2e/km (Source: DEFRA 2020) • Plane, domestic flight FE N2O - 0.00002 kg CO2e/km (Source: DEFRA 2020) • Plane, short-distance flight FE N2O - 0.00076 kg CO2e/km (Source: DEFRA 2020) • Plane, long-distance flight FE N2O - 0.00095 kg CO2e/km (Source: DEFRA 2020) • Takeoff factor - 109% (Source: DEFRA/IPCC 1999) • RFI - 1.9% (Source: DEFRA/IPCC 1999) • The calculation of GHG emissions from wastewater treatment also takes into account the following emission factors and parameters: 0.0019 kgCH4/per day (8-hour working day; employees in-office workdays in 2020), with the following factors: • Global Warming Potential (GWP) CO2 – 1 • GWP CH4 – 28 • GWP N2O- 265 • The calculation of emissions associated with paper consumption, treatment of paper sent for recycling and water consumption also considers the following emission factors: • Paper life cycle - 0.3 t CO2e/t paper consumed (Source: CEPI - Key Statistics 2019) • 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

Governance

Remuneration Ratio	Ratio of average base pay and average 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 The % of promoters corresponds to the % of responses of 9 to 10 on a scale of 0 to 10 The % of detractors corresponds to the % of responses of 0 to 6 on a scale of 0 to 10
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

5.6. GRI Table

Declaration of use	novobanco reported in accordance with the GRI Standards for the period from January 1 to December 31, 2022
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					
2-1 Organizational details	AR- Novo Banco, S.A. MR – Av. da Liberdade, nº 195, 1250-142 Lisboa SR – page 113 The 2022 Sustainability Report covers the novobanco Group – novobanco, novobanco dos Açores, Banco Best and GNBGA.				
2-2 Entities included in the organization's sustainability reporting	MR – pages 16- 22; 57-64 F S– page 209 The 2022 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 2022 Frequency: yearly Sustainability points of contacts: sustentabilidade@novobanco.pt				
2-4 Restatements of information	The 2022 Sustainability Report covers the novobanco Group scope (novobanco, novobanco dos Açores, Banco Best and novobanco Gestão				

		Page in the Report	SDG	GC Principles	Omissions	Scope
		de Ativos Group), and the figures for the 2020 Sustainability Report were recalculated based on this scope. Appointment of new CEO and CFO Creation of the Sustainability Office Increase in the Bank's share capital to the amount of 6,054,907,314.00 Euros. Nani Holdings S.G.P.S., S.A – 75.00% Fundo de Resolução (Resolution Fund) – 19.31% Directorate General for the Treasury and Finance – 5.69% SR- pages 121; 124-126. MR- pages 23-24				
2-5	**External assurance**	SR – pages 190-191				
ACTIVITIES, VALUE CHAIN AND OTHER BUSINESS RELATIONSHIPS						
2-6	**Activities, value chain and other business relationships**	SR – pages 111; 121-124; 124-126; 131-149;153-159. MR – pages 16- 22; 23-24; 35-41; 58-65. FS – Page 209 Bank institutional website, products and services. The 2022 Sustainability Report covers the novobanco Group scope (novobanco, novobanco dos Açores, Banco Best and novobanco Gestão de Ativos Group), and the figures for the 2020 Sustainability Report were recalculated based on this scope. 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 54 (14 men and 40 women) in 2022 - represent 1.3 % of the group's total workforce.				
2-7	**Employees**	SR – pages 140-147;162-168. MR – pages 35, 39-41.	8	6		
2-8	**Workers who are not employees**	SR – pages 140-147;162-168. MR – pages 35, 39-41.	8	6		
Governance of the organization						
2-9	**Governance structure and composition**	SR – pages 124-127. MR – pages 16- 22, 23-24; 35-41; 57-63, 74-93. Institucional website	5, 16			
2-10	**Nomination and selection of the highest governance body**	SR – pages 124-127. MR – pages 26- 29, 74-93.	5, 16			

		Page in the Report	SDG	GC Principles	Omissions	Scope
		Bank institutional website. SR – pages 127-130.				
2-11	**Chair of the highest governance body**	MR – pages 27- 30, 75-96 Bank institutional website.	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 2024,2030 and 20250. 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. 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 124-127. MR – pages 26- 29, 74-93. Bank institutional website.	16			
2-13	**Delegation of responsibility for managing impacts**	Board Of Directors, Committees Sustainability Steering. SR – pages 124-127. MR – pages 26- 29, 74-93. Bank institutional website.				
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 124-127. MR – pages 26- 29, 83-88. Institutional website, Policy Conflict of Interest	16			
2-16	**Communication of critical concerns**	SR – pages 124-127. MR – pages 26- 29, 84.				

		Page in the Report	SDG	GC Principles	Omissions	Scope
		Institutional website - supervision committees and Irregularities Reporting policy Institutional website - supervision committees and Whistle-blowing Policy SR – pages 124-127.				
2-17	**Collective knowledge of the highest governance body**	MR – pages 26- 29, 83-88. Institutional website, Policy Conflict of Interest	4			
2-18	**Evaluation of the performance of the highest governance body**	The performance assessment processes, with regard to the identification of risks and opportunities in economic, social and environmental issues, are identified and managed by the Executive Board of Directors, Committees, Departments and subsequently submitted to the highest governance body and to the Chairman of the Executive Board of Directors. For more information see SR – pages 124-129. MR – pages 26- 29, 74-95.				
2-19	**Remuneration policies**	SR – pages 124-1277. MR – pages 26- 29, 87-93. Institutional website, Remuneration Policies				
2-20	**Process to determine remuneration**	SR – pages 124-1277. MR – pages 26- 29, 87-93. Institutional website, Remuneration Policies				
2-21	**Annual total compensation ratio**	Median annual total compensation for all employees (excluding the highest-paid individual); €39 986,53 CEO total annual remuneration: €387 117,78 .0 Change in CEO remuneration: 4.1% Ratio of the CEO total annual compensation to the median annual total compensation for all employees (excluding the highest-paid individual) 9.68% In 2022 and within the scope of the Collective Bargaining Agreement, there was a salary increase of 1.10%. Average Remuneration: 3.9%				
STRATEGY, POLICIES AND PRACTICES						
2-22	**Statement on sustainable development strategy**	AR- CEO Talk com Mark Bourke pages 9-11.				

		Page in the Report	SDG	GC Principles	Omissions	Scope
2-23	**Policy commitments**	SR – pages 111- 121;124-133; 144;147-148;153-156. MR - 43-50 82-90. Institutional website	16	10		
2-24	**Embedding policy commitments**	SR – pages 111- 121;124-133; 144;147-148;153-156. MR - 43-50 82-90. Institutional website	16	10		
2-25	**Processes to remediate negative impacts**	SR – pages 111-119; 125-127; 127-133;153-160. MR – pages 32 -48.	16	10		
2-26	**Mechanisms for seeking advice and raising concerns**	SR – pages 113-118;125-127;131.140; 141-147;147-149; 153-160. MR – pages 16-31; 82-90.	16	10		
2-27	**Compliance with laws and regulations**	In 2022, the novobanco Group was considered responsible for 9 infractions that resulted in sanctions in the amount of €743.6m to the following entities: • Central Banks / Regulatory Entities • Town Halls	16	8		
2-28	**Membership associations**	SR – pages 121-122; 153-159. Institutional website				
STAKEHOLDER ENGAGEMENT						
2-29	**Approach to stakeholder engagement**	SR – pages 113-118;125-127;131.140; 141-147;147-149; 153-160.				
2-30	**Collective bargaining agreements**	SR – page 167.	8	3		
GRI 3: DISCLOSURES ON MATERIAL TOPICS 2021						
3-1	**Process to determine material topics**	SR – pages 113-121.				
3-2	**List of material topics**	SR – pages 113-121.				
ECONOMIC INDICATORS **TOPIC: ECONOMIC PERFORMANCE**						
3-3	Explanation of the material topic and its Boundary	The Strategic Plan defined for the 2021-2024 three-year period, on which the management approach has been based, was designed to put in place the necessary conditions for the novobanco Group to transition from a restructuring bank into a growth bank prepared for the future. To this end, the Bank is defining a new distribution model, streamlining its technological and process infrastructure, rejuvenating and enhancing its human capital, and fine-tuning its risk model, electing as cross-cutting priorities optimisation, digitisation and differentiation The novobanco Group has over the years promoted several initiatives with economic impacts. The group's activity has been shaped by and developed in accordance with the objectives established in the Strategic Plan, which resulted in the growth of the				

		Page in the Report	SDG	GC Principles	Omissions	Scope
		recurrent credit portfolio, with a reduction in the cost of risk, in significant improvements in commercial banking income, and in the continuous reduction of operating costs, despite the strong increase in investment. The Bank monitors the indicators defined for this topic on a monthly basis.				
201-1	Direct economic value generated and distributed	Banking Income: €: 918.8. million MR – page 53 Banking Income: €: 918.8 million MR – Page 53 General and administrative expenses: €162.2 million MR - page 55 Staff Costs: €233.7 million MR- page 55 Payments to providers of Capital - Shareholders - There was no distribution of dividends Taxes: €10.0M million FS – page 265, note 30 Community Investments: €1.6 million in donations SR – pages 154-155 Economic Value Distributed: €407.5.7M million Economic Value Retained €511.3million	2, 5, 8, 9			
201-2	Financial implications and other risks and opportunities due to climate change	SR – pages 126-131. MR – pages 42-49.	13			
201-3	Defined benefit plan obligations and other retirement plans	SR -– pages 141-143;144-147;167.				
201-4	Financial assistance received from governance	FS – page 420, note 34				
TOPIC: MARKET PRESENCE						
3-3	Explanation of the material topic and its Boundary	novobanco's strategy is centered on being a bank focused on each of its customers, providing them with a simple and efficient experience, supported by an experienced and close team, thus contributing to an organization with robust and sustainable results. Novobanco's strategic plan comprises 4 pillars: i) Customer-centric bank; ii) Simple and efficient operations; iii) Developing people and cultures and iv) Achieving sustainable performance. The novobanco Group has over the years promoted several initiatives with economic impacts. The group's activity has been shaped by and developed in accordance with the objectives established in the Strategic Plan, which resulted in the growth of the recurrent credit portfolio, with a reduction in the cost of risk, in significant improvements in commercial banking income, and in the continuous reduction of operating costs, despite the strong increase in investment. The Bank monitors the indicators defined for this topic on a monthly basis.				
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 1.27 times higher than the national minimum wage).	5, 7, 8	6		

		Page in the Report	SDG	GC Principles	Omissions	Scope
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 – page 28.	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 131-140. MR – pages 57-64.	2, 5, 7, 9, 11			
203-2	Evaluation of the management approach	SR – pages 113-1119; 131-140. MR – pages 32-35; 57-64.	1, 2, 3, 8, 10, 17			
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 – pages147-148;168.				
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 91.9% of the expenses refer to national suppliers vs 8.1% of international suppliers. SR – pages147-148;168.	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	MR – page 86.	16	10		
205-2	Total number and percentage of employees trained in the	MR – page 86.	16	10		

		Page in the Report	SDG	GC Principles	Omissions	Scope
	organization's anti-corruption policies and practices					
205-3	Confirmed incidents of corruption and actions taken	Please see indicator 2-27.	16	10		
TOPICS: ANTI COMPETITIVE BEHAVIOUR						
3-3	Explanation of the material topic and its Boundary	Novobanco has participated over the years in various initiatives in terms of sustainable financing in partnership with its competitors. In 2019, it 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-. As part of 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 integrates several working groups whose objective is to create methodologies and tools to respond to the challenges of sustainability, both for individuals and companies. The Bank monitors indicators associated with this topic and reports them in the Annual Report, on the institutional website and in the Sustainability Report.				
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 2022.	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 institutional website.				
301-1	Materials used by weight or volume	SR – pages149-152;161-162.	8,12	7,8		
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				

		Page in the Report	SDG	GC Principles	Omissions	Scope
		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 institutional website.				
302-1	Energy consumption within the organisation	SR – pages149-151;161-162.	7,8,12,13	7,8		
302-3	Energy intensity	SR – pages149-151;161-162.	7,8,12,13	8		
302-4	Reduction of energy consumption	SR – pages149-151;161-162.	7,8,12,13	8,9		
302-5	Reductions in energy requirements of products and services	SR – pages149-151;161-162.	7,8,12,13	8,9		
305-1	Direct (Scope 1) GHG emissions	SR –pages 151;161.	3,12,13,14,15	7, 8		
305-2	Energy indirect (Scope 2) GHG emissions	SR –pages 151;161.	3,12,13,14,15	7, 8		
305-3	Energy indirect (Scope 3) GHG emissions	SR –pages 151;161.	3,12,13,14,15	7, 8		
305-4	GHG emissions intensity	SR –pages 151;161.	13,14,15	8		
305-5	Reduction of GHG emissions	SR –pages 151;161.	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		
307-1	Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations	In 2022 there were no instances of non-compliance with environmental laws and/or regulations, nor were any fines paid in connection therewith.	16	8		
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				

		Page in the Report	SDG	GC Principles	Omissions	Scope
		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 – pages147-149;168.		8		
308-2	Negative environmental impacts in the supply chain and actions taken	SR – pages147-149;168.		8		
TOPIC: EMPLOYMENT						
3-3	Explanation of the material topic and its Boundary	The novobanco Group has over the years promoted several initiatives concerning the development of programmes that ensure human capital management focused on talent acquisition and retention, the rejuvenation of teams and the unlocking of the potential of the more experienced employees, using methodologies and programmes aimed at individual development, a balance between professional and personal life, and the creation of a circle of knowledge and sharing. 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 types of employment contracts, totalling 54 (14 men and 40 women) in 2022, represent 1.3 of the group's total workforce. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
401-1	Total number and rate of new employee hires during the reporting period, by age group, gender and region.	SR – page 170.	5, 8	6		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	The novobanco Group does not usually hire part-time employees, or only on an exceptional basis. In this context, benefits are granted under equal circumstances to all the group's employees and subsidies are attributed based on the employee's income. Trainees and temporary workers are not entitled to these benefits and are not covered by the scope of this report. Their representativeness within the group is very small: it covers permanent employees, fixed-term contracts and employees on loan. The employees with the remaining types of employment contracts, totalling 54 (14 men and 40 women) in 2022, represent 1.3 of the group's total workforce.	8			
401-3	Total number of employees that were entitled to parental leave, by gender and return to work and retention rates of	SR – page 166.	8	6		

		Page in the Report	SDG	GC Principles	Omissions	Scope
	employees that took parental leave, by gender					
TOPIC: LABOUR/MANAGEMENT RELATIONS						
3-3	Explanation of the material topic and its Boundary	The novobanco Group has over the years promoted several initiatives concerning the development of programmes that ensure human capital management focused on talent acquisition and retention, the rejuvenation of teams and the unlocking of the potential of the more experienced employees, using methodologies and programmes aimed at individual development, a balance between professional and personal life, and the creation of a circle of knowledge and sharing. The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
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, psychological and social wellbeing of its employees is essential for the group, which to this end has in place a health and wellbeing policy based on five lines of action: 1. Communicate and raise awareness; 2. Diagnose and prevent: 3. Encourage and promote; 4. Offer and provide; 5. Reconcile and flexibilise: practices for a balance between professional, personal and family life. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
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 172.	8			
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.	8			

		Page in the Report	SDG	GC Principles	Omissions	Scope
403-4	Health and safety topics covered in formal agreements with trade unions	SR - pages 144-147;166-167. 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 167.	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 142;165	4, 5, 8	6		
404-2	Programmes for upgrading employee skills and transition assistance programmes	SR – pages 142;165	8			
404-3	Percentage of employees receiving regular performance and career development reviews	SR –pages 142; 165.	5, 8	6		
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 - pages 143-144; 168.				
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).	SR – page 28.	5, 8	6		
405-2	Ratio of basic salary and remuneration of women to men for each employee category	SR –page 168. 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						

		Page in the Report	SDG	GC Principles	Omissions	Scope
3-3	Explanation of the material topic and its Boundary	Novobanco has promoted several initiatives over the years with the aim of reducing negative impacts in terms of discrimination through its Responsible Banking pillar, which is integrated into its Social Dividend model. Over the years, novobanco has promoted various initiatives in its Responsible Banking program aimed at monitoring and creating a more fair and gender-equal Bank, having, for this purpose, defined concrete objectives for 2024.				
406-1	Total number of incidents of discrimination and corrective actions taken,	In 2022 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, 16	6		
TOPIC: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING						
3-3	Explanation of the material topic and its Boundary	The group has over the years promoted several initiatives viewing non-discrimination, and in this context often meets with the Workers' Committee and the Trade Unions. The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report SR - page 167				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	In 2022, the group was not aware of any instances of non-compliance with laws or regulations for breaches of the right to freedom of association and collective bargaining, or of the payment of fines in connection thereof, within its value chain.		3		
TOPIC: CHILD LABOUR AND FORCED OR COMPULSORY LABOUR						
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 institutional.				

		Page in the Report	SDG	GC Principles	Omissions	Scope
408-1 409-1	Operations and suppliers at significant risk for incidents of child labour	During 2022 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	The group has over the years promoted several initiatives in this area for compliance with the legislation in force. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
410-1	Security personnel trained in human rights policies or procedures	The subject of Human Rights was addressed in the ESG training provided by the Group in 2022 to its employees.	16	1		
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	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 institutional 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		2		

		Page in the Report	SDG	GC Principles	Omissions	Scope
		suppliers (100%). The certification of suppliers requires answering mandatory response questions concerning human rights policies and practices. The Bank visits all its material suppliers to check their supply capabilities and their compliance with the requirements of the Principles for Suppliers. In 2022 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.				
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 help 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 institutional website.				
413-1	Operations with local community engagement, impact assessments, and development programmes	SR – pages 153-160.		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		
TOPIC: SUPPLIERS SOCIAL ASSESSMENT						
3-3	Explanation of the material topic and its Boundary	novobanco Group has over the years promoted several initiatives addressing its value chain, namely endorsing the Principles of Relationship with Suppliers, and calculating the “sustainability scoring”, which takes into account environmental, ethical, labour, hygiene and safety in the workplace aspects of its suppliers. The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
414-1	New suppliers that were screened using social criteria	SR – pages 147- 149;168.	5, 16	2		
414-2	Negative social impacts in the supply chain and actions taken	In 2022 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.				

		Page in the Report	SDG	GC Principles	Omissions	Scope
415-1	Political contributions	Novobanco monitors indicators pertaining to this topic and reports the results in its Sustainability Report. 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	The group has over the years promoted several initiatives across all client security activities, namely with respect to the clients' safety, the security of transactions, and the safeguard of the personal data of clients and other data subjects. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
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. 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 2022, there were no sanctions and/or fines imposed on novobanco Group in connection to the General Data Protection Regulation (GDPR).	16			
TOPIC: LABELLING OF PRODUCTS AND SERVICES						
3-3	Explanation of the material topic and its Boundary	novobanco Group has over the years promoted several initiatives aimed at providing clear and transparent information about the products and services it provides to its clients. Products disclosure is subject to prior approval by the competent supervision authority. The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
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			
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 2022 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	In 2022 no incidents of non-compliance with voluntary procedures and voluntary codes on marketing communications, including				

		Page in the Report	SDG	GC Principles	Omissions	Scope
	communications, including advertising, promotion, and sponsorship, by type of result	advertising, promotion, and sponsorship by novobanco Group, were identified.				
TOPIC: CUSTOMER PRIVACY		**TOPIC: CUSTOMER PRIVACY**				
3-3	Explanation of the material topic and its Boundary	novobanco Group has over the years promoted several initiatives to ensure it performs its activity in accordance with best market practices and the legal and regulatory requirements. The Bank ensures the confidentiality, integrity and availability of the information. The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report				
418-1	Total number of substantiated complaints received concerning breaches of customer privacy	In 2022, there were no sanctions and/or fines imposed on the group in connection to the General Data Protection Regulation (GDPR).	12			
FINANCIAL SUPPLEMENT INDICATORS						
TOPIC: SOCIOECONOMIC COMPLIANCE						
3-3	Explanation of the material topic and its Boundary	The novobanco Group been enhancing its customer experience monitoring model with a view to offering the best experience to its clients. Knowing the clients' expectations throughout their life cycle permits to identify opportunities for improvement, using a robust model for monitoring the customer experience based on several action pillars. The Bank has also reinforced its offering and services based on environmental and social criteria. The group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
Manage-ment Approach	Policies with specific environmental and social components applied to business lines.	SR – page 125-126. MR – pages 82-90. Bank Institutional website	10			
	Procedures for assessing and screening environmental and social risks in business lines.	SR – pages 113-121.	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.				
	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 113-121; 124-131; 131-140;140-147;147-148;153-155.	10			
FS6	Percentage of the portfolio for business lines by specific	SR – pages 131-140. MR – pages 16-26;57-64.	1, 8, 9			

		Page in the Report	SDG	GC Principles	Omissions	Scope
	region, size (e.g., micro/SME/ large) and by sector					
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR – pages 131-140. MR – pages 16-26;57-64.	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 131-140. MR – pages 16-26;57-64.				
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 168; 171-189.	10			
FS11	Percentage of assets subject to positive and negative environmental or social screening	This year, for the first time, the bank will report climate-related risks and opportunities in accordance with the disclosures recommended by the TCFD. The report will be publicly disclosed on the novobanco website, in a separate document - TCFD Report 2022	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	SR -pages 127-130. 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.				
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 – page111.	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	1, 10			

		Page in the Report	SDG	GC Principles	Omissions	Scope
		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 111; 135,138,155-156.				
TOPIC: LABELLING OF PRODUCTS AND SERVICES						
FS15	Policies for the fair design and sale of financial products and services	All the financial products and services are designed in compliance with the legal requirements, the regulators' guidelines and the policies of the institution. novobanco Group regularly reports to its regulators proof of its respect for and compliance with politics and rules of conduct, externally and internally. The internal and external audits to the group's procedures verify whether its procedures comply with the requirements issued by the Bank of Portugal and the Portuguese Insurance Institute.	10			
FS16	Initiatives to enhance financial literacy by type of beneficiary	SR – pages 155-156.	1, 8, 10			

AR - Annual Report
MR – Management Report
SR - Sustainability Report
FS - Financial Statements and Final Notes

novobanco Group
novobanco Group (novobanco,novobanco dos Açores, Banco Best and GNBGA
novobanco

Building a better working world

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

(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.

Introduction

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 "5.6 GRI Table" of the Sustainability Report, which include the sustainability information included in the Annual Report 2022 (the "Sustainability Information"), for the year ended 31 December 2022.

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;
- 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, 03 March 2023

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
Registered with the Portuguese Securities Market Commission under license nr. 20161020

Sem título, 1947 – Vieira da Silva

Oil on paper pasted on canvas 46 x 27cm

Architecture and urban landscapes volumetry are captured in a synthesis between the observation of reality and the deconstruction of that same reality. The memory of the urban vision and of a spatial reality appears in colorful and luminous planes, rhythmed by the diversity of shapes and colors, which intersect and fit into each other in different planes and dimensions.

LISBOA, Fundação Arpad Szenes-Vieira da Silva

FINANCIAL STATEMENTS AND FINAL NOTES

Consolidated Financial Statements Grupo novobanco

novobanco GROUP

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021

(in thousands of Euros)

	Notes	31.12.2022	31.12.2021
Interest Income	10	834 679	740 459
Interest Expenses	10	(209 204)	(167 065)
Net Interest Income		**625 475**	**573 394**
Dividend income	11	5 035	11 096
Fees and comission income	12	337 335	325 511
Fees and comission expenses	12	(47 155)	(47 357)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	(88 255)	(5 123)
Gains or losses on financial assets and liabilities held for trading	13	149 212	50 896
Gains or losses on financial assets mandatorily at fair value through profit or loss	13	(40 493)	46 697
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	13	116	21
Gains or losses from hedge accounting	13	(1 713)	14 195
Exchange differences	13	6 789	10 805
Gains or losses on derecognition of non-financial assets	14	83 289	7 551
Other operating income	15	214 005	163 875
Other operating expenses	15	(118 357)	(181 604)
Operating Income		**1 125 283**	**969 957**
Administrative expenses		(395 870)	(374 359)
Staff expenses	16	*(233 707)*	*(233 261)*
Other administrative expenses	18	*(162 163)*	*(141 098)*
Contributions to resolution funds and deposit guarantee	19	(41 155)	(40 535)
Depreciation	27, 29	(52 493)	(34 004)
Provisions or reversal of provisions	34	(39 245)	(127 835)
Commitments and guarantees given		*2 685*	*9 840*
Other provisions		*(41 930)*	*(137 675)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	20	(101 882)	(198 903)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	20	21 546	315
Impairment or reversal of impairment on non-financial assets	20	8 375	(26 314)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	26	8 354	3 794
Profit or loss before tax from continuing operations		**532 913**	**172 116**
Tax expense or income related to profit or loss from continuing operations		53 301	15 186
Current tax		*(10 048)*	*(12 737)*
Deferred tax		*63 349*	*27 923*
Profit or loss after tax from continuing operations		**586 214**	**187 302**
Profit or loss before tax from discontinued operations	32	(270)	4 887
Profit or loss for the year		**585 944**	**192 189**
Attributable to Shareholders of the parent		**560 842**	**184 504**
Attributable to non-controlling interests	37	**25 102**	**7 685**
		585 944	**192 189**
Basic earnings per share (in Euros)	21	0,06	0,02
Diluted earnings per share (in Euros)	21	0,06	0,02
Basic earnings per share of continuing activities (in Euros)	21	0,06	0,02
Diluted earnings per share of continuing activities (in Euros)	21	0,06	0,02

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 2022 AND 2021

(in thousands of Euros)

	Notes	31.12.2022	31.12.2021
Net profit / (loss) for the exercise		585 944	192 189
Other comprehensive income/(loss)			
Items that will not be reclassified to results		***116 903***	***(82 878)***
Actuarial gains / (losses) on defined benefit plans	a)	101 726	(75 584)
Other comprehensive income from associates accounted for using the equity method	a)	332	(252)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	14 845	(7 042)
Items that may be reclassified to results		***(305 988)***	***(139 191)***
Foreign exchange differences	a)	(892)	95
Cash flow hedging		(100 418)	-
Financial assets at fair value through other comprehensive income	a)	(204 678)	(139 286)
Total other comprehensive income/(loss) for the period		**396 859**	**(29 880)**
Attributable to non-controlling interest		**25 102**	**7 685**
Attributable to Shareholders of the Parent		**371 757**	**(37 565)**

a) See Consolidated Statement of Changes in the Equity

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

novobanco GROUP

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2022 AND 2021

(in thousands of Euros)

	Notes	31.12.2022	31.12.2021
Assets			
Cash, cash balances at central banks and other demand deposits	22	6 599 078	5 871 538
Financial assets held for trading	23	171 810	377 664
Financial assets mandatorily at fair value through profit or loss	24	313 702	799 592
Financial assets at fair value through profit or loss	24	13	-
Financial assets at fair value through other comprehensive income	24	2 331 099	7 220 996
Financial assets at amortised cost	24	32 777 693	26 039 902
Securities		8 183 209	2 338 697
Loans and advances to banks		43 548	50 466
Loans and advances to customers		24 550 936	23 650 739
Derivatives – Hedge accounting	25	562 845	19 639
Fair value changes of the hedged items in portfolio hedge of interest rate risk	25	(383 689)	30 661
Investments in subsidiaries, joint ventures and associates	26	119 744	94 590
Tangible assets		798 831	864 132
Tangible fixed assets	27	299 264	238 945
Investment properties	28	499 567	625 187
Intangible assets	29	69 832	67 986
Tax assets	30	956 000	779 892
Current Tax Assets		32 570	35 653
Deferred Tax Assets		923 430	744 239
Other assets	31	1 618 484	2 442 550
Non-current assets and disposal groups classified as held for sale	32	59 587	9 373
Total Assets		**45 995 029**	**44 618 515**
Liabilities			
Financial liabilities held for trading	23	99 386	306 054
Financial liabilities measured at amortised cost	33	40 987 177	40 215 994
Deposits from banks		9 705 154	10 745 155
(of which, Repurchase Agreement)		*2 150 824*	*1 529 847*
Due to customers		29 277 858	27 582 093
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 628 897	1 514 153
Other financial liabilities		375 268	374 593
Derivatives – Hedge accounting	25	119 578	44 460
Provisions	34	413 432	442 834
Tax liabilities	30	8 427	15 297
Current Tax liabilities		7 582	12 262
Deferred Tax Liabilities		845	3 035
Other liabilities	35	839 919	443 437
Liabilities included in disposal groups classified as held for sale	32	15 492	968
Total Liabilies		**42 483 411**	**41 469 044**
Equity			
Capital	36	6 304 661	6 054 907
Accumulated other comprehensive income	37	(1 234 573)	(1 045 489)
Retained earnings	37	(8 577 074)	(8 576 860)
Other reserves	37	6 439 418	6 501 374
Profit or loss attributable to Shareholders of the parent		560 842	184 504
Minority interests (Non-controlling interests)	37	18 344	31 035
Total Equity		**3 511 618**	**3 149 471**
Total Liabilities and Equity		**45 995 029**	**44 618 515**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021

(in thousands of Euros)

	Notes	Share 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 2020		**5 900 000**	**(823 420)**	**(7 202 828)**	**6 570 154**	**(1 329 317)**	**(42 986)**	**75 032**	**3 146 635**
Capital increase by incorporation of special reserve for deferred taxes	36	154 907	-	-	(154 907)	-	-	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 032)**	**86 127**	**1 329 317**	**-**	**(8 696)**	**32 716**
Appropriation to retained earnings of net profit / (loss) of the previous exercise		-	-	*(1 374 246)*	*44 929*	*1 329 317*	-	-	-
Reserve of Contingent Capital Agreement	37	-	-	-	*39 920*	-	-	-	*39 920*
Other movements		-	-	*214*	*1 278*	-	-	*(8 696)*	*(7 204)*
Total comprehensive income for the exercise		**-**	**(222 069)**	**-**	**-**	**184 504**	**7 685**	**-**	**(29 880)**
Changes in fair value, net of tax	37	-	*(125 801)*	-	-	-	-	-	*(125 801)*
Foreign exchange differences, net of tax		-	*95*	-	-	-	-	-	*95*
Remeasurement of defined benefit plans, net of tax	16	-	*(75 584)*	-	-	-	-	-	*(75 584)*
Other comprehensive income appropriated from affiliates		-	*(252)*	-	-	-	-	-	*(252)*
Reserves of impairment of securities at fair value through OCI	37	-	*12*	-	-	-	-	-	*12*
Reserves of sales of securities at fair value through OCI	37	-	*(20 539)*	-	-	-	-	-	*(20 539)*
Net income of the exercise		-	-	-	-	*184 504*	*7 685*	-	*192 189*
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**
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	36	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*	*(184 504)*	-	-	-
Other movements		-	*1*	*(214)*	*3 294*	-	-	*(37 793)*	*(34 712)*
Total comprehensive income for the year		**-**	**(189 085)**	**-**	**-**	**560 842**	**25 102**	**-**	**396 859**
Changes in fair value, net of tax	37	-	*(185 616)*	-	-	-	-	-	*(185 616)*
Foreign exchange differences, net of tax		-	*(892)*	-	-	-	-	-	*(892)*
Remeasurement of defined benefit plans, net of tax	17	-	*101 726*	-	-	-	-	-	*101 726*
Other comprehensive income appropriated from affiliates		-	*332*	-	-	-	-	-	*332*
Reserves of impairment of securities at fair value through OCI	37	-	*(3 052)*	-	-	-	-	-	*(3 052)*
Reserves of sales of securities at fair value through OCI	37	-	*(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**

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 2022 AND 2021

(in thousands of Euros)

	Notes	31.12.2022	31.12.2021
Cash flows from operating activities			
Interest received		862 685	678 735
Interest paid		(211 860)	(160 704)
Fees and commissions received		337 335	325 537
Fees and commissions paid		(47 155)	(47 357)
Recoveries on loans previously written off		40 423	27 293
Contributions to the pension fund		(249)	(86 708)
Contributions to resolution funds and deposit guarantee		(41 155)	(40 535)
Cash payments to employees and suppliers		(362 179)	(330 884)
		577 845	**365 377**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(1 702 869)	972 363
Financial assets mandatorily at fair value through profit or loss		361 790	290 095
Financial assets designated at fair value through profit or loss		146 801	93 984
Financial assets at fair value through other comprehensive income		4 463 594	479 439
Financial assets at amortised cost		(6 738 365)	(344 041)
Debt securities		*(5 831 051)*	*(129 026)*
Loans and advances to banks		*7 342*	*59 242*
Loans and advances to customers		*(914 656)*	*(274 257)*
Financial liabilities at amortised cost		2 343 653	927 928
Deposits from banks		*635 597*	*(331 734)*
Due to customers		*1 708 056*	*1 259 662*
Derivatives - Hedge accounting		(53 738)	(1 552)
Other operating assets and liabilities		960 322	(565 133)
Net cash from operating activities before corporate income tax		**359 033**	**2 218 460**
Corporate income taxes paid		(44 800)	(35 560)
Net cash from operating activities		**314 233**	**2 182 900**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associated companies		-	(4)
Sale of investments in subsidiaries and associated companies		(1 560)	365
Dividends received		5 035	11 096
Acquisition of investment properties		(16 464)	(4 973)
Sale of investment properties		367 213	100 028
Acquisition of tangible fixed assets		(137 533)	(81 973)
Sale of tangible fixed assets		107 261	424
Acquisition of intangible assets		(25 306)	(25 696)
Sale of intangible assets		4	-
Net cash from investing activities		**298 650**	**(733)**
Cash flows from financing activities			
Contingent Capitalisation Mechanism		-	429 013
Issuance of bonds and other securitised liabilities		106 000	575 000
Repayment of bonds and other liabilities		(14 285)	(11 834)
Net cash from financing activities		**91 715**	**992 179**
Net changes in cash and cash equivalents		**704 598**	**3 174 346**
Cash and cash equivalents at the beginning of the exercise		**5 606 583**	**2 432 237**
Net changes in cash and cash equivalents		704 598	3 174 346
Cash and cash equivalents at the end of the exercise		**6 311 181**	**5 606 583**
Cash and cash equivalents include:			
Cash	22	182 895	151 699
Deposits with Central Banks	22	5 942 498	5 264 629
(of which, Restricted balances)		(287 897)	(264 955)
Deposits with banks	22	473 685	455 210
Total		**6 311 181**	**5 606 583**

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

Notes to the Consolidated Financial Statements as of 31 December 2022

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

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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 from 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, which acquired the status of a transition Bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of novobanco. On 18 October 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.

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

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

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

novobanco Group (hereinafter also designated as Group or novobanco Group) has a retail network comprising 292 branches in Portugal and abroad (31 December 2021: 311 branches), including branches in Spain and Luxembourg, and 2 representative offices in Switzerland (31 December 2021: 4 representative offices).

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

The entities directly consolidated into novobanco are the following:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Commercial Banking		
Novo Banco dos Açores, SA (novobanco Açores)	2002	2002	Portugal	Commercial Banking	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic banking	100,00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100,00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100,00%	Full consolidation
NB Finance, Ltd. (NB FINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100,00%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	100,00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99,99%	Full consolidation
Aroleri, SLU	2021	2021	Spain	Real estate development	100,00%	Full consolidation
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture capital fund	100,00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real estate fund management	100,00%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	100,00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund management	100,00%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real estate fund management	56,39%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real estate fund management	100,00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real estate fund management	95,24%	Full consolidation
NB Branches - Fundo Especial de Investimento Imobiliário Fechado	2006	2019	Portugal	Real estate fund management	100,00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real estate development	100,00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real estate development	100,00%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real estate development	100,00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real estate development	100,00%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real estate development	100,00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real estate development	100,00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real estate fund management	100,00%	Full consolidation
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	2003	2003	Portugal	Renting	50,00% [b]	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non banking financing	17,50% [a]	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50,00% [b]	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Management of shareholdings	22,52%	Equity method

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

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

Subgroups:

	Year incorporated	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1987	1987	Portugal	Investment fund management	100,00%	Full consolidation
GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1992	1992	Portugal	Investment fund management	100,00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment fund management	100,00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment fund management	50% [b]	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100,00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment fund management	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	Equity method
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100,00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100,00%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**100,00%** [a]	**Full consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2008	2010	Portugal	Holding	40,00% [a]	Equity method

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

Additionally, and considering the requirements of IFRS 10, the Group's consolidation perimeter includes the following structured entities:

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

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

During 2022, the main changes in novobanco Group's structure were as follows:

- Subsidiaries and branches

- In January 2022, the NB Pension Fund redeemed participation units in Fungere, with the novobanco Group's holding changing to 98.22%. In March 2022, novobanco redeemed 12,688,194 participation units of Fungere, in the amount of Euro 15,051 thousand, changing the Group's holding to 97.87%. In September 2022, Fungere was merged into Fungepi. Following this merge, novobanco redeemed participation units of Fungepi in the amount of Euro 39,964 thousand;
- In February 2022, the Five Stars Fund changed its name to NB Branches and in November 2022 it increased its capital by Euro 43 million;
- In March 2022, the stake held in Autodril was sold, with a negative impact of Euro 591 thousand.
- In May 2022, the FCR PME NB Fund repaid the capital, with novobanco receiving Euro 3,174 thousand;
- In June 2022, novobanco redeemed its participation units in the Imogestão Fund in the amount of Euro 38,000 thousand;
- In August 2022, the Imoinvestimento Fund sold the companies Várzea da Lagoa and Quinta D. Manuel I, for 2,592 thousand euros and Euro 1,107 thousand, respectively. At the novobanco Group level, these sales generated a capital gain of Euro 88 thousand;
- In September 2022, novobanco redeemed Fungepi II participation units in the amount of Euro 4,068 thousand;
- In September 2022, the novobanco Pension Fund redeemed all the participation units held in NB Património, with novobanco now holding 96.24% of the Fund;
- In September 2022, Fundes was liquidated;
- In December 2022, the Real Estate Funds Quinta da Ribeira, Novimove and NB Logística and the FCR PME NB were liquidated;
- In December 2022, the stake in Ribagolfe was sold with a positive impact of Euro 270 thousand;
- In December 2022, the stake in the Arrábida Fund was sold with a positive impact of Euro 999 thousand;
- In December 2022, the stake in Herdade da Vargem Fresca VI was sold with a positive impact of Euro 136 thousand;
- In December 2022, Espírito Santo International Management was liquidated.

- Associated companies

- In March 2022, FCR PME NB sold its stake in Epedal for Euro 1,709 thousand, generating a capital gain of Euro 67 thousand;
- In May 2022, FCR PME NB sold its interest, supplementary payments and shareholder loans in Nexxpro, with no impact on the Group's results;
- In September 2022, FCR PME NB acquired the remaining capital and supplementary capital of Ach Brito for Euro 1, holding now 100% of the company's capital;
- In October 2022, FCR PME NB sold its stake in Cristalmax for Euro 2,667 thousand, with no impact on the Group's results;
- In December 2022, FCR PME NB sold the stake it held in M N Ramos Ferreira for Euro 340 thousand, with no impact on the Group's results.

During 2021, the main changes in novobanco Group's structure were as follows:

- Subsidiaries and branches

- In February 2021, Imoinvestimento Fund granted additional supplementary payments to the real estate companies Quinta D. Manuel I, Várzea da Lagoa and Promotur in the amounts of Euro 50 thousand, Euro 110 thousand and Euro 260 thousand, respectively;
- In March 2021, GNB - Serviços de Suporte Operacional, ACE was dissolved, with no impact on the income statement;
- In July 2021, GNB – Recuperação de Crédito, ACE was dissolved, with no impact on the income statement;
- In July 2021, the real estate company Imoascay was liquidated, with no impact on the income statement;
- In September 2021, the real estate fund ASAS Invest was liquidated, with no impact on the income statement;
- In September 2021, FCR PME NB Fund partially redeemed participation units in the total amount of Euro 1,550 thousand, with novobanco receiving Euro 941 thousand;
- In October 2021, the redemption of Fungepi's participation units in the amount of Euro 45,000 thousand was carried out;
- In October 2021, the redemption of NB Arrendamento participation units in the amount of Euro 500 thousand was carried out;
- In November 2021, a capital increase of Euro 9,216 thousand in NB Logística was carried out, fully subscribed by novobanco and Fungepi, through the delivery of real estate properties;
- n November 2021, a redemption of participation units of Novimove in the amount of Euro 1,250 thousand was carried out;

- In November 2021, the real estate company Promotur was liquidated, with no impact on the income statement;
- In November 2021, a 100% equity stake in Aroleri, SLU was acquired for Euro 4 thousand;
- In December 2021, the real estate company Quinta da Areia was liquidated, with no impact on the income statement;
- In December 2021, there were two capital increases of Fungepi II in the amount of Euro 24,090 thousand and Euro 11,696 thousand, fully subscribed by novobanco and through the delivery of real estate properties, and a capital reduction of Euro 70,932 thousand;
- In December 2021, the capital of Five Stars was increased in the amount of Euro 26,006 thousand, fully subscribed and paid up by novobanco.

- Associated companies

- In September 2021, FCR PME NB Fund sold its stake in LOGI C - Logística Integrada, SA, recording a capital gain of Euro 84 thousand.

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 2022 and 2021, the movements relating to acquisitions, sales and other investments and repayments in subsidiary and associated companies are detailed as follows:

(in thousands of Euros)

	31.12.2022						
	Acquisitions			Reductions			
	Acquisition Value	Other Investments (a)	Total	Sales Value	Other Refunds (a)	Total	Capital gains/losses on sales/settlements
Subsidiary companies							
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
Herdade da Vargem Fresca VI	-	-	-	500	-	500	136
Imogestão	-	-	-	-	(38 000)	(38 000)	-
NB Branches	-	43 000	43 000	-	-	-	-
Ribagolfe	-	-	-	7 613	-	7 613	270
	-	43 000	43 000	32 373	(100 258)	(67 885)	902
Associated companies							
Epedal	-	-	-	1 709	-	1 709	67
Nexxpro	-	-	-	2 790	-	2 790	-
Cristalmax	-	-	-	2 667	-	2 667	-
M N Ramos Ferreira	-	-	-	340	-	340	-
	-	-	-	7 506	-	7 506	67
	-	**43 000**	**43 000**	**39 879**	**(100 258)**	**(60 379)**	**969**

(a) Capital increases/decreases, supplementary benefits, supplies, financial instrument exchange operations and company formation

(in thousands of Euros)

	31.12.2021						
	Acquisitions			Reductions			
	Acquisition Value	Other Investments (a)	Total	Sales Value	Other Refunds (a)	Total	Capital gains/losses on sales/settlements
Subsidiary companies							
Quinta D. Manuel I	-	50	50	-	-	-	-
Várzea da Lagoa	-	110	110	-	-	-	-
Promotur	-	260	260	-	-	-	-
FCR PME NB	-	-	-	-	(4 427)	(4 427)	-
Fungepi II	-	41 493	41 493	-	(70 932)	(70 932)	-
Fungepi	-	-	-	-	(45 000)	(45 000)	-
NB Logística	-	9 216	9 216	-	-	-	-
NB Arrendamento	-	-	-	-	(500)	(500)	-
Novimove	-	-	-	-	(1 250)	(1 250)	-
Aroleri	4	-	4	-	-	-	-
Imogestão	-	-	-	-	-	-	-
Five Stars	-	26 006	26 006	-	-	-	-
Ribagolfe	-	-	-	-	-	-	-
	4	77 135	77 139	-	(122 109)	(122 109)	-
Associated companies							
LOGI C - Logística Integrada	-	-	-	365	-	365	84
	-	-	-	365	-	365	84
	4	**77 135**	**77 139**	**365**	**(122 109)**	**(121 744)**	**84**

(a) Capital increases/decreases, supplementary benefits, supplies, financial instrument exchange operations and company formation

The subsidiaries classified under IFRS 5 as non-current assets held for sale and discontinued operations, are detailed in Note 32.

NOTE 2 – BASIS OF PRESENTATION

The consolidated financial statements of novobanco are presented as of 31 December, 2022, 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 2021. 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 2022 were approved at the Executive Board of Directors' meeting held on 1 March 2023 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, 2022, 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 2022, the Group did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Group are as follows:

Standards, interpretations, amendments, and revisions that came into force in the fiscal exercise

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

Standard / Interpretation	Description
Amendments to IFRS 3 - References to the Conceptual Structure for Financial Reporting	This amendment updates the references to the Conceptual Structure in the IFRS 3 text without having made changes to the accounting requirements for concentrations of business activities. It is also clarified the accounting treatment to be adopted in relation to liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a concentration of business activities. It should be applied prospectively.
Amendments to IAS 16 - Income obtained prior to entry into operation	It clarifies the accounting treatment given to the payment obtained from the sale of products resulting from the test production of tangible fixed assets, prohibiting their deduction at the cost of acquiring the assets. The entity acknowledges the income obtained from the sale of such products and the costs of their production in the results.
Amendments to IAS 37 - Onerous contracts - costs of fulfilling a contract	This amendment specifies that in the assessment of whether or not a contract is onerous, only expenses directly related to the performance of the contract can be considered, such as incremental costs related to direct labor and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses of tangible assets used to perform the contract. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly debited to the party in accordance with the contract. It should apply to contracts which, at the beginning of the first annual reporting period to which the amendment is applied, still include unmet contractual obligations, without re-expression of the comparison.
Amendments to IFRS 1 - Subsidiary as an IFRS adopter for the first time (included in annual improvements for the 2018-2020 cycle)	This amendment clarifies that when a subsidiary chooses to measure its assets and liabilities by the amounts included in the consolidated financial statements of the parent company (assuming that there has been no adjustment in the consolidation process), the measurement of accumulated transposition differences may be made by the amounts that would be recorded in the consolidated financial statements, based on the date of transition from the parent company to IFRS.
Amendments to IFRS 9 - Derecognition of financial liabilities - Commissions to be included in the '10 per cent' variation	This amendment clarifies which commissions an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. Thus, in the context of the derecognition tests carried out on renegotiated liabilities, only the

test (included in the annual improvements for the 2018-2020 cycle)	commissions paid or received between the debtor and the creditor should be included, including the commissions paid or received by the debtor or the creditor on behalf of the other.
Amendments to IAS 41 - Taxation and fair value measurement (included in annual improvements for the 2018-2020 cycle)	This amendment removes the requirement set out in paragraph 22 of IAS 41 to exclude income tax-related cash flows in the fair value of biological assets, ensuring consistency with IFRS 13 principles.
Amendments to IFRS 16 - Leases - Concessions related to COVID-19 at the level of rents beyond 30 June 2021	On May 28th of 2020, the amendment to IFRS 16 called 'COVID-19 related concessions' was issued, introducing the following practical expedient: a lessee may choose not to assess whether a Covid-19-related rent concession is a lease modification. Lessees who choose to apply this file, account the change on rent payments arising from a concession related to COVID-19 in the same way that they account for a change other than a modification of the lease in accordance with IFRS 16. Initially, the practical working hours applied to payments originally due until 30 June 2021, however, due to the prolongation of the impact of the pandemic, on 31 March 2021, it was extended to payments originally due until 30 June 2022. The amendment applies to annual reporting periods initiated on or after 1 April 2021. In a sense, the practical expedient can be applied provided that the following criteria are fulfilled: • the change in lease payments results in a revised remuneration for the lease which is substantially equal to or less than the remuneration immediately preceding the change; • any reduction in rental payments only affects payments due on, or until 30 June 2022; and • there are no significant changes to other rental terms and conditions.

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

NOTE 6 – BASIS OF CONSOLIDATION

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

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

Subsidiaries
Subsidiaries are entities (including investment funds and securitization vehicles) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to the variability of the return deriving from its involvement with that entity and may take possession of same by way of the power it has over the entity (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 recognizes the resulting gain or loss in the income statement upon determining the respective goodwill. At the moment of a partial sale, resulting in the loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to its fair value at the date the control is lost, and the resulting gain or loss is recognised in the income statement.

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

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

Associated companies

Associated companies are those entities 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 expensed at the moment of the acquisition.

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 in the period the business combination occurs. Impairment losses of goodwill may not be reversed in the future.

For business combinations that are not completed at the end of the reporting period, the Group estimates the provisional amounts of assets and liabilities to be included in the consolidated financial statements, including the related goodwill. During the measurement period, which does not exceed one year from the acquisition date, the provisional amounts 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 reduction is determined by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill refers. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised. Impairment losses related to goodwill cannot be reversed in future periods.

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

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

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

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

NOTE 7 – MAIN ACCOUNTING POLICIES

7.1. Foreign currency operations

7.1.1 Functional and presentational currency

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

7.1.2 Transactions and balances

Foreign currency transactions are translated into 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 equity reserves.

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

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. Recognition of dividend income

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

7.5. Net trading income

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

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

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

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

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.

7.8. Financial Instruments – Initial recognition

7.8.1. Date of Recognition

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

7.8.2. Initial measurement of financial instruments

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

7.8.3. Day one profit

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

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

7.8.4. Measurement categories for financial assets and liabilities

The Group classifies all 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 7.10.1;
- Fair Value Through Other Comprehensive Income, as explained in notes 7.10.1, 7.10.2 and 7.10.3;
- Fair Value Through Profit or Loss, as set out in note 7.10.4.
- Mandatorily measured at fair value through profit or loss, as set out in note 7.10.4.

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

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

7.9. Fair value of financial assets and liabilities

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and 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 level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters not observable in the market, the Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

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

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

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

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

This category includes, amongst others, the following financial instruments:

(i) Derivatives traded on an 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 Group uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations, but which markets have a lower liquidity. Additionally, the Group also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

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

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

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

7.10. Financial Assets and Liabilities

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

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

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

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

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

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

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment, as explained in note 7.16.

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.

7.10.2 Debt instruments at fair value through other comprehensive income

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

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

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

The expected credit loss calculation is explained in Note 7.16. 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.

7.10.3. Equity instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at fair value through other comprehensive income when they meet the definition of equity under IAS 32 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 Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income.

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

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

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

- contractual cash flows are not SPPI (mandatorily measured at fair value through profit or loss); and/or

- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or
- it is designated at fair value through profit or loss as a result of applying the fair value option.

7.10.5. Assets and liabilities held for trading

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

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are 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.

7.10.6. Derivative financial instruments and hedge accounting

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

Recognition and measurement
Derivative financial instruments are initially 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 31 and 35) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting
- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:
- (i) Hedging instruments and hedged 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 Group uses macro hedging, accounting is performed in accordance with IAS 39 (using the policy choice permitted under IFRS 9), with the Group carrying out prospective tests on the hedge relationship start date, when applicable, and retrospective tests in order to confirm, on each balance sheet date, the effectiveness of hedging relationships, demonstrating that changes in the fair value of the hedging instrument are covered by changes in the fair value of the hedged 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.

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

- Fair Value Hedge

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

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

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

- Cash Flow Hedge

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

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

- Embedded derivatives

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

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

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

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

7.10.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are 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 Group designates, at inception, certain financial liabilities at fair value through profit or loss when:

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur.
- The financial liability it’s part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Group’s risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows 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 Group – except for the structured products for which the embedded derivatives were separated, recorded separately, and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the abovementioned conditions.

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

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 Group's own risk, the Debt Valuation Adjustment (DVA), which is recognised in other comprehensive income. novobanco Group does not record any gain associated with own credit risk.

Gains or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is 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.

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

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.

7.10.8. Financial and performance guarantees

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

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

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

7.11. Reclassifications of financial assets and financial liabilities

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

7.12. Modification of financial assets and financial liabilities

The activity of commercial renegotiation of financial assets is one of the tools that the Group has available and regularly uses in the management and recovery of these instruments. Accordingly, the Group 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.

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

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

If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Group’s accounting policy in respect of forborne loans is set out in note 7.14.

When the modification of the terms of an existing financial liability is not classified as material, and consequently does not result in derecognition, the amortised cost of the financial liability is recalculated by calculating the present value of estimated future contractual cash flows that are discounted based on the original effective interest rate of the financial liability. Any resulting difference is recognised immediately as profit or loss. For financial liabilities, the Group considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability.

7.13. Derecognition

Financial assets are derecognised from the balance sheet when (i) the Group's contractual rights relating to the respective cash flows have expired, (ii) the Group has substantially transferred all the risks and benefits associated with its ownership, or (iii) despite the Group having withholding part, but not substantially all of the risks and benefits associated with its ownership, control over the assets has been transferred. When an operation measured at fair value through other comprehensive income is 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.

7.14. Forborne modified loans

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

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

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

7.15. Offsetting of financial instruments

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

7.16. Impairment of Financial Assets

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

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

Equity instruments are not subject to impairment under IFRS 9.

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

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

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

Based on the above process, the Group 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 Group'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 Group. 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;

- Loss Given Default (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 Group 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 focuses on performing exposures that do not show any active evidence of significant deterioration of credit risk compared to origination. The impairment represents the expected loss resulting from default events on a financial instrument that are possible to occur within 12 months after the balance sheet date. The risk factors - PD and LGD - consider the 12-month horizon and are applied to the value of the exposure. This calculation is done by scenario, since each scenario considered has specific risk factors - PD and LGD;

- Stage 2: this calculation focuses on productive exposures that present an indication of a significant increase in credit risk since origination. The impairment represents the present value of the sum of expected losses until the maturity of the exposure. Expected losses are calculated on the projected exposure at each debt repayment time, according to the exposure repayment schedule, and these expected losses are discounted at the original effective rate of the contract to obtain its present value at the reporting date. As mentioned above, this calculation is made by scenario since different risk factors are considered for each scenario;

- Stage 3: this calculation focuses on non-productive exposures, where impairment corresponds to the difference between the amount owed and the current value of expected recoveries for this exposure, given its characteristics. To determine the present value of 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 Group 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.

7.17. Collateral and financial guarantees valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the 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 indices.

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

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group executes these and receives real estate properties resulting from foreclosure.

Due to the provisions of the General Law on Credit Institutions and Financial Companies (“*Regime Geral das Instituições de Crédito e Sociedades Financeiras*” (RGICSF)), banks are prevented, unless authorised by Bank of Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (No. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Bank of Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

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

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

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

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

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

Valuations carried out are performed by independent entities 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 29.

7.19. Investment properties

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

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

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

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

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

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

7.20. Write-offs

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

(i) the total amount of the credit has been demanded, that is, the credit must be fully 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 totally overdue, the Group believes to be facing a scenario of total or partial loss;
(ii) All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered);
(iii) The credit recovery expectations are very low, being necessary that the amount to be written off (either total or partial write-off of the debt) is fully covered by impairment and under management of the central credit recovery application. 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.

7.21. Cash and cash equivalents

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

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

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not 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 7.10. Securities received under borrowing agreements are not recognised in the balance sheet.

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

7.23. Property, plant and equipment

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

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

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

	Number of years
Property for own use	35 to 50
Improvements in rented buildings	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 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 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.

7.24. Leases

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

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

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

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

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

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

As Lessor

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

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

7.25. Intangible assets

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

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

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

7.26. Impairment of non-financial assets

The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset orcash-generating unit fair value fewer 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 fewer costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

Impairment losses of continuing operations are 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 Group estimates the asset’s recoverable value 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.

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

7.27. Employee Benefits

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

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

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

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

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

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are 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 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 Group assesses the recoverability of any excess in a fund regarding the retirement pension liabilities, based on the expectation of reductions in future contributions.

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

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

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

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

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

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

- Profit-sharing and bonus plans
  The Group 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.

7.28. 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.

7.29. 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.

7.30. 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 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 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 tax

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

Deferred tax liabilities are 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 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 2022.

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.

On 22 December 2022, Council Directive (EU) 2022/2523 of December 14 on ensuring a worldwide minimum level of taxation for multinational and large national corporate groups in the Union, commonly referred to as the Pillar 2 Directive, was published.

This Directive entered into force on the day following its publication, and Member States must transpose the laws, regulations and administrative provisions necessary to comply with it by 31 December 2023. These provisions will apply to tax years beginning on or after December 31, 2023, apart from the so-called Insufficiently Taxed Profit Rule (UTPR), which will only apply to tax years beginning on or after December 31, 2024. To date, this Directive has not yet been transposed into Portuguese law.

novobanco together with its tax advisors will initiate a qualitative and quantitative analysis regarding the possible impacts on the taxation of the novobanco Group for fiscal years beginning on or after 1 January 2024.

7.31. Treasury shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments. As of 31 December 2022, the the Group does not hold own equity instruments.

7.32. Disintermediation and custody

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

Fees and commissions arising from these activities are recognised in the income statement in the year in which they occur.

7.33. Dividends on ordinary shares

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

7.34. Equity Reserves

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

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

- Retained earnings, which corresponds to earnings of the Group carried over from previous years;
- Other reserves (originary reserve, special reserve and other reserves).

7.35. Earnings per share

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

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

7.36. The accounting standards and interpretations

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

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

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have been adopted ("endorsed") by the European Union, until the date of approval of these financial statements:

Standard / Interpretation	Applicable in the European Union in the	Description

	financial years initiated in or after	
IFRS 17 – Insurance Contracts	January 1st of 2023	IFRS 17 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 guarantees and some financial instruments with discretionary holding characteristics. In general terms, the IFRS 17 provides an accounting model for insurance contracts that are more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.
Amendments to IFRS 17 - Insurance contracts - Initial application of IFRS 17 and IFRS 9 - Comparative information	January 1st of 2023	This amendment to IFRS 17 refers to the presentation of comparative information on financial assets in the initial application of IFRS 17. It 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 in the initial application of IFRS 17. The overlay allows all financial assets, including those held in relation to non-contract-related activities 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 in the initial application of IFRS 9.
Amendments to IAS 1 - Disclosure of accounting policies	January 1st of 2023	This amendment are intended to assist the entity in the dissemination of 'material' accounting policies, formerly referred to as 'significant' policies. However, due to the lack of this concept in IFRS standards, it was decided to replace the concept of "materiality", a concept already known to users of the financial statements. When evaluating the materiality of accounting policies, the entity must consider not only the size of the transactions but also other events or conditions and the nature of them.
Amendments to IAS 8 - Definition of accounting estimates	January 1st of 2023	This amendment sheds light on the distinction between change in accounting estimate, change in accounting policy and 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	January 1st of 2023	This amendment clarifies that payments that settle a liability are fiscally deductible, but it is a matter of professional judgment whether such deductions are attributable to the liability that is recognized in the financial statements or related assets. This is important for determining whether there are temporary differences in initial asset or liability recognition. Thus, the initial recognition exception does not apply to transactions which have resulted in temporary taxable and deductible differences equal. It shall apply only if the recognition of an active lease and a passive lease give rise to taxable and deductible temporary differences that are not equal.

The Group did not early adopt any of these standards in the financial statements for the year ended 31 December 2022. No significant impacts on the financial statements are expected 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 financial years, have not been adopted ("endorsed") by the European Union, until the date of approval of these financial statements:

Standard / Interpretation	Description
Amendments to IAS 1 - Presentation of Financial Statements - Classification of current and non-current liabilities	This amendment seeks to clarify the classification of liabilities as current or non-current balances according to the rights that an entity has to defer its payment at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment shall determine whether a right exists but should not consider whether or not the entity will exercise such right), or by events occurring after the reporting date, such as non-compliance with a covenant. However, if the right to postpone the settlement for at least twelve months is subject to compliance with certain conditions after the balance sheet date, those criteria do not affect the right to defer settlement whose purpose is to classify a liability as current or non-current. It also includes a new definition of "settlement" of a liability and should be applied prospectively.
Amendments to IFRS 16 - Lease liabilities in sales and relocation transactions	This amendment specifies the requirements for the subsequent measurement of lease liabilities related to sale & leaseback transactions that qualify as "sale" in accordance with the principles of IFRS 15, focusing on variable lease payments that do not depend on an index or a fee. In subsequent measurement, seller-lessees should determine "lease payments" and "revised lease payments". When subsequently measuring rental liabilities, sellers-lessees shall determine "lease payments" and "revised lease payments" in such a way that they do not recognize any gain or loss related to the retained right of use. The application of these requirements shall not prevent the seller-lessee from recognizing, in the income statement, any gain or loss related to the partial or total "sale" as required by paragraph 46 (a) of IFRS 16. It should be applied prospectively.

These standards have not yet been endorsed by the European Union and, as such, have not been applied by the Group for the year ended 31 December 2022. No significant impacts on the financial statements are expected as a result of their adoption.

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

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

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

8.1 Impairment of financial assets at 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 7.16 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Group management, constitutes a significant increase on credit risk;
- Classification of default: Grupo novobanco's internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by Grupo novobanco and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with Grupo novobanco. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics.
  The Group monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: The Group uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related 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 42.

8.3. Corporate income taxes

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

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the 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. 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.

The 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 7.18 and 7.19. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

The use of alternative methodologies and different assumptions may result in a different level of fair value with respective impact on the 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 Significant judgment in determining contract lease term

The Group has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Group determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and 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 2022, the Group has novobanco as its main operating unit - with 273 branches in Portugal (31 December 2021: 291 branches), with branches in Luxembourg and Spain and 2 representation offices – with novobanco Açores (12 branches), Banco BEST (6 branches), GNB GA, amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail 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:

Domestic Commercial Banking

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

a) **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;

b) **Corporate and Institutional: i**ncludes the activities developed in Portugal with medium- and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centres. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;

c) **Private Banking:** In accordance with the commitments made to the Directorate General for Competition of the European Commission, the Bank discontinued the provision of private banking services and therefore this segment is no longer reported.

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

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

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

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

Corporate Centre
This area does not correspond to an operational segment in the true sense of the concept, it is an aggregation of transversal corporate structures that ensure the basic functions of the Group's global management, such as those linked to the Administration and Supervision, Compliance, Planning, Accounting, Risk Management and Control, Institutional Communication, Internal Audit, Organization and Quality, among others. Since the Group is in a tax loss situation in 2022 and 2021, the deferred taxes recognised were fully allocated to this segment.

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

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

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

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

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

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

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

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

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

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

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

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

Corporate income tax
Corporate income tax is part of the Group's net income that, for purposes of monitoring the performance of the Operating Segments, by the Executive Board of Directors, does not affect the evaluation of most of the Operating Segments. In the tables presented below the deferred tax 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 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)

	31.12.2022						
	Retail	Corporate and Institutional	International Commercial Banking	Asset Management	Markets	Corporate centre	Total
Net interest income	353 581	256 005	51 202	110	(35 423)	-	625 475
Net fees and comissions	187 394	88 700	11 057	23 244	(20 215)	-	290 180
Other operating income	22 136	(4 970)	(759)	(925)	194 146	-	209 628
Total operating income	563 111	339 735	61 500	22 429	138 508	-	1 125 283
Operating expenses	271 848	71 488	19 456	16 878	101 257	119 797	600 724
Of which:							
Provisions / Impairment losses	*10 533*	*46 217*	*5 383*	*3 668*	*45 405*	-	*111 206*
Depreciation and amortization	*28 709*	*1 956*	*1 485*	*665*	*1 698*	*17 980*	*52 493*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	8 354	-	8 354
Profit / (loss) from continued operations before taxes and non-controlling interests	**291 263**	**268 247**	**42 044**	**5 551**	**45 605**	**(119 797)**	**532 913**
Taxes	-	-	956	2 450	-	(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	**289 322**	**268 247**	**41 088**	**3 101**	**22 174**	**(63 090)**	**560 842**
Intersegment operating income (1)	*4 952*	*6 303*	*42 163*	*(720)*	*(45 672)*	-	*7 026*
Total Net Assets	**22 296 396**	**10 209 447**	**2 869 324**	**106 467**	**10 513 395**	**-**	**45 995 029**
Total Liabilities	**21 790 972**	**9 931 391**	**2 775 793**	**12 606**	**7 972 649**	**-**	**42 483 411**
Investments in associated companies	**-**	**-**	**-**	**-**	**119 744**	**-**	**119 744**
Investments in tangible fixed assets	**440**	**-**	**-**	**175**	**136 912**	**6**	**137 533**
Investments in intangible assets	**83**	**-**	**-**	**63**	**25 160**	**-**	**25 306**
Investments in investment properties	**-**	**-**	**-**	**-**	**16 464**	**-**	**16 464**
Investments in other assets - real estate properties	**758**	**-**	**-**	**-**	**15 587**	**829**	**17 174**

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

(in thousands of Euros)

	31.12.2021						
	Retail	Corporate and Institutional	International Commercial Banking	Asset Management	Markets	Corporate centre	Total
Net interest income	184 453	196 875	30 391	(4)	161 679	-	573 394
Net fees and comissions	177 343	85 548	10 053	27 303	(22 093)	-	278 154
Other operating income	(9 690)	15 640	22 162	(643)	90 940	-	118 409
Total operating income	352 106	298 063	62 606	26 656	230 526	-	969 957
Operating Costs	257 673	208 273	21 064	12 620	196 775	105 230	801 635
Of which:							
Provisions / Impairment losses	*16 167*	*178 816*	*13 418*	*330*	*144 006*	-	*352 737*
Depreciation and amortization	*14 979*	*915*	*576*	*715*	*1 097*	*15 722*	*34 004*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	3 794	-	3 794
Profit / (loss) from continued operations before taxes and non-controlling interests	**94 433**	**89 790**	**41 542**	**14 036**	**37 545**	**(105 230)**	**172 116**
Taxes	-	-	1 734	4 102	-	(21 022)	(15 186)
Profit / (loss) of discontinued operations	-	-	8 796	-	(3 909)	-	4 887
Net Profit / (loss) for the period attributable to non-controlling interests	2 053	-	-	-	5 632	-	7 685
Net Profit / (loss) for the period attributable to Shareholders of the parent	**92 380**	**89 790**	**48 604**	**9 934**	**28 004**	**(84 208)**	**184 504**
Intersegment operating income (1)	*2 018*	*6 486*	*122 553*	*9*	*(126 289)*	-	*4 777*
Total Net Assets	**20 912 255**	**10 131 250**	**2 347 139**	**97 837**	**11 130 034**	**-**	**44 618 515**
Total Liabilities	**20 605 900**	**9 983 157**	**2 262 731**	**11 127**	**8 606 129**	**-**	**41 469 044**
Investments in associated companies	**-**	**-**	**-**	**-**	**94 590**	**-**	**94 590**
Investments in tangible fixed assets	**859**	**-**	**-**	**78**	**81 030**	**6**	**81 973**
Investments in intangible assets	**288**	**-**	**-**	**27**	**25 381**	**-**	**25 696**
Investments in other assets - real estate properties	**449**	**-**	**2 511**	**-**	**41 702**	**-**	**44 662**

(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)

	31.12.2022						
	Portugal	Spain	Luxembourg	Brazil	Angola	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	864	4 326	45 995 029
(of which: rel. to discontinued units)	*51 650*	-	-	*2 747*	*864*	*4 326*	*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 non-current assets	-	-	-	-	-	-	-
Investments in investment properties	16 464	-	-	-	-	-	16 464
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

[(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)

	31.12.2021						
	Portugal	Spain	Luxembourg	Brazil	Angola	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	151 404	2 436	31 016	(352)	-	-	184 504
(of which: rel. to discontinued units)	*87*	*5 171*	-	*(371)*	-	-	*4 887*
Total income	4 609 947	8 890	243 098	-	-	-	4 861 935
Intersegment operating income	*(110 374)*	-	*115 151*	-	-	-	*4 777*
Net assets	42 650 983	56 346	1 902 794	1 006	3 060	4 326	44 618 515
(of which: rel. to discontinued units)	*3 339*	-	-	*1 006*	*702*	*4 326*	*9 373*
Investments in associated companies	94 590	-	-	-	-	-	94 590
Investments in tangible fixed assets	81 973	-	-	-	-	-	81 973
Investments in intangible assets	25 696	-	-	-	-	-	25 696
Investments in non-current assets	-	-	-	-	-	-	-
Investments in investment properties	4 973	-	-	-	-	-	4 973
Investments in other assets - real estate properties	42 151	2 511	-	-	-	-	44 662
Profits / (losses) of continuing operating units before taxes and non-controlling interests [(a)]	126 120	4 898	41 450	(352)	-	-	172 116
Turnover [(a) (b)]	1 196 888	94	172 529	-	-	-	1 369 511
Number of employees [(a)]	4 165	10	11	-	-	7	4 193

[(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 2022 and 2021 is as follows:

(in thousands of Euros)

	31.12.2022					31.12.2021				
	Effective interest method			Others		Effective interest method			Others	
	From assets/liabilities at amortized cost	From assets at fair value through other comprehensive income	Income/expenses resulting from negative interest rates	From assets/liabilities to fair value through results	Total	From assets/liabilities at amortized cost	From assets at fair value through other comprehensive income	Income/expenses resulting from negative interest rates	From assets/liabilities to fair value through results	Total
Interest income										
Credit interest to customers	580 430	15 982	-	-	596 412	498 967	12 965	-	-	511 932
Interest on deposits and applications/resources in credit institutions	24 958	-	38 413	2	63 373	13 528	-	75 062	-	88 590
Interest on securities	112 981	38 850	-	1 453	153 284	51 973	71 585	-	9 211	132 769
Interest on derivatives	-	-	1 729	19 055	20 784	-	-	1 544	4 576	6 120
Other interest and similar income	826	-	-	-	826	1 048	-	-	-	1 048
	719 195	**54 832**	**40 142**	**20 510**	**834 679**	**565 516**	**84 550**	**76 606**	**13 787**	**740 459**
Interest expenses										
Interest on lishes represented by securities	58 520	-	-	-	58 520	36 732	-	-	-	36 732
Interest on customer resources	45 050	-	-	-	45 050	51 328	-	-	-	51 328
Interest on deposits and applications/resources in credit institutions	22 268	-	12 306	-	34 574	7 026	-	11 380	-	18 406
Interest on subordinated liabilities	34 178	-	-	-	34 178	34 168	-	-	-	34 168
Interest on derivatives	-	-	6 850	21 863	28 713	-	-	6 991	11 311	18 302
Other interest and similar income	7 588	-	581	-	8 169	7 024	-	1 105	-	8 129
	167 604	**-**	**19 737**	**21 863**	**209 204**	**136 278**	**-**	**19 476**	**11 311**	**167 065**
	551 591	**54 832**	**20 405**	**(1 353)**	**625 475**	**429 238**	**84 550**	**57 130**	**2 476**	**573 394**

As of 31 December 2022, the caption interest on loans and advances includes Euro 30,046 thousand related to finance lease operations (December 31, 2021: Euro 31,037 thousand).

In relation to repurchase agreement operations, interest from deposits from Other banks, customer deposits and credit institutions includes, as of 31 December 2022, the amount of Euro -160 thousand, Euro 3,397 thousand and Euro 4,859 thousand, respectively (December 31, 2021: Euro 2,301 thousand in customer deposits).

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

NOTE 11 – DIVIDEND INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Financial assets mandatorily at fair value through profit or loss		
Shares	113	2 162
Euronext NV		1 801
Visa Inc CL C	107	226
Others	6	135
Participation units	1 164	7 604
Explorer III B	1 164	7 604
Financial assets measured at fair value through other comprehensive income		
Shares	3 759	1 330
FLITPTREL X	1 035	-
SIBS SGPS	1 866	785
ESA Energia	2	275
Others	856	270
	5 035	**11 096**

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

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Fees and commissions income		
From banking services	250 119	237 550
Cards	42 336	36 905
Management of Means of Payment	109 290	102 033
Asset Management	38 256	41 964
Credit operations	60 237	56 648
From guarantees provided	32 202	32 917
From transaction of securities	10 968	11 222
From commitments to third parties	6 601	7 998
Bancassurance	30 294	28 386
Other fee and commission income	7 151	7 438
	337 335	**325 511**
Fees and commissions expenses		
With banking services rendered by third parties	30 902	29 703
Cards	9 438	9 752
Management of Means of Payment	15 026	14 945
Asset Management	2 488	2 371
Credit operations	3 950	2 635
With guarantees received	1 903	1 564
With transaction of securities	5 147	5 498
Other fee and commission income	9 203	10 592
	47 155	**47 357**
	290 180	**278 154**

NOTE 13 – NET TRADING INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss						
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	29 069	59 837	(30 768)	17 198	12 758	4 440
Issued by other entities	2 980	55 014	(52 034)	11 021	1 073	9 948
	32 049	**114 851**	**(82 802)**	**28 219**	**13 831**	**14 388**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	2	-	2	-	-	-
Issued by other entities	17	6 513	(6 496)	-	142	(142)
Loans	4 588	3 547	1 041	12 639	32 008	(19 369)
	4 607	**10 060**	**(5 453)**	**12 639**	**32 150**	**(19 511)**
	36 656	**124 911**	**(88 255)**	**40 858**	**45 981**	**(5 123)**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	2 367	25 987	(23 620)	3 252	14 507	(11 255)
Issued by other entities	39	-	39	43	20	23
Financial Derivatives						
Foreign exchange rate contracts	52 791	47 406	5 385	59 421	62 678	(3 257)
Interest rate contracts	645 713	482 028	163 685	424 716	360 721	63 995
Equity / Index contracts	3 898	2 682	1 216	31 491	30 678	813
Credit default contracts	187	-	187	16	18	(2)
Other	9 079	6 759	2 320	4 179	3 600	579
	714 074	**564 862**	**149 212**	**523 118**	**472 222**	**50 896**
Gains or losses on financial assets mandatorily measured at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	215	623	(408)	15 796	5 497	10 299
Shares	57 792	43 718	14 074	25 726	471	25 255
Other variable income securities	98 888	121 850	(22 962)	24 956	13 813	11 143
	156 895	**166 191**	**(9 296)**	**66 478**	**19 781**	**46 697**
Other financial assets						
Loans and advances to customers	-	31 197	(31 197)	-	-	-
	-	**31 197**	**(31 197)**	**-**	**-**	**-**
	156 895	**197 388**	**(40 493)**	**66 478**	**19 781**	**46 697**
Gains or losses on financial assets and liabilities designated at fair value through profit and loss						
Securities						
Other variable income securities	125	9	116	34	13	21
	125	**9**	**116**	**34**	**13**	**21**
Gains or losses from hedge accounting						
Fair value changes of hedging instruments						
Foreign exchange rate contracts	626 570	186 634	439 936	89 079	41 684	47 395
Fair value changes of hedging item attributable to hedged risk	2 976	444 625	(441 649)	9 778	42 978	(33 200)
	629 546	**631 259**	**(1 713)**	**98 857**	**84 662**	**14 195**
Foreign exchange revaluation	**1 865 089**	**1 858 300**	**6 789**	**1 134 393**	**1 123 588**	**10 805**
	3 402 385	**3 376 729**	**25 656**	**1 863 738**	**1 746 247**	**117 491**

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

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

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

As of 31 December 2022, the gains recognised in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 3,693 thousand (31 December 2021: Euro 1,867 thousand).

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

As of December 31, 2021, gains or losses on financial assets that are mandatorily accounted for at fair value through profit or loss - securities – include a gain of Euro 4.8 million resulting from the completion of the sale process of shares and participation units in the restructuring funds, as described in Note 24.

Gains or losses on hedge accounting

Gains or losses on hedge accounting include the fair value variations of the hedging instrument (derivative) and the fair value variations of the hedged caption attributable to the hedged risk. In the case where the hedge operations are interrupted early, there may occur the payment/receipt of compensation, which is recorded in Other operating expenses/Other operating income. As of December 31, 2022, the amount of compensation received amounted to Euro 89 thousand (December 31, 2021: Euro 1,726 thousand).

Foreign exchange differences

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

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

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Real estate	86 516	6 761
Equipment	(5 790)	294
Others	2 563	495
	83 289	**7 551**

The caption Gains or losses on derecognition of non-financial assets - real estate includes the gain of Euro 66,797 thousand on the sale of the novobanco headquarters building, as detailed in Note 27.

NOTE 15 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Other operating income		
Gains / (losses) on recoveries of loans	40 423	27 293
Non-recurring consulting services	334	355
Income of Funds and real estate companies	35 461	13 537
Gains on the acquisition of debt issued by the Group (see Note 31)	13	-
Gains on investment properties revaluation (see Note 26)	118 433	49 935
Other income	19 341	72 755
	214 005	**163 875**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 31)	-	(73 522)
Direct and indirect taxes	(5 275)	(6 588)
Contribution on the banking sector and solidarity additional	(34 132)	(34 087)
Membership fees and donations	(2 490)	(2 430)
Expenses of Funds and real estate companies	(7 465)	(6 458)
Charges with Supervisory entities	(2 254)	(1 849)
Contractual Indemnities (SPE)	-	(1 723)
Losses on investments properties revaluation (see Note 26)	(27 300)	(18 753)
Other expenses	(39 441)	(36 194)
	(118 357)	**(181 604)**
Other operating income / (expenses)	**95 648**	**(17 729)**

As of 31 December 2022, the amount received as compensation for discontinued hedging operations, included in other income, amounts to Euro 89 thousand (31 December 2021: Euro 1,726 thousand) (see Note 13).

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

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

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

NOTE 16 – STAFF EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Wages and salaries	179 909	179 007
Remuneration	179 904	178 468
Long-term service / Career bonuses (see Note 17)	5	539
Mandatory social charges	49 384	49 365
Costs with post-employment benefits (see Note 17)	301	946
Other costs	4 113	3 943
	233 707	**233 261**

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

As of 31 December 2022 and 2021, the number of employees of novobanco Group has the following breakdown:

	31.12.2022	31.12.2021
novobanco employees	3 817	3 918
Employees of the Group's subsidiaries	273	275
Total employees of the Group	**4 090**	**4 193**

By professional category, the number of employees at novobanco Group is analysed as follows:

	31.12.2022	31.12.2021
Senior management functions	481	469
Middle management positions	388	456
Specific positions	2 170	1 980
Administrative and other functions	1 051	1 288
	4 090	**4 193**

NOTE 17 – EMPLOYEE BENEFITS

Pension and health-care benefits

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

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

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

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

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

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

At the end of financial 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).

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

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans.

On 31 December 2022, the amount of Euro 548 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2021: Euro 553 thousand).

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

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

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

Pension plan participants are detailed as follows:

	31.12.2022	31.12.2021
Employees	3 958	4 095
Pensioners and survivors	7 066	6 997
Participants under clause 98	1 084	990
TOTAL	**12 108**	**12 082**

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

(in thousand Euros)

	31.12.2022	31.12.2021
Assets / (liabilities) recognised in the balance sheet		
Total liabilities	**(1 418 647)**	**(1 929 188)**
Pensioners	(1 075 292)	(1 334 872)
Employees	(343 355)	(594 316)
Coverage		
Fair value of plan assets	**1 478 263**	**1 907 928**
Net assets / (liabilities) in the balance sheet (See Notes 31 and 35)	**59 616**	**(21 260)**
Accumulated actuarial deviations recognised in other comprehensive income	**697 306**	**799 052**

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

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

(in thousands of Euros)

	31.12.2022	31.12.2021
Retirement pension liabilities at beginning of the exercise	**1 929 188**	**1 934 668**
Current service cost	(26)	434
Interest cost	25 469	18 836
Plan participants' contribution	2 601	2 656
Contributions from other entities	206	219
Actuarial (gains) / losses in the exercise:		
- Changes in financial assumptions	(527 073)	10 612
- Experience adjustments (gains) / losses	52 113	46 984
Pensions paid by the fund / transfers and once-off bonuses	(81 459)	(76 269)
Early retirement	19 473	38 562
Social Security and clause 98	-	(37 187)
Foreign exchange differences and other	(1 845)	(10 327)
Retirement pension liabilities at end of the exercise	**1 418 647**	**1 929 188**

The evolution of the value of pension funds in the exercises ended 31 December 2022 and 2021 can be analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Fair value of fund assets at beginning of the exercise	**1 907 928**	**1 907 616**
Net return from the fund	(348 984)	238
- Share of the net interest on the assets	23 153	15 928
- Return on assets excluding net interest	(372 137)	(15 690)
Group contributions	249	86 708
Employee contributions	2 601	2 656
Pensions paid by the fund / transfers and once-off bonuses	(81 459)	(76 269)
Foreign exchange differences and other	(2 072)	(13 021)
Fund balance at the end of the exercise	**1 478 263**	**1 907 928**

Pension fund assets can be analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	-	63 411	63 411	914	51 215	52 129
Debt instruments	947 801	-	947 801	1 187 975	-	1 187 975
Investment funds	155 923	55 794	211 717	279 949	103 278	383 227
Structured debt	60	15	75	63	15	78
Derivatives	-	-	-	-	74	74
Real estate properties	-	181 960	181 960	-	150 344	150 344
Cash and cash equivalents	-	73 299	73 299	-	134 101	134 101
Total	**1 103 784**	**374 479**	**1 478 263**	**1 468 901**	**439 027**	**1 907 928**

Pension fund assets used by the Group or representative of securities issued by entities of the Group are detailed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Cash and cash equivalents	63 802	41 827
Participation units	-	86 684
Real estate	39 056	43 032
Total	**102 858**	**171 543**

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

	31.12.2022		31.12.2021	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	4,00%	-18,92%	1,35%	-0,24%
Discount rate	4,00%	-	1,35%	-
Pension increase rate	0,75%	1,41%	0,50%	0,36%
Salary increase rate	1,00%	2,54%	0,75%	2,05%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-3 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as of 31 December 2022 and 2021 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 2022 and 2021, 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:

(in thousands of Euros)

Assumptions	Change in the amount of liabilities due to the change:			
	31.12.2022		31.12.2021	
	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	(41 764)	43 959	(73 171)	77 795
Salary increase rate	6 893	(6 658)	13 507	(13 009)
Pension increase rate	44 420	(42 463)	68 855	(64 469)
	de +1 ano	de -1 ano	de +1 ano	de -1 ano
Mortality table	(41 178)	40 787	(68 096)	68 413

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

(in thousands of Euros)

	31.12.2022	31.12.2021
Accumulated actuarial losses recognised in other comprehensive income at the beginning of the exercise	**799 052**	**723 723**
Actuarial (gains) / losses in the exercise:		
- Changes in assumptions		
- Financial assumptions	(527 073)	10 612
- Plan assets return (excluding net of interests)	424 250	62 674
Other	1 077	2 043
Accumulated actuarial losses recognised in other comprehensive income at the end of the exercise	**697 306**	**799 052**

The costs of retirement pensions and health benefits for the exercises ended 31 December 2022 and 2021 can be analysed as follows:

(in thousand of Euros)

	31.12.2022	31.12.2021
Current service cost (a)	(26)	434
Net interest	2 316	2 908
Early retirements (a)	327	512
Post-employment benefits costs	**2 617**	**3 854**

(a) recorded in Staff expenses (see Note 16)

The evolution of net assets / (liabilities) on the balance sheet can be analysed in the exercises ended 31 December 2022 and 2021 as follows

	31.12.2022	31.12.2021
(in thousands of Euros)		
At the beginning of the exercise	**(21 260)**	**(27 052)**
Cost for exercise	(2 617)	(3 854)
Actuarial gains / (losses) recognised in other comprehensive income	101 746	(75 329)
Contributions made in the exercise	249	86 708
Social Security and clause 98	-	37 187
Other	(18 502)	(38 920)
At the end of the exercise	**59 616**	**(21 260)**

In 2022, the value of early retirements amounted to Euro 19.4 million (31 December 2021: Euro 39.1 million), of which Euro 19.1 million are part of the Group's restructuring process (31 December 2021: Euro 38.6 million) and as such, they were recognised against the use of the provision for restructuring (see Note 34). These amounts are considered in Other in the previous table.

The summary of the last five years of the fund's liabilities and the funds balances, as well as experience gains and losses, is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018
Retirement pension liabilities	(1 418 647)	(1 929 188)	(1 934 668)	(1 848 930)	(1 675 608)
Funds balance	1 478 263	1 907 928	1 907 616	1 695 857	1 648 168
(Under) / overfunding of liabilities	**59 616**	**(21 260)**	**(27 052)**	**(153 073)**	**(27 440)**
(Gains) / losses on experience adjustments in retirement pension liabilities	52 113	46 984	50 737	64 098	17 839
(Gains) / losses on experience adjustments in plan assets	372 137	15 690	(27 512)	(82 287)	53 917

The average duration of defined benefit plan liabilities is approximately 13 years (31 December 2021: approximately 16 years).

Career bonuses

As of 31 December 2022, the liabilities assumed by the Group amounted to Euro 5,621 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 7.27 – Employee benefits (31 December 2021: Euro 7,467 thousand) (see Note 33).

As of 31 December 2022, the costs recognised with career bonuses were Euro 4 thousand (31 December 2021: Euro 539 thousand) (see Note 17).

NOTE 18 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Rentals	4 250	3 886
Advertising	5 513	6 345
Communication	11 600	10 954
Maintenance and repairs expenses	8 206	8 311
Travelling and representation	2 211	1 531
Transportation of valuables	2 711	3 323
Insurance	6 190	5 362
IT services	43 983	39 381
Independent work	2 470	1 735
Temporary work	1 284	915
Electronic payment systems	12 395	11 023
Legal costs	6 781	3 533
Consultancy and audit fees	28 066	22 284
Water, energy and fuel	2 826	2 988
Consumables	1 586	1 409
Other costs	22 091	18 118
	162 163	**141 098**

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

As of 31 December 2022, rental costs includes an amount of Euro 704 thousand related to short-term operating lease contracts (31 December 2021: Euro 582 thousand), as described in note 7.24.

The fees invoiced during the years 2022 and 2021 by the Statutory Auditor, according to that laid down in article 508-F of the Portuguese Companies Code (*Código das Sociedades Comerciais*), have the following:

(in thousands of Euros)

	31.12.2022	31.12.2021
Statutory audit of annual accounts	1 445	1 962
Other reliability assurance services	1 264	1 392
Total value of billable services	**2 709**	**3 354**

NOTE 19 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

As of 31 December 2022 and 2021, this caption is analysed as follows:

(In thousands of Euros)

	31.12.2022	31.12.2021
Contribution to the Resolution Fund	24 492	25 341
Contribution to the National Resolution Fund	16 364	15 150
Contribution to the Deposit Guarantee Fund	299	44
	41 155	**40 535**

NOTE 20 – IMPAIRMENT

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Charges	**Reversals**	**Total**	**Charges**	**Reversals**	**Total**
Provisions or reversal of provisions (see Note 34)						
Provisions for guarantees	23 829	(21 119)	2 710	18 764	(31 517)	(12 753)
Provisions for commitments	3 051	(8 446)	(5 395)	10 768	(7 855)	2 913
Other provisions	78 893	(36 963)	41 930	159 400	(21 725)	137 675
	105 773	**(66 528)**	**39 245**	**188 932**	**(61 097)**	**127 835**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (see Note 24)						
Securities at fair value through equity	2 339	(2 772)	(433)	1 302	(928)	374
Securities at amortised cost	1 876 940	(1 808 873)	68 067	1 215 760	(1 168 355)	47 405
Loans and advances to banks	762	(1 049)	(287)	135 814	(134 065)	1 749
Loans and advances to customers	214 814	(180 279)	34 535	301 426	(152 051)	149 375
	2 094 855	**(1 992 973)**	**101 882**	**1 654 302**	**(1 455 399)**	**198 903**
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates (see Note 26)	**-**	**(21 546)**	**(21 546)**	**678**	**(993)**	**(315)**
Impairment or reversal of impairment on non-financial assets						
Non-current assets and disposal groups classified as held for sale (see Note 32)	162	(826)	(664)	10 182	(520)	9 662
Tangible fixed assets (see Note 27)	46	(1 822)	(1 776)	3 484	(5 167)	(1 683)
Other assets (see Note 31)	18 458	(24 393)	(5 935)	34 694	(16 359)	18 335
	18 666	**(27 041)**	**(8 375)**	**48 360**	**(22 046)**	**26 314**
	2 219 294	**(2 108 088)**	**111 206**	**1 892 272**	**(1 539 535)**	**352 737**

NOTE 21 – EARNINGS PER SHARE

Basic earnings per share

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

(In thousands of Euros)	31.12.2022	31.12.2021
Net consolidated profit / (loss) attributable to shareholder of the Bank	**560 910**	**184 504**
Weighted average number of common shares outstanding (thousands)	10 034 965	9 800 000
Basic earnings per share attributable to shareholders of novobanco (in Euros)	**0,06**	**0,02**
Basic earnings per share from continuing activities attributable to shareholders of novobanco (in Euros)	**0,06**	**0,02**

Diluted earnings per share

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

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

NOTE 22 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Cash	**182 895**	**151 699**
Demand deposits with Central Banks		
Bank of Portugal	5 936 637	5 261 912
Other Central Banks	5 861	2 717
	5 942 498	**5 264 629**
Deposits in other domestic credit institutions		
Repayable on demand	62 900	85 433
Uncollected checks	159 966	163 138
	222 866	**248 571**
Deposits with banks abroad		
Repayable on demand	213 506	162 632
Other deposits	37 313	44 007
	250 819	**206 639**
	6 599 078	**5 871 538**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 287.9 million (31 December 2021: Euro 264.3 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 the average interest rate on these deposits was 2% and as of 31 December 2021 it was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as of 31 December 2022 was included in the observation period running from 21 December 2022 to 07 February 2023.

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

NOTE 23 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	36 428	114 465
	36 428	**114 465**
Derivatives		
Derivatives held for trading with positive fair value	135 382	263 199
	135 382	**263 199**
	171 810	**377 664**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	99 386	306 054
	99 386	**306 054**

Securities held for trading

In accordance with the accounting policy described in Note 7.10.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

As of 31 December 2022 and 2021, the schedule of securities held for trading by maturity is as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
From 3 months to a year	4 911	-
From 1 to 5 years	10 055	-
More than 5 years	21 462	114 465
	36 428	**114 465**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 42.

Derivatives

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	664 046	13 976	13 326	587 774	2 704	7 107
- sell	662 467			591 858		
Currency Swaps						
- buy	715 504	2 559	2 137	451 112	633	1 934
- sell	713 759			452 353		
Currency Interest Rate Swaps						
- buy	-	-	-	21 083	20 024	20 103
- sell	-			21 083		
Currency Options						
- buy	293 418	6 606	6 606	304 349	5 766	5 766
- sell	293 419			304 349		
		23 141	**22 069**		**29 127**	**34 910**
Interest rate contracts						
Interest Rate Swaps						
- buy	3 071 249	98 468	70 120	5 988 949	224 317	265 143
- sell	3 071 249			5 988 949		
Swaption - Interest Rate Options						
- buy	142 992	5 205	4 293	86 436	869	2 819
- sell	233 310			166 554		
		103 673	**74 413**		**225 186**	**267 962**
Equity / Index contracts						
Equity / Index Options						
- buy	423 960	8 279	2 695	526 502	8 190	2 608
- sell	423 956			526 498		
		8 279	**2 695**		**8 190**	**2 608**
Commodities Contracts						
Commodities Swaps						
- buy	15 759	289	209	29 633	696	574
- sell	15 759			29 633		
		289	**209**		**696**	**574**
		135 382	**99 386**		**263 199**	**306 054**

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 7.10.6 and 7.10.7, and which the Group has not designated for hedge accounting.

In the exercise of 2022, the Group recognised a loss of Euro 1,820 thousand related to the CVA of derivative instruments (31 December 2021: loss of Euro 454 thousand). The way of determining the CVA is explained in Note 42.

As of 31 December 2022 and 2021, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Trading Derivatives						
Up to 3 months	1 342 255	1 340 594	5 332	1 137 915	1 142 432	(6 380)
From 3 months to 1 year	735 763	735 132	847	654 256	654 868	5 224
From 1 to 5 years	963 226	983 950	4 584	1 633 635	1 640 297	2 778
More than 5 years	2 285 684	2 354 243	25 233	4 570 032	4 643 680	(44 477)
	5 326 928	**5 413 919**	**35 996**	**7 995 838**	**8 081 277**	**(42 855)**

NOTE 24 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, AT FAIR VALUE THROUGH

As of 31 December 2022 and 2021, these captions are analysed as follows:

(in thousands of Euros)

	31.12.2022					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	313 684	13	2 331 099	8 183 209	(218 545)	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**	**32 777 693**	**(383 689)**	**35 038 818**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

(in thousands of Euros)

	31.12.2021					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	799 592	-	7 220 996	2 338 697	(3 136)	10 356 149
Loans and advances to banks	-	-	-	50 466	-	50 466
Loans and advances to customers	-	-	-	23 650 739	33 797	23 684 536
	799 592	**-**	**7 220 996**	**26 039 902**	**30 661**	**34 091 151**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

Securities

As of 31 December 2022 and 2021, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	13 473	54 960
Shares	141 119	427 886
Other variable income securities	159 092	316 746
	313 684	**799 592**
Securities at fair value through results		
Bonds and other fixed income securities		
From other issuers	13	-
	13	**-**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	1 764 578	5 761 717
From other issuers	479 406	1 398 899
Shares	87 115	60 380
	2 331 099	**7 220 996**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	4 610 412	377 335
From other issuers	3 864 328	2 208 359
Impairment	(291 531)	(246 997)
	8 183 209	**2 338 697**
Value adjustments for interest rate risk hedging (see Note 25)	(218 545)	(3 136)
	10 609 460	**10 356 149**

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 Group'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 7.10.4, 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 42.

As of 31 December 2022 and 2021, the detail of the fair value securities through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [1]	Fair value reserve		Fair value reserve transferred to Results [2]	Book value	Impairment reserves
		Positive	Negative			
Bonds and other fixed income securities						
From public issuers	**1 783 420**	**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)
From other issuers	**541 022**	**-**	**(49 628)**	**(11 988)**	**479 406**	**(207)**
Residents	29 610	-	(4 769)	-	24 841	(2)
Non residents	511 412	-	(44 859)	(11 988)	454 565	(205)
Shares	**445 229**	**41 222**	**(399 336)**	**-**	**87 115**	**-**
Residents	343 854	38 443	(310 492)	-	71 805	-
Non residents	101 375	2 779	(88 844)	-	15 310	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Non residents	-	-	-	-	-	-
Balance as at 31 December 2022	**2 769 674**	**41 543**	**(468 130)**	**(11 988)**	**2 331 099**	**(660)**

(1) Aquisition 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 25)

(in thousands of Euros)

	Cost [1]	Fair value reserve		Fair value reserve transferred to Results [2]	Book value	Impairment reserves
		Positive	Negative			
Bonds and other fixed income securities						
From public issuers	**5 560 962**	**205 567**	**(4 812)**	**-**	**5 761 717**	**(3 043)**
Residents	2 478 402	87 103	(918)	-	2 564 587	(1 511)
Non residents	3 082 560	118 464	(3 894)	-	3 197 130	(1 532)
From other issuers	**1 374 554**	**30 008**	**(5 663)**	**-**	**1 398 899**	**(673)**
Residents	29 609	63	(2 335)	-	27 337	(3)
Non residents	1 344 945	29 945	(3 328)	-	1 371 562	(670)
Shares	**442 843**	**15 963**	**(398 426)**	**-**	**60 380**	**-**
Residents	344 174	14 633	(310 732)	-	48 075	-
Non residents	98 669	1 330	(87 694)	-	12 305	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Balance as at 31 December 2021	**7 378 362**	**251 538**	**(408 904)**	**-**	**7 220 996**	**(3 716)**

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

(2) In the context of fair value hedge operations (see Note 25)

During the exercises 2022, the Group sold Euro 5,921.9 million of financial instruments classified at fair value through other comprehensive income (31 December 2021: Euro 956.1 million), with a loss of Euro 82.8 million (31 December 2021: gain of Euro 14.4 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 1.2 million that were transferred from revaluation reserves to sales-related reserves (31 December 2021: loss of Euro 20.5 million), from the sale of equity instruments.

The movements in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**3 690**	**-**	**-**	**3 690**
Increases due to changes in credit risk	1 302	-	-	1 302
Decreases due to changes in credit risk	(928)	-	-	(928)
Utilization during the exercise	(384)	-	-	(384)
Other movements	36	-	-	36
Balance as at 31 December 2021	**3 716**	**-**	**-**	**3 716**
Changes in the value of the impairment				
- 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)
Utilization during the exercise	(2 654)	-	-	(2 654)
Other movements	30	-	1	31
Balance as at 31 December 2022	**659**	**-**	**1**	**660**

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

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**3 925**	**87 652**	**109 660**	**201 237**
Increases due to changes in credit risk	9 347	1 058 301	148 112	1 215 760
Decreases due to changes in credit risk	(7 688)	(1 107 621)	(53 046)	(1 168 355)
Utilization during the exercise	(12)	(1)	(1 640)	(1 653)
Other movements	(101)	(48)	157	8
Balance as at 31 December 2021	**5 471**	**38 283**	**203 243**	**246 997**
Changes in the value of the impairment				
- 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)
Utilization during the exercise	(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 between stages in the portfolio of securities at fair value through other comprehensive income and amortised cost are presented as follows:

(in thousands of Euros)

	Capital					
	Transfers between Stage 1 and 2		Transfers between Stage 2 and 3		Transfers between Stage 1 and 2	
	From Stage 1 to Stage 2	*From Stage 2 to Stage 1*	*From Stage 2 to Stage 3*	*From Stage 3 to Stage 2*	*From Stage 3 to Stage 1*	*From Stage 1 to Stage 3*
Debt securities						
Other issuers	18 523	1 405	-	-	29 263	-
	18 523	**1 405**	**-**	**-**	**29 263**	**-**

In accordance with the accounting policy mentioned on Note 7.16, the Group regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 8.1.

As of 31 December 2022 and 2021, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Securities at fair value through profit or loss - mandatory		
Up to 3 months	-	41 741
From 1 to 5 years	2 469	2 443
More than 5 years	11 004	10 776
Undetermined duration	300 211	744 632
	313 684	**799 592**
Securities at fair value through profit or loss		
From 3 months to 1 year	13	-
	13	**-**
Securities at fair value through other comprehensive income		
Up to 3 months	142 588	451 416
From 3 months to 1 year	1 655 714	989 621
From 1 to 5 years	285 809	3 033 249
More than 5 years	159 873	2 686 330
Undetermined duration	87 115	60 380
	2 331 099	**7 220 996**
Securities at amortised cost (*)		
Up to 3 months	785 649	710 014
From 3 months to 1 year	545 902	139 547
From 1 to 5 years	2 891 069	478 503
More than 5 years	4 252 120	1 257 630
	8 474 740	**2 585 694**
	11 119 536	**10 606 282**

(*) Gross value before impairment

The detail of the securities portfolio by fair value hierarchy is presented in Note 42.

The portfolio securities pledged by the Group are analysed in Note 38.

Loans and advances to Banks

As of 31 December 2022 and 2021, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Loans and advances to banks in Portugal		
Deposits	1	715
Loans	39 228	44 770
Other loans and advances	3	3
	39 232	**45 488**
Loans and advances to banks abroad		
Deposits	5 096	6 089
Other loans and advances	-	2
	5 096	**6 091**
	44 328	**51 579**
Impairment losses	(780)	(1 113)
	43 548	**50 466**

Investments in credit institutions are all recorded in the amortised cost portfolio.

As of 31 December 2022 and 2021, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Up to 3 months	320	861
From 3 months to 1 year	666	6 558
From 1 to 5 years	38 365	38 193
More than 5 years	4 977	5 967
	44 328	**51 579**

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

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2020	**430**	**2**	**249 706**	**250 138**
Increases due to changes in credit risk	1 210	541	134 063	135 814
Decreases due to changes in credit risk	(1 399)	(102)	(132 564)	(134 065)
Utilization during the exercise	(101 282)	-	(167 728)	(269 010)
Other movements	101 258	33	(83 055)	18 236
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**

The increase of impairment for investments in credit institutions verified in 2020 results from the degradation of the credit risk of international exposures analysed on an individual basis, whose partial default situation at the end of 2020, among other signs of impairment, led to the transfer of the same to stage 3 and the constitution of additional impairments of Euro 189.6 million. During 2021 part of this exposure was settled, with the remaining exposure being restructured and subsequently derecognised, in line with the amendment made in May 2021 to the Contingent Capital Mechanism contract, which extinguished novobanco's rights and risks on this asset.

Loans and advances to customers

As of 31 December 2022 and 2021, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Domestic loans and advances		
Corporate		
Current loans	1 124 902	1 139 614
Loans	9 124 011	8 917 738
Discounted bills	87 357	76 741
Factoring	669 689	595 334
Overdrafts	46 637	13 457
Financial leases	796 661	1 245 885
Other loans and advances	29 404	17 814
Individuals		
Residential Mortgage loans	8 748 678	8 733 283
Consumer credit and other loans	1 261 226	1 193 500
	21 888 565	**21 933 366**
Foreign loans and advances		
Corporate		
Current loans	46 898	66 348
Loans	1 992 439	1 319 819
Discounted bills	14	2
Factoring	31 019	40 519
Financial leases	72	54
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	1 217 702	1 038 286
Consumer credit and other loans	110 030	190 201
	3 398 175	**2 655 230**
Overdue loans and advances and interests		
Under 90 days	13 267	20 010
Over 90 days	317 339	290 050
	330 606	**310 060**
	25 617 346	**24 898 656**
Impairment losses	**(1 066 392)**	**(1 247 917)**
	24 550 954	**23 650 739**
Fair value adjustaments of interest rate hedges (See Note 25)		
Corporate		
Loans	(16 805)	4 035
Individuals		
Residential Mortgage loans	(148 339)	29 762
	(165 144)	**33 797**
	24 385 810	**23 684 536**

As of 31 December 2021, Loans to customers are all recorded in the amortised cost portfolio.

As of 31 December 2022, there are transactions mandatorily recorded at fair value through profit or loss, with a nominal value of Euro 31,197 thousand and a fair value of Euro 18 thousand, the impact of which was recorded in the line Gain or loss on financial assets mandatorily recorded at fair value through profit or loss in the income statement (see Note 13).

As of 31 December 2022, the amount of loans and advances to customers (net of impairment) includes the amount of Euro 1,127.6 million (31 December 2021: Euro 1,255.1 million), related to securitization operations in which, according to the accounting policy referred to in Note 6, structured entities are consolidated by the Group (see Notes 1 and 41). The liabilities associated with these securitization operations were recognised as Debt Securities (see Note 33).

As of 31 December 2022, the caption Loans and advances to customers include Euro 6,078.4 million of mortgage loans related to the issuance of mortgage bonds (31 December 2021: Euro 6,075.1 million) (see Note 33).

As of 31 December 2022, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 37,310 thousand (31 December 2021: Euro 18,614 thousand).

As of 31 December 2022 and 2021, the analysis of loans and advances to customers, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Up to 3 months	1 354 779	1 211 004
From 3 months to 1 year	1 528 511	1 303 386
From 1 to 5 years	6 261 236	5 825 536
More than 5 years	15 977 070	16 282 467
Undetermined duration (Overdue)	330 606	310 060
	25 452 202	**24 932 453**

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Credit Parity Movement			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2020	**61 429**	**310 005**	**1 228 341**	**1 599 775**
Financial assets derecognised	(1 282)	(3 073)	(239 704)	(244 059)
Increases due to changes in credit risk	22 683	123 196	155 547	301 426
Decreases due to changes in credit risk	(47 899)	(57 439)	(46 713)	(152 051)
Utilizations	-	(194)	(267 008)	(267 202)
Other movements	28 644	(50 301)	31 685	10 028
Balance as at 31 December 2021	**63 575**	**322 194**	**862 148**	**1 247 917**
Changes in the value of the impairment				
- 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)
Utilizations	-	(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**

The increase of impairment for credit risk during the exercise 2021 include Euro 71.8 million, reflecting the updating of the information in the IFRS 9 models, anticipating the losses related to the Covid-19 pandemic.

(in thousands of Euros)

	Loans and Advances to customers - of which on a portfolio basis				Loans and Advances to customers - of which on an individual basis				Total Credit Parity
	Stage 1	**Stage 2**	**Stage 3**	**total**	**Stage 1**	**Stage 2**	**Stage 3**	**total**	
Balance as at 31 December 2020	**61 429**	**307 179**	**141 721**	**510 329**	**-**	**2 826**	**1 086 620**	**1 089 446**	**1 599 775**
Financial assets originated or acquired									
Financial assets derecognised	-1 282	-3 073	-42 700	-47 055	-	0	-197 004	-197 004	-244 059
Increases due to changes in credit risk	22 683	122 726	34 438	179 847	-	470	121 109	121 579	301 426
Decreases due to changes in credit risk	-47 899	-55 457	-29 950	-133 306	-	-1 982	-16 763	-18 745	-152 051
Utilizations	0	-194	-15 262	-15 456	-	0	-251 746	-251 746	-267 202
Other movements	28 644	-49 842	-702	-21 900	-	-459	32 387	31 928	10 028
Balance as at 31 December 2021	**63 575**	**321 339**	**87 545**	**472 459**	**-**	**855**	**774 603**	**775 458**	**1 247 917**
Financial assets originated or acquired									
Financial assets derecognised	-4	0	-315	-319	-	0	-26 532	-26 532	-26 851
Increases due to changes in credit risk	19 743	64 165	33 274	117 182	-	1	97 631	97 632	214 814
Decreases due to changes in credit risk	-94 166	-40 599	-6 669	-141 434	-	-464	-38 381	-38 845	-180 279
Utilizations	0	-38	-5 102	-5 140	-	0	-193 638	-193 638	-198 778
Other movements	73 126	-44 652	-23 151	5 323	-	0	4 246	4 246	9 569
Balance as at 31 December 2022	**62 274**	**300 215**	**85 582**	**448 071**	**-**	**392**	**617 929**	**618 321**	**1 066 392**

The transfers between stages that occurred in Loans to customers are presented as follows:

(in thousands of Euros)

	Capital					
	Transfers between Stage 1 and 2		Transfers between Stage 2 and 3		Transfers between Stage 1 and 2	
	From Stage 2 to Stage 1	*From Stage 1 to Stage 2*	*From Stage 3 to Stage 2*	*From Stage 2 to Stage 3*	*From Stage 3 to Stage 1*	*From Stage 1 to Stage 3*
Corporate	555 353	514 595	81 989	40 423	29 605	2 250
Mortgage and Consumer Loans	393 129	317 341	35 718	41 354	8 668	22 856
	948 482	**831 936**	**117 707**	**81 777**	**38 273**	**25 106**

Credit distribution by type of rate is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Fixed rate	2 802 871	4 075 515
Variable rate	22 649 331	20 856 938
	25 452 202	**24 932 453**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Gross investment in finance leases receivable		
Up to 1 year	216 621	278 587
1 to 5 years	496 962	693 762
More than 5 years	202 119	533 443
	915 702	1 505 792
Unrealized finance income in finance leases		
Up to 1 year	26 238	43 611
1 to 5 years	54 097	94 599
More than 5 years	17 146	91 120
	97 481	229 330
Present value of minimum lease payments receivable		
Up to 1 year	190 383	234 976
1 to 5 years	442 865	599 163
More than 5 years	184 973	442 323
	818 221	1 276 462
Impairment	(84 922)	(226 204)
	733 299	**1 050 258**

Sales of credit portfolios

2021

Sale of a non-performing loans portfolio (Project Orion)

novobanco entered into sale and purchase agreements with a consortium of funds managed by WEST INVEST UK LIMITED PARTNERSHIP and LX INVESTMENT PARTNERS III S.À.R.L. for the sale of a non-performing loans and related assets portfolio (Project Orion). The net book value of the receivables at the date of derecognition amounted to Euro 76.1 million (gross book value of Euro 162.9 million), with an impact on net income for the exercise 2021 of approximately Euro 1.8 million:

(in thousands of Euros)

Impact on Income Statement	31.12.2021
Gains or losses on the derecognition of financial assets and liabilities not measured at fair value through results	-10 159
Credit parity or reversal of credit parity of financial assets not measured at fair value through the results	19 295
Provisions or reversal of provisions	-7 310
Impact on Net Income	**1 826**

Sale of a non-performing loans portfolio (Project Wilkinson)

On March 5, 2021, novobanco entered into a sale and purchase agreement to sell a non-performing loans and related assets portfolio (Project Wilkinson), with a net book value of Euro 62.3 million (gross book value of Euro 210.4 million), with Burlington Loan Management, a company owned by companies affiliated to and advised by Davidson Kempner European Partners, LLP. The impact of this operation on net income for 2021 resulted in a loss of Euro 4.5 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2021
Gains or losses on the derecognition of financial assets and liabilities not measured at fair value through results	-1 363
Credit parity or reversal of credit parity of financial assets not measured at fair value through the results	-3 175
Impact on Net Income	**-4 538**

NOTE 25 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED CAPTIONS

At 31 December 2022 and 2021, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Hedging derivatives		
Assets	562 845	19 639
Liabilities	(119 578)	(44 460)
	443 267	**(24 821)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 24)	(218 545)	(3 136)
Loans to customers (see Note 24)	(165 144)	33 797
	(383 689)	**30 661**
Financial assets at fair value through other comprehensive income		
Securities (see Note 24)*	(11 988)	-
	(395 677)	**30 661**

*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 13).

The Group calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 42 - Fair value of financial assets and liabilities.

Fair value hedging

As of 31 December 2022 and 2021, fair value hedging operations can be analysed as follows:

(in thousands of Euros)

31.12.2022

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives (2)	Change in fair value of derivative in period	Fair value component of item hedged (1)	Change in fair value component of item hedged in period (1)
Interest Rate Swap	Securities at amortized cost	Interest rate	5 456 500	359 089	214 274	(218 545)	(215 410)
Interest Rate Swap/ CIRS	Loans to customers	Interest and exchange rates	3 300 704	166 110	192 999	(165 144)	(198 940)
Interest Rate Swap	Securities at fair value through other comprehensive income	Interest rate	200 000	19 140	27 272	(11 988)	(27 298)
			8 957 204	**544 339**	**434 545**	**(395 677)**	**(441 648)**

(1) Attributable to hedged risk

(2) Includes accrued interest

(in thousands of Euros)

31.12.2021

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives (2)	Change in fair value of derivative in period	Fair value component of item hedged (1)	Change in fair value component of item hedged in period (1)
Interest Rate Swap	Securities at amortized cost	Interest rate	378 000	4 184	3 675	(3 136)	(4 265)
Interest Rate Swap/ CIRS	Loans to customers	Interest and exchange rates	2 473 019	(29 005)	31 118	33 797	(28 935)
			2 851 019	**(24 821)**	**34 793**	**30 661**	**(33 200)**

(1) Attributable to hedged risk

(2) Includes accrued interest

On 31 December 2022, the ineffective part of the fair value hedging operations, which translated into a cost of Euro 7.1 million, was recorded in the income statement (31 December 2021: profit of Euro 1.6 million). The Group periodically conducts tests of the effectiveness of existing hedging relationships.

Cash flow hedging

(in thousands of Euros)

31.12.2022					
Hedged item	Asset balance value	Notional	Derivate balance value	Cash flow coverage 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)**

Transactions with hedge derivatives as of 31 December 2022 and 2021, by maturity, can be analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Notional		Fair Value	Notional		Fair Value
	Buy	Sell	(net)	Buy	Sell	(net)
Up to 3 months	3 020	3 020	5	65 000	65 000	(705)
From 3 months to 1 year	63 678	63 678	(197)	76 070	76 070	(1 212)
From 1 to 5 years	4 629 088	4 629 088	80 590	418 161	418 161	1 171
More than 5 years	4 514 816	4 514 816	362 869	866 278	866 279	(24 075)
	9 210 602	**9 210 602**	**443 267**	**1 425 509**	**1 425 510**	**(24 821)**

NOTE 26 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

(in thousands of Euros)

	Cost of participation		Economic interest (b)		Gross Book Value		Impairment		Net Book Value		Profit / (losses) attributable to the Group	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
LOCARENT	2 967	2 967	50,00%	50,00%	23 231	21 349	-	-	23 231	21 349	1 326	1 054
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40,00%	40,00%	68 438	59 737	(7 406)	(26 361)	61 032	33 376	-	(1 908)
EDENRED	4 984	4 984	50,00%	50,00%	2 932	2 692	-	-	2 932	2 692	967	904
UNICRE **a)**	11 497	11 497	17,50%	17,50%	31 506	27 242	-	-	31 506	27 242	4 660	3 120
ESEGUR	-	9 634	-	44,00%	-	13 847	-	(8 673)	-	5 174	-	98
Others	7 549	14 445	-	-	1 043	11 474	-	(6 717)	1 043	4 757	1 401	526
	173 766	**190 296**			**127 150**	**136 341**	**(7 406)**	**(41 751)**	**119 744**	**94 590**	**8 354**	**3 794**

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

The financial information of the most relevant associated companies is presented in the following table:

(in thousands of Euros)

	Assets		Liabilities		Equity		Income		Profit / (loss) for the period	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
LOCARENT	302 057	271 440	256 207	229 358	45 850	42 082	35 080	28 253	2 651	2 108
LINEAS - CONCESSÕES DE TRANSPORTES	165 608	226 769	77 396	138 557	88 212	88 212	52 870	1 503	51 869	(4 770)
EDENRED	88 605	84 502	76 520	72 897	12 085	11 605	7 528	11 175	1 934	1 807
UNICRE **a)**	452 219	376 148	272 185	220 481	180 034	155 667	206 048	142 625	26 631	17 827
ESEGUR **b)**	-	28 923	-	13 007	-	15 916	-	39 947	-	220

Note: Data adjusted for consolidation purposes

(a) 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.

b) Reclassified during 2021 from discontinued operations (see Note 32)

The changes in this caption for the exercise ended as of 31 December 2022 and 2021, are analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	94 590	93 630
Disposals and other reimbursements (see Note 1)	-	(153)
Share of profits / (losses) of associated companies	8 353	3 794
Impairment in associated companies	21 546	315
Fair value reserves of investments in associated companies	332	(774)
Dividends received	(4 679)	(7 499)
Foreign exchange differences and other **(a)**	(398)	5 277
Balance at the end of the exercise	**119 744**	**94 590**

(a) In the year 2021 includes EUR 4,326 thousand related to the reclassification of Ijar Leasing to discontinued operations and EUR 5,232 thousand and EUR 669 thousand related to the reclassification of ESEGUR and Multipessoal, respectively, from discontinued operations (see Note 32)

In 2022, dividend income of Euro 4,805 thousand was recorded in financial assets in investments in associates and subsidiaries, which include dividends received from Unicre in the amount of Euro 3,080 thousand, from Edenred in the amount of Euro 1,009 thousand (31 December 2021: Euro 7,499 thousand, which include dividends received from Unicre in the amount of Euro 6,321 thousand and Edenred in the amount of Euro 660 thousand).

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

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**41 751**	**37 963**
Charges	-	678
Utilizations	(9 939)	-
Reversals	(21 546)	(993)
Foreign exchange differences [(a)]	(2 860)	4 103
Balance at the end of the exercise	**7 406**	**41 751**

(a) For 2021 it includes EUR 4,326 thousand impairment for Ijar Leasing transferred to discontinued operations and 5,232 thousand euros and 669 thousand euros relating to the reclassification of ESEGUR and Multipessoal, respectively, to discontinued operations (see Note 32).

NOTE 27 – PROPERTY, PLANT AND EQUIPMENT

This caption as of 31 December 2022 and 2021 is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Real estate properties		
For own use	175 117	245 988
Improvement in leasehold properties	86 114	120 800
Other	-	-
	261 231	**366 788**
Equipment		
Computer equipment	118 739	114 847
Fixtures	34 571	49 276
Furniture	56 890	54 728
Security equipment	17 471	21 775
Transport equipment	8 215	8 407
Right of use assets	583	583
Other	86	146
	236 555	**249 762**
Assets under right of use		
Real estate properties	58 898	55 993
Equipment	11 758	9 819
	70 656	**65 812**
Other assets	-	-
Work in progress		
Improvements in leasehold properties	32 004	952
Real estate properties	29 827	9 891
Equipment	22	6
Others	277	336
	62 130	**11 185**
	630 572	**693 547**
Accumulated impairment	(11 445)	(13 221)
Accumulated depreciation	(319 863)	(441 381)
	299 264	**238 945**

The changes in this caption were as follows:

(in thousand of Euros)

	Real Estate Properties	Equipment	Right of Use Assets	Work in Progress	Total
Acquisition Cost					
Balance at 31 December 2020	**361 480**	**248 582**	**63 310**	**1 566**	**674 938**
Acquisitions	37 989	24 853	2 502	16 629	81 973
Disposals/write-offs	(37 561)	(23 835)	-	-	(61 396)
Transfers	4 881	160	-	(7 010)	(1 969)
Foreign exchange differences and other [(a)]	(1)	2	-	-	1
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	(146 117)	(37 050)	(14 855)	(15)	(198 037)
Transfers [(d)]	(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**
Depreciation					
Balance at 31 December 2020	**228 200**	**221 037**	**24 706**	**-**	**473 943**
Depreciation	5 391	10 668	11 400	-	27 459
Disposals/write-offs	(31 068)	(23 200)	(7 229)	-	(61 497)
Transfers [(b)]	(1 512)	(284)	-	-	(1 796)
Foreign exchange differences and other [(c)]	3 101	171		-	3 272
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	(107 935)	(36 589)	(7 138)		(151 662)
Transfers [(d)]	(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**
Impairment					
Balance at 31 December 2020	**13 943**	**-**	**-**	**-**	**13 943**
Impairment loss	3 484	-	-	-	3 484
Reversão de perdas por imparidade	(5 167)	-	-	-	(5 167)
Transfers [(d)]	303	-	-	-	303
Variação cambial e outros movimentos	658	-	-	-	658
Balance at 31 December 2021	**13 221**	**-**	**-**	**-**	**13 221**
Impairment losses	46	-	-	-	46
Reversal of impairment losses	(1 822)	-	-	-	(1 822)
Balance at 31 December 2022	**11 445**	**-**	**-**	**-**	**11 445**
Net book value at 31 December 2022	**146 926**	**51 930**	**38 278**	**62 130**	**299 264**
Net book value at 31 December 2021	**149 455**	**41 370**	**36 935**	**11 185**	**238 945**

(a) includes EUR 3.471 thousand of fixed assets (real estate and equipment) and EUR 1.650 thousand of accumulated depreciation sums for discontinued counters that have been transferred at net value to the appropriate balance sheet items.

(b) includes EUR 2.479 thousand of fixed assets (real estate and equipment) and EUR 1.079 thousand of accumulated depreciation sums for discontinued counters that have been transferred at net value to the appropriate balance sheet items.

(C) Includes EUR 106.395 thousand of fixed assets (real estate and equipment) and EUR 68.164 thousand of accumulated depreciation stemming from the Head Office Building that was sold in 2022.

During September 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 capital gain of Euro 67 million, net of costs related to the sale process. Until the construction of the new headquarters is concluded, the Bank will continue to use the building, having signed a lease contract for this purpose.

NOTE 28 – INVESTMENT PROPERTIES

The changes in Investment properties are presented as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**625 187**	**592 605**
Acquisitions	16 464	4 973
Disposals	(242 068)	(49 727)
Improvements	10 139	-
Changes in fair value	91 133	31 179
Other	(1 288)	46 157
Balance at the end of the exercise	**499 567**	**625 187**

According to the accounting policy described in Note7.19, the book value of investment properties is the fair value of the properties, as determined by a registered and independent appraiser with a recognised professional qualification and experience in the geographical location and category of the property being valued. For the purposes of determining the fair value of these assets, generally accepted criteria and methodologies are used, which integrate analyses by the income method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 42).

Investment properties comprise some assets held by Funds and Real Estate firms, and include commercial properties leased for revenue and properties held for valuation. Most of the lease contracts have no specific tenor, enabling the lessee to cancel it at any time. However, for a small number of these commercial properties leased to third parties there is a non-cancelling clause for approximately 10 years. Subsequent leases are negotiated with the lessee.

During 2022, the increase in the fair value of investment properties in the amount of Euro 91.1 million (31 December 2021: increase of Euro 31.2 million) (see Note 15), and the rental income from investment properties in the amount of Euro 17.1 million (31 December 2021: Euro 19.2 million), are recognised under Other operating income and expenses.

NOTE 29 – INTANGIBLE ASSETS

This caption as of 31 December 2022 and 2021, is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Goodwill	**13 907**	**13 907**
Impairment losses	(13 907)	(13 907)
	-	-
Internally developed		
Software - Automatic data processing system	69 511	69 511
Other	1	1
Acquired from third parties		
Software - Automatic data processing system	374 108	387 358
Other	-	-
	443 620	**456 870**
Work in progress	**31 986**	**13 455**
	475 606	**470 325**
Accumulated amortization	(405 774)	(402 339)
	69 832	**67 986**

The changes in this caption were as follows:

(in thousands of Euros)

	Goodwill	Software	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2020	**13 907**	**423 190**	**21 439**	**458 536**
Acquisitions				
Acquired from third parties	-	3 499	22 197	25 696
Transfers	-	30 181	(30 181)	-
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**
Amortizations				
Balance as at 31 December 2020	**-**	**395 796**	**-**	**395 796**
Amortization for the period	-	6 545	-	6 545
Foreign exchange differences and other	-	(2)	-	(2)
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**
Impairment				
Balance as at 31 December 2020	**13 907**	**-**	**-**	**13 907**
Balance as at 31 December 2021	**13 907**	**-**	**-**	**13 907**
Balance as at 31 December 2022	**13 907**	**-**	**-**	**13 907**
Net balance at 31 December 2022	**-**	**37 846**	**31 986**	**69 832**
Net balance at 31 December 2021	**-**	**54 531**	**13 455**	**67 986**

Goodwill is recognised in accordance with the accounting policy described in Note 6, and can be analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Subsidiaries		
Imbassaí	13 526	13 526
GNB Concessões	381	381
	13 907	**13 907**
Impairment losses		
Imbassaí	(13 526)	(13 526)
GNB Concessões	(381)	(381)
	(13 907)	**(13 907)**
	-	**-**

NOTE 30 – INCOME TAXES

Tax assets and liabilities recognised in the balance sheet as of 31 December 2022 and 2021 can be analysed as follows:

(in thousands of Euros)

	31.12.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Current tax	**32 570**	**7 582**	**35 653**	**12 262**
Corporate Tax recoverable / (payable)	1 793	7 248	142	12 162
Other	30 777	334	35 511	100
Deferred tax	**923 430**	**845**	**744 239**	**3 035**
	956 000	**8 427**	**779 892**	**15 297**

The deferred tax assets and liabilities recognised in the balance sheet as of 31 December 2022 and 2021 are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Financial instruments	94 830	92 300	(14 637)	(78 526)	80 193	13 774
Impairment losses on loans (not covered)	331 523	339 022	-	-	331 523	339 022
Impairment losses on loans (covered)	295 310	267 341	-	-	295 310	267 341
Other tangible assets	-	-	(76)	(8 029)	(76)	(8 029)
Provisions	100 914	82 240	-	-	100 914	82 240
Pensions	51 049	48 995	-	-	51 049	48 995
Long-term service bonuses	20	21	-	-	20	21
Other	991	124	(845)	(3 035)	146	(2 911)
Tax losses carried forward	63 506	751	-	-	63 506	751
Deferred tax asset / (liability)	**938 143**	**830 794**	**(15 558)**	**(89 590)**	**922 585**	**741 204**
Asset / liability set-off for deferred tax purposes	(14 713)	(86 555)	14 713	86 555	-	-
Net Deferred tax asset / (liability)	**923 430**	**744 239**	**(845)**	**(3 035)**	**922 585**	**741 204**

As of 31 December 2022, the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

As at 31 December 2022, the Group recognised deferred tax assets associated with tax losses amounting to Euro 63.5 million.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Therefore, on December 31, 2021, the Group continued to apply Regulatory Decree no. 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework that derives from Notice no. 3/95 of the Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the exercise of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the consolidated financial statements, there will be no additional charges of significant value.

As of 31 December 2022 and 2021, the Group recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As of 31 December 2022, the amounts held by the novobanco Group referring to these realities amount to approximately Euro 57 million (31 December 2021: Euro 37 million).

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	741 204	769 767
Recognised in Results for the exercise	63 349	27 923
Recognised in Fair value reserves	81 804	60 294
Recognised in Other reserves	-	(74)
Conversion of Deferred taxes into Tax credits	33 640	(124 721)
Foreign exchange differences and other	2 588	8 015
Balance at the end of the exercise (Assets / (Liabilities))	**922 585**	**741 204**

The current and deferred taxes recognised in the income statement and in reserves, in 2022 and 2021, had the following origins:

(in thousands of Euros)

	31.12.2022		31.12.2021	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial instruments	15 777	(81 804)	(28 322)	(60 294)
Impairment losses on loans and advances to customers	13 170	-	59 699	-
Other tangible assets	(7 953)	-	(174)	-
Provisions	(18 673)	-	(43 105)	-
Pensions	(2 048)	-	(17 393)	74
Long-term service bonuses	-	-	1	-
Other	(867)	-	1 371	-
Tax losses carried forward	(62 755)	-	-	-
Deferred taxes	**(63 349)**	**(81 804)**	**(27 923)**	**(60 220)**
Current taxes	10 048	-	12 737	-
Total tax recognised (income) / expense	**(53 301)**	**(81 804)**	**(15 186)**	**(60 220)**

The reconciliation of the corporate income tax rate, for the portion recognised in the income statement, may be analysed as follows:

	31.12.2022		31.12.2021	
	%	Valor	%	Valor
Income before tax		**532 643**		**177 003**
Tax rate of novobanco	21,0		21,0	
Income tax calculated based on the tax rate of novobanco		**111 855**		**37 171**
Tax-exempt dividends	(0,2)	(1 248)	(0,9)	(1 593)
Impairment on investments in subsidiaries or associated companies subject to Participation Exemption	(0,7)	(3 525)	(23,3)	(41 203)
Rate differential on the generation / reversal of timing differences	2,2	11 949	17,9	31 650
Profits / losses in units with a more favorable tax regime	(1,2)	(6 518)	0,2	326
Taxes of Bank Branches and tax withheld abroad	0,2	956	1,2	2 138
Impairments and provisions for loans	(4,2)	(22 476)	(30,1)	(53 201)
Impairment and fair value adjustments on securities	1,6	8 648	(21,3)	(37 715)
Provisions for other risks, costs and contingencies	(2,0)	(10 519)	(8,9)	(15 830)
Employees' long term benefits	(0,4)	(2 163)	(5,7)	(10 044)
Deffered tax assets not recognized under tax losses for the exercise	7,7	40 811	36,8	65 183
Contribution and Solidarity additional contribution over the Banking Sector	1,3	7 168	4,0	7 158
Deferred taxes on tax losses from previous years	(11,8)	(62 755)	-	-
Capital gains/losses on asset sales	(19,1)	(101 924)	-	-
Other	(4,4)	(23 560)	0,4	774
Total income recognised	**(10,0)**	**(53 301)**	**(8,6)**	**(15 186)**

Deferred tax assets recoverability analysis

Deferred tax assets are recognised to the extent they are expected to be recovered with future taxable income. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2027. 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 2022, this exercise was made based on the latest draft version of the business plan (“MTP”) for the period of 2023-2025 and a stress scenario exercise, preliminarily considered by the General Supervisory Board in December 2022 and which, upon inclusion of the end of 2022 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 2025, it is assumed, thereafter an increase in pre-tax results at a rate of 4.00% from 2026;
- Growth in the commercial finance result based on the expected evolution of interest rate benchmarks, as well as the continued development of new lines of activity that should also provide a recovery in commissioning levels to values similar to previous exercises;
- Significant increase in interest rate benchmarks in line with the macroeconomic outlook and ECB monetary policy decisions;
- 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, reflecting the favorable effect of the reduction in the number of employees and

branches and, in general, the simplification and increased efficiency of processes, in particular the focus on the digital component; and

- Appropriations for credit impairment in line with the evolution of the Group's activity and supported by macroeconomic projections, bearing in mind the significant effort made in recent exercises to provision the credit portfolio and the progressive convergence to gradually normalised costs of risk.

Depending on the analysis mentioned above, the amount of deferred taxes not recognised for tax losses, per year of expiry, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
No expiry period	**933 178**	**-**
With expiry period	**478 489**	**1 476 870**
2025	91 728	123 124
2026	135 452	190 068
2028	-	877 771
2029	170 236	170 236
2032	81 073	115 671
	1 411 667	**1 476 870**

In addition, the Group became aware of the Tax Authority's position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. The total amount of deferred tax assets related to these temporary differences, not recognised in the balance sheet, at 31 December 2022 amounts to 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 favorable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above-mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Following the determination of a negative net income for the exercises between 2018 and 2020, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018
Tax Credit	124 721	106 197	133 061

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 31 – OTHER ASSETS

As of 31 December 2022 and 2021, the caption Other assets is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Collateral deposits placed	251 225	525 229
Derivative products	*133 864*	*399 631*
Collateral CLEARNET and VISA	*41 423*	*33 092*
Collateral deposits relating to reinsurance operations	*71 387*	*92 457*
Other collateral deposits [b)]	*4 552*	*49*
Debtors for mortgage credit interest subsidies	18 714	12 300
Public sector	498 349	956 130
Contingent Capital Agreement	198 180	209 220
Other debtors	328 366	498 681
Income receivable	127 771	138 703
Deferred costs	13 984	48 430
Retirement pensions and health benefits (see Note 16)	59 616	1 684
Precious metals, numismatics, medal collection and other liquid assets	10 440	10 034
Real estate properties [a)]	237 243	589 390
Equipment [a)]	3 013	3 189
Stock exchange transactions pending settlement	4 449	-
Other assets	122 167	25 001
	1 873 517	**3 017 991**
Impairment losses		
Real estate properties [a)]	(123 008)	(390 762)
Equipment [a)]	(2 195)	(2 180)
Other debtors - Shareholder loans, supplementary capital contributions	(76 968)	(88 485)
Other	(52 862)	(94 014)
	(255 033)	**(575 441)**
	1 618 484	**2 442 550**

a) Real estate properties and equipment received in settlement of loans and discontinued

b) Includes the amount of 4.5M€ in the escrowaccount related to the sale of the Headquarters

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

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

The decrease during 2022 in the caption Public Administrative Sector includes about Euro 272.9 million related to the conversion into capital of the rights resulting from the Special Regime Applicable to Deferred Tax Assets, as detailed in Note 36.

As of 31 December 2022, the caption Other debtors includes, amongst others:

- Euro 2.3 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business which are entirely provisioned (31 December 2021: Euro 2.3 million, entirely provisioned);
- Euro 61.9 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2021: Euro 111.6 million, entirely provisioned),
- Euro 1.8 million receivable relation to the sale operation of non-performing loans (Project NATA II) (31 December 2021: Euro 61.3 million);
- Euro 1.8 million of receivables related to non-productive receivables sale transactions (NATA II Project) (31 December 2021: Euro 61.3 million);
- Euro 0.7 million of receivables related to the property sale operation carried out in 2019 (called "Project Sertorius") (31 December 2021: Euro 1.3 million);
- Euro 0.4 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated "Project Carter"). (31 December 2021: Euro 4.4 million); and
- Euro 20.9 million of receivables related to the sale of the restructuring funds.

Securities transactions pending settlement reflect the transactions with securities, recorded on the trade date, in accordance with the accounting policy described in Note 7.10, pending settlement.

The captions of Real estate properties and equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Group has the objective of immediate sale.

The Group implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Group regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the period the Group must hold foreclosed assets.

During 2022, an impairment charge of Euro 12.8 million was recorded for the properties in the portfolio (31 December 2021: Euro 16.2 million).

As described in accounting policy 7.26, the Group evaluates at each reporting date, the recoverability of these assets and assesses for signs of impairment, with impairment losses being recognised in the income statement.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**575 441**	**686 099**
Dotation for the exercise	18 458	34 694
Utilisation during the exercise	(165 464)	(134 726)
Write-back for the exercise	(24 393)	(16 359)
Foreign exchange differences and other [(a)]	(149 009)	5 733
Balance at the end of the exercise	**255 033**	**575 441**

(a) In 2022 includes EUR 122.291 thousand of other Fungere assets at the time of the merger of Fungepi.

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**589 390**	**770 054**
Additions	17 174	44 662
Disposals	(194 033)	(170 501)
Other movements [(a)]	(175 288)	(54 825)
Balance at the end of the exercise	**237 243**	**589 390**

(a) Includes EUR 156.489 thousand of Fungere's assets which, with the merger with Fungepi, were transferred to Investment Properties during the financial year 2022.

As of 31 December 2022 and 2021, the detail of the real estate properties included in Other assets, by type of property, is as follows:

(in thousands of Euros)

	31.12.2022				
	Number of properties	**Gross value**	**Impairment**	**Net book value**	**Fair value of assets [(b)]**
Land					
Urban	66	15 939	8 062	7 877	8 840
Rural	61	81 199	55 771	25 428	26 568
	127	97 138	63 833	33 305	35 408
Buildings under construction					
Commercial	278	51 247	22 400	28 847	39 781
Residential	898	76 450	23 134	53 316	67 441
Others	148	3 529	884	2 645	3 350
	1 324	131 226	46 418	84 808	110 572
Others [(a)]	**-**	**8 879**	**12 757**	**(3 878)**	**(3 878)**
	1 451	**237 243**	**123 008**	**114 235**	**142 102**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy mentioned in Note 7.18

(in thousands of Euros)

	31.12.2021				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets [b]
Land					
Urban	341	83 965	42 853	41 112	38 955
Rural	91	190 648	149 359	41 289	44 214
	432	274 613	192 212	82 401	83 169
Buildings under construction					
Commercial	496	179 579	134 729	44 850	47 210
Residential	1 187	104 084	29 341	74 743	84 378
Others	151	4 277	1 184	3 093	3 129
	1 834	287 940	165 254	122 686	134 717
Others [a]	**-**	**26 837**	**33 296**	**(6 459)**	**(6 459)**
	2 266	**589 390**	**390 762**	**198 628**	**211 427**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties
(b) Determined in accordance with accounting policy mentioned in Note 7.18

The detail of the real estate properties included in Other Assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2022				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	482	74	52	7 269	7 877
Rural	246	33	552	24 597	25 428
	728	107	604	31 866	33 305
Buildings under construction					
Commercial	4556	1128	11068	12095	28 847
Residential	1221	3361	10918	37816	53 316
Other	417	11	1818	399	2 645
	6 194	4 500	23 804	50 310	84 808
Other [a]	**2**	**(3 882)**	**2**	**-**	**(3 878)**
	6 924	**725**	**24 410**	**82 176**	**114 235**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2021				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	15 945	145	201	24 821	41 112
Rural	13	95	14 526	26 655	41 289
	15 958	240	14 727	51 476	82 401
Buildings under construction					
Commercial	1 309	2 562	9 483	31 496	44 850
Residential	3 883	5 528	21 647	43 685	74 743
Other	6	2 509	309	269	3 093
	5 198	10 599	31 439	75 450	122 686
Other [a]	**5**	**(3 959)**	**-**	**(2 505)**	**(6 459)**
	21 161	**6 880**	**46 166**	**124 421**	**198 628**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As of 31 December 2022, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 9,970 thousand (31 December 2021: Euro 9,848 thousand), having the Group recorded impairment losses for these assets in the total amount of Euro 2,954 thousand (31 December 2021: Euro 4,863 thousand).

NOTE 32 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

Under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinued operations if their balance sheet value is recoverable through a sale transaction, which must be ready for immediate sale.

This category includes the subsidiaries and associated companies in the Group's consolidation perimeter, but which the Group intends to sell and are actively in the process of selling with the net value of assets and liabilities measured at the lower of book value or fair value net of costs to sell.

The breakdown of Non-current assets and liabilities held for sale and discontinued operations on 31 December 2022 and 2021, net of consolidation adjustments, is as follows:

(in thousand of Euros)

	31.12.2022		31.12.2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Non-current assets and liabilities disposal groups classified as held for sale				
International Investment Bank, S.A. (previous BICV)	1 300	-	1 300	-
Banco Well Link (previous NB Ásia)	2 175	-	2 039	-
Económico FI	3 060	-	3 060	-
Greendraive	1 596	2 028	1 392	563
ESEGUR	4	5	-	-
Multipessoal	30 784	5 744	-	-
novobanco - Spain Branch	17 387	6 882	-	-
Ijar Leasing	9 051	-	9 051	-
Imbassaí	2 747	833	1 006	405
	68 104	**15 492**	**17 848**	**968**
Impairment losses				
Económico FI	(2 196)	-	(2 358)	-
Greendraive	(1 596)	-	(1 392)	-
Ijar Leasing	(4 725)	-	(4 725)	-
	(8 517)	**-**	**(8 475)**	**-**
	59 587	**15 492**	**9 373**	**968**

As of 31 December 2022 and 2021, the results from discontinued operations are as follows:

(in thousand of Euros)

	31.12.2022	31.12.2021
Profit / (loss) generated by discontinued operations		
Greendraive	(270)	87
novobanco - Spain Branch	-	8 796
NB Servicios	-	(3 588)
Novo Vanguarda	-	(37)
Imbassaí	-	(371)
	(270)	**4 887**

The impairment movement for non-current Assets and Liabilities for disposal classified as held for sale is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	8 475	186 072
Charges / (Write-backs)	(664)	9 662
Utilizations	(3 837)	(164 954)
Foreign exchange differences and other [(a)]	4 543	(22 305)
Balance at the end of the exercise	**8 517**	**8 475**

(a) Includes EUR 4,725 thousand of Ijar Leasing's cost-effectiveness transferred from investments in associates in the first half of 2021 and EUR 8,829 thousand of ESEGUR's unevenness reclassified to members in the second half of 2021 (see Note 26)

Ijar Leasing

During 2021 the associated company Ijar Leasing was transferred to non-current assets held for sale as it is in the process of selling assets with the objective of their sale in the short term.

Spanish Branch

Following the accounting policy followed by the Group, and in accordance with IFRS5 5 - Non-current assets held for sale and discontinued operations, during the 2020 the Group transferred its activity in Spain to the caption of Non-current assets and divestiture groups classified as held for sale, as their value is expected to be recovered through a sale transaction and it is highly probable, with the respective assets in immediate sale conditions. The determination of fair value less costs to sell, which took into account the amounts received from potential interested in partial sales of this activity, the cost of selling a selected loan portfolio, and the cost of discontinuing the remaining residual activity, resulted in a need to establish an impairment of Euro 166.0 million.

On April 2, 2021, novobanco entered into an agreement with ABANCA CORPORACIÓN BANCARIA, S.A to sell a set of assets and liabilities of the Spanish Branch, which took place on 30 November 2021 with the derecognition of the assets and liabilities sold. The assets and liabilities excluded from this transaction, of residual value, remained in the branch's balance sheet, having integrated the consolidation perimeter of novobanco, as presented below:

(in thousands of Euros)

	Disposed assets/liabilities	Assets/liabilities remaining in the Branch
Assets		
Cash, cash balances at central banks and other demand deposits	-	5 000
Ativos financeiros contabilizados pelo justo valor através dos resultados	-	2 751
Financial assets at amortised cost	(462 796)	33 794
Loans and advances to banks	(462 796)	33 794
Investments in subsidiaries, joint ventures and associates	-	604
Tax assets	-	37 910
Current Tax Assets	-	11 929
Deferred Tax Assets	-	25 981
Other assets	-	9 591
Non-current assets and disposal groups classified as held for sale	(1 294 344)	-
Total Assets	**(1 757 140)**	**89 650**
Liabilities		
Deposits from banks	-	33 885
Provisions	-	6 611
Other liabilities	-	28 259
Passivos incluídos em grupos para alienação classificados como detidos para venda	(1 757 140)	-
Total Liabilities	**(1 757 140)**	**68 755**
Equity		
Other equity	-	19 804
Profit or loss attributable to Shareholders of the parent	-	1 091
Total Equity	**-**	**20 895**
Total Liabilities and Equity	**(1 757 140)**	**89 650**

The conclusion of this transaction had no impact on the income statement at the date of derecognition, since there was a provision recorded in the balance sheet for Euro 176 million (of which Euro 10 million reinforced already during 2021), which was partially used. The remaining amount of Euro 15.2 million was transferred to Provisions for other contingencies related to this transaction (advisory costs, tax contingencies and other possible claims).

As part of the aforementioned operation, the subsidiaries Novo Vanguarda and NB Servicios were liquidated, with no impact on the operating account.

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 Group intends to sell these assets, they were classified as discontinued operations.

NOTE 33 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as of 31 December 2022 and 2021 is analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Deposits from banks	9 705 154	10 745 155
Due to customers	29 277 858	27 582 093
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 628 897	1 514 153
Other financial liabilities	375 268	374 593
	40 987 177	**40 215 994**

Deposits from Banks

The balance of Deposits from banks is composed, as to its nature, as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	198	53 126
Other funds	6 327 000	7 954 000
	6 327 198	**8 007 126**
Deposits from credit institutions		
Domestic		
Deposits	209 663	158 366
Other funds	39 216	24 523
	248 879	**182 889**
Foreign		
Deposits	459 328	455 484
Loans	479 880	531 973
Operations with repurchase agreements	2 150 824	1 529 847
Other resources	39 045	37 836
	3 129 077	**2 555 140**
	3 377 956	**2 738 029**
	9 705 154	**10 745 155**

As of 31 December 2022, the balance of the European Resources System of Central Banks caption includes Euro 6,327 million backed by the Group's financial assets, within the scope of the third series of long-term refinancing operations of the European Central Bank (TLTRO III). The bonus introduced by the ECB in the interest rate of these operations, in accordance with the stipulated in IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, is being deducted from the financing costs on a linear basis for accounting purposes, considering the Bank's expectation of complying with the requirements of eligibility criteria defined by the ECB.

It should be recalled that on 28 October 2022, with the Central Bank raising its main interest rates, the ECB announced the recalibration of TLTRO III to cope with unexpected and extraordinary increases in inflation, reinforcing the transmission of reference rates to bank lending conditions and funding costs.
Accordingly, on this date, the ECB also announced changes to the terms and conditions of TLTRO III as of 23 November 2022. These changes consisted, in particular, of:

- to maintain the calculation of the interest rate existing at that time (28 October 2022) only until 22 November 2022; and
- changing the calculation of the interest rate as of 23 November 2022, for those Banks that met the eligibility requirements defined by the ECB. The interest rate applicable to TLTRO III from 23 November 2022 until the maturity of each tranche will be equal to the average interest rate of the deposit facility during that period.

This change in the TLTRO III remuneration conditions means that as of 22 November 2022, it is financially neutral to maintain the lines of this third series, since these lines will have a cost approximately equal to the income obtained from the application of these funds at the ECB. Based on the DFR projection (as of 31 December 2022), the average cost of these lines from 22 November 2022 to maturity is expected to be 2.55%.

After the December 2022 repayment of Euro 1.6 billion, an additional Euro 5.4 billion of TLTRO III will mature in 2023, with the remaining Euro 0.95 billion maturing in December 2024.

Given the maturity of these lines, novobanco's exit strategy from TLTRO III was to reduce the size of the balance sheet and increase other stable financing instruments, mainly collateralised interbank operations and customer deposits.
It should be recalled that already in 2022, to mitigate the impact of the shortening of the term and/or maturity of TLTRO III, collateralised funding through medium-term repurchase agreements increased by Euro 2.5 billion and the Group completed a private placement (senior preferred bond issue) in the amount of Euro 0.1 billion.

Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 7.22.

The breakdown of Deposits from Central Banks and other credit institutions, by residual maturity, as of 31 December 2022 and 2021, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Deposits from Central Banks		
Up to 3 months	1 627 198	53 126
From 3 months to 1 year	3 750 000	9 705 154
From 1 to 5 years	950 000	29 277 858
	6 327 198	**8 007 126**
Deposits from credit institutions		
Up to 3 months	574 838	1 061 398
From 3 months to 1 year	296 221	963 050
From 1 to 5 years	2 214 958	181 609
More than 5 years	291 939	531 972
	3 377 956	**2 738 029**
	9 705 154	**10 745 155**

The analysis of Repurchase agreements operations, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
International		
Up to 3 months	123 620	679 782
From 3 months to 1 year	-	850 065
From 1 to 5 years	2 027 204	-
	2 150 824	**1 529 847**

Due to customers

The balance of Deposits due to customers is composed, as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Repayable on demand		
Demand deposits		
Companies and other entities	7 101 102	7 497 457
Particular	6 068 233	5 361 531
	13 169 335	**12 858 988**
Time deposits		
Time deposits		
Companies and other entities	2 938 417	2 601 457
Particular	6 490 962	6 427 256
	9 429 577	**9 028 904**
Savings accounts		
Retirement saving accounts	215 968	226 362
Other	5 597 165	5 200 726
Companies and other entities	2 138 058	1 899 679
Particular	3 459 107	3 301 047
	5 813 133	**5 427 088**
Other funds		
Transactions with repurchase agreement	450 906	
Other	450 906	254 062
	865 813	**254 062**
Value changes due to hedging	**-**	**13 051**
	29 277 858	**27 582 093**

As of 31 December 2022 and 2021, the caption Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Repayable on demand	**13 169 335**	**12 858 988**
Term deposits		
Up to 3 months	9 001 163	7 641 456
From 3 months to 1 year	5 614 270	5 722 112
From 1 to 5 years	1 493 090	1 319 466
More than 5 years	-	40 071
	16 108 523	**14 723 105**
	29 277 858	**27 582 093**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	31.12.2022	31.12.2021
Debt securities issued		
Euro Medium Term Notes (EMTN)	463 528	447 453
Bonds	705 346	606 855
	1 168 874	**1 054 308**
Subordinated debt		
Bonds	415 572	415 394
Financial liabilities associated with transferred assets		
Asset lending operations	44 451	44 451
	1 628 897	**1 514 153**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias"*), which has a maximum amount of Euro 10 000 million, the Group issued covered bonds which, on 31 December 2022, amount to Euro 5,500 million (31 December 2021: Euro 5,500 million), being these covered bonds totally repurchased by the Group. The main characteristics of the outstanding issues as of 31 December 2022 and 2021 are as follows:

(in thousands of Euros)

31.12.2022

Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Trimestral	Euribor 3 Meses + 0,25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Trimestral	Euribor 3 Meses + 0,25%	XMSM	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2021

Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Trimestral	Euribor 3 Meses + 0,25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Trimestral	Euribor 3 Meses + 0,25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Trimestral	Euribor 3 Meses + 0,25%	XMSM	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in novobanco Group's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6 and 8 and Instruction nº 13/2006 of Bank of Portugal. As of 31 December 2022, the assets that collateralize these covered debt securities amount to Euro 6,078.4 million (31 December 2021: Euro 6,075.1 million) (see Note 24).

The changes in the financial exercises of 2022 and 2021 in debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2021	Issues	Redemptions b)	LME	Net purchases	Other movements a)	Balance as at 31.12.2022
Debt securities issued							
Euro Medium Term Notes (EMTN)	447 453	-	-	-	(500)	16 575	463 528
Bonds	606 855	106 000	-	29 277 858	(13 798)	6 289	705 346
	1 054 308	106 000	-	-	(14 298)	22 864	1 168 874
				40 987 177			
Subordinated debt							
Bonds	415 394	-	-	-	-	178	415 572
Financial liabilities associated to transferred assets							
Asset lending operations	44 451	-	-	-	-	-	44 451
	1 514 153	**106 000**	**-**	**-**	**(14 298)**	**23 042**	**1 628 897**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

(in thousands of Euros)

	Balance as at 31.12.2020	Issues	Redemptions b)	LME	Net purchases	Other movements a)	Balance as at 31.12.2021
Debt securities issued							
Euro Medium Term Notes (EMTN)	518 866	-	(1 623)	(81 124)	(4 097)	15 431	447 453
Bonds	39 377	580 000	(6 110)	-	(5 000)	(1 412)	606 855
	558 243	580 000	(7 733)	(81 124)	(9 097)	14 019	1 054 308
Subordinated debt							
Bonds	415 234	-	-	-	-	160	415 394
Financial liabilities associated to transferred assets							
Asset lending operations	44 451	-	-	-	-	-	44 451
	1 017 928	**580 000**	**(7 733)**	**(81 124)**	**(9 097)**	**14 179**	**1 514 153**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

b) During 2021, the total EMTN 114 issue of NB Finance in the amount of EUR 1,623m and the Class A issue of Lusitano Mortgage nr 6 in the amount of EUR 6,110m were repaid in advance.

Liability Management Exercise (LME)

On 30 July 2021, following a voluntary tender offer (Tender Offer and Solicitation Memorandum), EMTN (i) issued by the Luxembourg branch, with a total nominal value of Euro 84.3 million (representing 31.9% of the total nominal amount issued), and (ii) issued by the subsidiary NB Finance with a total nominal value of Euro 0.1 million (representing 4.8% of the total nominal amount issued). This operation resulted in a loss of Euro 73,480 thousand.

The main characteristics of these liabilities, as of 31 December 2022 and 2021, are as follows:

(in thousands of Euros)

			31.12.2022						
Entity	ISIN	Description	Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0,16	23 989	2025 a)	Euribor 3m + 0,40%	XDUB
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1,00	1 502	2035 a)	Euribor 3m + 0,60%	XDUB
novobanco	PTNOBIOM0014	NB 3,5% 23/07/24 OBRG.	EUR	2021	100,00	303 992	2024	Taxa Fixa 3,5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23 OBRG.	EUR	2021	100,00	275 874	2023	Euribor 3M + 4,25%	XDUB
Euro Medium Term Notes									
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24 OBRG.	EUR	2022	100,00	99 989	2024	Taxa fixa 5,5%	XDUB
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	43 363	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	99 065	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	64 774	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	47 641	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	35 711	2048	Cupão Zero	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	43 694	2049	Cupão Zero	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	12 146	2049	Cupão Zero	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	16 672	2051	Cupão Zero	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	11 729	2051	Cupão Zero	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	40 180	2048	Cupão Zero	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	38 891	2052	Cupão Zero	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	7 710	2046	Cupão Zero	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1,00	1 952	2044	Cupão Zero	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 572	2023 a)	8,50%	XDUB
						1 584 446			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
			31.12.2021						
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0,20	31 767	2025 a)	Euribor 3m + 0,40%	XDUB
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1,00	1 500	2035 a)	Euribor 3m + 0,60%	XDUB
novobanco	PTNOBIOM0014	NB 3,5% 23/07/24 OBRG.	EUR	2021	100,00	303 571	2024	Taxa Fixa 3,5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23 OBRG.	EUR	2021	100,00	270 017	2022 a)	Euribor 3M + 4,25%	XDUB
Euro Medium Term Notes									
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	42 807	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	98 081	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	63 952	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	47 063	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	33 649	2048	Cupão Zero	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	40 947	2049	Cupão Zero	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	11 375	2049	Cupão Zero	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	15 602	2051	Cupão Zero	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	10 974	2051	Cupão Zero	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	37 479	2048	Cupão Zero	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	36 512	2052	Cupão Zero	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	7 192	2046	Cupão Zero	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1,00	1 820	2044	Cupão Zero	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 394	2023 a)	8,50%	XDUB
						1 469 702			

a) Date of the next call option

The residual duration of debt securities issued and subordinated liabilities, as of 31 December 2022 and 2021, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Debt securities issued		
From 3 months to 1 year	275 874	270 017
From 1 to 5 years	427 970	335 338
More than 5 years	465 030	448 953
	1 168 874	**1 054 308**
Subordinated debt		
From 3 months to 1 year	415 572	-
From 1 to 5 years	-	415 394
	415 572	**415 394**
Financial liabilities associated with transferred assets		
Undetermined maturity	44 451	44 451
	44 451	**44 451**
	1 628 897	**1 514 153**

The change in fair value attributable to changes in the credit risk of the issues is calculated using the credit spread observed in recent issues of similar debt, adjusted for subsequent changes in the credit spread of the senior debt CDS issued by Group entities. As of 1 January 2018, in accordance with IFRS 9, this liability component is reflected in Other comprehensive income. With the redemption in 2020 of the issue recorded at fair value through profit or loss, the Group no longer has associated credit risk. However, the credit risk 276ecognized since 1 January 2018 in the amount of Euro 9,214 thousand, was fixed in the respective credit risk reserve caption, in accordance with IFRS 9 (see Note 37).

The Group did not present capital or interest defaults on its debt issued in the financial exercises of 2022 and 2021.

NOTE 34 – PROVISIONS

As of 31 December 2022 and 2021, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Commercial Offers	Other provisions	Total
Balance as at 31 December 2020	**96 973**	**101 986**	**11 199**	**174 224**	**384 382**
Charge / (Write-back)	10 070	(9 840)	-	127 605	127 835
Utilization	(60 358)	-	(10 205)	(23 373)	(93 936)
Foreign exchange differences and other	1	190	-	24 362	24 553
Balance as at 31 December 2021	**46 686**	**92 336**	**994**	**302 818**	**442 834**
Charge / (Write-back)	1 332	(2 685)	(123)	40 721	39 245
Utilization	(28 870)	-	(871)	(36 747)	(66 488)
Foreign exchange differences and other	-	246	-	(2 405)	(2 159)
Balance as at 31 December 2022	**19 148**	**89 897**	**-**	**304 387**	**413 432**

In order to meet the financial needs of its customers, the Group assumes several irrevocable commitments and contingent liabilities, consisting of financial guarantees, letters of credit and other credit commitments, which may require the payment by the Group, on behalf of its customers, in the event of specific, contractually prescribed events. Although these commitments are not recorded on the balance sheet, they carry credit risk and, therefore, are part of the Group's overall risk exposure.

The changes in the caption provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**1 316**	**24 069**	**66 778**	**92 163**
Increases due to changes in credit risk	873	3 044	14 847	18 764
Decreases due to changes in credit risk	(861)	(17 833)	(12 823)	(31 517)
Other movements	135	(2 361)	2 415	189
Balance as at 31 December 2021	**1 463**	**6 919**	**71 217**	**79 599**
Changes in the value of impairment				
- transfers to *stage* 1	620	(620)	-	-
- transfers to *stage* 2	(432)	548	(116)	-
- transfers to *stage* 3	(13)	(1 204)	1 217	-
Increases due to changes in credit risk	344	1 964	21 521	23 829
Decreases due to changes in credit risk	(1 028)	(2 401)	(17 690)	(21 119)
Other movements	5	34	199	238
Balance as at 31 December 2022	**959**	**5 240**	**76 348**	**82 547**

The changes in the caption provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**5 819**	**4 004**	**-**	**9 823**
Increases due to changes in credit risk	1 933	6 938	1 897	10 768
Decreases due to changes in credit risk	(1 843)	(5 979)	(33)	(7 855)
Other movements	647	(734)	88	1
Balance as at 31 December 2021	**6 556**	**4 229**	**1 952**	**12 737**
Changes in the value of impairment				
- transfers to *stage* 1	1 635	(1 635)	-	-
- transfers to *stage* 2	(707)	707	-	-
- transfers to *stage* 3	-	(3)	3	-
Increases due to changes in credit risk	1 703	561	787	3 051
Decreases due to changes in credit risk	(3 951)	(1 753)	(2 742)	(8 446)
Other movements	6	2	-	8
Balance as at 31 December 2022	**5 242**	**2 108**	**-**	**7 350**

The transfers between stages that occurred in guarantees and commitments are presented as follows:

(in thousands of Euros)

	Capital					
	Transfers between Stage 1 e 2		Transfers between Stage 2 e 3		Transfers between Stage 1 e 3	
	From Stage 1 to Stage 2	*From Stage 2 to Stage 1*	*From Stage 2 to Stage 3*	*From Stage 3 to Stage 2*	*From Stage 1 to Stage 3*	*From Stage 3 to Stage 1*
Guarantees and Commitments	44 418	40 470	45 480	2 234	1 775	181

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Group's sale and restructuring process. During 2021 and 2022, a net reinforcement of Euro 10.1 million and Euro 1.3 million respectively was made, having been used Euro 60.4 million and Euro 28.9 million, respectively. As of 31 December 2022, the amount of restructuring provisions in the balance sheet is Euro 19.1 million.

Other provisions amounting to Euro 304.4 million (31 December 2021: Euro 302.8 million), are intended to cover certain identified contingencies related to the Group's activities, the most relevant being:

- Contingencies associated with ongoing tax processes, for which the Group maintains provisions of Euro 24.2 million (31 December 2021: Euro 32.2 million);
- Contingencies associated with legal proceedings amounting to Euro 4.0 million (31 December 2021: Euro 9.5 million);
- Contingencies associated with sales processes in the amount of Euro 7.1 million (31 December 2021: Euro 39.3 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million (31 December 2021: Euro 19.2 million), transferred from the liability captions net of the value of the assets of the Pension Fund (see Note 17);.
- The remaining amount, of Euro 249.9 million (31 December 2021: Euro 202.6 million), is intended to cover losses arising from the Group's activity, such as fraud, theft and robbery and ongoing lawsuits for contingencies related to asset sale processes, among others.

The increase occurred in 2021 results from the State Budget Law for 2021 ("LOE 21"), which amended the rules of the Property Transfer Tax Code ("IMT") and the Municipal Property Tax ("IMI"), with the extension of the scope of the aggravated rate of IMI and IMT, and loss of exemptions, to real estate owned by taxpayers that are controlled, directly or indirectly, by an entity that is subject to a more favorable tax regime, included in the list approved by the Minister of Finance. At this date is pending clarification, as per the request for binding information made to the Tax Authority, the breadth of application of these new rules in terms of subjection to novobanco Group.

At 31 December 2022, based on the opinions obtained from legal and tax experts, and as a result of internal evaluation, it is not considered possible, with complete assurance, to remove the doubt as to the application of the new rules referred to above, although it is admitted that there may be other interpretations since these are new rules, not yet applied, and therefore subject to interpretation. As of this date, the calculation of the application of the increased IMI rates to all the properties directly and indirectly owned by novobanco Group amounts to approximately Euro 173.1 million for 31 December 2022 (31 December 2021: Euro 115.8 million), and there is no expectation as to the date on which clarification will be obtained from the Tax Authority or other similar entity that will determine the existence or not of an effective increase in liabilities for novobanco.

NOTE 35 – OTHER LIABILITIES

As of 31 December 2022 and 2021, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Public sector	35 034	38 017
Creditors for supply of goods	71 102	59 323
Margin Accounts Derivative instruments	478 750	-
Other creditors	115 147	107 898
Non-controlling interests of Open Investment Funds (see Note 37)	14 417	90 181
Career bonuses (see Note 17)	5 621	7 467
Retirement pensions and health-care benefits (see Note 17)	-	22 944
Other accrued expenses	83 275	76 333
Deferred income	1 950	2 077
Foreign exchange transactions pending settlement	-	14
Other operations to be regularized	34 623	39 183
	839 919	**443 437**

As of 31 December 2022, the caption Creditors for supply of goods includes Euro 44,474thousand related to creditors of assets for right of use, under IFRS 16 (31 December 2021: Euro 38,673 thousand), whose residual maturities present the following detail:

(in thousands of Euros)

	31.12.2022	31.12.2021
Up to 3 months	262	234
From 3 months to 1 year	4 613	1 199
From 1 to 5 years	15 950	16 293
More than 5 years	23 649	20 947
	44 474	**38 673**

NOTE 36 – SHARE CAPITAL

Ordinary shares

As of 31 December 2022, the Bank's share capital of Euro 6,304,660,637.69 is represented by 10,391,043,938 registered shares with no par value and is fully subscribed and paid up by the following shareholders (December 31, 2021: share capital of Euro 6,054,907,314 represented by 9,954,907,311 registered shares):

	% Share Capital	
	31.12.2022	**31.12.2021**
Nani Holdings, SGPS, SA [(1)]	75,00%	73,83%
Resolution Fund [(2)]	19,31%	24,61%
Directorate General for the Treasury and Finance	5,69%	1,56%
	100,00%	**100,00%**

[(1)] On 31 December 2021, by the effect of the agreements concluded between the Resolution Fund and the shareholder Lone Star in the context of the sale of 75% of the novobanco's share capital, only the Resolution Fund will see its participation diluted by the conversion of conversion rights. Nani Holdings' economic interest in the new bank remains unchanged at 75%.
[(2)] Under the commitments made between the Portuguese State and the European Commission, the Resolution Fund is inhibited from exercising its voting rights.

In 2017 and following the acquisition of 75% of novobanco by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised.

In December 2021, a capital increase of Euro 154,907 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the 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 (Note 37).

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 an additional 4.13% stake in novobanco, and which resulted in the issuance of 436,136,627 new ordinary shares (see Note 37).

As mentioned in Note 30, novobanco adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that entitle the State to require novobanco to increase its share capital by incorporating the amount of the special reserve and consequently issuing and delivering free of charge ordinary shares. It is estimated that the conversion rights to be issued and attributed to the State following the negative net results of the exercises 2015 to 2020 will give it a stake of up to approximately 15.84% of the share capital of novobanco, which will only dilute, in accordance with the sale agreement, the stake of the Resolution Fund.

For the 2018 and 2019's exercises, the Tax Authority has already validated the tax credit, and the final amount of conversion rights attributed to the State represents an additional 6.27% stake in the share capital of novobanco (11.96% for the 2015 to 2019's exercises).

NOTE 37 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES NON-CONTROLLING INTERESTS

As of 31 December 2022 and 2021, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2022	31.12.2021
Other accumulated comprehensive income	**(1 234 573)**	**(1 045 489)**
Retained earnings	**(8 577 074)**	**(8 576 860)**
Other reserves	**6 439 418**	**6 501 374**
Originating reserve	1 885 693	1 848 691
Special reserve	400 377	701 136
Legal reserve	36 594	-
Other reserves and Retained earnings	4 116 754	3 951 547
	(3 372 229)	**(3 120 975)**

Other accumulated comprehensive income

The movements in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income							
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Cash flow hedging reserves	Other variations of other comprehensive income	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2020	**3 695**	**9 214**	**(22 757)**	**(75 210)**	**-**	**(14 894)**	**(723 468)**	**(823 420)**
Actuarial deviations	-	-	-	-	-	-	(75 584)	(75 584)
Fair value changes, net of taxes	-	-	-	(125 801)	-	-	-	(125 801)
Foreign exchange differences	-	-	-	-	-	95	-	95
Impairment reserves of securities at fair value through other comprehensive income	12	-	-	-	-	-	-	12
Reserves of sales of securities at fair value through other comprehensive income	-	-	(20 539)	-	-	-	-	(20 539)
Other comprehensive income of associated companies	-	-	-	(252)	-	-	-	(252)
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)**

Fair value reserves

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as of a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the exercise	**(157 910)**	**(43 353)**	**(201 263)**	**28 437**	**(103 647)**	**(75 210)**
Changes in fair value	(331 887)	-	(331 887)	(200 897)	-	(200 897)
Foreign exchange differences	2 006	-	2 006	2 351	-	2 351
Disposals in the exercise	43 394	-	43 394	13 560	-	13 560
Impairment in the exercise	19 399	-	19 399	(1 361)	-	(1 361)
Deferred taxes recognized in the exercise in reserves	-	81 804	81 804	-	60 294	60 294
Balance at the end of the exercise	**(424 998)**	**38 451**	**(386 547)**	**(157 910)**	**(43 353)**	**(201 263)**

The fair value reserves are analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Amortised cost of financial assets at fair value through other comprehensive income	2 769 674	7 378 362
Market value of financial assets at fair value through other comprehensive income	2 331 099	7 220 996
Unrealised gains / (losses) recognized in fair value reserve	(438 575)	(157 366)
Fair value reserve transferred to Results [(1)]	(11 988)	-
Potential gains / (losses) recognized in the fair value reserve	(426 587)	(157 366)
Fair value reserves by the equity method	997	665
Non-controlling Interests	592	(1 209)
Total fair value reserve	(424 998)	(157 910)
Deferred Taxes	38 451	(43 353)
Fair value reserve attributable to shareholders of the Bank	**(386 547)**	**(201 263)**

[(1)] In the context of fair value hedge operations (see Note 25)

The movement in cash flow hedging reserves is presented as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**-**	-
Change in the fair value of the covered item recognized in another comprehensive income	(101 299)	-
Reclassification of other comprehensive income for results	881	-
Balance at the end of the exercise	**(100 418)**	**-**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to novobanco, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 30, the special reserve was created as a result of the adhesion of novobanco to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the calculation of a negative net result in the exercises between 2015 and 2020, with reference to the deferred tax assets eligible at the closing date of these exercises, from the application of the special regime applicable to deferred tax assets, novobanco recorded a special reserve, in the same amount as the tax credit calculated, increased by 10%, which is broken down as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
2016 (net loss of 2015)	-	14 004
2017 (net loss of 2016)	-	109 421
2018 (net loss of 2017)	-	140 332
2019 (net loss of 2018)	146 367	178 171
2020 (net loss of 2019)	116 817	122 015
2021 (net loss of 2020)	137 193	137 193
	400 377	**701 136**

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 38 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As of 31 December 2022 these assets had a net value of Euro 1.1 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2021: net value of Euro 1.8 billion).

Taking into consideration the losses presented by novobanco at December 31, 2020, 2019, 2018 and 2017, the conditions were met that determined the payment by the Resolution Fund of Euro 429,013 thousand, Euro 1,035,016 thousand, Euro 1,149,295 thousand and Euro 791,695 thousand in 2021, 2020, 2019 and 2018, respectively.

The amount related to the Contingent Capital Agreement recorded in 2020, as receivable by the Resolution Fund (Euro 598,312 thousand), differs from the amount paid as a result of disagreements, between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, leading to a limitation to the immediate access to this amount, which despite being recorded as receivables, the Group deducted, as of 31 December 2021, to the regulatory capital calculation (EUR 165,442 thousand). Novobanco considers this amount to be due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure receipt of the same (see Note 38). Additionally, the variable remuneration of the Executive Board of Directors for 2019 and 2020 (Euro 3,857 thousand) was also deducted.

In 2021 an amount receivable by the Resolution Fund of Euro 209,220 thousand was recorded in relation to the Contingent Capital Agreement, under Other Reserves and which results, on the date of each balance sheet, from losses incurred and regulatory ratios in force at the time of their determination. As a result of the above and in line with the Regulator's guidelines, at 31 December 2021, this value was also deducted from the regulatory capital calculation.

Novobanco considers this amount to be due under the Contingent Capitalization Mechanism and is triggering the legal and contractual mechanisms at its disposal to ensure receipt of the same (see Note 38).

Non-controlling interests

The caption non-controlling interests, by subsidiary, is detailed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
NB Património [a)]	-	20 104	3,75%	-	6 007	43,67%
novobanco Açores	21 975	1 941	42,47%	20 445	2 053	42,47%
Amoreiras	-	332	4,76%	9 012	(87)	4,76%
Other	(3 631)	2 725		1 578	(288)	
	18 344	**25 102**		**31 035**	**7 685**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 35)

The changes occurred in the caption non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Non-controlling interests at the beginning of the exercise	**31 035**	**32 046**
Changes in consolidation perimeter and control percentages	(7 935)	(3 288)
Changes in fair value reserves	(1 364)	142
Other	(28 494)	(5 550)
Net profit / (loss) for the exercise	25 102	7 685
Non-controlling interests at the end of the exercise	**18 344**	**31 035**

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as of 31 December 2022 and 2021 are the following:

(in thousands of Euros)

	31.12.2022	31.12.2021
Contingent liabilities		
Guarantees and standby letters	2 397 867	2 234 243
Financial assets pledged as collateral	12 050 642	13 997 048
Open documentary credits	169 410	402 332
	14 698 292	**16 633 623**
Commitments		
Revocable commitments	5 646 053	5 298 799
Irrevocable commitments	559 995	546 458
	6 206 048	**5 845 257**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

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 11.2 billion (31 December 2021: Euro 13.2 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 8.0 million (31 December 2021: Euro 9.1 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 65.6 million (31 December 2021: Euro 67.5 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 578.3 million (31 December 2021: Euro 651.4 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 100.5 million (31 December 2021: Euro 100.5 million).

The above-mentioned financial assets pledged as collateral are recorded in the various asset categories of the Group's balance sheet and may be executed in the event the Group does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Group, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Group (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Group requires the collateralisation of these transactions. Since it is expected that most 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:

(in thousands of Euros)

	31.12.2022	31.12.2021
Deposit and custody of securities and other items	30 936 968	31 739 971
Amounts received for subsequent collection	206 387	197 567
Securitized loans under management (servicing)	544 136	620 091
Other responsibilities related with banking services	372 762	652 518
	32 060 253	**33 210 147**

Pursuant to the resolution measure applied to BES by resolution of Bank of Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Bank of Portugal of 11 August 2014, the "excluded liabilities" of transfer to novobanco include "any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (…) ".

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include "any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions".

On December 29, 2015, Bank of Portugal adopted a new resolution on "Clarification and retransmission of responsibilities and contingencies defined as liabilities excluded in subparagraphs (v) to (vii) of paragraph 2 (b) of Annex 2 to the Resolution of Bank of Portugal of 3 August 2014 (8 pm), as amended by the Resolution of Bank of Portugal of 11 August 2014 (5 pm) ". Under the terms of this resolution, Bank of Portugal came:

(i) Clarify the treatment as liabilities excluded from BES's contingent and unknown liabilities (including litigious liabilities related to pending litigation and liabilities or contingencies resulting from fraud or the violation of regulatory, criminal or administrative offenses or provisions), regardless of their nature (tax, Labour, civil or other) and whether or not they are registered in BES's accounts, under the terms of sub-paragraph (v) of paragraph (b) of paragraph 1 of Exhibit 2 of the Resolution of 3 August; and

(ii) Clarify that the following BES liabilities have not been transferred from BES to novobanco:
   a. All credits related to preferred shares issued by vehicle companies established by BES and sold by BES;
   b. All credits, indemnities and expenses related to real estate assets that have been transferred to novobanco;
   c. All indemnities related to non-compliance with contracts (purchase and sale of real estate and other assets) signed and executed before 8:00 pm on August 3, 2014;
   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A;

e. All credits and indemnities related to the alleged cancellation of certain loan agreement clauses in which BES was the lender;
f. All indemnities and credits resulting from the cancellation of operations carried out by BES as a provider of financial and investment services;
g. Any responsibility that is the subject of any of the processes described in Appendix I of said resolution.

(iii) To the extent that, despite the clarifications made above, it turns out that any liabilities of BES that, under the terms of any of those paragraphs and the Resolution of August 3, were effectively transferred to novobanco legal liabilities, these liabilities will be retransmitted from novobanco to BES, with effect from 8:00 pm on August 3, 2014.

In the preparation of its consolidated financial statements for 31 December 2021 (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 US $ 37 million and US $ 335 million, respectively, and in which reimbursement of the amount invested is requested, plus interest, indemnity for the inflation value and costs (in the global value estimated by the respective authors of US $ 96 milion and US $ 871 million, respectively). These main actions are still pending before the Supreme Court of Justice of Venezuela.

In the preparation of novobanco 's individual and consolidated financial statements of 31 December 2021 (as well as in the previous financial statements), the Executive Board of Directors reflected the Resolution Measure and related decisions taken by Bank of Portugal, in particular the decisions of 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.

Relevant disputes

For the purposes of contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy of setting up provisions with the resolution measure and subsequent decisions of Bank of Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of novobanco GROUP are, at the present date, insusceptible to determine or quantify:

(i) Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against novobanco and Calm Eagle Holdings, S.A.R.L. through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness;

(ii) Lawsuits brought after the execution of the contract for the purchase and sale of novobanco 's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which novobanco is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on 1 September 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the Contingent Capitalization Mechanism is requested.

With respect to the amount requested to the Resolution Fund, for the year 2020, differences remain between novobanco and the Resolution Fund regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, which are subject to an ongoing arbitration. novobanco considers these amounts (Euro 165 million) to be due under the Contingent Capitalization Mechanism and has filed arbitration proceedings to claim payment of these amounts. There is also another divergence related to the application, by novobanco, at the end of 2020, of the dynamic option of the IFRS 9 transitional regime, which is also being assessed in the same arbitration action. These amounts (Euro 165 million) are recorded as receivables and are subject to a favorable arbitration decision.

Resolution Fund

The Resolution Fund is a public legal person with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the RGICSF and its regulations and whose mission is provide financial support to the resolution measures applied by Bank of Portugal, as the national resolution authority, and to perform all other functions conferred by law in the scope of the execution of such measures.

The Bank, like most financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal based essentially on the amount of its liabilities. As of 31 December 2022, the Group's periodic contribution amounted to Euro 16,017 thousand (31 December 2021: Euro 14,854 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to novobanco, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of novobanco’s share capital, the Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (Euro 3,900 million) originated from a loan granted by the Portuguese State.

In December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, SA (Santander Totta), for Euro 150 million, also within the framework of the application of a resolution measure. In the context of this resolution measure, Banif's assets identified as problematic were transferred to an asset management vehicle, created for this purpose - Oitante, S.A. This operation involved public support estimated at Euro 2,255 million, which aimed at covering future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

The situation of serious financial imbalance in which BES was in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant, as well as with the risk of an eventual insufficiency of resources to ensure the fulfilment of the liabilities, in particular the short-term repayment of the borrowings.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the financing conditions granted by the Portuguese State and by the banks participating in the Resolution Fund, in order to preserve financial stability. through the promotion of conditions that provide predictability and stability to the contributory effort for the Resolution Fund. To this end, an amendment to the financing contracts to the Resolution Fund was 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 Euro 750 million, which was followed by a new a capital contribution of Euro 250 million, made on December 21, 2017. The Lone Star Fund now holds 75% of novobanco 's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalization mechanism, under which the Resolution Fund may be called upon to make payments in the event of certain cumulative conditions 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 recognize or is contrary to the resolution measure applied by Bank of Portugal, or to the perimeter novobanco's assets and liabilities.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, in view of the renegotiation of the conditions for loans granted to the Resolution Fund by the Portuguese State and a banking union, and to public notices issued by the Resolution Fund and the Office of the Minister of Finance. Finances that state that this possibility will not be used, these financial statements reflect the expectation of the Executive Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF, as well as the contingent capitalization mechanism and the indemnity mechanism referred to in the preceding paragraphs.

Any changes regarding this matter and the application of these mechanisms may have relevant implications for the Group's financial statements.

NOTE 39 – DISINTERMEDIATION

In accordance with the legislation in force, the managing companies together with the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As of 31 December 2022 and 2021, the value of the assets under management by the Group companies are analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Investment funds	1 095 611	1 309 544
Real estate investment funds	40 124	67 408
Pension funds	2 180 753	2 633 464
Discretionary management	616 060	700 260
	3 932 547	**4 710 676**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 40 – RELATED PARTIES BALANCES AND TRANSACTIONS

The group of entities considered to be related parties by **novobanco** in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of **novobanco**); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of **novobanco**; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which **novobanco** Group has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of **novobanco** (joint ventures).

During 2022, the following transactions with Related Parties (credit and other types) were carried out:

1) **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	750
Byron James MacBean Haynes	Common Management and/or Supervisory Members	Credit Card Limits	10 000
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
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 alteration)	68 250 000
		Commercial paper (renewal with alteration)	23 000 000 50 000 000
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	Common Management and/or Supervisory Members	Full subscription of the issue of Senior Debt Securities (non-preferred) at the novobanco dos Açores by the novobanco	Up to 7 000 000
Novo Banco Group (BEST, NB Açores e NB Finance)	Common Management and/or Supervisory Members	• Interbank Limits (Trading Room Operations) • Commercial Limits	1 818 000 000
Nuno Duarte	Members or entities whose relationship with the institution potentially influences their management	Credit Card Limits	10 000
Unicre - Cartão Internacional de Crédito S.A.	Entities for which there is a relationship of economic interdependence	Current-Account Loan Account (renewal)	Up to 38 050 000
Vicente Moreira Rato	Members or entities whose relationship with the institution potentially influences their management	Mortgage Loan (increase)	50 000
William Henry Newton	Common Management and/or Supervisory Members	Credit Card Limits	7 500

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation	Amount (euros)
GNB Soc Gestora de Fundo de Pensões S.A.	Entities for which there is a relationship of economic interdependence	Change to distribution agreement	na
GNB Gestão de Ativos	Entidades relativamente às quais existe uma relação de interdependência económica	Change to distribution agreement	na
GNB International Management S.A.	Entidades relativamente às quais existe uma relação de interdependência económica	Change to distribution agreement	na
LOCARENT Companhia Portuguesa de Aluguer de Viaturas SA	Entidades relativamente às quais existe uma relação de interdependência económica	Change to distribution agreement	na

The Group balances with related parties as at 31 December 2022 and 2021, as well as the respective profit and losses, can be summarised as follows:

(in thousands of Euros)

	31.12.2022					31.12.2021				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholders										
NANI HOLDINGS	-	152	-	389	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	198 180	54 101	-	-	16 364	209 220	11 040	-	-	26 190
Associated companies										
LINEAS	-	3 176	-	-	-	-	3 123	-	2 395	-
LOCARENT	139 286	3 218	-	1 727	3 163	121 982	3 146	-	1 040	3 282
ESEGUR	-	-	-	-	-	1 894	919	915	-	-
UNICRE	38 365	76	-	919	-	38 193	6	-	522	-
MULTIPESSOAL	2 023	35	273	-	-	2 017	43	273	-	-
BANCO DELLE TRE VENEZIE	-	-	-	-	-	-	222	-	-	-
EDENRED	2	99 716	62	1 968	41	1	93 081	62	2 039	24
YUNIT	-	1	-	-	-	-	-	-	-	-
	377 856	**160 475**	**335**	**5 003**	**19 568**	**373 307**	**111 733**	**1 250**	**6 328**	**29 496**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 638	-	-	-	-	4 138
NACIONAL CONTA LDA	324	5	-	-	-	375	18	-	-	-
ESMALGLASS	-	-	-	-	-	-	100	2	-	-
Other	**324**	**5**	**-**	**-**	**4 638**	**375**	**118**	**2**	**-**	**4 138**

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the financial year 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 entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and novobanco, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted, or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to bank deposits taken.

The guarantees related to associated companies included in the table above refer essentially to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest between 0% and 9.60% (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 2022 and 2021, are as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Executive Board of Directors	**General and Supervisory Board**	**Total**	**Executive Board of Directors**	**General and Supervisory Board**	**Total**
Short-term employment benefits	3 092	1 257	4 349	2 524	1 183	3 707
Post-employment benefits	2	-	2	2	-	2
Other long-term benefits	197	38	235	51	50	101
	3 291	**1 295**	**4 586**	**2 577**	**1 233**	**3 810**

In 2022 and 2021, variable remuneration to the Executive Board of Directors amounted to Euro 1,931 thousand and Euro 1,600 thousand, respectively, which respects to the remuneration that does not constitute acquired rights of the respective members until after the end of the restructuring period, and its payment is subject to approval and verification of certain conditions. Additionally, in 2022, costs of Euro 260 thousand were recorded as sign-on bonus resulting from the admission of a new Executive Director, and compensations for the termination of the mandate of three Executive Directors were recorded in the amount of Euro 460 thousand.

As at 31 December 2022 and 2021, the amount of credit granted and deposits from Key Management Personnel of novobanco was as follows:

Credit Granted

(i) to members of the Executive Board of Directors and their immediate relatives was Euro 351 thousand (December 31, 2021: Euro 317 thousand); and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted (December 31, 2021: no exposure);

Deposits

(i) members of the Executive Board of Directors and their immediate relatives was Euro 1,138 thousand; (December 31, 2021: Euro 1,080 thousand) and (ii) the members of the General and Supervisory Board and their immediate relatives was Euro 1,544 thousand (December 31, 2021: Euro 1,562 thousand).

NOTE 41 – SECURITISATION OF ASSETS

As of 31 December 2022 and 2021, the outstanding securisation transactions made by the Group were as follows

(in thousands of Euros)

Issue	Start Date	Original Amount	Current Amount		Securitized Asset
			31.12.2022	31.12.2021	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	214 061	246 943	Mortgage Loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	330 075	373 147	Mortgage Loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	317 612	355 513	Mortgage Loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	817 287	907 327	Mortgage Loans (general scheme)

In accordance with the consolidation rules established in IFRS 10, Lusitano Mortgages No. 6 plc and Lusitano Mortgages No. 7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note 1). The following are the main impacts of the consolidation of these entities on the Group's accounts:

(in thousands of Euros)

	31.12.2022	31.12.2021
Cash, cash balances in Central Banks and other current deposits	124 031	246 943
Loans to Customers (impairment liquid)	1 127 628	373 147
Responsibilities represented by securities (a)	25 491	373 147

(a) see Note 33

Additionally, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual.

The main characteristics of these operations, as of 31 December 2022 and 2021, can be analysed as follows:

(in thousands of Euros)

31.12.2022

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	Classe A	1 134 000	163 785	-	-	Dezembro de 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Classe B	22 800	10 842	-	-	Dezembro de 2048	AA	Aa2	AA	-	A-	A2	AA-	-
	Classe C	19 200	9 130	-	-	Dezembro de 2048	A+	A1	A+	-	BB+	Baa3	A-	-
	Classe D	24 000	11 412	-	-	Dezembro de 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Classe E	10 200	5 100	-	-	Dezembro de 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Classe A	1 323 000	245 724	-	-	Dezembro de 2059	AAA	Aaa	AAA	-	A+	Aa2	AA+	-
	Classe B	26 600	20 113	-	-	Dezembro de 2059	AA	Aa2	AA	-	BBB+	Baa2	AA+	-
	Classe C	22 400	16 937	-	-	Dezembro de 2059	A	A1	A	-	B+	Ba3	BBB	-
	Classe D	28 000	21 172	-	-	Dezembro de 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Classe E	11 900	11 301	-	-	Dezembro de 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Classe A	943 250	152 014	128 051	124 100	Março de 2060	AAA	Aaa	AAA	-	AA+	Aa2	A-	-
	Classe B	65 450	65 450	63 950	55 286	Março de 2060	AA	Aa3	AA	-	AA	Aa2	A-	-
	Classe C	41 800	41 800	41 800	31 303	Março de 2060	A	A3	A	-	BB+	A3	A-	-
	Classe D	17 600	17 600	17 600	12 414	Março de 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Classe E	31 900	31 900	31 900	20 017	Março de 2060	BB	-	BB	-	CC	-	D	-
	Classe F	22 000	22 000	22 000	-	Março de 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Classe A	1 425 000	345 770	345 770	326 254	Outubro de 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Classe B	294 500	294 500	294 500	242 031	Outubro de 2064	-	-	BBB-	-	-	-	AA+	-
	Classe C	180 500	180 500	180 500	59 141	Outubro de 2064	-	-	-	-	-	-	-	-
	Classe D	57 000	57 000	57 000	-	Outubro de 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2021														
Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	189 071	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Class B	22 800	12 515	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	A-	-
	Class C	19 200	10 539	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	BBB-	-
	Class D	24 000	13 174	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Class E	10 200	5 100	-	-		NA	-	NA	-	-	-	-	-
						December 2059								
Lusitano Mortgages No.5 plc	Class A	1 323 000	277 689	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Class B	26 600	22 729	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Class C	22 400	19 141	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Class D	28 000	23 926	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Class E	11 900	11 301	-	-		N/A	-	N/A	-	-	-	-	-
						March 2060								
Lusitano Mortgages No.6 plc	Class A	943 250	189 723	157 956	152 431	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Class B	65 450	65 450	63 950	61 124	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Class C	41 800	41 800	41 800	33 936	March 2060	A	A3	A	-	BB-	A3	A-	-
	Class D	17 600	17 600	17 600	12 388	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	8 568	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-		-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	437 435	437 434	409 580	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	266 902	October 2064	-	-	BBB-	-	-	-	A	-
	Class C	180 500	180 500	180 500	121 349	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

In December 2022, novobanco contracted an operation for the transfer of part of the credit risk of a loan portfolio to companies in the amount of around Euro 1.0 billion, through a synthetic securitization, with maturity date of February 2031 (and possibility of a call option in September 2025). Given the nature of this operation, there was no derecognition of credits in the balance sheet, having been recorded the guarantee received, which will be updated according to activation triggers defined in the contract.

NOTE 42 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Group's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and 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 Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Group's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. Note that although the valuations made available by the management companies are accepted, whenever applicable in accordance with the fund regulations, the Group requests the legal certification of accounts issued by independent auditors, in order to obtain the necessary additional comfort to the information made available by the management company. Additionally, and for the largest assets held by real estate investment funds, and according to an annual work plan previously approved by the Executive Board of Directors, a process of challenge to their valuations is carried out, consisting of a detailed technical analysis of the main assumptions considered in the valuations. This process may lead to the need for new valuations, as well as adjustments to the fair value of these assets.

In the specific case of the Restructuring Funds (“Assessed Assets”), their assessment was carried out during the exercise of 2020 by an independent external international entity (“Appraiser”), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the “Underlying Assets”); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of **novobanco**'s investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 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.

Regarding the information on quantitative indicators underlying the fair value measurements of the Restructuring Funds, the following is presented:

Assumption	Hotels			Real Estate under developmen			Real Estate			Commercial Centres			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	51	177	497	95	145	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	58%	78%	54%	66%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/square meter	n.a.	n.a.	n.a.	30	3 227	6 059	173	2 024	4 610	1 007	3 460	4 560	n.a.	n.a.	n.a.
€/Ha	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3 954	23 088	77 296
Discount rate	7.5%	8.2%	10.6%	8.1%	12.1%	20.0%	5.0%	6.0%	7.0%	9.3%	9.7%	10.6%	n.a.	n.a.	n.a.
Valuation methodology	Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach		

Notes:

1. All assumptions presented above were calculated based on the averages of the values considered by the external appraisers per appraised property.
2.The average presented was calculated on the weighted average per property in the sum of the value of the underlying assets per category presented
3.Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or project are incorporated in Real Estate under Development along with their respective property
4. €/m2 considers the gross construction area

In addition, additional assumptions considered in the fair value measurement of the financial investments held in the restructuring funds are presented below:

Type of Fund	Discount based on P/BV observable market data
Real estate and Tourism	14.5%
Real estate and Tourism/Other	13.6%
Other	10.6%

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;
- Futures and Options: the Group trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

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

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

Investment properties: its fair value is determined based on periodic evaluations carried out by independent entities specialised in this type of service, however, given the subjectivity of some assumptions used in the assessments, the Group carries out internal analysis on the assumptions used, which may imply additional adjustments to fair value, supported by additional internal or external valuations (see accounting policy in Note 7.19). The market value of properties for which a promissory purchase and sale agreement has been entered into corresponds to the value of that contract.

Validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for independent price verification for mark-to-market valuations, for mark-to-model valuations, validates the models used and changes to them wherever they exist. For prices supplied by external entities, the validation performed consists in confirming the use of the correct price

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Group is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2022				
Financial assets held for trading	**36 428**	**135 382**	**-**	**171 810**
Securities held for trading	36 428	-	-	36 428
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**
Securities mandatorily accounted for at fair value through the results	16 566	21 730	275 388	313 684
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*
Credit	-	-	18	18
Financial assets accounted for at fair value through results	**-**	**-**	**13**	**13**
Obligations of 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	**-**	**562 845**	**-**	**562 845**
Interest rate 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	**-**	**96 780**	**2 606**	**99 386**
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	**-**	**119 578**	**-**	**119 578**
Interest rate contracts	-	*119 578*	-	*119 578*
Liabilities at fair value	**-**	**216 358**	**2 606**	**218 964**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2021				
Financial assets held for trading	**114 465**	**263 199**	**-**	**377 664**
Securities held for trading	114 465	-	-	114 465
Bonds issued by public entities	*114 465*	-	-	*114 465*
Derivatives held for trading	-	263 199	-	263 199
Exchange rate contracts	-	*29 127*	-	*29 127*
Interest rate contracts	-	*225 186*	-	*225 186*
Others	-	*8 886*	-	*8 886*
Financial assets mandatorily at fair value through profit or loss	**190 252**	**22 890**	**586 450**	**799 592**
Bonds issued by other entities	*52 532*	*50*	*2 378*	*54 960*
Shares	*137 607*	-	*290 279*	*427 886*
Other variable income securities	*113*	*22 840*	*293 793*	*316 746*
Financial assets at fair value through other comprehensive income	**7 167 814**	**9 958**	**43 224**	**7 220 996**
Bonds issued by public entities	*5 761 717*	-	-	*5 761 717*
Bonds issued by other entities	*1 398 899*	-	-	*1 398 899*
Shares	*7 198*	*9 958*	*43 224*	*60 380*
Derivatives - Hedge Accounting	**-**	**19 639**	**-**	**19 639**
Interest rate contracts	-	*19 639*	-	*19 639*
Investment properties	**-**	**-**	**625 187**	**625 187**
Assets at fair value	**7 472 531**	**315 686**	**1 254 861**	**9 043 078**
Financial liabilities held for trading	**-**	**304 104**	**1 950**	**306 054**
Derivatives held for trading	-	304 104	1 950	306 054
Exchange rate contracts	-	*34 910*	-	*34 910*
Interest rate contracts	-	*266 012*	*1 950*	*267 962*
Crédito	-	-	-	-
Other	-	*3 182*	-	*3 182*
Derivatives - Hedge Accounting	**-**	**44 460**	**-**	**44 460**
Interest rate contracts	-	*44 460*	-	*44 460*
Liabilities at fair value	**-**	**348 564**	**1 950**	**350 514**

The changes occurred in financial assets and financial liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the financial exercises of 2022 and 20201 can be analysed as follows:

(in thousands of Euros)

	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	Credit					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	-	-
Attainment of maturity	(177 720)	-	-	-	-	(177 720)	-	-
Settlements	(115 754)	-	-	(762)	-	(116 516)	-	-
Transfers per entry	200	-	-	-		200	-	-
Outbound transfers	(200)	-	-	-		(200)	-	-
Disposals	-	-	-	-	(242 068)	(242 068)	-	-
Changes in 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 thousands of Euros)

	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	Credit					Derivatives held for trading	
Balance as at 31 December 2020	**709 231**	**-**	**-**	**43 222**	**592 605**	**1 345 058**	**2 158**	**2 158**
Acquisitions	11 200	-	-	556	4 973	16 729	24 117	24 117
Attainment of maturity	(22 352)	-	-	-	-	(22 352)	-	-
Settlements	(122 743)	-	-	(4 247)	-	(126 990)	(24 117)	(24 117)
Transfers per entry	2 751	-	-	2 300		5 051	-	-
Disposals	-	-	-	-	(49 727)	(49 727)	-	-
Changes in value	8 363	-	-	1 393	31 179	40 935	(208)	(208)
Other movements	-	-	-	-	46 157	46 157	-	-
Balance as at 31 December 2021	**586 450**	**-**	**-**	**43 224**	**625 187**	**1 254 861**	**1 950**	**1 950**

In fiscal exercise 2022 and 2021 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated at 31 December 2022 and 2021 were as follows:

(in thousands of Euros)

	31.12.2022			**31.12.2021**		
	Recognised in reserves	**Recognised in the income statement**	**Total**	**Recognised in reserves**	**Recognised in the income statement**	**Total**
Derivatives held for trading	-	(655)	(655)	-	144	144
Economic hedging derivatives	-	-	-	-	(24 117)	(24 117)
Financial assets mandatorily at fair value through profit or loss	-	(58 545)	(58 545)	-	21 662	21 662
Financial assets at fair value through other comprehensive income	25 584	-	25 584	9 122	-	9 122
Investment properties	-	91 133	91 133	-	31 182	31 182
	25 584	**31 933**	**57 517**	**9 122**	**28 871**	**37 993**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	**31.12.2022**						
	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**
Obligations of other issuers	*Cash flow discount model*	Specific Impairment	2,4	-50%	(2,4)	50%	10,8
Shares			135,7		-		-
	Management company adjusted valuation	*(b)*	*135,7*		-		-
	Others	*(a)*			-		-
Other variable income securities			137,4		-		-
	Management company adjusted valuation	*(b)*	*117,6*		-		-
	Management company adjusted valuation	*(c)*	*19,8*		-		-
Credit			0,0				
Financial assets at fair value through other comprehensive income			**71,3**		**(2,9)**		**0,1**
Shares			71,3		(2,9)		0,1
	Cash flow discount model	*Renewable energy Rates*	*16,2*		*(2,9)*		*0,1*
	Other	(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 made to the valuation of 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 change of +10% and -10% in the fair value of the main real estate assets of each Fund was considered, 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 unreasonable to carry out an analysis of the impact of the change in the variables underlying the clearance of the quotation by that entity

(in millions of Euros)

Assets classified under level 3	31.12.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**586,5**		**(2,4)**		**4,8**
Obligations of other issuers	Cash flow discount model	Specific Impairment	2,4	-50%	(2,4)	50%	4,8
Shares			290,3		-		-
	Management company adjusted valuation	*(b)*	*287,5*		-		-
	Others	*(a)*	*2,8*		-		-
Other variable income securities			293,8		-		-
	Management company adjusted valuation	*(b)*	*236,5*		-		-
	Management company adjusted valuation	*(c)*	*57,3*		-		-
Financial assets at fair value through other comprehensive income			**43,2**		**(2,9)**		**0,1**
Shares			43,2		(2,9)		0,1
	Cash flow discount model	*Renewable energy Rates*	*16,2*		*(2,9)*		*0,1*
	Outros	*(a)*	*27,0*		-		-
Total			**629,7**		**(5,3)**		**4,9**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.
(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.
(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 31 December 2022 and 2021, in the valuation models were as follows:

Interest rate curves
The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

	31.12.2022			31.12.2021		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	1.9501	4.365	3.5750	-0.5740	0.0644	0.2100
1 month	1.8840	4.4200	3.6500	-0.5830	0.1012	0.2400
3 months	2.1320	4.7700	3.8000	-0.5720	0.2091	0.3900
6 months	2.6930	5.1500	4.3350	-0.5460	0.3388	0.6100
9 months	2.9920	5.2350	4.5250	-0.5235	0.4603	0.6700
1 year	3.2910	5.1130	4.6768	-0.5010	0.5831	0.8246
3 years	3.3005	4.3010	4.6088	-0.1450	1.1495	1.2972
5 years	3.2390	4.0110	4.3280	0.0160	1.3460	1.2910
7 years	3.2020	3.8780	4.1350	0.1300	1.4530	1.2373
10 years	3.2020	3.8220	3.9920	0.3030	1.5610	1.2095
15 years	3.1410	3.7970	3.9377	0.4920	1.6800	1.1817
20 years	2.9310	3.7260	3.8647	0.5480	1.7708	1.1518
25 years	2.7150	3.6170	3.7967	0.5240	1.7316	1.1264
30 years	2.5320	3.4720	3.7257	0.4790	1.7160	1.10300

Credit Spreads
The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2022						
CDX USD Main	**37**	0.00	56.87	82.02	101.74	117.73
iTraxx Eur Main	**36**	35.05	66.40	90.60	106.87	122.66
iTraxx Eur Senior Financial	**36**	0.00	0.00	99.29	0.00	0.00
31 December 2021						
CDX USD Main	**37**	0.00	0.00	49.57	68.55	0.00
iTraxx Eur Main	**36**	10.43	26.82	47.76	66.71	87.01
iTraxx Eur Senior Financial	**36**	0.00	0.00	54.86	0.00	85.86

Interest rate volatility
The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2022			**31.12.2021**		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	99.28	23.329	55.24	23.16	73.735	76.14
3 years	124.23	38.104	49.59	55.79	59.154	63.572
5 years	124.77	40.721	47,00	65.81	56.877	71.172
7 years	121.6	39.377	45.73	68.34	54.586	79.975
10 years	115.66	35.946	42.81	68.98	50.925	88.081
15 years	107.02	-	-	66.28	-	-

Foreign exchange rates and volatility
Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	**31.12.2022**	**31.12.2021**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.0666	1.1326	8.6025	8.8	8.41	8.25	8.15
EUR/GBP	0.88693	0.84028	7.57	7.68	7.76	7.87	7.94
EUR/CHF	0.9847	1.0331	5.8	6,00	6.05	6.12	6.12
EUR/NOK	10.5138	9.9888	8.75	9.1	9.23	9.36	9.42
EUR/PLN	4.6808	4.5969	7.27	7.675	8.03	8.28	8.45
EUR/RUB	117.201	85.3004	7.505	8.068	8.708	9.288	9.583
USD/BRL [a)]	5.2865	5.5713	19.545	19.425	19.205	19.124	19.045
USD/TRY [b)]	18.7183	13.4500	8.757	13.0125	21.19	25.23	28.235

[a)] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b)] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes
The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	31.12.2022	31.12.2021	% Change	1 month	3 months	
DJ Euro Stoxx 50	3 794	4 298	-11.74%	16.17	19.27	18.70
PSI 20	5 726	5 569	2.81%	11.27	16.45	-
IBEX 35	8 229	8 714	-5.56%	12.67	16.72	-
FTSE 100	7 452	7 385	0.91%	9.77	13.28	13.15
DAX	13 924	15 885	-12.35%	15.08	19.53	18.72
S&P 500	3 840	4 766	-19.44%	19.57	25.43	19.84
BOVESPA	109 735	104 822	4.69%	22.81	25.19	24.85

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analysed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
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	8 183 209	6 322 522	270 317	1 203 015	7 795 854
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	**39 376 771**	**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 asse	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**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2021					
Cash, cash balances at central bank and other demand deposits	5 871 538	-	5 871 538	-	5 871 538
Financial assets at amortised cost					
Debt securities	2 338 697	1 096 479	327 192	1 126 334	2 550 005
Loans and advances to banks	50 466	-	50 466	-	50 466
Loans and advances to customers	23 650 739	-	-	24 028 198	24 028 198
Financial assets	**31 911 440**	**1 096 479**	**6 249 196**	**25 154 532**	**32 500 207**
Financial liabilities measured at amortised cost					
Deposits from banks	10 745 155	-	10 779 351	-	10 779 351
Due to customers	27 582 093	-	-	27 582 093	27 582 093
Debt securities issued, subordinated debt and liabilities associated to transferred asse	1 514 153	1 739 388	-	77 349	1 816 737
Other financial liabilities	374 593		-	374 593	374 593
Financial liabilities	**40 215 994**	**1 739 388**	**10 779 351**	**28 034 035**	**40 552 774**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.
Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost
The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions
The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers
The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt
The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities
These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 43 – TRANSFER OF ASSETS

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched to create financial, operational and management conditions to the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds which, through concentration, aggregation, mergers and integrated management, could achieve the required synergies to recover the companies. Pursuing the goals established, companies (parent companies) were incorporated, in which the Originating Bank had minority interests and which, in turn, now hold almost all the share capital of certain subsidiaries (subsidiaries of those parent companies) to acquire certain real estate bank loans.

Several assignments operations of financial assets (namely loans and advances to customers) were made to the latter entities (subsidiaries of the parent companies). These entities are responsible for managing the assets received as collateral and, after the assignment of the loans and advances to customers, for implementing a plan to increase their value. Almost all the financial assets assigned under these operations were derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the assignor Banks, appointed on the date of their incorporation and have the following main responsibilities:
- define the entity's purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through Bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities' valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent entities and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operations, the Group subscribed:
- equity instruments, representing the capital of parent companies in which the cash flow that will enable the company to be recovered come from a wide range of assets provided by the various Banks. These securities are recognised in the assets portfolio mandatorily at fair value through profit or loss being valued to market, with valuation released regularly by the mentioned companies whose accounts are audited at the end of each year;
- junior instruments issued by the loan acquiring companies, which are fully provided for to reflect the best estimate of the impairment of the financial assets transferred

The instruments subscribed by novobanco Group represent clear minority positions in the share capital of the parent companies and of its subsidiaries.

In this context, holding no control but being exposed to some of the risks and rewards of ownership, the novobanco Group, in accordance with IFRS 9 3.2.7, performed an analysis of its exposure to the variability of the risks and rewards of the transferred assets before and after the operation, having concluded that it has not substantially retained all the risks and rewards of ownership. Additionally, and considering that it has no control either, it proceeded, in accordance with IFRS 9 3.2.6c (i) with the derecognition of the assets transferred and (ii) the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date								
	Amounts of the assets transferred			Securities subscribed					
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value	
Up to 31 December 2012									
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892	
FLIT SICAV	252 866	254 547	1 682	235 318	23 247	258 565	(23 247)	235 318	
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733	
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002	
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 970	(23 000)	161 970	
Up to 31 December 2013									
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606	
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360	
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955	
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-	
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726	
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403	
Up to 31 December 2014									
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238	
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289	
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565	
Fundo Reestruturação Empresarial	5 389	5 389	-	4 078	-	4 078	-	4 078	
Fundo Aquarius	108 517	108 481	(36)	104 339	-	104 339	-	104 339	
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500	
Up to 31 December 2015									
Fundo Aquarius	24 883	24 753	(130)	30 406	-	30 406	-	30 406	
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-	
Discovery Portugal Real Estate Fund	5 348	5 774	427	4 855	-	4 855	-	4 855	
Up to 31 December 2016									
Fundo Aquarius	710	602	(108)	600	-	600	-	600	
Fundo Vallis Construction Sector	14 156	14 156	-	14 453	-	14 453	-	14 453	
Up to 31 December 2017									
Fundo Aquarius	555	470	(86)	624	-	624	-	624	
FLIT SICAV	3 261	3 298	37	-	-	-	-	-	
Up to 31 December 2018									
Fundo Aquarius	839	644	(194)	644	-	644	-	644	
FLIT SICAV	-	-	-	3 348	-	3 348	-	3 348	
Fundo Vallis Construction Sector	-	-	-	(1)	-	(1)	-	(1)	
Up to 31 December 2019									
Fundo Aquarius	376	332	(44)	507	-	507	-	507	
Up to 31 December 2020									
Fundo Aquarius	1 947	1 488	(458)	1 313	-	1 313	-	1 313	
Up to 31 December 2021									
Fundo Aquarius	6 628	6 625	(3)	7 000	-	7 000	-	7 000	
Up to 31 December 2022									
Fundo Aquarius	375	375	(0)	-	-	-	-	-	
	1 374 292	**1 370 070**	**(4 222)**	**1 305 541**	**119 516**	**1 425 057**	**(106 333)**	**1 318 724**	

During fiscal exercise 2022, as part of the Crow project, the Group sold all the participating units in the Tourism Recovery Fund and FLIT SICAV, and partially sold the participating units in the FCR Recovery Fund (see note 13), wherefore as of 31 December 2022, the Group's total exposure to securities associated with credit assignment operations, amounted to Euro 253.2 thousand (31 December 2021: Euro 524.1 million). The detail is as follows:

(in thousands of Euros)

	31.12.2022						31.12.2021					
	Securities		Shareholder loans or supplementary capital contributions			Unrealised Subscribed Capital	Securities		Shareholder loans or supplementary capital contributions			Unrealised Subscribed Capital
	Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount		Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount	
Fundo Recuperação Turismo, FCR	-	-	-	-	-	-	261 656	87 288	34 824	(34 824)	-	12 796
FLIT SICAV	25 000	-	-	-	-	-	282 793	158 486	14 900	(14 900)	-	12 423
Discovery Portugal Real Estate Fund	259 527	135 655	-	-	-	3 950	259 527	129 037	-	-	-	3 950
Fundo Recuperação, FCR	186 602	21 567	-	-	-	17 569	206 805	46 960	-	-	-	18 034
Fundo Reestruturação Empresarial	80 719	21 798	-	-	-	5 680	80 719	29 886	-	-	-	5 680
Fundo Aquarius	166 861	74 202	-	-	-	20 980	167 602	72 401	-	-	-	21 073
	718 709	**253 222**	**-**	**-**	**-**	**48 179**	**1 259 102**	**524 058**	**49 724**	**(49 724)**	**-**	**73 956**

NOTE 44 – RISK MANAGEMENT

novobanco, S.A., "institutional" area in the website presents the information directed to investors which complements the available information presented in this document, namely, novobanco, 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 of the Bank of Portugal.

In the case where the information of the present annual report supports the information in the Market Discipline Report, it is identified through references to this Report as systematised in the Annex VI of the Market Discipline Report.

44.1 – Framework

Risk is implicit in the banking business and as such novobanco Group 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 Group's risk management and control is based on the following premises:

- Independence vis-à-vis the other units of the Group, in particular the risk-taking units;
- Universality by application in the whole novobanco Group;
- Integrality of the risk culture, through a holistic vision and anticipation of its materialization;
- 3 Lines of defense model, with the objective of detecting, measuring, monitoring and controlling in an adequate manner the materially relevant risks to which the novobanco Group is subject to. This model implies that all employees, in their sphere of action, are responsible for risk management and control.

44.2 Governance and risk management structure

Risk Management, vital to the development of the novobanco Group's activity, is centralised in the Risk Management Function, comprising the Global Risk Department (*Departamento de Risco Global* (DRG)) and the Rating Department (*Departamento de Rating* (DRT)), which holistically defines the principles of risk management and control, in close coordination with the other second line units of 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.

Operationally, DRG centralizes the Risk Management Function of novobanco Group, namely the responsibilities inherent to the function, supervising the various materially relevant financial institutions of the Group, ensuring independence from the business areas.

novobanco Group Head of the Risk Management Function is the head of the DRG. In order to ensure greater efficiency in liaison with the DRG, a local Risk Officer has been appointed in each relevant entity of the novobanco Group. The DRG intervention is direct or in coordination and articulation 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;

- Operational risk.

We also highlight ESG (Environmental, Social and Governance) risk - in particular, the subcategories of climate and environmental risk and other environmental risks - as risks with growing relevance, and whose impact is estimated to be materialised in the medium and long term (and, therefore, over a longer horizon than the other risk categories):

ESG risk is part of the Group'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 evaluation of the materiality of its impacts is analysed transversally, since the ESG factors are intrinsically present in the other risk categories foreseen in the Group's taxonomy of risks.

In this context, we highlight the factors that have merited greater specialisation by the Group, in terms of its methodologies for risk assessment and control and their respective 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 Group's real estate collateral).

The following are the main risk management guidelines for the risks identified above:

- credit risk: the management and control of this type of risk is supported by the use of 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 centralizes the management and control of market risk and balance sheet interest rate risk (IRRBB) of the Group, 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;
- operational risk: operational risk policies are defined by a specialised DRG team, with other units such as the Compliance department and the Information security office issuing specific risk policies. The effectiveness of the methodologies for the identification and control of operational risk is guaranteed through the actions of the operational risk management representatives appointed for each organic unit, who promote the risk culture in the first line of defense in continuous collaboration with the DRG.

44.3 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 Group 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 Group. CDS are recorded at their fair value in accordance with the accounting policy described in Note 7.10.6.

A permanent management of the credit portfolios is carried out, which favors 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 terms of methodologies and tools for risk assessment and control, as well as in terms of procedures and decision circuits.

The Group's credit risk profile, namely regarding the evolution of credit exposures and monitoring of credit losses, is regularly monitored by the Risk Committees of the Executive Board of Directors and the General and Supervisory Board.

Main events in 2022

During 2022, we highlight below in chronological order, the non-recurring situations that had the greatest impact on the cost of risk for the period:

1. Classification as Unlikely to pay - and, consequently, change to stage 3 - on the universe of clients who ended the moratorium and where there were later situations of overdue credit with more than 45 days throughout the first half of the year;
2. Increases in impairments arising from individual analysis for counterparties from countries in the conflict zone;
3. Constitution of impairments due to the deterioration of macroeconomic expectations, rise in reference interest rates and increase in the inflation rate.

With regard to the reinforcements of impairment mentioned in points 1. and 2. above, these situations had a manageable impact on the cost of risk since (1) exposure to countries from the conflict zone is reduced and (2) the level of claims verified with the criteria defined for the purpose was insignificant. In relation to point 3. above, this addressed the timely recording of impairments arising from the deterioration of the macroeconomic outlook as a result of the effects of the conflict between Russia and Ukraine and the increases observed in both reference interest rates and inflation. Accordingly, given the need for the impairment to reflect prospective information, the impact relative to this framework was estimated and accounted for, contemplating:

3.1 Effects arising from the continuation of the Russia/Ukraine conflict, with an increase in raw material costs, but also from the generalised increase in prices of goods and services. To consider this situation, the practical expedient was followed of increasing the weight attributed to the less favorable scenario that is currently used to support the IFRS9 impairment calculation, against the other scenarios used - base and most favorable;
3.2 Effects arising from the rise in reference interest rates, whose impact on impairment was estimated via the LGD risk parameter. The estimation/development of this parameter was based on interest rate values prior to 2022, where reference rates assumed negative values. With the recent rise in these rates to positive values it became urgent to ensure that the LGD risk parameter and, consequently, the impairment constituted for the credit portfolio to date incorporated this impact.
3.3 Effects of potential deterioration in the level of risk of companies in sectors more vulnerable to the current economic environment, in this case companies whose activities involve intensive energy consumption. To anticipate this impact, the sectors in these conditions were defined as well as the clients associated with the same in order to simulate and account for the impact on impairment resulting from a generalised deterioration of the rating on the exposures of this specific portfolio.

Until it is possible to complete and implement updated collective risk parameters according to revised macroeconomic scenarios as well as to ensure a complete review of the risk assessment in companies most exposed to the effect of the energy crisis, the above impacts were estimated based on simulations and accounted for until the release of accounts on 30 September 2022.

2022, based on the revised macroeconomic scenarios, the collective risk parameters were updated and fully implemented, and the risk ratings associated with customers with economic activity more exposed to the increase in the cost of energy were revised. Thus, the impairment effects arising from these events replaced the amount of impairment estimated based on simulations - criteria described above - which had previously been accounted for without allocation to specific exposures.

Although the effect of these changes is not immediately measurable, it was estimated that the impact on impairments arising from these events would be around Euro 40 million. Even so, despite this specific effect, the annual observed cost of credit risk remained at controlled levels and below those of 2021.

44.3.1 Credit Risk Exposure

novobanco Group's maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Deposits with and loans and advances to banks	518 014	(780)	517 234	506 789	(1 113)	505 676
Derivatives for trading and fair value option derivatives	135 382	-	135 382	263 199	-	263 199
Securities held for trading	36 428	-	36 428	114 465	-	114 465
Securities at fair value through results	13		13	-		-
Securities at fair value through profit/loss - mandatory	13 473	-	13 473	54 960	-	54 960
Securities at fair value through other comprehensive income	2 243 984	(660)	2 243 324	7 160 616	(3 716)	7 156 900
Securities at amortised cost	8 256 195	(291 531)	7 964 664	2 582 558	(246 997)	2 335 561
Loans and advances to customers	25 452 202	(1 066 392)	24 385 810	24 932 453	(1 247 917)	23 684 536
Derivatives - hedge accounting	562 845	-	562 845	19 639	-	19 639
Other assets	551 797	(129 830)	421 967	923 866	(182 499)	741 367
Guarantees and standby letters provided	2 397 867	(82 547)	2 315 320	2 234 243	(79 599)	2 154 644
Documentary credits	169 410	-	169 410	402 332	-	402 332
Irrevocable commitments	6 206 048	7 350	6 213 398	5 845 257	(12 737)	5 832 520
Credit risk associated with the credit derivatives' reference entities	-	-	-	-	-	-
	46 543 658	**(1 564 390)**	**44 979 268**	**45 040 377**	**(1 774 578)**	**43 265 799**

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 Group 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 Group calculates impairment, on a collective or individual basis in accordance with the accounting policy as described in Note 7.16. In the cases where the value of the collateral, net of haircuts (taking into account the type of collateral), equals or exceeds the exposure, the individual impairment may be nil. Hence, novobanco Group 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.

44.3.2 Impairment Models scenarios

As proposed in IFRS 9 regulations, the Group's calculation of impairment reflects different expectations of macroeconomic evolution, that is, it incorporates multiple scenarios. In order 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 Group, since the same methodology is used for the impairment calculation as the Group 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 build the base and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and application of subjective expert judgment.

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

The econometric estimates thus obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than just a forecast (the risk of errors and bias associated with specific methods and variables is 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 more favourable case. The scenarios considered and the respective evolution of the main macroeconomic variables are described in the tables below:

A - Base Scenario, with a relative weight of 60%.

	Unit	2018	2019	2020	2021	2022	2023	2024	2025
GDP	Real growth %	2,6	2,7	-8,4	4,9	6,4	2,4	2,1	2,0
Private Consumption	Real growth %	2,9	3,0	-5,5	4,4	4,9	1,3	1,6	1,8
Government Expenditure	Real growth %	0,9	2,1	0,4	5,0	2,2	-0,9	-0,2	0,1
Investment	Real growth %	6,2	3,2	-5,7	6,1	5,1	7,4	5,0	4,2
Exports	Real growth %	4,5	4,1	-18,6	13,0	13,6	5,5	3,7	4,5
Imports	Real growth %	5,7	4,9	-12,1	12,8	8,8	4,8	3,4	4,4
Domestic Demand	Real growth %	2,8	3,1	-5,6	5,1	4,5	2,1	2,0	2,0
Prices									
CPI	%	1,0	0,3	0,0	1,3	5,9	2,6	2,0	1,7
Real Estate (Residential)	%	10,3	10,0	8,8	9,4	8,3	2,5	4,8	5,0
Real Estate (Commercial)	%	4,9	3,1	2,8	5,1	3,6	-0,2	1,3	1,5
Equity prices (incremental change)	%	-11,0	10,2	-6,1	13,7	0,0	0,0	0,0	0,0
Unemployment	% labour force	7,0	6,6	7,0	6,6	5,8	5,7	5,8	5,8
Euribor (annual average)									
3-month	%	-0,32	-0,36	-0,43	-0,55	0,01	1,62	2,02	2,08
end-of-period	*%*	*-0,31*	*-0,38*	*-0,55*	*-0,57*	*1,22*	*2,01*	*2,02*	*2,13*
6-month	%	-0,27	-0,30	-0,37	-0,52	0,28	1,75	2,04	2,10
end-of-period	*%*	*-0,24*	*-0,32*	*-0,53*	*-0,55*	*1,46*	*2,03*	*2,04*	*2,16*
12-month	%	-0,17	-0,22	-0,31	-0,49	0,65	1,87	2,06	2,15
end-of-period	*%*	*-0,12*	*-0,25*	*-0,50*	*-0,50*	*1,70*	*2,04*	*2,07*	*2,22*
Sovereign Yields (average)									
Bund 10Y	%	0,46	-0,21	-0,47	-0,31	1,10	1,69	1,79	1,87
end-of-period	*%*	*0,24*	*-0,19*	*-0,57*	*-0,18*	*1,64*	*1,74*	*1,83*	*1,91*
PGB 10Y	%	1,85	0,77	0,42	0,29	2,10	2,85	3,04	3,21
end-of-period	*%*	*1,72*	*0,44*	*0,03*	*0,47*	*2,75*	*2,95*	*3,12*	*3,29*
PGB 2Y	%	-0,13	-0,42	-0,42	-0,65	0,78	1,80	2,05	2,39
end-of-period	*%*	*-0,35*	*-0,55*	*-0,73*	*-0,66*	*1,72*	*1,88*	*2,22*	*2,55*
10Y PGB-Bund spread									
Annual Average	bps	138	98	89	60	100	116	125	134
end-of-period	bps	148	63	60	65	111	121	129	138
10Y-2Y PGB Spread									
Annual Average	bps	198	119	84	94	132	105	99	82
end-of-period	bps	207	99	76	113	103	107	90	74

The baseline scenario assumes strong GDP growth in 2022, supported by the favorable performances of private consumption and exports, and the removal of Covid-19 constraints. Private consumption is also seen to benefit from household income support, the use of savings accumulated during the pandemic, and a contained unemployment rate. Exports benefit from the strong contribution of tourism services, with demand picking up after the confinement periods. For 2023, the baseline scenario assumes that the economy suffers a strong deceleration, especially with the falling contributions of private consumption and exports. These developments result from the effects of rising inflation (loss of purchasing power), tighter monetary and financial conditions, with rising interest rates, and unfavorable base effects. In the period 2024-2025, GDP growth is assumed to trend around 2%. After the highest records in 2022 and 2023, inflation gradually declines until 2025. This picture translates into rising long-term market interest rates, but with the Portuguese OT spread against the German benchmark remaining contained. Real estate prices reflect rising interest rates and cooling demand and decelerate sharply in 2023, then recover to moderate growth.

B - Less favourable / adverse scenario, with a relative weight of 20%

	Unit	2018	2019	2020	2021	2022	2023	2024	2025
GDP	Real growth %	2,6	2,7	-8,4	4,9	5,7	-3,7	-0,9	2,0
Private Consumption	Real growth %	2,9	-3,3	-7,1	4,5	3,8	-3,9	-1,2	1,6
Government Expenditure	Real growth %	0,9	2,1	0,4	4,1	1,8	0,6	1,5	-0,2
Investment	Real growth %	6,2	3,3	-5,7	7,9	4,9	-5,3	-0,4	5,0
Exports	Real growth %	4,5	4,1	-18,6	13,1	9,2	-2,9	1,6	4,7
Imports	Real growth %	5,7	4,9	-12,1	13,1	4,4	-2,3	2,3	4,4
Domestic Demand	Real growth %	2,8	3,1	-5,6	5,1	3,7	-3,4	-0,6	1,9
Prices									
CPI (12m/12m average rate)	%	1,0	0,3	0,0	1,3	8,7	6,6	4,3	2,4
Real Estate (Residential)	%	10,3	10,0	8,8	9,4	7,1	-8,5	-10,1	-1,3
Real Estate (Commercial)	%	4,9	3,1	2,8	5,1	3,3	-10,3	-12,2	-1,6
Equity prices (incremental change)	%	-11,0	10,2	-6,1	13,7	0,0	0,0	0,0	0,0
Unemployment	% labour force	7,0	6,6	7,0	6,6	6,3	9,4	13,7	9,6
Euribor (annual average)									
3-month	%	-0,32	-0,36	-0,43	-0,55	0,37	3,23	4,28	3,60
end-of-period	*%*	*-0,31*	*-0,38*	*-0,55*	*-0,57*	*2,06*	*4,40*	*4,15*	*3,05*
6-month	%	-0,27	-0,30	-0,37	-0,52	0,64	3,34	4,27	3,55
end-of-period	*%*	*-0,24*	*-0,32*	*-0,53*	*-0,55*	*2,25*	*4,42*	*4,12*	*2,97*
12-month	%	-0,17	-0,22	-0,31	-0,49	0,98	3,41	4,27	3,53
end-of-period	*%*	*-0,12*	*-0,25*	*-0,50*	*-0,50*	*2,38*	*4,43*	*4,10*	*2,95*
Sovereign Yields (average)									
Bund 10Y	%	0,46	-0,21	-0,47	-0,31	0,99	1,78	1,89	1,84
end-of-period	*%*	*0,24*	*-0,19*	*-0,57*	*-0,18*	*1,71*	*1,84*	*1,93*	*1,75*
PGB 10Y	%	1,85	0,77	0,42	0,29	2,01	3,31	3,57	3,16
end-of-period	*%*	*1,72*	*0,44*	*0,03*	*0,47*	*2,78*	*3,83*	*3,31*	*3,02*
PGB 2Y	%	-0,13	-0,42	-0,42	-0,65	0,78	2,54	2,77	2,25
end-of-period	*%*	*-0,35*	*-0,55*	*-0,73*	*-0,66*	*1,97*	*3,10*	*2,44*	*2,05*
10Y PGB-Bund spread									
Annual Average	bps	138	98	89	60	102	153	169	132
end-of-period	bps	148	*63*	*60*	*65*	*107*	*199*	*138*	*127*
10Y-2Y PGB Spread									
Annual Average	bps	198	119	84	94	123	77	80	92
end-of-period	bps	207	99	76	113	81	73	87	97

The adverse scenario assumes a scenario of stagflation in the European and Portuguese economies. In Portugal, inflation is higher and more persistent than in the baseline scenario, mainly due to a negative energy shock and also a more visible transmission of the increase in energy and food prices to wages and the prices of other goods and services. Inflation reaches 8.7% in 2022 and 6.6% in 2023, remaining above the 2% target in 2024. Activity falls back significantly in 2023, and the contraction extends into 2024, not only due to the energy shock but also resulting from a more aggressive rise in reference interest rates by the ECB, creating restrictive monetary and financial conditions.

A high and persistent increase in interest rates is assumed (3-month Euribor rises to close to 4.3% in 2024 and remains around 3.6% in 2025, in annual average terms). This picture translates into contractions in private consumption and investment in 2023-24. It is assumed that the adverse conditions associated with this scenario postpone the execution of RRP funds. In any case, their effect on investment becomes visible towards the end of the projection horizon. The recession and rising interest rates contribute to a sharp contraction in activity and property prices. With the Portuguese economy being seen as especially vulnerable to interest rate increases, a more pronounced widening of the spread between the yields on Treasury bonds and the German benchmark is assumed.

C - Most favourable scenario, with a relative weight of 15%

	Unit	2019	2020	2021	2022	2023	2024	2025
GDP	Real growth %	2,7	-8,4	4,9	6,7	3,6	3,4	2,5
Private Consumption	Real growth %	3,0	-5,5	4,4	5,1	3,5	2,8	2,6
Government Expenditure	Real growth %	2,1	0,4	5,0	2,2	0,4	0,4	0,1
Investment	Real growth %	3,2	-5,7	6,1	5,1	8,6	7,1	4,2
Exports	Real growth %	4,1	-18,6	13,0	13,9	21,1	11,2	6,6
Imports	Real growth %	4,9	-12,1	12,8	8,7	21,6	10,8	6,5
Domestic Demand	Real growth %	3,1	-5,6	5,1	4,6	3,9	3,2	2,5
Prices								
CPI	%	0,3	0,0	1,3	5,9	2,1	1,8	1,7
Real Estate (Residential)	%	10,0	8,8	9,4	8,3	6,9	5,7	4,9
Real Estate (Commercial)	%	3,1	2,8	5,1	3,6	3,1	2,6	2,1
Equity prices (2022-25, change vs. base year)	%	10,2	-6,1	13,7	0,0	15,0	20,0	25,0
Unemployment	% labour force	6,6	7,0	6,6	5,7	5,4	5,3	5,1
Euribor (annual average)								
3-month	%	-0,36	-0,43	-0,55	0,01	1,75	2,40	2,53
end-of-period	*%*	*-0,38*	*-0,55*	*-0,57*	*1,22*	*2,27*	*2,52*	*2,53*
6-month	%	-0,30	-0,37	-0,52	0,28	1,88	2,42	2,55
end-of-period	*%*	*-0,32*	*-0,53*	*-0,55*	*1,46*	*2,30*	*2,54*	*2,55*
12-month	%	-0,22	-0,31	-0,49	0,65	2,01	2,45	2,58
end-of-period	*%*	*-0,25*	*-0,50*	*-0,50*	*1,70*	*2,32*	*2,57*	*2,58*
Sovereign Yields (average)								
Bund 10Y	%	-0,21	-0,47	-0,31	1,18	2,01	2,28	2,43
end-of-period	*%*	*-0,19*	*-0,57*	*-0,18*	*1,77*	*2,25*	*2,30*	*2,55*
PGB 10Y	%	0,77	0,42	0,29	2,10	2,96	3,05	3,13
end-of-period	*%*	*0,44*	*0,03*	*0,47*	*2,87*	*3,05*	*3,05*	*3,20*
PGB 2Y	%	-0,42	-0,42	-0,65	0,78	1,90	2,07	2,30
end-of-period	*%*	*-0,55*	*-0,73*	*-0,66*	*1,82*	*1,98*	*2,15*	*2,45*
10Y PGB-Bund spread								
Annual Average	bps	98	89	60	92	95	78	70
end-of-period	bps	63	60	65	110	80	75	65
10Y-2Y PGB Spread								
Annual Average	bps	119	84	94	132	106	99	83
end-of-period	bps	99	76	113	105	107	90	75

The favorable scenario assumes that the increase in inflation in 2022 is transitory. After recording more than 5%, price growth converges, over the remaining projection horizon, to values around or below 2%. This evolution could be associated with a quick resolution of the war in Ukraine and/or a strong easing of energy and food prices, thus not observing the normalisation of inflation to values around its target, allowing for a rise in benchmark and short-term market interest rates, but to contained values, up to 2.5%. In this context, economic activity is assumed to expand at an above-trend pace over the entire projection horizon. GDP growth benefits from positive performances in investment (with the implementation of RRP funds) and exports. Strong external demand and favorable financing conditions support house price growth, albeit at single-digit records. The unemployment rate is seen receding to near 5% of the labor force.

44.3.3 Impairment Models

As of 31 December 2022 and 2021, the detail of the amount of gross credit exposure and impairment assessed individually and collectively, by segment was as follows:

(in thousands of Euros)

	31.12.2022					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	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
Consumer and other loans	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 and advances for which the final impairment was determined and approved by the Impairment Committee

[2] Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2021					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 329 469	643 005	12 384 556	369 675	13 714 025	1 012 680
Stage 1	-	-	8 880 630	48 658	8 880 630	48 658
Stage 2	2 831	855	3 443 770	286 174	3 446 601	287 029
Stage 3	1 326 638	642 150	60 156	34 843	1 386 794	676 993
Mortgage loans	3 138	155	9 808 875	55 865	9 812 013	56 020
Stage 1	-	-	8 832 378	4 834	8 832 378	4 834
Stage 2	-	-	804 007	17 150	804 007	17 150
Stage 3	3 138	155	172 490	33 881	175 628	34 036
Consumer and other loans	148 390	132 298	1 258 025	46 919	1 406 415	179 217
Stage 1	-	-	1 038 767	10 530	1 038 767	10 530
Stage 2	-	-	181 283	18 033	181 283	18 033
Stage 3	148 390	132 298	37 975	18 356	186 365	150 654
Total	**1 480 997**	**775 458**	**23 451 456**	**472 459**	**24 932 453**	**1 247 917**

[1] Loans and advances for which the final impairment was determined and approved by the Impairment Committee

[2] Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

In the case of credits analysed by the Impairment Committee for which the impairment determined automatically by the Impairment Model has not been changed, they are included and presented in the "Collective assessment".

As of 31 December 2022 and 2021, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by geography, is presented as follows:

(in thousands of Euros)

	31.12.2022					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 090 184	563 773	20 879 466	396 301	21 969 650	960 074
Spain	2	1	945 611	12 447	945 613	12 448
United Kingdom	-	-	366 848	4 279	366 848	4 279
France	-	-	389 677	13 946	389 677	13 946
Switzerland	-	-	246 780	2 263	246 780	2 263
Luxembourg	-	-	282 807	1 996	282 807	1 996
Other	87 573	53 690	1 163 254	17 696	1 250 827	71 386
Total	**1 177 759**	**617 464**	**24 274 443**	**448 928**	**25 452 202**	**1 066 392**

* Loans and advances which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2021					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 300 717	683 754	20 969 733	425 794	22 270 450	1 109 548
Spain	58 906	8 008	566 121	13 495	625 027	21 503
United Kingdom	-	-	269 010	3 417	269 010	3 417
France	-	-	309 486	11 831	309 486	11 831
Switzerland	-	-	240 456	1 825	240 456	1 825
Luxembourg	-	-	264 525	2 552	264 525	2 552
Other	121 374	83 696	832 125	13 545	953 499	97 241
Total	**1 480 997**	**775 458**	**23 451 456**	**472 459**	**24 932 453**	**1 247 917**

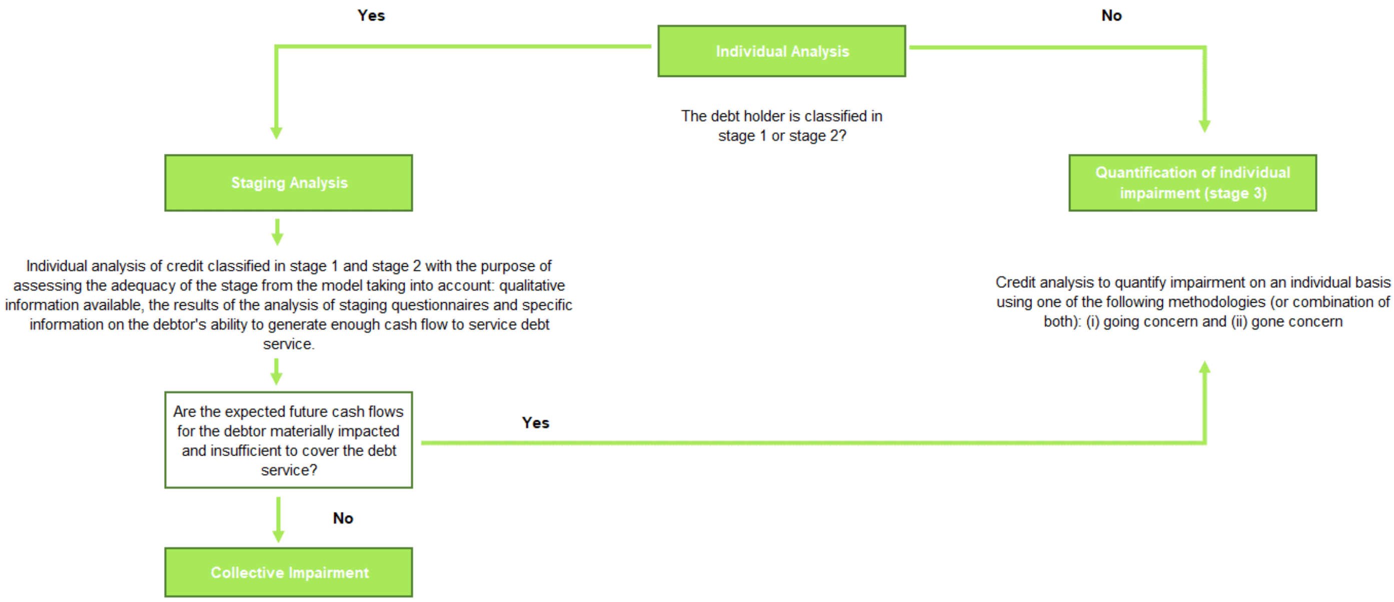
* Loans and advances which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

44.3.3.1 - Individual Credit Analysis

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

The 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

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

- Register Stage 3 exposure equal to or greater than Euro 1 million.
- Register Stage 2 exposure equal to or greater than Euro 5 million.
- Register Stage 2 exposure equal to or greater than Euro 1 million and have no rating assigned.
- Register Stage 1 exposure equal to or greater than Euro 5 million and have no rating assigned.
- Register Stage 1 exposure equal or greater than Euro 25 million (individually significant exposure).
- Fit into the risk segment Financial Holding and liability equal to or greater than Euro 5 million.

- Fit into the Financial Holding risk segment and register exposure equal to or greater than Euro 5 million.
- Fit into the Real Estate risk segment and register exposure equal to or greater than Euro 5 million.
- Are identified by the Committee itself based on another criteria that justify (e.g., sector of activity);
- In the past, specific impairment has been attributed to them.
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

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

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

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

Rules of Operation

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

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

44.3.3.2 - 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.

Apart from adjustments made during the first half of the year on the universe that was moratorium in 2021, the remaining adjustments made in 2022 result mainly from the need for revision / correction of data that, punctually and on a temporary basis, led to the respective adjustment.

In relation to the adjustments related to the universe of clients who benefited from the above-mentioned moratorium, they were progressively discontinued during the second semester. This decision resulted from the assessment in this universe over a reasonable period of the ability to resume the amortization plan after it was resumed, so the implemented risk assessment model would faithfully translate the appropriate level of parity, without the need for additional adjustments.

44.3.4 Credit Risk Monitoring (DRG)

44.3.4.1 Internal rating models for Corporates, Institutions and shares

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

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

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

The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Individual Entrepreneurs (ENIs); Small business; Medium-sized companies; Big companies; Real Estate and Real Estate Income; Holding Large Company; Financial Institution; Municipalities and Institutional; Sovereign; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

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

Regarding the credit portfolios of Large Companies, Financial Institutions, Institutional, Local and Regional Administrations and 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-sised 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-sised 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.

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

44.3.4.2 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 (www.moodys.com and www.fitchratings.com).

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

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

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

S&P	Moody's	Fitch	S&P equivalent external rating	Rating aggregation classes*
AAA	Aaa	AAA	AAA	*Prime Grade*
AA+	Aa1	AA+	AA+	*High grade*
AA	Aa2	AA	AA	
AA-	Aa3	AA-	AA-	
A+	A1	A+	A+	*Upper medium grade*
A	A2	A	A	
A-	A3	A-	A-	
BBB+	Baa1	BBB+	BBB+	*Lower medium grade*
BBB	Baa2	BBB	BBB	
BBB-	Baa3	BBB-	BBB-	
BB+	Ba1	BB+	BB+	*Non investment grade speculative*
BB	Ba2	BB	BB	
BB-	Ba3	BB-	BB-	
B+	B1	B+	B+	*Highly speculative*
B	B2	B	B	
B-	B3	B-	B-	
CCC+	Caa1	CCC+	CCC+	*Others*
CCC	Caa2	CCC	CCC	
CCC-	Caa3	CCC-	Lower than CCC	
CC	Ca	CC		
SD	C	C		
D		RD/D		

<u>44.3.4.3 Internal scoring models for Individual portfolios</u>

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 Group 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.

<u>44.3.4.4 – Other specific disclosures</u>

- Specific disclosures under Decreto-Lei nº 80-A/2022"Measures aimed at mitigating the effects of increasing the reference indexes of credit agreements for the acquisition or construction of permanent own housing", although at this stage it still goes fundamentally through the operationalization of contacts with customers and monitoring of requests that, according to the Bank, are still residual taking into account the universe at this stage:

  In the current context of continuous increase in housing credit indexes, and in line with the legislative measures provided in Decreto-Lei nº 80-A/2022 aimed at mitigating their effects on credit agreements for the acquisition or construction of permanent housing, novobanco has developed different initiatives aimed at supporting customers who are or are expected to find themselves in a situation of financial difficulty to ensure compliance with their own responsibilities. In cases where it has up-to-date information on household income, the Bank has the possibility to determine the current stress rate and identify those cases that are at a significant stress rate level or that have significantly increased their value, providing their support with the presentation of renegotiation solutions when required by the situation of proven financial difficulty.

  In cases where it does not have up-to-date income information, the novobanco has an action strategy consistent with those legislative requirements, communicating at an initial moment with all eligible customers, and later and in anticipation of each indexing update event, with the aim of ensuring adequate information from customers, requesting them to provide up-to-date income information and being able to offer remediation solutions in cases where the financial difficulty requires it.

- Follow up of the moratoriums that is in the "discontinuation" phase in terms of monitoring by the Bank:

  As a result of the time elapsed since the end of the moratoriums granted in the Covid pandemic period under public and private regimes, the history of regular compliance with the claims that have re-entered the amortization phase, and due to the small claims observed, the novobanco considers it currently unnecessary to maintain a dedicated follow-up on the set of private clients and companies that during that phase had a conditioning in the form of exercising their activity and the level of income earned.

- Segmentation by affected macro clusters, which the bank has been identifying throughout 2022, after the degradation of macroeconomic scenarios

Due to the macroeconomic developments that have occurred throughout 2022 - and the impact from the business fabric – novobanco monitored the most affected economic sectors very closely, with particular emphasis on those energy consumers more intensively. Although the Bank continues to monitor its clients in general in various forums, 15 particularly impacted sectors (mainly related to industry and related to textile activity) have been identified, and the effect on the business risk of the offending companies in these sectors has been identified and targeted at this more specific type of monitoring.

For 2023, the same type of surveillance is envisaged, but sectoral selection variables can be adjusted in line with developments in the macroeconomic environment.

<u>44.3.5. Delinquency</u>

The table below displays the assets impaired, or overdue but not impaired:

(in thousands of Euros)

	31.12.2022					
	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 results	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
Instrumentos de dívida - emissores públicos	-	-	-	-	-	-
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	24 235 312	5 625	1 376 409	25 617 346	(1 066 392)	24 550 954

(in thousands of Euros)

	31.12.2021					
	Neither overdue nor impaired	**Overdue but not impaired**	**Impaired**	**Total exposure**	**Impairment**	**Net exposure**
Deposits with and loans and advances to banks	506 789	-	-	506 789	(1 113)	505 676
Securities held for trading	114 465	-	-	114 465	-	114 465
Bonds issued by government and other public entities	*114 465*	-	-	*114 465*	-	*114 465*
Securities at fair value through profit/loss - mandatory	54 960	-	-	54 960	-	54 960
Bonds issued by other entities	*54 960*	-	-	*54 960*	-	*54 960*
Securities at fair value through other comprehensive income	7 137 846	-	22 770	7 160 616	(3 716)	7 156 900
Bonds issued by government and other public entities	*5 761 717*	-	-		*(3 043)*	*5 758 674*
Bonds issued by other entities	*1 376 129*	-	*22 770*	*1 398 899*	*(673)*	*1 398 226*
Securities at amortised cost	2 270 371	-	312 187	2 582 558	(246 997)	2 335 561
Bonds issued by government and other public entities	*377 335*	-	-	*377 335*	*(543)*	*376 792*
Bonds issued by other entities	*1 893 036*	-	*312 187*	*2 205 223*	*(246 454)*	*1 958 769*
Loans and advances to customers	23 175 161	8 506	1 748 786	24 932 453	(1 247 917)	23 684 536

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):

(in thousands of Euros)

	31.12.2022					
	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						
Up to 3 months	-	-	-	-	3 258	15 607
3 months to 1 year	-	-	-	-	1 467	102 758
1 to 3 years	-	-	-	-	824	78 713
3 to 5 years	-	6 696	-	-	55	38 988
More than 5 years	-	96 272	-	-	21	88 915
	-	**102 968**	**-**	**-**	**5 625**	**324 981**
Due						
Up to 3 months	-	327 619	-	-	-	49 933
3 months to 1 year	-	-	-	-	-	176 350
1 to 3 years	-	-	-	-	-	228 510
3 to 5 years	-	4 755	-	-	-	83 834
More than 5 years	-	-	-	-	-	512 801
	-	**332 374**	**-**	**-**	**-**	**1 051 428**
	-	**435 342**	**-**	**-**	**5 625**	**1 376 409**

(in thousands of Euros)

	31.12.2021					
	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						
Up to 3 months	-	-	-	-	6 942	16 199
3 months to 1 year	-	210 598	-	-	1 110	18 033
1 to 3 years	-	1 940	-	-	387	48 558
3 to 5 years	-	37 594	-	-	38	71 646
More than 5 years	-	84 825	-	-	29	147 118
	-	**334 957**	**-**	**-**	**8 506**	**301 554**
Due						
Up to 3 months	-	-	-	-	-	95 322
3 months to 1 year	-	-	-	-	-	205 485
1 to 3 years	-	-	-	-	-	250 897
3 to 5 years	-	-	-	-	-	139 442
More than 5 years	-	-	-	-	-	756 086
	-	**-**	**-**	**-**	**-**	**1 447 232**
	-	**334 957**	**-**	**-**	**8 506**	**1 748 786**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2022				31.12.2021			
	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	-	-	25 248	25 248	-	-	22 770	22 770
Securities at amortised cost	-	-	410 094	410 094	-	-	312 187	312 187
Loans and advances to customers	911	4 714	1 376 409	1 382 034	4 881	3 625	1 748 786	1 757 292
	911	**4 714**	**1 811 751**	**1 817 376**	**4 881**	**3 625**	**2 083 743**	**2 092 249**

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.

(in thousands of Euros)

	31.12.2022					
	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 enti	-	-	-	-	*36 428*	*36 428*
Securities at fair value through results	-	-	-	-	13	13
Bonds issued by other entities	-	-	-	-	*13*	*13*
Securities at fair value through profit/loss - mandatory	-	-	-	-	13 473	13 473
Bonds issued by other entities	-	-	-	-	*13 473*	*13 473*
Securities at fair value through other comprehensive incom	718 692	721 320	729 815	-	48 909	2 218 736
Bonds issued by government and other public enti	*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 enti	*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

(in thousands of Euros)

	31.12.2021					
	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	1 100	139 814	38 972	47 728	279 175	506 789
Securities held for trading	-	-	-	-	114 465	114 465
Bonds issued by government and other public enti	-	-	-	-	*114 465*	*114 465*
Securities at fair value through results	-	-	-	-	-	-
Bonds issued by government and other public enti	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	-	-
Securities at fair value through profit/loss - mandatory	-	-	-	-	54 960	54 960
Bonds issued by government and other public enti	-	-	-	-	-	-
Bonds issued by other entities	-	-	-	-	*54 960*	*54 960*
Securities at fair value through other comprehensive incom	1 453 919	1 982 997	3 550 221	1 788	148 921	7 137 846
Bonds issued by government and other public enti	*993 474*	*1 934 969*	*2 785 748*	-	*47 526*	*5 761 717*
Bonds issued by other entities	*460 445*	*48 028*	*764 473*	*1 788*	*101 395*	*1 376 129*
Securities at amortised cost	10 631	157 161	422 751	229 072	1 450 756	2 270 371
Bonds issued by government and other public enti	-	-	-	-	*377 335*	*377 335*
Bonds issued by other entities	*10 631*	*157 161*	*422 751*	*229 072*	*1 073 421*	*1 893 036*
Loans and advances to customers	3 447 441	8 905 980	2 591 239	6 953 998	1 276 503	23 175 161

As of 31 December 2022 and 2021, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

Segment	31.12.2022													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	13 053 682	274 903	33 134	3 632	13 086 816	278 535	724 413	324 410	416 443	273 565	1 140 856	597 975	14 227 672	876 510
Mortgage loans	9 689 291	27 858	35 682	1 881	9 724 973	29 739	55 744	13 308	48 666	11 788	104 410	25 096	9 829 383	54 835
Consumer and other loans	1 255 883	26 866	8 138	1 587	1 264 021	28 453	53 968	43 424	77 158	63 170	131 126	106 594	1 395 147	135 047
Total	**23 998 856**	**329 627**	**76 954**	**7 100**	**24 075 810**	**336 727**	**834 125**	**381 142**	**542 267**	**348 523**	**1 376 392**	**729 665**	**25 452 202**	**1 066 392**

(in thousands of Euros)

Segment	31.12.2021													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	12 191 609	320 313	132 381	8 736	12 323 990	329 049	873 543	361 247	516 492	322 384	1 390 035	683 631	13 714 025	1 012 680
Mortgage loans	9 606 873	25 093	33 754	1 337	9 640 627	26 430	123 210	20 723	48 176	8 867	171 386	29 590	9 812 013	56 020
Consumer and other loans	1 207 196	22 130	8 612	1 552	1 215 808	23 682	153 471	136 985	37 136	18 550	190 607	155 535	1 406 415	179 217
Total	**23 005 678**	**367 536**	**174 747**	**11 625**	**23 180 425**	**379 161**	**1 150 224**	**518 955**	**601 804**	**349 801**	**1 752 028**	**868 756**	**24 932 453**	**1 247 917**

As of 31 December 2022 and 2021, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of Euros)

Year of production	31.12.2022											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	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**

(in thousands of Euros)

Year of production	Corporate			Mortgage loans			Consumer and other loans			Total		
	31.12.2021											
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	4 099	219 797	4 585	64 530	1 322 039	10 531	717 590	54 041	11 689	786 219	1 595 877	26 805
2005	759	47 005	2 883	8 057	320 861	2 726	10 142	6 837	266	18 958	374 703	5 875
2006	975	171 971	29 831	13 477	600 300	4 098	12 829	7 999	849	27 281	780 270	34 778
2007	1 336	284 776	50 359	20 113	891 891	6 739	23 922	11 051	705	45 371	1 187 718	57 803
2008	1 140	473 578	24 647	13 553	633 292	4 542	19 181	9 037	349	33 874	1 115 907	29 538
2009	851	200 431	24 417	8 745	438 134	2 452	11 337	17 744	8 663	20 933	656 309	35 532
2010	1 003	170 833	19 125	8 215	455 499	3 204	17 657	24 310	794	26 875	650 642	23 123
2011	994	184 975	48 473	4 307	199 745	1 221	19 395	18 364	493	24 696	403 084	50 187
2012	1 280	242 759	41 290	2 368	85 133	834	25 833	15 821	1 094	29 481	343 713	43 218
2013	1 659	415 767	77 995	2 754	130 239	1 518	23 129	25 084	1 769	27 542	571 090	81 282
2014	1 760	314 087	110 955	1 760	94 755	737	21 449	21 714	615	24 969	430 556	112 307
2015	2 570	626 789	122 220	2 713	164 306	810	26 890	118 868	91 085	32 173	909 963	214 115
2016	3 692	648 093	51 245	5 573	373 517	1 958	42 807	77 401	21 746	52 072	1 099 011	74 949
2017	6 282	879 951	63 746	8 633	675 178	3 757	48 286	94 954	6 888	63 201	1 650 083	74 391
2018	7 851	1 506 020	89 004	9 888	899 601	3 656	57 520	144 321	6 393	75 259	2 549 942	99 053
2019	9 349	2 429 806	153 837	10 070	969 282	3 519	63 893	232 921	10 950	83 312	3 632 009	168 306
2020	11 324	2 486 691	60 824	7 358	723 917	2 125	41 957	198 295	6 576	60 639	3 408 903	69 525
2021	12 984	2 410 696	37 244	7 450	834 324	1 593	60 640	327 653	8 293	81 074	3 572 673	47 130
Total	**69 908**	**13 714 025**	**1 012 680**	**199 564**	**9 812 013**	**56 020**	**1 244 457**	**1 406 415**	**179 217**	**1 513 929**	**24 932 453**	**1 247 917**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of novobanco.

44.3.6 - 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 date of granting the credit and is periodically reassessed. Below is the gross value of the credits and the respective fair value of the collateral, limited to the value of the associated credit:

(in thousands of Euros)

	31.12.2022				31.12.2021			
	Amount of loans	Impairment	Net Value	Fair value of collateral	Amount of loans	Impairment	Net Value	Fair value of collateral
Individuals - Mortgage								
Stage 1								
Mortgages	8 636 253	(3 391)	8 632 862	8 636 253	8 601 421	(4 407)	8 597 014	8 593 058
Pledges	221 446	(74)	221 372	213 902	161 267	(73)	161 194	154 908
Not collateralized	81 906	(130)	81 776	-	69 690	(354)	69 336	-
Stage 2								
Mortgages	752 170	(18 919)	733 251	750 649	794 589	(16 763)	777 826	793 436
Pledges	22 138	(722)	21 416	20 561	7 542	(193)	7 349	7 395
Not collateralized	6 772	(1 317)	5 455	-	1 876	(194)	1 682	-
Stage 3								
Mortgages	105 800	(28 744)	77 056	105 296	172 798	(31 919)	140 879	171 707
Pledges	33	(12)	21	33	211	(41)	170	211
Not collateralized	2 865	(1 526)	1 339	-	2 619	(2 076)	543	-
Total								
Mortgages	9 494 223	(51 054)	9 443 169	9 492 198	9 568 808	(53 089)	9 515 719	9 558 201
Pledges	243 617	(808)	242 809	234 496	169 020	(307)	168 713	162 514
Not collateralized	91 543	(2 973)	88 570	-	74 185	(2 624)	71 561	-
	9 829 383	**(54 835)**	**9 774 548**	**9 726 694**	**9 812 013**	**(56 020)**	**9 755 993**	**9 720 715**
Individuals - Other								
Stage 1								
Mortgages	248 227	(345)	247 882	247 789	207 169	(419)	206 750	206 579
Pledges	134 587	(1 171)	133 416	131 725	131 879	(850)	131 029	126 403
Not collateralized	708 105	(13 396)	694 709	-	699 719	(9 261)	690 458	-
Stage 2								
Mortgages	44 899	(1 118)	43 781	44 543	34 905	(923)	33 982	34 733
Pledges	5 145	(243)	4 902	4 930	4 423	(291)	4 132	4 219
Not collateralized	127 346	(17 087)	110 259	-	141 955	(16 819)	125 136	-
Stage 3								
Mortgages	6 529	(2 521)	4 008	5 975	7 958	(3 465)	4 493	6 064
Pledges	67 318	(62 162)	5 156	13 711	127 018	(119 183)	7 835	14 147
Not collateralized	52 991	(37 004)	15 987	-	51 389	(28 006)	23 383	-
Total								
Mortgages	299 655	(3 984)	295 671	298 307	250 032	(4 807)	245 225	247 376
Pledges	207 050	(63 576)	143 474	150 366	263 320	(120 324)	142 996	144 769
Not collateralized	888 442	(67 487)	820 955	-	893 063	(54 086)	838 977	-
	1 395 147	**(135 047)**	**1 260 100**	**448 673**	**1 406 415**	**(179 217)**	**1 227 198**	**392 145**
Corporate								
Stage 1								
Mortgages	2 075 009	(12 988)	2 062 021	1 857 873	1 842 664	(13 700)	1 828 964	1 685 996
Pledges	1 704 798	(5 945)	1 698 853	713 852	1 379 204	(4 538)	1 374 666	426 190
Not collateralized	6 407 256	(24 571)	6 382 685	-	5 658 762	(30 420)	5 628 342	-
Stage 2								
Mortgages	901 315	(89 074)	812 241	811 303	1 169 145	(105 669)	1 063 476	1 067 665
Pledges	585 543	(93 760)	491 783	305 654	484 955	(73 845)	411 110	246 018
Not collateralized	1 412 877	(78 532)	1 334 345	-	1 792 501	(107 515)	1 684 986	-
Stage 3								
Mortgages	467 644	(225 737)	241 907	372 476	513 803	(235 595)	278 208	404 614
Pledges	192 799	(84 122)	108 677	99 366	194 729	(89 232)	105 497	88 989
Not collateralized	480 431	(261 781)	218 650	-	678 262	(352 166)	326 096	-
Total								
Mortgages	3 443 968	(327 799)	3 116 169	3 041 652	3 525 612	(354 964)	3 170 648	3 158 275
Pledges	2 483 140	(183 827)	2 299 313	1 118 872	2 058 888	(167 615)	1 891 273	761 197
Not collateralized	8 300 564	(364 884)	7 935 680	-	8 129 525	(490 101)	7 639 424	-
	14 227 672	**(876 510)**	**13 351 162**	**4 160 524**	**13 714 025**	**(1 012 680)**	**12 701 345**	**3 919 472**
Total	**25 452 202**	**(1 066 392)**	**24 385 810**	**14 335 891**	**24 932 453**	**(1 247 917)**	**23 684 536**	**14 032 332**

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, this value not being impacted by collaterals with a fair value higher than the credit to which they are associated.

The details of the collateral – mortgages are presented as follows:

(in thousands of Euros)

	31.12.2022							
Collateral intervals [a]	**Individuals - Mortgage loans**		**Individuals - Other loans**		**Corporate loans**		**Total**	
	Number	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
<0.5M€	187 451	9 170 509	6 846	281 122	19 163	466 692	213 460	9 918 323
>= 0.5M€ e <1.0M€	367	228 517	13	8 659	2 393	241 638	2 773	478 814
>= 1.0M€ e <5.0M€	65	93 172	4	8 526	9 833	722 959	9 902	824 657
>= 5.0M€ e <10.0M€	-	-	-	-	1 904	539 832	1 904	539 832
>= 10.0M€ e <20.0M€	-	-	-	-	134	399 451	134	399 451
>= 20.0M€ e <50.0M€	-	-	-	-	5 717	401 813	5 717	401 813
>=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 based on the total amount of collateral per credit agreement

(in thousands of Euros)

Collateral intervals [a]	31.12.2021							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0.5M€	194 158	9 332 748	5 823	234 146	11 125	490 422	211 106	10 057 316
>= 0.5M€ and <1.0M€	264	161 929	14	6 039	1 965	256 215	2 243	424 183
>= 1.0M€ and <5.0M€	47	63 524	3	7 191	18 534	799 951	18 584	870 665
>= 5.0M€ and <10.0M€	-	-	-	-	13 225	460 762	13 225	460 762
>= 10.0M€ and <20.0M€	-	-	-	-	2 241	530 515	2 241	530 515
>= 20.0M€ and <50.0M€	-	-	-	-	155	451 567	155	451 567
>=50M€	-	-	-	-	1 565	168 843	1 565	170 322
	194 469	**9 558 201**	**5 840**	**247 376**	**48 810**	**3 158 275**	**249 119**	**12 965 330**

[a] The allocation by intervals was based on the total amount of collateral per credit agreement

The values of mortgages collateral, shown above, represents the maximum coverage value of the covered assets, i.e., which concur 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 considered, in accordance with internal rules and procedures.

The relevant collaterals are essentially the following:

- Real estate, where the value considered is the correspondent to the last available valuation.
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month, in the case of being a listed security, or the value of the pledge, in the case of being cash.

The acceptance of collateral as a guarantee for credit operations refers to the need to define and implement risk mitigation techniques to which these collaterals are exposed. Thus, and as an approach to this matter, the Group stipulated a set of procedures applicable to collateral (namely 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 rules on credit powers thus have a specific chapter on this point, "Acceptance of collateral - techniques for mitigating the risks to which collateral is exposed, namely liquidity and volatility risks".

The revaluation process for real estate is performed by independent valuation experts registered in CMVM, following the methodologies as described in Note 8.6.

44.3.7 - Concentration of credit risk

The analysis of risk exposure by sector of activity, on 31 December 2022 and 2021, is presented as follows:

(in thousands of Euros)

	31.12.2022												
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivates	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss - mandatory	Derivatives - hedge accounting	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment						Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	336 749	(6 673)	-	-	-	-	-	8 616	-	5 788	(15)	11 893	(5 902)
Mining	65 487	(5 033)	-	-	-	-	-	14 277	(7)	18 445	(8)	8 983	(361)
Food, Beverages and Tobacco	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)
Leather and Shoes	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 Printing Industry	95 930	(5 905)	-	629	-	-	-	-	-	28 906	(139)	5 780	(22)
Refining of Petroleum	16 314	(114)	-	1	-	-	-	13 718	(2)	61 925	(16)	2 264	-
Chemicals and Rubber	289 130	(7 071)	-	357	-	-	-	-	-	221 901	(186)	15 775	(135)
Non-metallic Minerals	187 993	(2 763)	-	4	-	-	-	14 839	(5)	96 002	(105)	35 523	(174)
Metallurgical Industries and Metallic Products	390 928	(16 069)	-	145	-	-	-	433	-	48 658	(75)	34 232	(390)
Production of Machinery, Equipment and Elect	229 425	(10 750)	-	42	-	-	-	41 511	(25)	193 710	(64)	21 848	(3 559)
Production of Transport Material	176 541	(4 941)	-	-	-	-	-	-	-	59 963	(65)	12 856	(290)
Other Transforming 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 Communication	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)
Public Administration and Services	421 680	(25 288)	36 428	-	-	-	-	1 764 802	(453)	4 610 412	(1 722)	21 623	(110)
Other activities of collective services	429 360	(42 418)	-	145	-	2 378	-	24 849	(9)	93 600	(663)	38 047	(958)
Mortgage Loans	9 829 383	(54 835)	-	-	-	-	-	-	-	-	-	-	-
Consumers Loans	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)**

(in thousands of Euros)

	31.12.2021												
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivates	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss - mandatory	Derivatives - hedge accounting	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment						Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	329 579	(8 977)	-	397	-	-	-	29 007	(14)	20 249	(45)	11 196	(6 318)
Mining	40 882	(333)	-	-	-	-	-	14 189	(13)	19 391	(4)	5 972	(205)
Food, Beverages and Tobacco	511 938	(14 257)	-	7 233	-	-	-	-	-	76 401	(196)	49 435	(319)
Textiles and Clothing	372 933	(13 920)	-	290	-	-	-	-	-	4 298	(2)	7 450	(741)
Leather and Shoes	79 044	(728)	-	5	-	-	-	-	-	1 501	(6)	1 363	(122)
Wood and Cork	108 868	(2 996)	-	500	-	-	-	-	-	2 199	(12)	7 322	(259)
Paper and Printing Industry	149 815	(10 180)	-	96	-	-	-	-	-	1 497	(4)	2 150	(18)
Refining of Petroleum	11 459	(20)	-	-	-	-	-	-	-	40 793	(22)	4 022	(1)
Chemicals and Rubber	338 994	(5 157)	-	271	-	-	-	19 410	(13)	133 694	(123)	18 453	(80)
Non-metallic Minerals	168 159	(3 342)	-	-	-	-	-	-	-	33 754	(153)	15 177	(305)
Metallurgical Industries and Metallic Products	391 734	(11 974)	-	370	-	-	-	16 235	(11)	1 299	(62)	31 575	(456)
Production of Machinery, Equipment and Elect	170 744	(9 219)	-	159	-	-	-	66 078	(49)	48 010	(24)	20 503	(2 248)
Production of Transport Material	119 030	(3 514)	-	43	-	-	-	-	-	15 046	(8)	10 669	(527)
Other Transforming Industries	141 936	(10 598)	-	-	-	-	-	-	-	4 983	(20)	19 208	(2 821)
Electricity, Gas and Water	296 885	(3 323)	-	17 062	-	-	-	53 579	(41)	113 203	(3 988)	33 504	(687)
Construction and Public Works	1 295 265	(135 843)	-	75 005	-	-	-	-	-	196 417	(94 332)	672 470	(37 764)
Wholesale and Retail Trade	1 405 455	(48 479)	-	765	-	-	-	40 669	(29)	50 398	(90)	202 603	(3 481)
Tourism	1 055 211	(97 092)	-	191	-	-	-	118	-	-	-	51 900	(1 076)
Transport and Communication	864 952	(51 401)	-	49 111	-	-	-	96 999	(61)	43 865	(191)	351 109	(2 039)
Financial Activities	469 127	(44 808)	-	101 410	-	794 368	19 639	913 525	(317)	479 556	(1 424)	150 817	(3 380)
Real Estate Activities	1 666 331	(144 565)	-	6 281	-	2 751	-	908	-	178 280	(33 430)	107 615	(5 246)
Services Provided to Companies	2 438 656	(225 158)	-	3 250	-	95	-	85 155	(45)	655 753	(111 600)	386 548	(10 115)
Public Administration and Services	582 357	(22 872)	114 465	-	-	-	-	5 761 969	(3 043)	377 335	(543)	20 611	(110)
Other activities of collective services	592 331	(75 562)	-	758	-	2 378	-	123 155	(80)	84 636	(718)	36 256	(955)
Mortgage Loans	9 812 013	(56 020)	-	-	-	-	-	-	-	-	-	-	-
Consumers Loans	1 406 415	(179 217)	-	-	-	-	-	-	-	-	-	-	-
Others	112 340	(68 362)	-	2	-	-	-	-	-	-	-	16 315	(326)
TOTAL	**24 932 453**	**(1 247 917)**	**114 465**	**263 199**	**-**	**799 592**	**19 639**	**7 220 996**	**(3 716)**	**2 582 558**	**(246 997)**	**2 234 243**	**(79 599)**

Exposure to sovereign debt of "peripheral" Eurozone countries

On 31 December 2022 and 2021, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

	31.12.2022					
	Loans and advances to customers	Securities held for trading	Derivative instruments [1]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	326 159	31 517	-	336 557	626 448	1 320 681
Spain	-	-	-	627 273	1 520 591	2 147 864
Ireland	-	-	-	-	230 216	230 216
Italy	-	-	-	24 878	62 606	87 484
	326 159	**31 517**	**-**	**988 708**	**2 439 861**	**3 786 245**

[1] Net values: receivable / (payable)

(in thousands of Euros)

	31.12.2021					
	Loans and advances to customers	Securities held for trading	Derivative instruments [1]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	557 419	114 465	-	2 564 587	376 792	3 613 263
Spain	-	-	-	1 619 260	-	1 619 260
Ireland	-	-	-	171 608	-	171 608
Italy	-	-	-	148 601	-	148 601
	557 419	**114 465**	**-**	**4 504 056**	**376 792**	**5 552 732**

[1] Net values: receivable / (payable)

Except for Loans and advances to customers, all the exposures presented above, except those relating to loans and advances to customers, are recorded in the Group's balance sheet at fair value, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities are as follows:

(in thousands of Euros)

31.12.2022	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**350 140**	**336 307**	**250**	**336 557**	**-**	**(13 261)**
Maturity exceeding 1 year	350 140	336 307	250	336 557	-	(13 261)
Spain	**638 000**	**627 117**	**156**	**627 273**	**-**	**(1 759)**
Maturity exceeding 1 year	638 000	627 117	156	627 273	-	(1 759)
Italy	**25 000**	**24 878**	**-**	**24 878**	**-**	**(3)**
Maturity exceeding 1 year	25 000	24 878	-	24 878	-	(3)
	1 013 140	**988 302**	**406**	**988 708**	**-**	**(15 023)**
Securities at amortised cost						
Portugal	35 000	31 315	202	31 517	-	-
	35 000	**31 315**	**202**	**31 517**	**-**	**-**
Securities held for trading						
Portugal	**627 855**	**621 138**	**3 212**	**626 448**	**405**	**-**
Maturity exceeding 1 year	627 855	621 138	3 212	626 448	405	-
Espanha	**1 663 250**	**1 396 284**	**3 118**	**1 520 591**	**482**	**-**
Maturity exceeding 1 year	1 663 250	1 396 284	3 118	1 520 591	482	-
Ireland	**241 000**	**200 775**	**638**	**230 216**	**82**	**-**
Maturity exceeding 1 year	241 000	200 775	638	230 216	82	-
Italy	**67 000**	**54 203**	**116**	**62 606**	**25**	**-**
Maturity exceeding 1 year	67 000	54 203	116	62 606	25	-
	2 599 105	**2 272 400**	**7 084**	**2 439 861**	**994**	**-**

(in thousands of Euros)

31.12.2021	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**2 298 790**	**2 538 669**	**25 918**	**2 564 587**	**-**	**86 185**
Maturity up to 1 year	412 050	419 341	1 582	420 923	-	2 994
Maturity exceeding 1 year	1 886 740	2 119 328	24 336	2 143 664	-	83 191
Spain	**1 529 200**	**1 594 096**	**25 164**	**1 619 260**	**-**	**46 283**
Maturity up to 1 year	755 000	758 261	17 334	775 595	-	1 729
Maturity exceeding 1 year	774 200	835 835	7 830	843 665	-	44 554
Ireland	**153 600**	**170 350**	**1 258**	**171 608**	**-**	**13 457**
Maturity exceeding 1 year	153 600	170 350	1 258	171 608	-	13 457
Italy	**148 561**	**148 286**	**315**	**148 601**	**-**	**215**
Maturity exceeding 1 year	148 561	148 286	315	148 601	-	215
	4 130 151	**4 451 401**	**52 655**	**4 504 056**	**-**	**146 140**
Securities at amortised cost						
Portugal	106 500	114 017	448	114 465	-	-
	106 500	**114 017**	**448**	**114 465**	**-**	**-**
Securities held for trading						
Portugal	**375 646**	**425 189**	**1 689**	**376 792**	**543**	**-**
Maturity exceeding 1 year	375 646	425 189	1 689	376 792	543	-
	375 646	**425 189**	**1 689**	**376 792**	**543**	**-**

44.3.8 - Forborne modified loans

The Group proceeds to the identification and register of restructured credit contracts due to the client's financial difficulties whenever there are changes to the terms and conditions of a contract in which the client 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 to the benefit of the customer, such as extending the term, introducing grace periods, reducing the rate or partial debt forgiveness; (ii) there is a contracting of a new credit operation to settle the existing debt (total or partial); or (iii) the new terms of the contract are more favorable than those applied to other customers with the same risk profile.

The cancellation of a restructured credit due to the client's financial difficulties can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively fulfilled: (i) regular payment of capital and interest; (ii) the customer has no capital or interest due; and (iii) there were no debt restructuring mechanisms by the client in that period.

The amounts of the restructured loans due to financial difficulties of the customer as of 31 December 2022 and 2021, are as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Corporate	1 179 166	1 274 056
Mortgage loans	184 859	149 363
Consumer and other loans	82 298	138 369
Total	**1 446 323**	**1 561 788**

The details of the restructuring measures applied to loans restructured up to 31 December 2022 and 2021 are the following:

(in thousands of Euros)

Solution	31.12.2022								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	41	13 990	901	64	100 870	57 886	105	114 860	58 787
Assets received in partial settlement of loan	23	1 068	164	8	146	129	31	1 214	293
Capitalization of interest	16	4 965	923	87	52 218	29 659	103	57 183	30 582
New loan in total or partial payment of existing loan	1 056	192 245	14 193	528	179 421	80 151	1 584	371 666	94 344
Extension of repayment exercise	1 374	262 543	50 340	635	236 658	150 998	2 009	499 201	201 338
Introduction of grace exercise of principal or interest	818	115 453	6 867	172	71 851	27 533	990	187 304	34 400
Decrease in the interest rates	482	40 604	461	40	76 768	29 642	522	117 372	30 103
Changes of the lease payment plan	120	16 763	1 639	62	12 183	6 139	182	28 946	7 778
Changes in the interest payment	6	2 014	207	3	674	198	9	2 688	405
Other	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**

(in thousands of Euros)

Solution	31.12.2021								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	37	14 027	1 886	101	169 163	102 454	138	183 190	104 340
Assets received in partial settlement of loan	16	1 043	145	19	420	195	35	1 463	340
Capitalization of interest	36	6 796	359	100	79 248	46 515	136	86 044	46 874
New loan in total or partial payment of existing loan	1 334	171 823	12 731	444	123 983	57 630	1 778	295 806	70 361
Extension of repayment exercise	2 111	389 486	60 177	868	428 489	261 517	2 979	817 975	321 694
Introduction of grace exercise of principal or interest	344	28 207	787	85	55 586	25 331	429	83 793	26 118
Decrease in the interest rates	83	10 598	460	24	19 823	6 050	107	30 421	6 510
Changes of the lease payment plan	115	7 103	394	45	8 719	2 891	160	15 822	3 285
Changes in the interest payment	4	2 020	228	2	1 997	1 694	6	4 017	1 922
Other	1 218	35 408	1 014	286	7 849	3 986	1 504	43 257	5 000
Total	**5 298**	**666 511**	**78 181**	**1 974**	**895 277**	**508 263**	**7 272**	**1 561 788**	**586 444**

The movement of restructured loans throughout the 2022 and 2021's exercises was as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Opening balance	1 561 788	2 084 128
Restructured loans in the exercise	374 775	272 250
Loans reclassified to "normal"	(38 668)	(186 700)
Loans written off	(127 276)	(179 239)
Others	(324 296)	(428 651)
Total	**1 446 323**	**1 561 788**

44.4 - 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.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. novobanco Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2022				31.12.2021			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	340	1 375	4 379	340	2 494	1 983	3 451	826
Interest rate risk	586	7 445	47 720	586	31 454	24 522	41 240	10 628
Shares and commodities	0	0	3	-	3	33	225	0
Volatility	1	348	2 117	1	0	66	422	0
Credit spread	415	934	2 386	229	719	1 329	4 146	579
Diversification effect	(444)	(1 941)	(7 819)	(259)	(4 314)	(3 014)	(7 004)	1 388
Total	**898**	**8 162**	**48 787**	**898**	**30 356**	**24 919**	**42 480**	**13 421**

novobanco Group has a VaR of Euro 898 thousand (31 December 2021: Euro 30,356 thousand) in respect of its trading positions.

Following the recommendations of Basel II (Pillar 2) and Instruction No. 19/2005 of Banco de Portugal, the 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 captions, which do not belong to the trading book, by repricing tiers.

Analyses of the bank portfolio are carried out due to interest rate risk sensitivity based on an approximation to the duration model, and several scenarios of shifting the yield curve are carried out at all interest rate levels.

44.4.1 - Interest Rate Risk

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2018/02, novobanco Group calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2022					
	Eligible amounts	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans 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	-	-	-	-
Total	**42 578 954**	**21 997 489**	**5 502 398**	**5 132 116**	**4 788 815**	**5 158 137**
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
Total	**42 629 610**	**29 061 277**	**2 793 033**	**4 227 676**	**3 413 575**	**3 134 049**
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 analyzes are carried out for the interest rate risk of the banking portfolio based on the current difference in the interest rate mismatch discounted at current rates and the discounted value of the same cash flows, through scenarios of displacement of the parallel yield curves (displacements of +/- 200 bp) and non-parallel (short rate shock up/down, steepened/flattener shocks), according to the *outliers' tests* defined by the EBA.

(in thousands of Euros)

	31.12.2022					
	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)

(in thousands of Euros)

	31.12.2021					
	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	95 122	(11 629)	(65 505)	64 401	100 431	(159 934)
Exercise average	24 364	22 301	(68 842)	66 386	62 974	(99 945)
Exercise maximum	95 122	37 393	(65 229)	73 334	100 431	(65 726)
Exercise minimum	(6 001)	(11 629)	(73 380)	62 405	44 158	(159 934)

44.4.2 – Average rates of financial assets and liabilities

The following table presents the average interest rates for the Group's major financial asset and liability categories, on 31 December 2022 and 2021, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Average balance of the exercise	**Interest of the exercise**	**Average interest rate**	**Average balance of the exercise**	**Interest of the exercise**	**Average interest rate**
Monetary assets	6 308 062	12 654	0,20%	4 601 590	2 148	0,05%
Loans and advances to customers	25 424 392	590 751	2,29%	24 994 703	506 745	2,00%
Securities and other	10 181 113	153 284	1,48%	10 241 464	132 769	1,28%
Financial assets and differentials	**41 913 567**	**756 689**	**1,78%**	**39 837 757**	**641 662**	**1,59%**
Monetary Liabilities	10 455 407	(19 542)	-0,18%	10 496 796	(68 036)	-0,64%
Due to customers	28 321 910	48 466	0,17%	26 580 488	51 328	0,19%
Resources titled and other	1 452 268	92 698	0	1 070 387	70 900	0
Differential liabilities	1 683 982	9 592	0,00%	1 690 086	14 076	0,00%
Financial liabilities and differentials	**41 913 567**	**131 214**	**0,31%**	**39 837 757**	**68 268**	**0,17%**
Net interest income		**625 475**	**1,47%**		**573 394**	**1,42%**

44.4.3 - Foreign Exchange Risk

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, at 31 December 2022 and 2021, is analyzed as follows:

(in thousands of Euros)

		31.12.2022				31.12.2021			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(635 256)	634 533	91	(632)	(176 696)	169 546	(15)	(7 165)
GBP	GREAT BRITISH POUND	(48 068)	47 867	-	(201)	(42 582)	47 842	-	5 260
BRL	BRAZILIAN REAL	866	-	-	866	783	-	-	783
MOP	MACAO PATACA	2 409	-	-	2 409	2 261	-	-	2 261
JPY	JAPANESE YEN	(2 326)	2 318	-	(8)	(1 340)	2 310	-	970
CHF	SWISS FRANC	(9 289)	9 769	-	480	(13 138)	16 281	-	3 143
SEK	SWEDISH KRONE	17 593	(17 578)	-	15	19 782	(19 077)	-	705
NOK	NORWEGIAN KRONE	53 291	(53 059)	-	232	54 399	(54 035)	-	364
CAD	CANADIAN DOLLAR	(16 710)	19 003	-	2 293	(17 728)	21 502	-	3 774
ZAR	SOUTH AFRICAN RAND	(10)	(530)	-	(540)	1 129	(1 207)	-	(78)
AUD	AUSTRALIAN DOLLAR	9 613	(9 463)	-	150	10 257	(9 990)	-	267
VEB	VENEZUELAN BOLIVAR	2	-	-	2	2	-	-	2
PLN	POLISH ZLOTY	(2 995)	3 010	-	15	36 100	(35 643)	-	457
MAD	MOROCCAN DIRHAN	(2 558)	2 256	-	(302)	(2 996)	2 936	-	(60)
MXN	MEXICAN PESO	(6)	-	-	(6)	(13)	9	-	(4)
AOA	ANGOLAN KWANZA	(23)	-	-	(23)	(1)	-	-	(1)
CVE	CAPE VERDEAN ESCUDO	(137)	-	-	(137)	(146)	-	-	(146)
HKD	HONG-KONG DOLLAR	(706)	595	-	(111)	(1 916)	2 434	-	518
CZK	CZECH KORUNA	6	(114)	-	(108)	16 208	(17 041)	-	(833)
DZD	ALGERIAN DINAR	7 638	-	-	7 638	5 507	-	-	5 507
CNY	YUAN REN-MIN-BI	333	(347)	-	(14)	51 352	(50 975)	-	377
	OTHER	(2 957)	4 057	0	1 101	(7 802)	6 785	-	(1 017)
		(629 290)	**642 317**	**91**	**13 119**	**(66 578)**	**81 677**	**(15)**	**15 084**

Note: assets / (liabilities)

44.5 - Liquidity Risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its liabilities as they mature, without incurring substantial losses.

Liquidity risk can be divided into two types:

- Liquidity of assets (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to the lack of liquidity in the market, which translates into the widening of the bid / offer spread or the application of a haircut to the market value.
- Financing (funding liquidity risk) - consists of the impossibility of financing the assets in the market and / or refinancing the debt that is maturing, in the terms and in the desired currency. This impossibility can be reflected through a strong increase in the cost of financing or the requirement for 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 must be minimised through an adequate diversification of funding sources and maturity terms.

Banks are subject to liquidity risk due to their maturity transformation business (long-term lenders and short-term depositors), so prudent liquidity risk management is therefore crucial.

As of 31 December 2022, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 16.9 billion (31 December 2021: Euro 16.5 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 0.9 billion (31 December 2021: Euro 2.5 billion).
During 2022, gross financing from the ECB decreased by Euro 1,6 million to a total of Euro 6.3 billion (2021: increase in the amount of Euro 974 million for a total of Euro 8.0 billion).

The liquidity of novobanco Group is managed in a centralised manner, in the Headquarters, for the prudential consolidation perimeter, and the analysis and decision making made based on the mismatch reports, which allow, not only to identify negative mismatches but also to make a dynamic hedging of those mismatches. At 31 December 2022 and 2021, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2022						
	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	*Stock* Inicial	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)
Authorised facilities and not utilised 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**

(in thousands of Euros)

	31.12.2021						
	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)	756 943	-	-	-	-	22 055	734 888
Liabilities from guaranteed lending operations and operations associated to financial markets	9 948 705	-	626 980	52 669	-	2 514 555	6 754 500
Behavioral output from deposits	29 491 108	390 972	86 929	93 663	116 964	296 774	28 505 805
Exchange swaps and derivatives	567 652	5 940	45 222	423 127	43 099	25 964	24 299
Other output	478 049	-	-	-	11 515	33 814	432 720
Total Output	**41 242 456**	**396 912**	**759 132**	**569 460**	**171 578**	**2 893 163**	**36 452 212**
INPUT							
Secured lending operations and operations associated to financial markets	172 139	-	-	-	-	40 991	131 148
Behavioral inputs from loans and advances	32 363 686	5 164 062	2 244	5 177	14 194	15 125	27 162 885
Exchange swaps and derivatives	721 805	7 824	40 849	422 980	61 078	39 323	149 751
Own portfolio securities maturing and other entries	10 385 672	147 916	130 887	503 691	707 936	607 880	8 287 362
Total Input	**43 643 303**	**5 319 802**	**173 980**	**931 848**	**783 208**	**703 320**	**35 731 145**
Net contractual deficit	2 400 846	4 922 890	(585 152)	362 388	611 630	(2 189 843)	(721 067)
Accumulated net contractual deficit		**4 922 890**	**4 337 738**	**4 700 126**	**5 311 756**	**3 121 913**	**2 400 846**

CAPACITY TO READJUSTMENT	*Stock* Inicial	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	151 699						
Deployable reserves from the central bank	4 999 674	(4 999 674)					
Negotiable and non-negotiable assets eligible for the central bank	7 261 006	-	432 159	(326 174)	(537 314)	(451 865)	(6 233 780)
Authorised facilities and not utilised received	(0)	(42 401)	(73 498)	(226 102)	(281 873)	1 314 154	(690 281)
Net variation of capacity to adjustment		(5 042 075)	358 662	(552 276)	(819 187)	862 289	(6 924 061)
Accumulated capacity to readjustment	**12 412 379**	**7 370 304**	**7 728 966**	**7 176 690**	**6 357 503**	**7 219 792**	**295 731**

At the end of 2021 there was an accumulated one-year net contractual surplus of Euro 3,122 million, having shifted at the end of 2022 to an accumulated one-year net contractual surplus accumulated at a year of Euro 2,135 million. This decrease is mainly due to the increase in the period of less than one year taken to the ECB in the amount of Euro 3,750 million.

The one-year counterbalancing capacity at the end of 2022 was Euro 9,986 million, higher by Euro 2,766 million at the end of 2021 (Euro 7,220 million). This increase is mainly due to increased customer deposits and secured funding.

In order to anticipate any negative impacts, internal liquidity stress scenarios representing the types of crises that may occur are carried out, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank), and market scenarios.

Additionally, given the importance of liquidity risk management, a Liquidity Coverage Ratio (LCR) and a stable financing ratio (NSFR) are included in regulatory legislation. The LCR aims to promote banks' resilience to short-term liquidity risk by 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 financing for their assets and off-balance sheet operations, for a period of one year.

The average CSF in the 12 months of 2022 was 190% compared to 150% in 2021. In turn, the NSFR stood at 113% on 31 December 2022, 4 p.p. less than at the end of 2021, mainly due to the shortening of financing operations with the ECB.

In accordance with existing regulatory legislation, the Group is required to comply with a regulatory minimum limit of 100% in the CSF and NSFR.

The information on encumbered and unencumbered assets, as defined by Instruction no. 28/2014 of Bank of Portugal (note that this information is prepared from a prudential perspective, where the consolidation perimeter differs from that used in the financial statements presented) is shown in the table below:

(in thousands of Euros)

Assets	31.12.2022			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**13 495 242**	**n/a**	**32 720 766**	**n/a**
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

(in thousands of Euros)

Assets	31.12.2021			
	Carrying book value of encumbered assets	Fair value of encumbered assets	Carrying book value of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	**13 890 508**	**n/a**	**31 052 745**	**n/a**
Equity instruments	-	-	1 754 771	1 754 771
Debt securities	2 306 980	2 306 980	7 361 758	7 361 758
Other assets	11 583 528	n/a	21 936 216	n/a

(in thousands of Euros)

Collateral received	31.12.2022		31.12.2021	
	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	**-**	**-**	**-**	**-**

(in thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	31.12.2022		31.12.2021	
	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	9 968 346	13 495 242	10 115 522	13 890 508

The encumbered assets are represented essentially by credits and securities used in financing operations with the ECB, in repo operations, in mortgage bond issues and in securitizations. There are also assets given in collateral to hedge the Bank's counterparty risk in derivative transactions.

44.6 - 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, systematization 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.

44.7 - Capital Management and Solvency Ratio

The main objective of the Group's capital management is to ensure compliance with the Group 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 Group objectives.

The capital ratios of novobanco Group 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 Group 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 Group. 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 Group are composed by elements of CET I and Tier II

Additional information on the evolution and composition of novobanco Group's capital ratios can be found in the Group's Market Discipline Document (point 3. Capital Adequacy).

The summary of own funds, risk weighted assets and capital ratios capital of novobanco Group as of 31 December 2022 and 2021 are presented in the following table:

(in million Euros)

		31.12.2022	31.12.2021
Realised ordinary share capital, issue premiums and own shares		6 305	6 055
Reserves and Retained earnings		(3 388)	(3 109)
Net income for the year attributable to shareholders of the Bank		556	159
Non-controlling interests (minorities)		18	19
A - Equity (prudential perspective)		**3 491**	**3 124**
Non-controlling interests (minorities)		(10)	(13)
Adjustments of additional valuation		(4)	(10)
Transitional period to IFRS9		126	237
Goodwill and other intangibles		(73)	(69)
Insufficiency of provisions given the expected losses		-	(8)
Pension fund assets with defined benefits		(60)	-
Deferred tax assets and shareholdings in financial companies		(296)	(168)
Other[1]		(244)	(325)
B - Regulatory adjustments to equity		**(560)**	**(357)**
C - Own principal funds level 1 - CET I (A+B)		**2 931**	**2 768**
Other eligible instruments for additional Tier 1		2	1
D - Additional own funds Level 1 - Additional Tier 1		**2**	**1**
E - Level 1 own funds - Tier I (C+D)		**2 933**	**2 769**
Subordinated liabilities elegible for Tier II		399	399
Other elements elegible for Tier II		91	108
F - Level 2 own funds - Tier II		**490**	**507**
G - Eligible own funds (E+F)		**3 423**	**3 276**
Credit risk		19 608	22 043
Market risk		78	1 207
Operational risk		1 670	1 678
H - Risk Weighted Assets		**21 355**	**24 929**
Solvability ratio			
CET I ratio	**(C/H)**	**13,7%**	**11,1%**
Tier I ratio	**(E/H)**	**13,7%**	**11,1%**
Solvability ratio	**(G/H)**	**16,0%**	**13,1%**
Leverage ratio[2]		**6,1%**	**6,0%**

[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.

NOTA 45 – NPL DISCLOSURES

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non Performing Exposures) ratio greater than 5% must publish a set of information regarding NPE, restructured loans and foreclosed assets, according to a standard format, which is presented below (it should be emphasised that this information is prepared from a prudential perspective, whose consolidation perimeter differs from the consolidation perimeter of the financial statements presented):

Credit quality of forborne exposure

(in thousands of Euros)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
			Of which defaulted	Of which subject to impairment				
Loans and advances	702 036	759 337	759 337	759 337	-77 018	-400 845	702 092	274 345
Central banks	0	0	0	0	0	0	0	0
General governments	47	0	0	0	-6	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	1	81 687	81 687	81 687	0	-38 747	35 818	35 818
Non-financial corporations	532 143	580 337	580 337	580 337	-74 063	-289 636	484 752	215 644
Households	169 844	97 313	97 313	97 313	-2 949	-72 463	181 523	22 883
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	1 411	1 195	1 195	1 195	0	0	0	0
Total	**703 446**	**760 532**	**760 532**	**760 532**	**-77 018**	**-400 845**	**702 092**	**274 345**

Credit quality of performing and non-performing exposures by past due days

(in thousands of Euros)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due < =30 days	Past due > 30 days <=90 days		Unlikely to pay that are not past due or are past due <=90 days	Past due > 90 days <=180 days	Past due > 180 days <=1 year	Past due > 1 year <= 2 years	Past due > 2 years >=5 years	Past due > 5 years >=7 years	Past due > 7 years	Of which defaulted
Cash in Central Banks	**6 373 978**	**6 373 978**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**24 285 229**	**24 208 274**	**76 954**	**1 391 459**	**834 125**	**38 883**	**132 956**	**168 143**	**104 258**	**29 515**	**83 579**	**1 391 459**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**368 805**	368 786	19	**410**	0	0	0	0	410	0	0	410
Credit institutions	**44 327**	44 327	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**590 859**	566 744	24 115	**88 751**	42 797	0	2	35 345	16	4 490	6 100	88 751
Non-financial corporations	**12 143 903**	12 134 904	9 000	**1 066 762**	681 616	24 540	75 040	109 222	87 226	22 603	66 516	1 066 762
Of which SMEs	***7 334 123***	*7 326 475*	*7 648*	***737 260***	*433 690*	*24 286*	*56 469*	*96 152*	*39 350*	*21 105*	*66 207*	*737 260*
Households	**11 137 334**	11 093 514	43 820	**235 535**	109 712	14 343	57 914	23 576	16 606	2 421	10 963	235 535
Debt securities	**10 295 096**	**10 295 096**	**0**	**437 774**	**334 806**	**0**	**0**	**0**	**0**	**15 543**	**87 425**	**437 774**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**6 375 443**	6 375 443	0	**0**	0	0	0	0	0	0	0	0
Credit institutions	**961 621**	961 621	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**434 182**	434 182	0	**25 248**	4 755	0	0	0	0	15 543	4 950	25 248
Non-financial corporations	**2 523 850**	2 523 850	0	**412 526**	330 051	0	0	0	0	0	82 475	412 526
Off-balance-sheet exposures	**8 015 532**			**472 177**								**472 177**
Central banks	0			0								0
General governments	170 053			0								0
Credit institutions	251 305			0								0
Other financial corporations	82 341			7 540								7 540
Non-financial corporations	6 280 340			462 525								462 525
Households	1 231 493			2 112								2 112
Total	**48 969 834**	**40 877 348**	**76 954**	**2 301 411**	**1 168 931**	**38 883**	**132 956**	**168 143**	**104 258**	**45 058**	**171 004**	**2 301 411**

Performing and non-performing exposures and related provisions

(in thousands of Euros)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Das quais, *Stage 1*	Das quais, *Stage 2*		Das quais, *Stage 2*	Das quais, *Stage 3*			
Cash in Central Banks	**6 373 978**	**6 373 978**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**24 285 229**	**20 426 262**	**3 858 967**	**1 391 459**	**0**	**1 391 442**	**-363 843**	**-63 044**	**-300 799**	**-716 497**	**0**	**-716 497**	**-475 307**	**14 241 766**	**476 044**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	368 805	347 262	21 543	410	0	410	-1 424	-282	-1 142	-409	0	-409	0	32 929	1
Credit institutions	44 327	43 530	797	0	0	0	-780	-752	-28	0	0	0	0	0	0
Other financial corporations	590 859	455 214	135 646	88 751	0	88 751	-23 015	-4 099	-18 915	-41 682	0	-41 682	-188 398	164 975	37 978
Non-financial corporations	12 143 903	9 431 212	2 712 691	1 066 762	0	1 066 745	-280 432	-39 403	-241 029	-542 716	0	-542 716	-228 810	3 908 976	352 526
Of which SMEs	7 334 123	5 837 272	1 496 852	737 260	0	737 260	-124 406	-29 066	-95 339	-390 025	0	-390 025	-149 330	2 879 707	246 314
Households	11 137 334	10 149 043	988 290	235 535	0	235 535	-58 192	-18 506	-39 685	-131 690	0	-131 690	-58 099	10 134 886	85 539
Debt securities	**10 295 096**	**10 253 915**	**41 181**	**437 774**	**2 432**	**435 342**	**-9 380**	**-6 007**	**-3 373**	**-282 811**	**0**	**-282 811**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	6 375 443	6 375 443	0	0	0	0	-2 175	-2 175	0	0	0	0	0	0	0
Credit institutions	961 621	961 621	0	0	0	0	-229	-229	0	0	0	0	0	0	0
Other financial corporations	434 182	434 182	0	25 248	0	25 248	-311	-311	0	0	0	0	0	0	0
Non-financial corporations	2 523 850	2 482 669	41 181	412 526	2 432	410 094	-6 665	-3 292	-3 373	-282 811	0	-282 811	0	0	0
Off-balance-sheet exposures	**8 015 532**	**6 989 660**	**1 025 872**	**472 177**	**0**	**472 177**	**13 523**	**6 185**	**7 338**	**76 376**	**0**	**76 376**		**205 859**	**19 893**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	170 053	168 994	1 059	0	0	0	31	12	18	0	0	0		3 936	0
Credit institutions	251 305	171 150	80 155	0	0	0	793	30	763	0	0	0		24 793	0
Other financial corporations	82 341	79 625	2 715	7 540	0	7 540	62	31	30	38	0	38		10 306	6 477
Non-financial corporations	6 280 340	5 357 085	923 255	462 525	0	462 525	8 824	2 427	6 396	76 200	0	76 200		156 297	13 356
Households	1 231 493	1 212 806	18 686	2 112	0	2 112	3 814	3 684	129	138	0	138		10 527	61
Total	**48 969 834**	**44 043 815**	**4 926 020**	**2 301 411**	**2 432**	**2 298 961**	**-359 700**	**-62 866**	**-296 834**	**-922 932**	**0**	**-922 932**	**-475 307**	**14 447 625**	**495 938**

Quality of non-productive exhibitions by geography

(in thousands 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
		Of which non-performing		Of which subject to impairment			
			Of which defaulted				
On-balance-sheet exposures	**36 409 558**	**1 829 233**	**1 829 233**	**36 396 054**	**-1 372 531**		**0**
Portugal	24 713 331	1 724 613	1 724 613	24 699 868	-1 261 904		0
Other countries	11 696 227	104 621	104 621	11 696 186	-110 627		0
Off-balance-sheet exposures	**8 487 709**	**472 177**	**472 177**			**89 899**	
Portugal	8 055 240	469 922	469 922			87 891	
Other countries	432 469	2 255	2 255			2 008	
Total	**44 897 267**	**2 301 411**	**2 301 411**	**36 396 054**	**-1 372 531**	**89 899**	0

Credit quality of loans and advances by industry

(in thousands of Euros)

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	335 479	8 252	8 252	335 479	-9 363	0
Mining and quarrying	65 168	5 677	5 677	65 168	-7 148	0
Manufacturing	2 783 873	133 873	133 873	2 783 873	-120 408	0
Electricity, gas, steam and air conditioning supply	248 498	8 724	8 724	248 498	-4 899	0
Water supply	118 453	469	469	118 453	-754	0
Construction	1 380 421	137 259	137 259	1 380 421	-102 857	0
Wholesale and retail trade	1 582 317	95 563	95 563	1 582 317	-66 025	0
Transport and storage	814 570	57 205	57 205	814 570	-39 182	0
Accommodation and food service activities	1 117 942	174 408	174 408	1 117 942	-117 474	0
Information and communication	160 441	6 220	6 220	160 441	-6 620	0
Financial and insurance activities	504 351	30 605	30 605	504 351	-54 026	0
Real estate activities	1 519 348	183 700	183 700	1 519 348	-123 611	0
Professional, scientific and technical activities	1 242 353	78 353	78 353	1 242 353	-59 408	0
Administrative and support service activities	348 070	8 278	8 278	348 070	-15 145	0
Public administration and defence, compulsory social security	2 085	0	0	2 085	-17	0
Education	48 882	5 137	5 137	48 882	-2 758	0
Human health services and social work activities	302 552	37 868	37 868	302 552	-21 514	0
Arts, entertainment and recreation	172 901	77 550	77 550	172 884	-48 934	0
Other services	462 961	17 622	17 622	462 961	-23 005	0
Total	**13 210 666**	**1 066 762**	**1 066 762**	**13 210 648**	**-823 148**	**0**

Collateral valuation – loans and advances

(in thousands of Euros)

	Loans and advances											
		Performing		Non-performing								
						Past due > 90 days						
			Of which past due > 30 days <=90 days		Unlikely to pay that are not past due or are 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	**25 676 688**	24 285 229	76 954	**1 391 459**	834 125	**557 334**	38 883	132 956	168 143	104 258	29 515	83 579
Of which secured	**16 840 548**	15 866 448	65 811	**974 100**	570 979	**403 121**	22 010	95 855	123 172	86 794	9 525	65 765
Of which secured with immovable property	**13 622 670**	12 963 380	40 539	**659 289**	319 368	**339 921**	19 450	55 528	117 310	76 759	6 193	64 681
Of which instruments with LTV higher than 60% and lower or equal to 80%	**2 493 511**	2 451 731		**41 780**	21 185	20 595						
Of which instruments with LTV higher than 80% and lower or equal to 100%	**734 836**	553 949		**180 887**	76 597	104 290						
Of which instruments with LTV higher than 100%	**800 627**	534 952		**265 674**	143 707	121 967						
Accumulated impairment for secured assets	**-688 689**	-238 281	-5 302	**-450 408**	-224 382	**-226 025**	-11 084	-59 688	-76 995	-40 843	-6 330	-31 085
Collateral												
Of which value capped at the value of exposure	**14 657 737**	14 195 299	49 867	**462 438**	298 587	**163 851**	8 913	34 382	44 656	45 919	2 862	27 119
Of which immovable property	**12 896 002**	12 559 082	38 121	**336 920**	185 489	**151 431**	8 652	32 639	43 575	38 298	1 844	26 423
Of which value above the cap	**27 884 440**	26 638 876	54 162	**1 245 564**	715 630	**529 935**	24 287	78 713	83 485	166 445	120 387	56 619
Of which immovable property	**19 763 315**	19 204 734	53 248	**558 581**	269 986	**288 595**	21 409	62 543	62 763	86 953	7 370	47 557
Financial guarantees received	**60 073**	46 467	103	**13 606**	11 421	**2 185**	1 282	705	198	0	0	0
Accumulated partial write-off	**-475 307**	-14	-14	**-475 293**	-7 194	**-468 100**	0	-57 000	-795	-23 572	-311 639	-75 094

Changes in the stock of non-performing loans and advances

(in thousands of Euros)

	Gross carrying amount
Initial stock of non-performing loans and advances	1 763 836
Inflows to non-performing portfolios	313 256
Outflows from non-performing portfolios	-685 633
Outflow to performing portfolio	-160 486
Outflow due to loan repayment, partial or total	-210 047
Outflow due to collateral liquidation	0
Outflow due to taking possession of collateral	-13 465
Outflow due to sale of instruments	-56 138
Outflow due to risk transfer	0
Outflow due to write-off	-200 327
Outflow due to other situations	-45 171
Outflow due to reclassification as held for sale	0
Final stock of non-performing loans and advances	**1 391 459**

Collateral obtained by taking possession and execution processes

(in thousands of Euros)

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	**0**	**0**
Other than PP&E	**280 875**	**-132 687**
Residential immovable property	73 104	-23 134
Commercial Immovable property	136 724	-84 010
Movable property (auto, shipping, etc.)	3 013	-2 195
Equity and debt instruments	40 640	-7 297
Other	27 394	-16 051
Total	**280 875**	**-132 687**

Collateral obtained by taking possession and execution processes – vintage breakdown

(in thousands 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	0	0								
Collateral obtained by taking possession other than that classified as PP&E	**280 875**	**-132 687**	**10 781**	**-1 164**	**53 287**	**-29 240**	**216 808**	**-102 283**	**0**	**0**
Residential immovable property	73 104	-23 134	3 678	-295	15 131	-4 052	54 295	-18 786	0	0
Commercial immovable property	136 724	-84 010	6 590	-733	8 745	-1 768	121 389	-81 509	0	0
Movable property (auto, shipping, etc.)	3 013	-2 195	513	-135	453	-72	2 047	-1 988	0	0
Equity and debt instruments	40 640	-7 297	0	0	1 564	-7 297	39 076	0	0	0
Other	27 394	-16 051	0	0	27 394	-16 051	0	0	0	0
Total	**280 875**	**-132 687**	**10 781**	**-1 164**	**53 287**	**-29 240**	**216 808**	**-102 283**	**0**	**0**

NOTA 46 - PROVISION OF INSURANCE OR REINSURANCE MEDIATION SERVICE

On 31 December 2022 and 2021, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	31.12.2022	31.12.2021
Life Insurance		
Unit Link and other life commissions	1 795	1 828
Credit protection insurance (life)	881	841
Traditional Products	17 547	15 672
	20 223	**18 341**
Non-Life Insurance		
Personal lines insurance	8 464	7 593
Corporate insurance	177	178
Credit protection insurance (non-life)	1 430	2 274
	10 071	**10 045**
	30 294	**28 386**

Note: the yields shown are net of periodizations

The Group 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 Group, other than those already disclosed.

NOTA 47 – EXPOSURE TO UKRAINE, RUSSIA AND BELARUS

On February 24, 2022, the Russian Federation began a military operation on Ukrainian territory and triggered a war that currently engulfed three countries (Russia, Ukraine and Belarus). In response, various sanctions were adopted with the aim of impacting Russia's economy, as well as Belarus, by a several countries including NATO, the European Union and others. There is a possibility that the novobanco will be impacted by losses in assets exposed to those countries as a result of these sanctions, as well as the destruction that occurs in Ukraine with the war. The exhibition of the novobanco with reference to 31 December 2022 and 2021, by type of asset and by country is presented as follows:

(in thousands of Euros)

	31.12.2022			
	Russian Federation	**Belarus**	**Ukraine**	**Total**
Loans and advances to customers	3 766	56	1 115	4 937
Securities	4 755	-	-	4 755
Bonds recorded at fair value through other comprehensive income	*4 755*	-	-	*4 755*
Total Assets	**8 521**	**56**	**1 115**	**9 692**

(in thousands of Euros)

	31.12.2021			
	Russian Federation	**Belarus**	**Ukraine**	**Total**
Loans and advances to customers	5 049	209	938	6 196
Securities	43 140	-	-	43 140
Bonds recorded at fair value through other comprehensive income	*22 744*	-	-	*22 744*
Bonds recorded at amortised cost	*20 396*	-	-	*20 396*
Total Assets	**48 189**	**209**	**938**	**49 336**

NOTE 48 – SUBSEQUENT EVENTS

- On 1 February 2023, the novobanco reported that the General and Supervisory Board approved, subject to the authorization of the competent regulatory bodies (Fit & Proper), Benjamin Dickgiesser as a new member of the Executive Board of Directors for the current warrant terminated in 2025, for the role of Chief Financial Officer.
- On 13 February 2023, novobanco informed the Communication from the European Commission's Directorate General for Competition regarding the successful completion of the novobanco Restructuring Period.

Separate Financial Statements novobanco

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021

(in thousands of Euros)

	Notes	31.12.2022	31.12.2021
Interest Income	8	838 291	748 592
Interest Expenses	8	(213 295)	(167 508)
Net Interest Income		**624 996**	**581 084**
Dividend income	9	17 452	18 400
Fees and commissions income	10	302 126	287 013
Fee and commissions expenses	10	(39 816)	(40 296)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	(88 444)	(7 234)
Gains or losses on financial assets and liabilities held for trading	11	146 715	51 222
Gains or losses on financial assets mandatorily at fair value through profit or loss	11	(95 948)	42 734
Gains or losses from hedge accounting	11	(535)	14 896
Exchange differences	11	7 305	10 653
Gains or losses on derecognition of non-financial assets	12	82 159	(4 582)
Other operating income	13	56 579	79 753
Other operating expenses	13	(68 778)	(141 545)
Operating Income		**943 811**	**892 098**
Administrative expenses		(369 730)	(346 975)
Staff expenses	14	*(216 821)*	*(214 994)*
Other administrative expenses	16	*(152 909)*	*(131 981)*
Contributions to resolution funds and deposit guarantee	17	(40 717)	(40 172)
Depreciation	,	(53 961)	(33 799)
Provisions or reversal of provisions	18	(10 894)	(111 770)
Commitments and guarantees given		*2 555*	*9 900*
Other provisions		*(13 449)*	*(121 670)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	18	(103 265)	(196 230)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	18	16 166	49 691
Impairment or reversal of impairment on non-financial assets	18	14 081	(12 069)
Profit or loss before tax from continuing operations		**395 491**	**200 774**
Tax expense or income related to profit or loss from continuing operations	27	58 339	24 043
Current tax		(4 611)	(4 249)
Deferred tax		62 950	28 292
Profit or loss after tax from continuing operations		**453 830**	**224 817**
Profit or loss before tax from discontinued operations	29	-	1 091
Profit or loss for the year		**453 830**	**225 908**
Basic earnings per share (in euros)	19	0,05	0,02
Diluted earnings per share (in euros)	19	0,05	0,02
Basic earnings per share of continuing activities (in Euros)	19	0,05	0,02
Diluted earnings per share of continuing activities (in Euros)	19	0,05	0,02

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021

(in thousands of Euros)

	Notas	31.12.2022	31.12.2021
Net profit / (loss) for the exercise		453 830	225 908
Other comprehensive income/(loss)			
Items that will not be reclassified to results		***110 205***	***(83 367)***
Actuarial gains / (losses) on defined benefit plans	a)	96 485	(75 649)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	13 720	(7 718)
Items that may be reclassified to results		***(296 489)***	***(136 361)***
Cash flow hedging		(100 418)	-
Financial assets at fair value through other comprehensive income	a)	(196 071)	(136 361)
Total other comprehensive income/(loss) for the exercise		**267 546**	**6 180**

a) See Statement of Changes in Equity

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET
AS AT 31 DECEMBER 2022 AND 2021

(in thousands of Euros)

	Notes	31.12.2022	31.12.2021
Assets			
Cash, cash balances at central banks and other demand deposits	20	6 387 295	5 674 461
Financial assets held for trading	21	170 847	377 709
Non-trading financial assets mandatorily at fair value through profit or loss	22	1 537 670	2 250 308
Financial assets at fair value through profit or loss	22	13	-
Financial assets at fair value through other comprehensive income	22	2 183 034	7 133 508
Financial assets at amortised cost	22	31 719 489	24 977 300
Debt securities		8 618 778	2 893 829
Loans and advances to Banks		145 464	186 089
Loans and advances to customers		22 955 247	21 897 382
Derivatives – Hedge accounting	23	562 886	20 150
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	(382 933)	28 787
Investments in subsidiaries, joint ventures and associates	24	251 457	241 066
Tangible assets		258 963	231 419
Property, Plant and Equipment	25	258 963	231 419
Intangible assets	26	69 640	67 515
Tax assets	27	947 500	776 769
Current Tax Assets		30 298	35 448
Deferred Tax Assets		917 202	741 321
Other assets	28	1 713 116	2 555 852
Non-current assets and disposal groups classified as held for sale	29	45 071	6 601
Total Assets		**45 464 048**	**44 341 445**
Liabilities			
Financial liabilities held for trading	21	99 317	305 512
Financial liabilities measured at amortised cost	30	40 904 697	40 346 362
Deposits from banks		10 506 509	11 497 829
(of which, Repurchase Agreement)		*2 150 824*	*1 529 847*
Due to customers		28 425 223	26 997 858
(of which, Repurchase Agreement)		*450 906*	-
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 601 454	1 479 066
Other financial liabilities		371 511	371 609
Derivatives – Hedge accounting	23	120 612	44 460
Provisions	31	423 190	478 170
Tax liabilities	27	4 505	4 703
Current Tax Assets		4 505	4 703
Other liabilities	32	844 779	362 836
Total Liabilies		**42 397 100**	**41 542 043**
Equity			
Capital	33	6 304 661	6 054 907
Accumulated other comprehensive income	34	(1 155 271)	(968 987)
Retained earnings	34	(8 577 074)	(8 576 860)
Other reserves	34	6 040 802	6 064 434
Profit or loss attributable to Shareholders of the parent		453 830	225 908
Total Equity		**3 066 948**	**2 799 402**
Total Liabilities and Equity		**45 464 048**	**44 341 445**

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

CASH FLOW STATEMENT
FOR THE YEAR ENDED ON 2022 AND 2021

(in thousands of Euros)

	31.12.2022	31.12.2021
Cash flows from operatins activities		
Interest received	855 033	689 622
Interest paid	(207 797)	(160 639)
Fees and commissions received	302 126	287 013
Fees and commissions paid	(39 816)	(40 296)
Recoveries on loans previously written off	39 741	26 310
Cash payments to employees and suppliers	(321 850)	(314 871)
	586 720	**362 232**
Changes in operating assets and liabilities:		
Deposits with / from Central Banks	(1 702 869)	972 363
Financial assets mandatorily at fair value through profit or loss	558 483	262 479
Financial assets designated at fair value through profit or loss	146 847	94 905
Financial assets at fair value through other comprehensive income	4 535 561	475 983
Financial assets at amortised cost	(6 732 655)	(302 090)
Securities	*(5 699 590)*	*(26 501)*
Loans and advances to banks	*41 890*	*55 162*
Loans and advances to customers	*(1 074 955)*	*(330 751)*
Financial liabilities at amortised cost	2 121 448	1 624 592
Deposits from banks	*682 009*	*405 818*
Due to customers	*1 439 439*	*1 218 774*
Derivatives - Hedge accounting	(54 864)	(2 438)
Other operating assets and liabilities	1 171 677	(1 161 671)
Net cash from operating activities before corporate income tax	**630 348**	**2 326 355**
Corporate income taxes paid	(35 231)	(33 557)
Net cash from operating activities	**595 117**	**2 292 798**
Cash flows from investing activities		
Acquisition of investments in subsidiaries and associated companies	-	(4)
Sale of investments in subsidiaries and associated companies	1 867	-
Dividends received	17 452	18 400
Acquisition of tangible fixed assets	(105 881)	(116 630)
Sale of tangible fixed assets	107 072	59 579
Acquisition of intangible assets	(25 160)	(25 380)
Net cash from investing activities	**(4 650)**	**(64 035)**
Cash flows from financing activities		
Issuance of bonds and other securitised liabilities	100 000	575 000
Reimbursement of bonds and other debt securities	(575)	(84 916)
Net cash from financing activities	**99 425**	**919 097**
Net changes in cash and cash equivalents	**689 892**	**3 147 860**
Cash and cash equivalents at the beginning of the period	**5 409 506**	**2 261 646**
Net changes in cash and cash equivalents	689 892	3 147 860
Cash and cash equivalents at the end of the period	**6 099 398**	**5 409 506**
Cash and cash equivalents include:		
Cash	176 797	144 220
Deposits with Central Banks	5 942 501	5 264 629
(of which, Restricted balances)	(287 897)	(264 955)
Deposits with banks	267 997	265 612
Total	**6 099 398**	**5 409 506**

The accompanying explanatory notes are an integral part of these separate financial statements

NOVO BANCO, S.A.

SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021

(in 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 2020		**5 900 000**	**(749 259)**	**(7 202 828)**	**6 179 422**	**(1 374 246)**	**2 753 089**
Capital increase by incorporation of special reserve for deferred taxes		154 907	-	-	(154 907)	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 032)**	**39 919**	**1 374 246**	**40 133**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	*(1 374 246)*	-	*1 374 246*	-
Reserve of Contingent Capital Agreement	34	-	-	-	*39 920*	-	*39 920*
Other movements		-	-	*214*	*(1)*	-	*213*
Total comprehensive income for the year		**-**	**(219 728)**	**-**	**-**	**225 908**	**6 180**
Changes in fair value, net of tax	34	-	*(134 562)*	-	-	-	*(134 562)*
Remeasurement of defined benefit plans, net of tax	*15*	-	*(75 649)*	-	-	-	*(75 649)*
Reserves of impairment of securities at fair value through OCI	34	-	*1*	-	-	-	*1*
Reserves of sales of securities at fair value through OCI	34	-	*(9 518)*	-	-	-	*(9 518)*
Net profit / (loss) for the year		-	-	-	-	*225 908*	*225 908*
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	33	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	34	-	*(178 410)*	-	-	-	*(178 410)*
Remeasurement of defined benefit plans, net of tax	15	-	*96 485*	-	-	-	*96 485*
Reserves of impairment of securities at fair value through OCI	34	-	*(3 079)*	-	-	-	*(3 079)*
Reserves of sales of securities at fair value through OCI	34	-	*(862)*	-	-	-	*(862)*
Cash flow hedging reserves		-	*(100 418)*	-	-	-	*(100 418)*
Net profit / (loss) for the year		-	-	-	-	*453 830*	*453 830*
Balance as at 31 December 2022		**6 304 661**	**(1 155 271)**	**(8 577 074)**	**6 040 802**	**453 830**	**3 066 948**

The accompanying explanatory notes are an integral part of these separate financial statements

novobanco
Notes to the Separate Financial Statements as of 31 December 2022

(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))[1], approved by Decree-Law No. 298/92, of 31 December, following the resolution measure applied by Bank of Portugal to *Banco Espírito Santo, S.A.* (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the transfer of certain assets, liabilities and off-balance sheet elements as well as assets under management of BES from BES to 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, which acquired the status of a transition Bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of novobanco. On 18 October 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.

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

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

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

As at 31 December 2022, novobanco has a retail network comprising 274 branches in Portugal and abroad (31 December 2021: 292 branches), including branches in Spain and Luxembourg, and 2 representative offices in Switzerland (31 December 2021: 4 representative offices).

NOTE 2 – BASIS OF PRESENTATION

The separate financial statements of novobanco are presented as of 31 December 2022, expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Bank in the preparation are consistent with those used in the preparation of the financial statements as of 31 December 2021. 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 2022 were approved at the Executive Board of Directors' meeting held on 2 March 2023 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 2022, 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).

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

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 2022, the Bank did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Bank are as follows:

Norms, interpretations, amendments, and revisions that came into force in the exercise
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 2022:

Standard / Interpretation	Description
Amendments to IFRS 3 - References to the Conceptual Structure for Financial Reporting	This amendment updates the references to the Conceptual Structure in the IFRS 3 text without having made changes to the accounting requirements for concentrations of business activities. It is also clarified the accounting treatment to be adopted in relation to liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a concentration of business activities. The amendment is to be applied prospectively.
Amendments to IAS 16 - Income obtained prior to entry into operation	It clarifies the accounting treatment given to the payment obtained from the sale of products resulting from the test production of tangible fixed assets, prohibiting their deduction at the cost of acquiring the assets. The entity acknowledges the income obtained from the sale of such products and the costs of their production in the results.
Amendments to IAS 37 - Onerous contracts - costs of fulfilling a contract	This amendment specifies that in the assessment of whether or not a contract is onerous, only expenses directly related to the performance of the contract can be considered, such as incremental costs related to direct labor and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses of tangible assets used to perform the contract. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly debited to the party in accordance with the contract. This amendment should apply to contracts which, at the beginning of the first annual reporting period to which the amendment is applied, still include unmet contractual obligations, without re-expression of the comparison.
Amendments to IFRS 1 – Subsidiary as an IFRS adopter for the first time (included in annual improvements for the 2018-2020 cycle)	This amendment clarifies that when a subsidiary chooses to measure its assets and liabilities by the amounts included in the consolidated financial statements of the parent company (assuming that there has been no adjustment in the consolidation process), the measurement of accumulated transposition differences may be made by the amounts that would be recorded in the consolidated financial statements, based on the date of transition from the parent company to IFRS.
Amendments to IFRS 9 - Derecognition of financial liabilities - Commissions to be included in the '10 per cent' variation test (included in the annual improvements for the 2018-2020 cycle)	This amendment clarifies which commissions an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. Thus, in the context of the derecognition tests carried out on renegotiated liabilities, only the commissions paid or received between the debtor and the creditor should be included, including the commissions paid or received by the debtor or the creditor on behalf of the other.
Amendments to IAS 41 - Taxation and fair value measurement (included in annual improvements for the 2018-2020 cycle)	This amendment removes the requirement set out in paragraph 22 of IAS 41 to exclude income tax-related cash flows in the fair value of biological assets, ensuring consistency with IFRS 13 principles.
Amendments to IFRS 16 - Leases - Concessions related to COVID-19 at the level of rents beyond 30 June 2021	On May 28, 2020, the amendment to IFRS 16 called 'COVID-19 related concessions' was issued, introducing the following practical expedient: a lessee may choose not to assess whether a Covid-19-related rent concession is a lease modification. Lessees who choose to apply this file, account the change on rent payments arising from a concession related to COVID-19 in the same way that they account for a change other than a modification of the lease in accordance with IFRS 16. Initially, the practical working hours applied to payments originally due until 30 June 2021, however, due to the prolongation of the impact of the pandemic, on 31 March 2021, it was extended to

Standard / Interpretation	Description
	payments originally due until 30 June 2022. The amendment applies to annual reporting periods initiated on or after 1 April 2021. In a sense, the practical expedient can be applied provided that the following criteria are fulfilled: • the change in lease payments results in a revised remuneration for the lease which is substantially equal to or less than the remuneration immediately preceding the change. • any reduction in rental payments only affects payments due on, or until 30 June 2022; and • there are no significant changes to other rental terms and conditions.

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

NOTE 6 – MAIN ACCOUNTING POLICIES

6.1. Foreign currency transactions

6.1.1 Functional and presentational currency

The Bank's separate financial statements are prepared in Euro, which is novobanco'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 equity reserves.

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

6.2. Recognition of interest income and 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. Recognition of fee and commission income

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. Recognition of dividend income

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

6.5. Net trading income

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

6.6. Net gain or loss on financial assets and liabilities designated at fair value through profit or loss

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

6.7. Net gain or loss on derecognition of financial assets measured at amortised cost

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.

6.8. Financial Instruments – Initial recognition

6.8.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially 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.

6.8.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in 6.10 Financial instruments are initially measured at their fair value (as defined in Note 6.9), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

6.8.3. Day one profit

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank 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).

6.8.4. Measurement categories for financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

• Amortised cost, as explained in Note 6.10.1;
• Fair Value of through Other Comprehensive Income, as explained in Notes 6.10.1, 6.10.2 and 6.10.3;

• Fair Value Through Profit or Losses, as set out in Note 6.10.4;
• Mandatorily measured at fair value through profit or loss, as set out in Note 6.10.4.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Note 6.10.5. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6.10.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative.

6.9. Fair value of Financial Assets and Liabilities

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and 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

6.10. Financial Assets and Liabilities

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

- Amortised cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest);
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value 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.

6.10.1 Financial assets at amortised cost or accounted at fair value through other comprehensive income

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

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

(ii) The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classifica tion. 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.

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.

6.10.2 Debt instruments at FVOCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

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

Debt instruments classified as fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognised in Other Comprehensive Income, until the assets are derecognised, at which time the accumulated amount of potential gains and losses recorded without reserves is transferred to results under the heading of gains or losses on financial assets and liabilities accounted for at fair value through profit or loss. Interest income and foreign exchange gains and losses.

The expected credit loss calculation is explained in Note 6.16. 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.

6.10.3. Equity instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at 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.

6.10.4. Financial assets at fair value through profit or loss

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

6.10.5. Assets and liabilities held for trading

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

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are 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.

6.10.6. Derivative financial instruments and hedge accounting

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

Recognition and measurement
Derivative financial instruments are initially 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 28 and 32) and comprise the minimum collateral mandatory for open positions.

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

Hedge accounting
- Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:
(i) Hedging instruments and hedged 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.

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

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

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

- Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Bank classifies the entire contract in accordance with the policy outlined in Note 6.9.

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

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

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

6.10.7. Financial Liabilities

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

6.10.8. Financial and performance guarantees

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

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

6.11. Reclassifications of financial assets and liabilities

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

6.12. Modification of financial assets and liabilities

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.

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 6.14.

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 profit or loss.

6.13. 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.

6.14. Forborne modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Global Risk Department. Forbearance may involve extending the payment arrangements and/or the agreement of new loan conditions. If modifications are substantial, the loan is derecognised, as explained in Note 6.12. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. The Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 39 and whether the assets should be classified as Stage 3.

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

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

6.15. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the 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.

6.16. Impairment of financial assets

Impairment principles

The Bank record impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

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

Equity instruments are not subject to impairment under IFRS 9.

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

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

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

Based on the above process, the Bank 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 focuses on performing exposures that do not show any active evidence of significant deterioration of credit risk compared to origination. The impairment represents the expected loss resulting from default events on a financial instrument that are possible to occur within 12 months after the balance sheet date. The risk factors - PD and LGD - consider the 12-month horizon and are applied to the value of the exposure. This calculation is done by scenario, since each scenario considered has specific risk factors - PD and LGD;

- Stage 2: this calculation focuses on productive exposures that present an indication of a significant increase in credit risk since origination. The impairment represents the present value of the sum of expected losses until the maturity of the exposure. Expected losses are calculated on the projected exposure at each debt repayment time, according to the exposure repayment schedule, and these expected losses are discounted at the original effective rate of the contract to obtain its present value at the reporting date. As mentioned above, this calculation is made by scenario since different risk factors are considered for each scenario;

- Stage 3: this calculation focuses on non-productive exposures, where impairment corresponds to the difference between the amount owed and the current value of expected recoveries for this exposure, given its characteristics. To determine the present value of 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.

6.17. Collateral and financial guarantees valuation

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

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

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

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans or through foreclosure, during 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.

6.19. *Write-offs*

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

(i) The total amount of the credit has been demanded, that is, the credit must be fully 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.

6.20. Cash and cash equivalents

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

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

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not 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.

6.22. Property, plant and equipment

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

Subsequent costs with tangible fixed assets are only 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-Serviced 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.

6.23. Leases

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

As lessee
As a lessee, the Bank leases various assets, including real estate, vehicles and IT equipment. The Bank 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".

6.24. Intangible assets

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

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

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

6.25. Impairment of non-financial assets

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

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

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

Impairment losses of continuing operations are 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.

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

The Bank assesses where climate risks may have a significant impact, such as the introduction of emissions reduction legislation that may increase production costs. These risks in relation to climate-related issues are included as key assumptions when they materially affect the impairment measurement. These assumptions have been included in the cash flow forecasts in the value in use assessment.

6.26. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 15, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

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

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

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

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

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are 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 personnel costs, while the component to be paid by the employee is discounted monthly in the processing of salary, against the caption Amounts payable (SAMS).

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

Career bonus

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

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

Employees' variable remuneration and other obligations

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

- Profit-sharing and bonus plans

  The Bank 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.

6.27. 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.

6.28. 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.

6.29. Income taxes

novobanco is 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 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 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 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 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 2022.

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 realise 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.

On 22 December 2022, Council Directive (EU) 2022/2523 of December 14 on ensuring a worldwide minimum level of taxation for multinational and large national corporate groups in the Union, commonly referred to as the Pillar 2 Directive, was published.

This Directive entered into force on the day following its publication, and Member States must transpose the laws, regulations and administrative provisions necessary to comply with it by 31 December 2023. These provisions will apply to tax years beginning on or after 31 December 2023, apart from the so-called Insufficiently Taxed Profit Rule (UTPR), which will only apply to exercises beginning on or after December 2024. To date, this Directive has not yet been transposed into Portuguese law.

novobanco together with its tax advisors will initiate a qualitative and quantitative analysis regarding the possible impacts on the taxation of novobanco or exercises beginning on or after 1 January 2024.

6.29. Treasury shares

Own equity instruments of the Bank which are acquired by it are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised on the result of the purchase, sale, issue or cancellation of own equity instruments. At 31 December 2022, the Bank does not hold own equity instruments.

6.31. Disintermediation and custody

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

Fees and commissions arising from these activities are recognised in the income statement in the exercise in which they occur.

6.32. Dividends

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

6.33. Reserves

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

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

6.34. Earnings per share

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

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

6.35. Provision of insurance or reinsurance mediation services

novobanco is an entity authorised by the Insurance and Pension Funds Supervisory Authority (ASF) to practice the activity of insurance mediation, through which it sells insurance contracts, receiving commissions for the services rendered, in accordance with the protocols established with the Insurance Companies, which are recognised on an accrual basis.

6.36. The accounting standards and interpretations

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

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

The following standards, interpretations, amendments and revisions, with mandatory application in future exercises, have, up to the date of approval of these financial statements, been adopted ("endorsed") by the European Union:

Standard / Interpretation	Applicable in the European Union in the exercises initiated in or after	Description
IFRS 17 – Insurance Contracts	January 1st, 2023	IFRS 17 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 guarantees and some financial instruments with discretionary holding characteristics. In general terms, the IFRS 17 provides an accounting model for insurance contracts that are more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.
Amendments to IFRS 17 - Insurance contracts - Initial application of IFRS 17 and IFRS 9 - Comparative information	January 1st, 2023	This amendment to IFRS 17 refers to the presentation of comparative information on financial assets in the initial application of IFRS 17. It 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 in the initial application of IFRS 17. The overlay allows all financial assets, including those held in relation to non-contract-related activities 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 in the initial application of IFRS 9.
Amendments to IAS 1 - Disclosure of accounting policies	January 1st, 2023	These amendments are intended to assist the entity in the dissemination of 'material' accounting policies, formerly referred to as 'significant' policies. However, due to the lack of this concept in IFRS standards, it was decided to replace the concept of "materiality", a concept already known to users of the financial statements. When evaluating the materiality of accounting policies, the entity must consider not only the sise of the transactions but also other events or conditions and the nature of them.
Amendments to IAS 8 - Definition of accounting estimates	January 1st, 2023	This amendment sheds light on the distinction between change in accounting estimate, change in accounting policy and 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	January 1st, 2023	This amendment clarifies that payments that settle a liability are fiscally deductible, but it is a matter of professional judgment whether such deductions are attributable to the liability that is recognised in the financial statements or related assets. This is important for determining whether there are temporary differences in initial asset or liability recognition. Thus, the initial recognition exception does not apply to transactions which have resulted in temporary taxable and deductible differences equal. It shall apply only if the recognition of an active lease and a passive lease give rise to taxable and deductible temporary differences that are not equal.

The Bank did not early adopt any of these standards in the financial statements for the exercises ended 31 December 2022. No significant impacts on the financial statements are expected 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, have not been adopted ("endorsed") by the European Union, until the date of approval of these financial statements:

Standard / Interpretation	Description
Amendments to IAS 1 - Presentation of Financial Statements - Classification of current and non-current liabilities	This amendment seeks to clarify the classification of liabilities as current or non-current balances according to the rights that an entity has to defer its payment at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment shall determine whether a right exists but should not consider whether or not the entity will exercise such right), or by events occurring after the reporting date, such as non-compliance with a covenant. However, if the right to postpone the settlement for at least twelve months is subject to compliance with certain conditions after the balance sheet date, those criteria do not affect the right to defer settlement whose purpose is to classify a liability as current or non-current. It also includes a new definition of "settlement" of a liability and should be applied prospectively
Amendments to IFRS 16 - Lease liabilities in sales and relocation transactions	This amendment specifies the requirements for the subsequent measurement of lease liabilities related to sale & leaseback transactions that qualify as "sale" in accordance with the principles of IFRS 15, focusing on variable lease payments that do not depend on an index or a fee. In subsequent measurement, seller- lessees should determine "lease payments" and "revised lease payments" When subsequently measuring rental liabilities, sellers-lessees shall determine "lease payments" and "revised lease payments" in such a way that they do not recognise any gain or loss related to the retained right of use. The application of these requirements shall not prevent the seller-lessee from recognising, in the income statement, any gain or loss related to the partial or total "sale" as required by paragraph 46(a) of IFRS 16. It should be applied prospectively.

These standards have not yet been endorsed by the European Union and, as such, have not been applied by the Bank for the exercise ended 31 December 2022. No significant impacts on the financial statements are expected as a result of their adoption.

NOTE 7 – MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

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

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

7.1. Impairment of financial assets at 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 accounting policy 6.16, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Bank management, constitutes a significant increase on credit risk;
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by novobanco and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with novobanco. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Bank monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: the Bank uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS 9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

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

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

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Note 38.

7.3. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognised in the period and evidenced in Note 27.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretisation 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.

Tax Authorities are entitled to review the determination of the taxable income of the Bank during a period of four years or twelve years, when there are tax losses carry forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in the interpretation of tax law. However, it is the conviction of the Executive Board of Directors of the Bank, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

7.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 15 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the novobanco for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

7.5. Provisions and Contingent liabilities

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

The complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of 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

Foreclosed assets and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations carried out by independent entities specialising in this type of service, using the market, income or cost methods defined in Note 6.18. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties to maintain the valuation parameters and processes aligned with the market evolution.

The use of alternative methodologies and different assumptions could result in a different level of fair value with an impact on the respective balance sheet amount recognised.

7.7 Contract lease term

The Bank has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Bank determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and 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 of 31 December 2022 and 2021 is as follows:

(in thousands of Euros)

	31.12.2022					31.12.2021				
	Calculated by the effective interest method			Other		Calculated by the effective interest method			Other	
	From assets / liabilities at amortised cost	From assets / liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost	From assets / liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income										
Interest from loans and advances	560 888	15 947	-	18	576 853	484 946	12 922	-	-	497 868
Interest from deposits with and loans and advances to banks	25 692	-	38 253	-	63 945	14 033	-	75 062	-	89 095
Interest from securities	124 887	38 162	-	13 053	176 102	65 266	70 982	-	18 631	154 879
Interest from derivatives	-	-	1 753	19 172	20 925	-	-	1 579	4 730	6 309
Other interest and similar income	466	-	-	-	466	441	-	-	-	441
	711 933	**54 109**	**40 006**	**32 243**	**838 291**	**564 686**	**83 904**	**76 641**	**23 361**	**748 592**
Interest Expenses										
Interest on debt securities issued	58 252	-	-	-	58 252	36 513	-	-	-	36 513
Interest on amounts due to customers	44 224	-	-	-	44 224	50 231	-	-	-	50 231
Interest on deposits from Central Banks and other banks	27 733	-	12 306	-	40 039	8 937	-	11 380	-	20 317
Interest on subordinated liabilities	34 178	-	-	-	34 178	34 168	-	-	-	34 168
Interest on derivatives	-	-	6 850	21 921	28 771	-	-	6 980	11 308	18 288
Other interest and similar expenses	7 280	-	551	-	7 831	6 940	-	1 051	-	7 991
	171 667	**-**	**19 707**	**21 921**	**213 295**	**136 789**	**-**	**19 411**	**11 308**	**167 508**
	540 266	**54 109**	**20 299**	**10 322**	**624 996**	**427 897**	**83 904**	**57 230**	**12 053**	**581 084**

As of 31 December 2022, the caption interest on loans and advances includes Euro 30,046 thousand related to finance lease operations (December 31, 2021: Euro 31,037 thousand).

In relation to repurchase agreement operations, interest from deposits from Other banks, customer deposits and credit institutions includes, as of 31 December 2022, the amount of Euro -160 thousand, Euro 3,397 thousand and Euro 4,859 thousand, respectively (December 31, 2021: Euro 2,300 thousand in customer deposits).

Interest income and expense captions related to derivative interest include interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 6.10.6 e 6.10.7.

NOTE 9 – DIVIDEND REVENUE

The breakdown of this caption is as follows:

	31.12.2022	31.12.2021
Financial assets mandatorily at fair value through profit or loss		
Shares	**107**	**2 146**
Euronext NV	-	1 801
Visa Inc CL C	107	226
Others	-	119
Participation Units	**9 135**	**7 604**
Explorer III B	1 164	7 604
NB Património	7 971	-
Financial assets at fair value through other comprehensive income		
Shares	**3 406**	**1 062**
FLITPTREL X	1 035	-
SIBS SGPS	1 866	785
ESA Energia	238	275
Rádio Popular	163	-
TF Turismo SGFII	103	-
Others	1	2
Financial assets in investments in associates and subsidiaries	**4 804**	**7 588**
Unicre	3 070	6 322
Locarent	613	518
Edenred	1 009	660
ESEGUR	112	88
	17 452	**18 400**

(in thousands of Euros)

NOTE 10 – FEES AND COMMISSIONS INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Fees and commissions income		
From banking services	220 269	204 748
Cards	40 697	35 508
Management of Means of Payment	106 866	99 793
Asset Management	13 887	14 219
Credit operations	58 819	55 228
From guarantees provided	31 879	32 654
From transaction of securities	8 235	8 560
From commitments to third parties	6 599	7 997
Bancassurance	29 043	27 048
Other fee and commission income	6 101	6 006
	302 126	**287 013**
Fees and commissions expenses		
With banking services rendered by third parties	27 729	26 703
Cards	9 122	9 447
Management of Means of Payment	14 645	14 616
Asset Management	17	6
Credit operations	3 945	2 634
From guarantees provided	1 903	1 564
From transaction of securities	4 389	4 593
Other fee and commission income	5 795	7 436
	39 816	**40 296**
	262 310	**246 717**

NOTE 11 – GAINS OR LOSSES ON FINANCIAL OPERATIONS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss						
Of financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	28 671	59 831	(31 160)	15 088	12 758	2 330
Issued by other entities	2 980	55 014	(52 034)	11 021	1 073	9 948
	31 651	**114 845**	**(83 194)**	**26 109**	**13 831**	**12 278**
Of financial assets and liabilities at amortized cost						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	2	-	2	-	-	-
Issued by other entities	17	6 310	(6 293)	-	142	(142)
Credit	4 588	3 547	1 041	12 639	32 009	(19 370)
	4 607	**9 857**	**(5 250)**	**12 639**	**32 151**	**(19 512)**
	36 258	**124 702**	**(88 444)**	**38 748**	**45 982**	**(7 234)**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	2 367	25 987	(23 620)	3 252	14 507	(11 255)
Issued by other entities	39	-	39	43	20	23
Derivative financial instruments						
Exchange rates contracts	52 574	47 400	5 174	59 419	62 526	(3 107)
Interest rate contracts	642 565	480 915	161 650	422 828	358 646	64 182
Equity / Index contracts	3 615	2 650	965	31 440	30 638	802
Credit default contracts	187	-	187	16	18	(2)
Other	9 079	6 759	2 320	4 179	3 600	579
	710 426	**563 711**	**146 715**	**521 177**	**469 955**	**51 222**
Gains or losses on financial assets mandatorily at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	11 638	105 286	(93 648)	26 377	6 714	19 663
Shares	57 330	43 211	14 119	25 726	457	25 269
Other variable income securities	153 955	139 177	14 778	46 328	48 526	(2 198)
	222 923	**287 674**	**(64 751)**	**98 431**	**55 697**	**42 734**
Other financial assets						
Costumer's credit	-	31 197	(31 197)	-	-	-
	-	**31 197**	**(31 197)**	**-**	**-**	**-**
	222 923	**318 871**	**(95 948)**	**98 431**	**55 697**	**42 734**
Gains or losses from hedge accounting						
Changes in fair value of the hedge instrument						
Interest rate contracts	626 558	188 074	438 484	89 031	41 945	47 086
Changes in fair value of the hedged item attributable to the hedged risk	2 953	441 972	(439 019)	9 732	41 922	(32 190)
	629 511	**630 046**	**(535)**	**98 763**	**83 867**	**14 896**
Exchange rate revaluation	**1 830 358**	**1 823 053**	**7 305**	**1 115 721**	**1 105 068**	**10 653**
	3 429 476	**3 460 383**	**(30 907)**	**1 872 840**	**1 760 569**	**112 271**

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

In accordance with the accounting policy described in Note 6.5, financial instruments are initially recorded at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of an intermediation fee, originating a day one profit.

The Bank 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.

As of 31 December 2022, gains recognised in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 3,597 thousand (31 December 2021: Euro 1,800 thousand).

Gains or losses on hedge accounting

Gains or losses on hedge accounting include the fair value variations of the hedging instrument (derivative) and the fair value variations of the hedged caption attributable to the hedged risk. In the case where the hedge operations are interrupted early, there may occur the payment/receipt of compensation, which is recorded in Other operating expenses/ Other operating income. As of 31 December 2022, the amount of compensation received amounted to Euro 89 thousand (31 December 2021: Euro 1,726 thousand).

Exchange differences

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 6.1.

NOTE 12 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Real Estate	85 386	(5 372)
Equipment	(5 790)	294
Others	2 563	495
	82 159	**(4 582)**

In 2021, as part of the reorganisation of the Real Estate Funds held by the novobanco Group, the Bank sold properties of its own service and received in donation to the Real Estate Funds, recording a net loss of 10.6 million euros.

In 2022, the caption Gains or losses on derecognition of non-financial assets includes the gain of Euro 66,797 thousand on the sale of the novobanco headquarters building, as detailed in note 25.

NOTE 13 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Other operating income		
Gains / (losses) on recoveries of loans	39 741	26 310
Non-recurring advisory services	334	355
Other income	16 504	53 088
	56 579	**79 753**
Other operating expenses		
Losses on the acquisition of debt issued by the Bank (see Note 29)	-	(73 451)
Direct and indirect taxes	(2 748)	(3 877)
Contribution to the Banking Sector (see Note 26)	(33 410)	(33 424)
Membership subscriptions and donations	(1 643)	(1 923)
Charges with Supervisory entities	(2 254)	(1 849)
Contractual Indemnities (SPE)	(63)	(1 723)
Other expenses	(28 660)	(25 298)
	(68 778)	**(141 545)**
Other operating income / (expenses)	**(12 199)**	**(61 792)**

As of 31 December 2022, the amount received as compensation for discontinued hedging operations, included in other income, amounts to Euro 89 thousand (31 December 2021: Euro 1,726 thousand) (see Note 11).

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the national amount of derivative financial instruments, and whose regime has been extended.
As of 31 December 2022, novobanco recognised Banking Levy charges as a cost in the amount of Euro 28,270 thousand (31 December 2021: Euro 28,334 thousand). The cost recognised as of 31 December 2022 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

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

As of 31 December 2022, the Bank recognised as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,140 thousand (31 December 2021: Euro 5,090 thousand). The recognised expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

NOTE 14 – STAFF EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Wages and salaries	166 593	164 816
Remuneration	166 593	164 285
Long-term service / Career bonuses (see Note 15)	-	531
Mandatory social charges	46 127	45 940
Costs with post-employment benefits (see Note 15)	263	769
Other costs	3 838	3 469
	216 821	**214 994**

The provisions and costs related to the restructuring process are presented in Note 31.

As of 31 December 2022 and 2021, the number of employees of the Bank, considering the staff and the contracted term, presents the following breakdown by professional category:

	31.12.2022	31.12.2021
Directive functions	408	394
Management functions	365	431
Specific functions	2 058	1 869
Administrative and other functions	986	1 224
	3 817	**3 918**

NOTE 15 –EMPLOYEE BENEFITS

Pension and health-care benefits

As mentioned in accounting policy 6.26, the Bank has undertaken to provide its employees, or their families, with cash benefits for old-age retirement, disability and survivors' pensions and other liabilities such as a Serviço de Assistência Médico-Social (SAMS), managed by the Union.

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

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

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

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

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

At the end of 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).

On 16 June 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the former Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the novobanco Pension Fund. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - NOVO BANCO and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of novobanco or BES until the final decision of the court (limit of article 402º), so novobanco transferred the amount of Euro 19,.2 million of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to *Fundo de Pensões* NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans. On 31 December 2022, the amount of Euro 548 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2021: Euro 553 thousand).

During exercise 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.

Pension plan participants are detailed as follows:

	31.12.2022	31.12.2021
Employees	3 861	3 995
Pensioners and survivors	6 993	6 914
Participants under Clause 98	1 060	982
TOTAL	**11 914**	**11 891**

The Bank's liabilities and coverage levels, calculated in accordance with the accounting policy defined in Note 6.26 - Employee benefits, reportable as of 31 December 2022 and 2021 are analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 389 421)**	**(1 887 967)**
Pensioners	(1 057 119)	(1 312 843)
Employees	(332 302)	(575 124)
Coverage		
Fair value of plan assets	**1 441 442**	**1 865 405**
Net assets / (liabilities) in the balance sheet (see Note 28 and 32)	**52 021**	**(22 562)**
Accumulated actuarial deviations recognized in other comprehensive income	**684 759**	**781 244**

According to the policy defined in Note 6.26 - Employee Benefits, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

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

(in thousands of Euros)	31.12.2022	31.12.2021
Retirement pension liabilities at beginning of exercise	**1 887 967**	**1 892 669**
Current service cost	-	441
Interest cost	24 946	18 421
Plan participants' contribution	2 568	2 613
Contributions from other entities	201	214
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	(515 423)	12 260
- Experience adjustments (gains) / losses	50 016	46 124
Pensions paid by the fund / transfers and once-off bonuses	(80 263)	(75 183)
Social Security and Clause 98	-	(35 463)
Early retirement	19 409	38 562
Foreign exchange differences and other	-	(12 691)
Retirement pension liabilities at end of exercise	**1 389 421**	**1 887 967**

The evolution of the value of pension funds in the exercises ended 31 December 2022 and 2021 can be analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Fair value of fund assets at beginning of exercise	**1 865 405**	**1 867 977**
Net return from the fund	(346 268)	(1 718)
- Share of the net interest on the assets	22 654	15 546
- Return on assets excluding net interest	(368 922)	(17 264)
Group contributions	-	84 735
Plan participants' contributions	2 568	2 613
Pensions paid by the fund / transfers and once-off bonuses	(80 263)	(75 183)
Foreign exchange differences and other	-	(13 019)
Fund balance at the end of the exercise	**1 441 442**	**1 865 405**

Pension fund assets can be analysed as follows:

(in thousands of Euros)	31.12.2022			31.12.2021		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	-	63 411	63 411	-	51 214	51 214
Debt instruments	933 370	-	933 370	1 171 603	-	1 171 603
Investment funds	137 105	53 434	190 539	258 990	100 513	359 503
Real estate properties	-	181 960	181 960	-	150 344	150 344
Cash and cash equivalents	-	72 162	72 162	-	132 741	132 741
Total	**1 070 475**	**370 967**	**1 441 442**	**1 430 593**	**434 812**	**1 865 405**

Pension fund assets used by the Bank or representative of securities issued by the Bank are detailed as follows:

(in thousands of Euros)		
	31.12.2022	**31.12.2021**
Cash and Cash Equivalents	63 802	41 827
Real estate properties	39 056	43 032
Total	**102 858**	**84 859**

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

	31.12.2022		**31.12.2021**	
	Assumptions	**Actual**	**Assumptions**	**Actual**
Actuarial Assumptions				
Projected rate of return on plan assets	4,00%	-18,92%	1,35%	-0,24%
Discount rate	4,00%	-	1,35%	-
Pension increase rate	0,75%	1,41%	0,50%	0,36%
Salary increase rate	1,00%	2,54%	0,75%	2,05%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-2 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as of 31 December 2022 and 31 December 2021 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

As of 31 December 2022 and 2021, 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:

(in thousands of Euros)

Assumptions	**Change in the amount of liabilities due to the change:**			
	31.12.2022		**31.12.2021**	
	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	(41 268)	43 438	(72 318)	76 890
Salary increase rate	6 809	(6 577)	13 336	(12 845)
Pension increase rate	43 853	(41 917)	67 955	(63 608)
	of +1 year	of -1 year	of -1 year	of -1 year
Mortality table	(40 699)	40 314	(67 288)	67 602

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

(in thousands of Euros)		
	31.12.2022	**31.12.2021**
Accumulated actuarial losses recognised in other comprehensive income at the beginning of the exercise	**781 244**	**705 595**
Actuarial (gains) / losses in the exercise:		
- Changes in assumptions		
- Financial assumptions	(515 423)	12 260
- Plan assets return (excluding net interest)	418 938	63 388
Other	-	1
Accumulated actuarial losses recognised in other comprehensive income at the end of the exercise	**684 759**	**781 244**

The costs of retirement pensions and health benefits for the exercises ended 31 December 2022 and 2021 can be analysed as follows:

(in thousands of Euros)		
	31.12.2022	**31.12.2021**
Current service cost [(a)]	-	441
Net interest	2 292	2 875
Early retirement [(a)]	263	328
Cost with post-employment benefits	**2 555**	**3 644**

(a) recorded in Staff Expenses (see Note 15)

The evolution of net assets / (liabilities) on the balance sheet can be analysed in the years ended 31 December 2022 and 2021 as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
At the beginning of the exercise	**(22 562)**	**(24 692)**
Cost for period	(2 555)	(3 644)
Actuarial gains / (losses) recognized in other comprehensive income	96 485	(75 649)
Contributions made in the period	-	84 735
Undivided transfer and reduction of responsabilities	-	-
Social Security and Clause 98	-	35 463
Other	(19 347)	(38 775)
At the end of the exercise	**52 021**	**(22 562)**

In 2022, the value of early retirements amounted to Euro 19.4 million (31 December 2021: Euro 38.9 million), which Euro 19.1 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 31).

The summary of the last five years of the funds' liabilities and the funds balances, as well as experience gains and losses, is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018
Retirement pension liabilities	(1 389 421)	(1 887 967)	(1 892 669)	(1 811 526)	(1 641 964)
Funds balance	1 441 442	1 865 405	1 867 977	1 659 246	1 615 249
(Under) / overfunding of liabilities	**52 021**	**(22 562)**	**(24 692)**	**(152 280)**	**(26 715)**
(Gains) / losses on experience adjustments in retirement pension liabilities	50 016	46 124	49 382	63 084	18 400
(Gains) / losses on experience adjustments in plan assets	368 922	17 264	(26 649)	(79 888)	52 175

The average duration of defined benefit plan liabilities is approximately 13 years (31 December 2021: approximately 16 years).

Career Bonuses
As of 31 December 2022, the liabilities assumed by the Bank amounted to Euro 5,506 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 6.26 – Employee benefits (31 December 2021: Euro 7,335 thousand) (see Note 32).

In 2022, no costs with career bonuses were recognised (31 December 2021: Euro 531 thousand) (see Note 14).

NOTE 16 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Rentals	5 896	5 716
Advertising	4 884	5 426
Communication	8 782	8 637
Maintenance and repairs expenses	7 918	8 026
Travelling and representation	2 050	1 399
Transportation of valuables	2 630	3 079
Insurance	5 955	5 162
IT services	41 606	36 845
Independent work	2 147	1 355
Temporary work	1 271	902
Electronic payment systems	11 359	10 084
Legal costs	6 447	3 402
Consultancy and audit fees	26 998	20 982
Water, energy and fuel	2 712	2 867
Consumables	1 484	1 318
Other costs	20 770	16 781
	152 909	**131 981**

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

As of 31 December 2022, rental costs include an amount of Euro 704 thousand related to short-term operating lease contracts (31 December 2021: Euro 582 thousand), as described in Note 6.23.

The fees invoiced during the exercises 2022 and 2021 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:

(in thousands of Euros)

	31.12.2022	31.12.2021
Statutory audit of annual accounts	1 326	1 743
Other services	1 177	1 309
Total value of services invoiced	**2 503**	**3 052**

NOTE 17 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Contribution to the Resolution Fund	24 416	25 276
Contribution to the National Resolution Fund	16 017	14 854
Contribution to the Deposit Guarantee Fund	284	42
	40 717	**40 172**

NOTE 18 – IMPAIRMENT

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Charges	Reversals	Total	Charges	Reversals	Total
Provisions net of cancellations (see Note 31)						
Provisions for guarantees	23 808	(20 993)	2 815	18 435	(31 191)	(12 756)
Provisions for commitments	2 929	(8 299)	(5 370)	10 630	(7 774)	2 856
Other provisions	73 782	(60 333)	13 449	159 330	(37 660)	121 670
	100 519	**(89 625)**	**10 894**	**188 395**	**(76 625)**	**111 770**
Impairments or reversal of impairments on financial assets not measured at fair value through profit or loss (see Note 22)						
Securities at fair value through equity	2 278	(2 735)	(457)	1 252	(895)	357
Securities at amortized cost	1 876 928	(1 809 604)	67 324	1 215 623	(1 168 664)	46 959
Loans and advances to credit institutions	558	(1 029)	(471)	135 018	(133 210)	1 808
Loans and advances to customers	209 774	(172 905)	36 869	289 202	(142 096)	147 106
	2 089 538	**(1 986 273)**	**103 265**	**1 641 095**	**(1 444 865)**	**196 230**
Impairments or reversal of impairments for investments in subsidiaries, joint ventures and associates (see Note 24)	**3 255**	**(19 421)**	**(16 166)**	**-**	**(49 691)**	**(49 691)**
Impairments or reversal of impairments on non-financial assets						
Non-current assets held for sale and Discontinued operations (see Note 29)	-	(623)	(623)	10 000	-	10 000
Property, plant and equipment (see Note 25)	-	(1 696)	(1 696)	3 484	(5 101)	(1 617)
Other assets (see Note 28)	16 070	(27 832)	(11 762)	17 543	(13 857)	3 686
	16 070	**(30 151)**	**(14 081)**	**31 027**	**(18 958)**	**12 069**
	2 209 382	**(2 125 470)**	**83 912**	**1 860 517**	**(1 590 139)**	**270 378**

NOTE 19 – EARNINGS PER SHARE

Basic earnings per share

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

(in thousands of Euros)

	31.12.2022	31.12.2021
Net profit / (loss) attributable to shareholders of the Bank	**453 830**	**225 908**
Weighted average number of common shares outstanding (thousands)	10 034 965	9 800 000
Basic earnings per share attributable to shareholders of novobanco (in Euros)	**0,05**	**0,02**
Basic earnings per share from continuing activities attributable to shareholders of novobanco (in Euros)	**0,05**	**0,02**

Diluted earnings per share

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

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

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

As of 31 December 2022 and 31 December 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Cash	**176 797**	**144 220**
Demand Deposits in central banks		
Bank of Portugal	5 936 640	5 261 912
Other Central Banks	5 861	2 717
	5 942 501	**5 264 629**
Deposits in other credit institutions in the country		
Repayable on demand	20 331	63 116
Uncollected checks	159 129	162 783
	179 460	**225 899**
Deposits with banks abroad		
Repayable on demand	88 537	39 713
	88 537	**39 713**
	6 387 295	**5 674 461**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 275.7 million (31 December 2021: Euro 250.3 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, the average interest rate on these deposits was 2.00% (31 December 2021: 0.00%).

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 2022 was included in the observation period running from 21 December 2022 to 07 February 2023.

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

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As of 31 December 2022 and 31 December 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Financial assets held for trading		
Securities		
Securities held for trading		
Bonds and other fixed income securities		
Issued by government and public entities	36 428	114 465
	36 428	**114 465**
Derivatives		
Derivatives held for trading with positive fair value	134 419	263 244
	134 419	**263 244**
	170 847	**377 709**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	99 317	305 512
	99 317	**305 512**

Securities held for trading

In accordance with the accounting policy described in Note 6.10.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

As of 31 December 2022 and 2021, the schedule of securities held for trading by maturity is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
From 3 months to 1 year	4 911	-
From 1 to 5 years	10 055	-
More than 5 years	21 462	114 465
	36 428	**114 465**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 38.

Derivatives

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	618 333	13 563	12 896	541 169	2 702	6 872
- sell	616 911			545 093		
Currency Swaps						
- buy	760 315	2 976	2 522	497 717	680	1 949
- sell	758 406			499 124		
Currency Interest Rate Swaps						
- buy	-	-	-	21 083	20 024	20 103
- sell	-			21 083		
Currency Options						
- buy	293 418	6 606	6 606	304 349	5 766	5 766
- sell	293 419			304 349		
		23 145	**22 024**		**29 172**	**34 690**
Interest rate contracts						
Interest Rate Swaps						
- buy	2 766 363	97 524	70 120	5 645 388	224 327	265 070
- sell	2 766 363			5 645 388		
Interest Rate Caps & Floors						
- buy	142 992	5 205	4 293	86 436	869	2 819
- sell	233 310			166 554		
		102 729	**74 413**		**225 196**	**267 889**
Stock / index contracts						
Equity / Index Options						
- buy	422 894	8 256	2 671	525 436	8 180	2 359
- sell	422 894			525 436		
		8 256	**2 671**		**8 180**	**2 359**
Commodities contracts						
Commodities Swaps						
- buy	15 759	289	209	29 633	696	574
- sell	15 759			29 633		
		289	**209**		**696**	**574**
		134 419	**99 317**		**263 244**	**305 512**

a) Derivatives traded on organised markets, the market value of which is settled daily against the margin account (see Note 31)

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 6.10.6 and 6.10.7, and which the Bank has not designated for hedge accounting.

In the exercise of 2022, the Bank recognised a loss of Euro 1,820 thousand related to the CVA of derivative instruments (31 December 2021: loss of Euro 454 thousand). The way of determining the CVA is explained in Note 38.

As of 31 December 2022 and 2021, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Trading Derivatives						
Up to 3 months	1 340 287	1 338 619	5 381	1 136 849	1 142 438	(6 115)
From 3 months to 1 year	737 080	736 449	850	654 256	653 806	5 459
From 1 to 5 years	964 458	985 186	4 605	1 634 973	1 641 635	2 792
More than 5 years	1 978 249	2 046 808	24 266	4 225 133	4 298 781	(44 404)
	5 020 074	**5 107 062**	**35 102**	**7 651 211**	**7 736 660**	**(42 268)**

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

As of 31 December 2022 and 2021, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2022					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	1 537 652	13	2 183 034	8 618 778	(218 545)	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**	**31 719 489**	**(382 933)**	**35 057 273**

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

(in thousands of Euros)

	31.12.2021					
	Mandatorily at fair value through profit and loss	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	2 250 308	-	7 133 508	2 893 829	(3 136)	12 274 509
Loans and advances to banks	-	-	-	186 089	-	186 089
Loans and advances to customers	-	-	-	21 897 382	31 923	21 929 305
	2 250 308	**-**	**7 133 508**	**24 977 300**	**28 787**	**34 389 903**

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

Securities

As of 31 December 2022 and 31 December 2021, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	433 665	559 227
Shares	140 442	425 363
Other securities with variable income	963 545	1 265 718
	1 537 652	**2 250 308**
Securities at fair value through results		
Bonds and other fixed income securities		
From other issuers	13	-
	13	**-**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	1 629 639	5 685 067
From other issuers	479 406	1 398 899
Shares	73 989	49 542
	2 183 034	**7 133 508**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	4 590 460	371 273
From other issuers	4 319 885	2 770 328
Impairment	(291 567)	(247 772)
	8 618 778	**2 893 829**
Value adjustments for hedging operations for interest rate risk (See Note 23)	(218 545)	(3 136)
	12 120 932	**12 274 509**

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 7.10.4, 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 38.

As of 31 December 2022 and 2021, the detail of the fair value securities through other comprehensive income is as follows:

(in thousands of Euros)

	Cost (1)	Fair value reserve		Fair value reserve transferred to Results (2)	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)
From other issuers	**541 022**	**-**	**(49 628)**	**(11 988)**	**479 406**	**(207)**
Residents	29 610	-	(4 769)	-	24 841	(2)
Non residents	511 412	-	(44 859)	(11 988)	454 565	(205)
Shares	**400 636**	**34 763**	**(361 410)**	**-**	**73 989**	**-**
Residents	327 930	33 335	(299 182)	-	62 083	-
Non residents	72 706	1 428	(62 228)	-	11 906	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Balance as at 31 December 2022	**2 576 036**	**35 074**	**(416 088)**	**(11 988)**	**2 183 034**	**(589)**

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

(2) In the context of fair value hedge operations (see Note 23)

(in 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	**5 484 078**	**204 864**	**(3 875)**	**-**	**5 685 067**	**(2 995)**
Residents	2 406 121	86 400	-	-	2 492 521	(1 466)
Non residents	3 077 957	118 464	(3 875)	-	3 192 546	(1 529)
From other issuers	**1 374 554**	**30 008**	**(5 663)**	**-**	**1 398 899**	**(673)**
Residents	29 609	63	(2 335)	-	27 337	(3)
Non residents	1 344 945	29 945	(3 328)	-	1 371 562	(670)
Shares	**398 186**	**11 810**	**(360 454)**	**-**	**49 542**	**-**
Residents	328 230	10 567	(298 226)	-	40 571	-
Non residents	69 956	1 243	(62 228)	-	8 971	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Balance as at 31 December 2021	**7 256 821**	**246 682**	**(369 995)**	**-**	**7 133 508**	**(3 668)**

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

(2) In the context of fair value hedge operations (see Note 23)

During the exercise 2022, the Bank sold Euro 5,902.2 million of financial instruments classified at fair value through other comprehensive income (31 December 2021: Euro 934,4 million), with a gain of Euro 83.2 million (31 December 2021: gain of Euro 12.3 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 0.9 million that were transferred from revaluation reserves to sales-related reserves (31 December 2021: loss of Euro 9.5 million), from the sale of equity instruments.

The movements in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**3 667**	**-**	**-**	**3 667**
Increases due to changes in credit risk	1 252	-	-	1 252
Decreases due to changes in credit risk	(895)	-	-	(895)
Utilisation during the exercise	(384)	-	-	(384)
Other movements	28	-	-	28
Balance as at 31 December 2021	**3 668**	**-**	**-**	**3 668**
Changes in the value of the impairment				
- 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)
Utilisation during the exercise	(2 654)	-	-	(2 654)
Other movements	32	-	-	32
Balance as at 31 December 2022	**589**	**-**	**-**	**589**

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

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**5 180**	**87 620**	**109 660**	**202 460**
Increases due to changes in credit risk	9 264	1 058 247	148 112	1 215 623
Decreases due to changes in credit risk	(8 074)	(1 107 544)	(53 046)	(1 168 664)
Utilisation during the exercise	(12)	(1)	(1 640)	(1 653)
Other movements	(112)	(39)	157	6
Balance as at 31 December 2021	**6 246**	**38 283**	**203 243**	**247 772**
Changes in the value of the impairment				
- 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)
Utilisation during the exercise	(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**

In accordance with the accounting policy mentioned on Note 6.16, the Bank regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 7.1.

Transfers between stages that occurred in the portfolio of securities at fair value through other comprehensive income and amortised cost are presented as follows:

(in thousands of Euros)

	Capital					
	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*
Bonds and other fixed income securities						
Non-financial corporations	18 523	1 405	-	-	5 622	-
	18 523	**1 405**	**-**	**-**	**5 622**	**-**

As of 31 December 2022 and 2021, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Securities mandatorily at fair value through profit or loss		
Up to 3 months	-	41 741
From 1 to 5 years	2 469	2 443
More than 5 years	431 196	515 043
Undetermined (Overdue Loans)	1 103 987	1 691 081
	1 537 652	**2 250 308**
Securities at fair value through results		
From 3 months to 1 year	13	-
	13	**-**
Securities mandatorily at fair value through other comprehensive income		
Up to 3 months	142 178	451 043
From 3 months to 1 year	1 588 220	988 943
From 1 to 5 years	252 293	3 021 902
More than 5 years	126 354	2 622 078
Undetermined (Overdue Loans)	73 989	49 542
	2 183 034	**7 133 508**
Securities at amortised cost (*)		
Up to 3 months	786 798	709 932
From 3 months to 1 year	535 014	139 547
From 1 to 5 years	2 889 069	483 503
More than 5 years	4 699 464	1 808 619
	8 910 345	**3 141 601**
	12 631 044	**12 525 417**

(*) Gross value before impairment

The detail of the securities portfolio by fair value hierarchy is presented in Note 38.

The portfolio securities pledged by the bank are analysed in Note 35.

Loans and advances to Banks

As of 31 December 2022 and 2021, the detail of Loans and advances to banks is as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Loans and advances to banks in Portugal		
Deposits	101 811	136 408
Loans	39 228	44 770
Other loans and advances	3	3
	141 042	**181 181**
Loans and advances to banks abroad		
Deposits	5 096	6 089
Other loans and advances	-	2
	5 096	**6 091**
Impairment losses	**(674)**	**(1 183)**
	145 464	**186 089**

Investments in credit institutions are all recorded in the amortised cost portfolio.

As of 31 December 2022 and 2021, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Up to 3 months	363	35 213
From 3 months to 1 year	101 476	107 809
From 1 to 5 years	39 322	38 282
More than 5 years	4 977	5 968
	146 138	**187 272**

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

(in thousands of Euros)

	Loans and advances to banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**445**	**2**	**249 706**	**250 153**
Increases due to changes in credit risk	414	541	134 063	135 018
Decreases due to changes in credit risk	(544)	(102)	(132 564)	(133 210)
Uses	(101 282)	-	(167 728)	(269 010)
Other movements	101 251	33	(83 052)	18 232
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**

The increase of impairment for investments in credit institutions verified in 2020 results from the degradation of the credit risk of international exposures analysed on an individual basis, whose partial default situation at the end of 2020, among other signs of impairment, led to the transfer of the same to stage 3 and the constitution of additional impairments of Euro 189.6 million. During 2021 part of this exposure was settled, with the remaining exposure being restructured and subsequently derecognised, in line with the amendment made in May 2021 to the CCA contract, which extinguished novobanco’s rights and risks on this asset.

Loans and advances to customers

As of 31 December 2022 and 2021, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Domestic loans and advances		
Corporate		
Current account loans	1 080 349	1 097 525
Loans	9 009 712	8 819 590
Discounted bills	86 539	75 502
Factoring	668 975	593 512
Overdrafts	46 626	13 453
Financial leases	796 669	1 245 885
Other loans and advances	29 666	17 693
Individuals		
Residential Mortgage loans	7 409 318	7 260 274
Consumer credit and other loans	1 162 840	1 063 923
	20 290 694	**20 187 357**
Foreign loans and advances		
Corporate		
Current account loans	46 898	66 348
Loans	1 992 337	1 319 819
Discounted bills	13	2
Factoring	30 805	40 519
Overdrafts	72	54
Other loans and advances	-	1
Individuals		
Residential Mortgage loans	1 212 880	1 037 140
Consumer credit and other loans	100 983	180 412
	3 383 988	**2 644 295**
Overdue loans and advances and interests		
Under 90 days	11 943	18 931
Over 90 days	326 207	282 556
	338 150	**301 487**
	24 012 832	**23 133 139**
Impairment losses	**(1 057 567)**	**(1 235 757)**
	22 955 265	**21 897 382**
Fair value adjustaments of interest rate hedges (See Note 23)		
Corporate		
Loans	(16 805)	4 035
Individuals		
Residential Mortgage loans	(147 583)	27 888
	(164 388)	**31 923**
	22 790 877	**21 929 305**

As of 31 December 2021, Loans to customers are all recorded in the amortised cost portfolio.

As of 31 December 2022, there are transactions mandatorily recorded at fair value through profit or loss, with a nominal value of Euro 31,197 thousand and a fair value of Euro 18 thousand, the impact of which was recorded in the line Gain or loss on financial assets mandatorily recorded at fair value through profit or loss in the income statement (see Note 11).

As of 31 December 2022, the caption Loans and advances to customers include Euro 6,078.4 million of mortgage loans related to the issuance of mortgage bonds (31 December 2021: Euro 6,075.1 million) (see Note 30).

As of 31 December 2022, the value of interest and commissions recorded in the balance sheet for loan operations amounts to Euro 36,145 thousand (31 December 2021: Euro 17,773 thousand).

As of 31 December 2022 and 2021, the analysis of loans and advances to customers, by residual maturity, is as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Up to 3 months	371 820	1 139 039
From 3 months to 1 year	1 452 802	1 217 721
From 1 to 5 years	6 202 703	5 771 766
More than 5 years	15 482 969	14 735 049
Undetermined duration (Overdue)	338 150	301 487
	23 848 444	**23 165 062**

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	*Stage 2*	*Stage 3*	Total
Balance as at 31 December 2020	**60 127**	**306 444**	**1 220 432**	**1 587 003**
Financial assets derecognised	(1 282)	(3 073)	(239 704)	(244 059)
Increases due to changes in credit risk	21 760	120 072	147 370	289 202
Decreases due to changes in credit risk	(46 443)	(56 533)	(39 120)	(142 096)
Utilisation during the exercise	-	(194)	(266 278)	(266 472)
Other movements	27 894	(49 445)	33 730	12 179
Balance as at 31 December 2021	**62 056**	**317 271**	**856 430**	**1 235 757**
Changes in the value of the impairment				
- 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)
Utilisation during the exercise	-	(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**

The increase of impairment for credit risk during the exercise 2021 include Euro 71.8 million, reflecting the updating of the information in the IFRS 9 models, anticipating the losses related to the Covid-19 pandemic.

The transfers between stages that occurred in Loans to customers are presented as follows:

(in thousands of Euros)

	Capital					
	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*
Loans and advances						
Companies Loans	548 205	510 364	81 931	40 297	29 605	2 250
Households	386 142	306 701	35 570	40 507	8 638	22 636
	934 347	**817 065**	**117 501**	**80 804**	**38 243**	**24 886**

Credit distribution by type of rate is as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Fixed rate	2 710 318	3 965 414
Variable rate	21 138 126	19 199 648
	23 848 444	**23 165 062**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Gross investment in finance leases receivable		
Up to 1 year	216 621	278 587
1 to 5 years	496 962	693 762
More than 5 years	202 119	533 443
	915 702	1 505 792
Unrealised finance income in finance leases		
Up to 1 year	26 238	43 611
1 to 5 years	54 097	94 599
More than 5 years	17 146	91 120
	97 481	229 330
Capital falling due		
Up to 1 year	190 383	234 976
1 to 5 years	442 865	599 163
More than 5 years	184 973	442 323
	818 221	1 276 462
Impairment	(84 922)	(226 204)
	733 299	**1 050 258**

Sales of credit portfolios

2021

Sale of a non-performing loans portfolio (Project Orion)
novobanco entered into sale and purchase agreements with a consortium of funds managed by WEST INVEST UK LIMITED PARTNERSHIP and LX INVESTMENT PARTNERS III S.À.R.L. for the sale of a non-performing loans and related assets portfolio (Project Orion). The net book value of the receivables at the date of derecognition amounted to Euro 72.0 million (gross book value of Euro 156.7 million), with an impact on net income for the exercise 2021 of approximately Euro 1.8 million:

(in thousands of Euros)

Impact on Income Statement	
Gains or losses on the derecognition of financial assets and liabilities not measured at fair value through results	- 9 329
Impairment or reversal of impairment of financial assets not measured at fair value through the results	18 395
Provisions or reversal of provisions	- 7 310
Impact on Net Income	**1 756**

Sale of a non-performing loans portfolio (Project Wilkinson)
On 5 March 2021, novobanco entered into a sale and purchase agreement to sell a non-performing loans and related assets portfolio (Project Wilkinson), with a net book value of Euro 62.3 million (gross book value of Euro 210.4 million), with Burlington Loan Management, a company owned by companies affiliated to and advised by Davidson Kempner European Partners, LLP. The impact of this operation on net income for 2021 resulted in a loss of Euro 4.5 million.

(in thousands of Euros)

Impact on Income Statement	
Gains or losses on the derecognition of financial assets and liabilities not measured at fair value through results	- 1 363
Impairment or reversal of impairment of financial assets not measured at fair value through the results	- 3 175
Impact on Net Income	**- 4 538**

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

As of 31 December 2022 and 2021, the fair value of the hedging derivatives is analysed as follows:

	31.12.2022	31.12.2021
Hedging derivatives		
Assets	562 886	20 150
Liabilities	(120 612)	(44 460)
	442 274	**(24 310)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 22)	(218 545)	(3 136)
Loans and advances to customers (see Note 22)	(164 388)	31 923
	(382 933)	**28 787**
Financial assets at amortised cost		
Securities at fair value through other comprehensive income (see Note 22) *	(11 988)	-
	(394 921)	**28 787**

(in thousands of Euros)

* Amount recorded at 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 11).

The Bank calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 38 - Financial assets and liabilities held for trading.

Fair value hedging

As of 31 December 2022 and 2021, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2022							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivatives [1]**	**Change in fair value of derivative in exercise**	**Fair value component of item hedged[2]**	**Change in fair value component of item hedged in exercise [2]**
Interest Rate Swap/CIRS	Loans and advances to customers	Interest rate and exchange rate	3 319 104	165 117	191 565	(164 388)	(196 310)
Interest Rate Swap	Securities at amortised cost	Interest rate	5 456 500	359 089	214 274	(218 545)	(215 410)
Interest Rate Swap	Securities at fair value through other comprehensive income	Interest rate	200 000	19 140	27 272	(11 988)	(27 298)
			8 975 604	**543 346**	**433 111**	**(394 921)**	**(439 018)**

[1] Includes accrued interest
[2] Attributable to the hedged risk

(in thousands of Euros)

31.12.2021							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivatives [1]**	**Change in fair value of derivative in exercise**	**Fair value component of item hedged[2]**	**Change in fair value component of item hedged in exercise [2]**
Interest Rate Swap/CIRS	Loans and advances to customers	Interest rate and exchange rate	2 491 995	(28 494)	31 004	31 923	(27 925)
Interest Rate Swap	Securities at amortised cost	Interest rate	378 000	4 184	3 675	(3 136)	(4 265)
			2 869 995	**(24 310)**	**34 679**	**28 787**	**(32 190)**

[1] Includes accrued interest
[2] Attributable to the hedged risk

As of 31 December 2022, the ineffective part of the fair value hedging operations, which translated into a cost of Euro 5.9 million, was recorded in the income statement (31 December 2021: profit of Euro 0.2 million). The Bank periodically conducts tests of the effectiveness of existing hedging relationships.

Cash flow hedging

As of 31 December 2022, the cash flow hedging operations can be analysed as follows

(in thousands of Euros)

31.12.2022					
Covered asset	**Asset balance value**	**Derivate notional**	**Derivate balance value**	**Cash flow coverage reserve**	**Ineffectiveness value - recorded in results**
Customers credit	4 732 583	4 732 000	(101 072)	(100 418)	(881)
	4 732 583	**4 732 000**	**(101 072)**	**(100 418)**	**(881)**

Transactions with hedge derivatives as of 31 December 2022 and 2021, by maturity, can be analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	3 020	3 020	5	65 000	65 000	(705)
From 3 months to 1 year	63 678	63 678	(197)	76 537	76 537	(1 200)
From 1 to 5 years	4 631 088	4 631 088	80 436	425 032	425 032	1 514
More than 5 years	4 522 016	4 522 016	362 030	868 428	868 429	(23 919)
	9 219 802	**9 219 802**	**442 274**	**1 434 997**	**1 434 998**	**(24 310)**

NOTE 24 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

(in thousands of Euros)

	31.12.2022						31.12.2021					
	Nº of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Value	Nº of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Value
novobanco dos Açores	2 144 404	57,53%	5,00	10 308	-	10 308	2 144 404	57,53%	5,00	10 308	-	10 308
NB Finance	100 000	100,00%	1,00	1 700	-	1 700	100 000	100,00%	1,00	1 700	-	1 700
BEST	62 999 700	100,00%	1,00	100 418	(20 755)	79 663	62 999 700	100,00%	1,00	100 418	(17 501)	82 917
ES Tech Ventures	71 500 000	100,00%	1,00	71 500	(44 559)	26 941	71 500 000	100,00%	1,00	71 500	(48 293)	23 207
GNB GA	2 350 000	100,00%	5,00	86 720	-	86 720	2 350 000	100,00%	5,00	86 722	-	86 722
GNB Concessões	942 306	98,96%	5,00	20 602	(4 915)	15 687	942 306	98,96%	5,00	20 602	(20 602)	-
ESEGUR	-	-	-	-	-	-	242 000	44,00%	5,00	9 634	(4 460)	5 174
ES Representações	49 995	99,99%	0,18	9	(9)	-	49 995	99,99%	0,16	8	(8)	-
Locarent	525 000	50,00%	5,00	2 967	-	2 967	525 000	50,00%	5,00	2 967	-	2 967
NB África	13 300 000	100,00%	5,00	66 500	(55 514)	10 986	13 300 000	100,00%	5,00	66 500	(55 514)	10 986
Unicre	350 029	17,50%	5,00	11 497	-	11 497	350 029	17,50%	5,00	11 497	-	11 497
Edenred Portugal	101 477 601	50,00%	0,01	4 984	-	4 984	101 477 601	50,00%	0,01	4 984	-	4 984
Multipessoal	20 000	22,52%	5,00	100	(100)	-	20 000	22,52%	5,00	100	(100)	-
Aroleri	3 500	100,00%	1,00	4	-	4	3 500	100,00%	1,00	604	-	604
				377 309	**(125 852)**	**251 457**				**387 544**	**(146 478)**	**241 066**

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

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**146 478**	**199 643**
Charges	3 255	-
Reversals	(19 421)	(49 691)
Foreign exchange differences	(4 460)	(3 474)
Balance at the end of the exercise	**125 852**	**146 478**

NOTE 25 – PROPERTY, PLANT AND EQUIPMENT

This caption as of 31 December 2022 and 2021 is analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Real estate properties		
For own use	79 501	181 868
Improvements in leasehold properties	85 414	117 734
	164 915	**299 602**
Equipment		
Computer equipment	113 428	109 729
Fixtures	27 503	41 687
Furniture	53 173	51 116
Security equipment	16 915	21 223
Office equipment	7 702	7 898
Transport equipment	562	562
Other	82	134
	219 365	**232 349**
Right-of-Use Assets		
Real estate properties	111 518	107 573
Equipment	10 615	8 468
	122 133	**116 041**
Work in progress		
Improvements in leasehold properties	31 376	431
Real estate properties	25 508	5 685
Equipment	16	-
Others	277	336
	57 177	**6 452**
	563 590	**654 444**
Accumulated impairment	(10 375)	(12 071)
Accumulated depreciation	(294 252)	(410 954)
	258 963	**231 419**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Right-of-Use Assets	Work in progress	Total
Acquisition cost					
Balance at 31 December 2020	**353 230**	**236 768**	**78 264**	**1 418**	**669 680**
Acquisitions	30 013	24 184	46 182	16 251	116 630
Disposals / write-offs	(88 521)	(28 764)	(8 405)	(4 206)	(129 896)
Transfers **(a)**	4 880	161	-	(7 011)	(1 970)
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 **(c)**	(145 389)	(36 693)	(13 434)	(15)	(195 531)
Transfers **(d)**	(781)	(101)	-	(322)	(1 204)
Foreign exchange differences and other	-	(1)	-	1	-
Balance at 31 December 2022	**164 915**	**219 365**	**122 133**	**57 177**	**563 590**
Depreciation					
Balance at 31 December 2020	**225 160**	**210 715**	**31 452**	**-**	**467 327**
Depreciation	5 146	10 044	12 412	-	27 602
Disposals / write-offs **(a)**	(51 182)	(28 224)	(6 188)	-	(85 594)
Transfers **(b)**	(1 512)	(137)	-	-	(1 649)
Foreign exchange differences and other	3 268	(1)	1	-	3 268
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 **(c)**	(107 557)	(36 242)	(5 546)	-	(149 345)
Transfers **(d)**	(390)	(101)	-	-	(491)
Foreign exchange differences and other	2 125	86	-	-	2 211
Balance at 31 December 2022	**79 365**	**168 526**	**46 361**	**-**	**294 252**
Impairment					
Balance at 31 December 2020	**13 385**	**-**	**-**	**-**	**13 385**
Impairment losses	3 484	-	-	-	3 484
Reversion of impairment losses	(5 101)	-	-	-	(5 101)
Transfers	303	-	-	-	303
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**
Net book value at 31 December 2022	**75 175**	**50 839**	**75 772**	**57 177**	**258 963**
Net book value at 31 December 2021	**106 651**	**39 952**	**78 364**	**6 452**	**231 419**

(a) (a) Includes EUR 66 483 thousand of fixed assets (real estate and equipment) and EUR 25 068 thousand of accumulated depreciation stemming from Own Service Properties that have been divested to Real Estate Funds of the novobanco Group.

(b) (b) includes EUR 3 471 thousand of fixed assets (real estate and equipment) and EUR 1 650 thousand of accumulated depreciation sums for discontinued branches which have been transferred at net value to the appropriate balance sheet items.

(c) Includes EUR 106 395 thousand of fixed assets (real estate and equipment) and EUR 68 164 thousand in accumulated depreciation stemming from the Head Office Building that was sold in 2022.

(d) Includes EUR 1 203 thousand of fixed assets (real estate and equipment) and EUR 490 thousand of accumulated depreciation stemming from discontinued counters that have been transferred at net value to the appropriate balance sheet items.

In the 2021's exercise, as part of the reorganisation of the Real Estate Funds held by the novobanco, the Bank sold own service properties to the Real Estate Funds, recording a loss of Euro 14,751 thousand. These properties were subsequently leased to the Bank and are being recorded in accordance with IFRS 16.

In September 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 capital 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 26 – INTANGIBLE ASSETS

This caption as of 31 December 2022 and 2021, is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Internally developed		
Software - Automatic data processing system	65 373	65 373
Acquired from third parties		
Software - Automatic data processing system	366 444	379 779
	431 817	**445 152**
Work in progress	**31 881**	**13 410**
	463 698	**458 562**
Accumulated amortisation	(394 058)	(391 047)
	69 640	**67 515**

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 6.24).

The changes in this caption were as follows:

(in thousands of Euros)

	Automatic data processing system	Work in progress	Total
Acquisition cost			
Balance as at 31 December 2020	**411 762**	**21 420**	**433 182**
Acquisitions			
Acquired from third parties	3 209	22 171	25 380
Transfers	30 181	(30 181)	-
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**
Amortizations			
Balance as at 31 December 2020	**384 851**	**-**	**384 851**
Amortization for the period	6 197	-	6 197
Foreign exchange differences and other	(1)	-	(1)
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**
Net balance at 31 December 2022	**37 759**	**31 881**	**69 640**
Net balance at 31 December 2021	**54 105**	**13 410**	**67 515**

NOTE 27 – INCOME TAXES

The deferred tax assets and liabilities recognised in the balance sheet as of 31 December 2022 and 2021 may be analysed as follows:

(in thousands of Euros)

	31.12.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Current tax	**30 298**	**4 505**	**35 448**	**4 703**
Corporate tax recoverable	-	4 174	-	4 606
Other	30 298	331	35 448	97
Deferred tax	**917 202**	**-**	**741 321**	**-**
	947 500	**4 505**	**776 769**	**4 703**

The deferred tax assets and liabilities recognised in the balance sheet in this period are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Financial instruments	91 249	91 763	(13 369)	(77 349)	77 880	14 414
Credit impairment (not covered by the special regime)	330 072	337 267	-	-	330 072	337 267
Credit impairment (covered by the special regime)	295 119	267 043	-	-	295 119	267 043
Other tangible assets	-	-	(76)	(8 029)	(76)	(8 029)
Provisions	100 583	82 092	-	-	100 583	82 092
Pensions	50 624	48 534	-	-	50 624	48 534
Reportable tax losses	63 000	-	-	-	63 000	-
Deferred tax asset / (liability)	**930 647**	**826 699**	**(13 445)**	**(85 378)**	**917 202**	**741 321**
Asset / liability set-off for deferred tax purposes	(13 445)	(85 378)	13 445	85 378	-	-
Net Deferred tax asset / (liability)	**917 202**	**741 321**	**-**	**-**	**917 202**	**741 321**

As of 31 December 2022, the deferred tax related to temporary differences was determined based on an aggregate rate of 31% (31 December 2021: 31%), resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

At 31 December 2022, the novobanco recognised deferred tax assets associated with tax losses amounting to Euro 63 million.

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 2022, 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.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the exercise in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the exercise of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the separate financial statements, there will be no additional charges of significant value.

As of 31 December 2022 and 2021, the Bank recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As of 31 December 2022, the amounts held by novobanco referring to these realities amount to approximately Euro 57 million (31 December 2021: Euro 37 million).

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	741 321	771 854
Recognised in Results for the exercise	62 950	28 292
Recognised in Fair value reserves	79 291	59 271
Conversion of Deferred taxes into Tax credits	33 640	(124 721)
Foreign exchange differences and other	-	6 625
Balance at the end of the exercise (Assets / (Liabilities))	**917 202**	**741 321**

The current and deferred taxes recognised in the income statement and in reserves, in 2022 and 2021, had the following origins:

(in thousands of Euros)

	31.12.2022		31.12.2021	
	Recognised in the income statement	**Recognised in reserves**	**Recognised in the income statement**	**Recognised in reserves**
Financial instruments	15 825	(79 291)	(27 975)	(59 271)
Impairment losses on loans and advances to customers	12 759	-	59 309	-
Other tangible assets	(7 953)	-	(174)	-
Provisions	(18 491)	-	(43 118)	-
Pensions	(2 090)	-	(17 349)	-
Other	-	-	1 015	-
Tax losses carried forward	(63 000)	-	-	-
Deferred taxes	**(62 950)**	**(79 291)**	**(28 292)**	**(59 271)**
Current taxes	4 611	-	4 249	-
Total tax recognised (income) / (expense)	**(58 339)**	**(79 291)**	**(24 043)**	**(59 271)**

The reconciliation of the corporate income tax rate, for the portion recognised in the income statement, may be analysed as follows:

(in thousands of Euros)

	31.12.2022		31.12.2021	
	%	**Value**	**%**	**Value**
Income before tax		**395 491**		**201 865**
Tax rate of novobanco	21,0		21,0	
Income tax calculated based on the tax rate of novobanco		**83 053**		**42 392**
Tax-exempt dividends	(0,3)	(1 248)	(0,8)	(1 593)
Impairment on investments in subsidiaries or associated companies not subject to Participation Exemption	(0,9)	(3 525)	(20,4)	(41 203)
Branch Tax and Tax Withheld Abroad	0,2	956	1,1	2 138
Rate differential in the generation / reversal of temporary differences	3,0	11 949	15,7	31 650
Impairments and provisions for credit	(5,7)	(22 476)	(26,4)	(53 201)
Impairments and fair value adjustments of securities	2,2	8 648	(18,7)	(37 715)
Provisions for other risks and charges and contingencies	(2,7)	(10 519)	(7,8)	(15 830)
Deferred tax asset not recognized on tax loss for the year	10,3	40 811	32,3	65 183
Pension Fund	(0,5)	(2 163)	(5,0)	(10 044)
Extraordinary Contribution and Additional Solidarity over the Banking Sector	1,8	7 016	3,5	7 019
Deferred taxes on tax losses from previous years	(15,9)	(63 000)	-	-
Capital gains/losses on asset sales	(25,8)	(101 924)	-	-
Others	(1,5)	(5 917)	(6,4)	(12 839)
Total tax recognized	**(14,8)**	**(58 339)**	**(11,9)**	**(24 043)**

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 2027. 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 2022, this exercise was made based on the latest draft version of the business plan ("MTP") for the period of 2023-2025 and a stress scenario exercise, preliminarily considered by the General Supervisory Board in December 2022 and which, upon inclusion of the end of 2022 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 2025, it is assumed, thereafter an increase in pre-tax results at a rate of 4.00% from 2026;
- Growth in the commercial finance result based on the expected evolution of interest rate benchmarks, as well as the continued development of new lines of activity that should also provide a recovery in commissioning levels to values similar to previous exercises;
- Significant increase in interest rate benchmarks in line with the macroeconomic outlook and ECB monetary policy decisions;
- 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, reflecting the favorable effect of the reduction in the number of employees and branches and, in general, the simplification and increased efficiency of processes, in particular the focus on the digital component; and

- Appropriations for credit impairment in line with the evolution of the Bank's activity and supported by macroeconomic projections, bearing in mind the significant effort made in recent exercises to provision the credit portfolio and the progressive convergence to gradually normalised costs of risk.

Depending on the analysis mentioned above, the amount of deferred taxes not recognised for tax losses, per year of expiry, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
No expiry period	**933 178**	**-**
With expiry period	**478 489**	**1 476 870**
2025	91 728	123 124
2026	135 452	190 068
2028	-	877 771
2029	170 236	170 236
2033	81 073	115 671
	1 411 667	**1 476 870**

In addition, the Bank became aware of the Tax Authority's position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. The total amount of deferred tax assets related to these temporary differences, not recognised in the balance sheet, at 31 December 2022 amounts to 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 1January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Following the determination of a negative net income for the exercises between 2018 and 2020, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018
Tax credit	124 721	106 197	133 061

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 28 – OTHER ASSETS

As of 31 December 2022 and 2021, the caption other assets is analysed as follows:

(in thousands of Euros)	31.12.2022	31.12.2021
Collateral deposits placed	251 225	525 229
Derivative products	*133 864*	*399 631*
Collateral CLEARNET and VISA	*41 423*	*33 092*
Collateral deposits relating to reinsurance operations	*71 387*	*92 457*
Other collateral deposits	*4 551*	*49*
Recoverable government subsidies on mortgage loans	18 304	11 961
Public sector	481 198	934 717
Contingent Capital Agreement	198 180	209 220
Other debtors	440 912	591 267
Income receivable	131 814	132 929
Deferred costs	13 184	47 166
Retirement pensions and health benefits (see Note 16)	52 020	-
Precious metals, numismatics, medal collection and other liquid assets	10 395	9 989
Real estate properties a)	221 097	357 644
Equipment a)	3 013	3 189
Stock exchange transactions pending settlement	4 465	70 918
Other assets	119 949	22 048
	1 945 756	**2 916 277**
Impairment losses		
Real estate properties a)	(112 855)	(192 413)
Equipment a)	(2 195)	(2 180)
Other debtors - Shareholder loans, supplementary capital contributions	(74 164)	(107 724)
Other	(43 426)	(58 108)
	(232 640)	**(360 425)**
	1 713 116	**2 555 852**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on 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 during 2022 in the caption Public Administrative Sector includes about Euro 272.9 million related to the conversion into capital of the rights resulting from the Special Regime Applicable to Deferred Tax Assets, as detailed in Note 33.

As of 31 December 2022, the caption other debtors includes, amongst others:
- Euro 61.9 million of shareholder loans and ancillary services following loan assignment transactions, which are fully provisioned (31 December 2021: Euro 111.6 million, fully provisioned);
- Euro 1.8 million of receivables from the sale of non-performing loans (NATA II Project) (31 December 2021: Euro 60.5 million);
- Euro 0.7 million of amounts receivable related to the real estate sale transaction carried out in 2019 (called "Sertorius Project") (31 December 2021: Euro 1.1 million);
- Euro 0.4 million of amounts receivable relating to the operation to sell non-productive receivables carried out in 2020 (called the "Carter Project") (31 December 2021: Euro 4.2 million);
- Euro 20.9 million of amounts receivable related to the operation to sell Restructuring Funds (Crow Project).

The securities transactions to be settled reflect the transactions with securities, recorded on the trade date, which were pending settlement, in accordance with the accounting policy described in Note 6.10.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Bank has the objective of immediate sale.

The bank implemented a plan 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 2022, an impairment charge of Euro 12.9 million was recorded for the properties in the portfolio (31 December 2021: reinforcement of Euro 4.2 million).

As described in accounting policy 6.25, the Bank evaluates at each reporting date, the recoverability of these assets and assesses for signs of impairment, with impairment losses being recognised in the income statement.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**360 425**	**435 063**
Allocation for the exercise	16 070	17 543
Utilisation during the exercise	(114 484)	(81 568)
Write-back for the exercise	(27 832)	(13 857)
Foreign exchange differences and other	(1 539)	3 244
Balance at the end of the exercise	**232 640**	**360 425**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**357 644**	**500 917**
Additions	15 510	34 066
Sales	(151 092)	(123 600)
Other movements **(a)**	(965)	(53 739)
Balance at the end of the exercise	**221 097**	**357 644**

a) Includes 50,208 thousand euros of real estate assets sold to the Group's Real Estate Funds, with an associated gain of 4.1 million euros.

As of 31 December 2022 and 2021, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2022				
	Number of properties	**Gross value**	**Impairment**	**Net book value**	**Fair value of assets (b)**
Land					
Urban	44	15 468	8 008	7 460	8 421
Rural	39	80 529	55 557	24 972	25 961
	83	95 997	63 565	32 432	34 382
Buildings constructed					
Commercial	261	49 413	22 347	27 066	37 697
Residential	858	72 315	22 379	49 936	63 985
Others	128	3 264	879	2 385	3 145
	1 247	124 992	45 605	79 387	104 827
Others (a)	-	108	3 685	(3 577)	(3 577)
	1 330	**221 097**	**112 855**	**108 242**	**135 632**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed
(b) Determined in accordance with accounting policy mentioned in Note 6.18

(in thousands of Euros

	31.12.2021				
	Number of properties	**Gross value**	**Impairment**	**Net book value**	**Fair value of assets (b)**
Land					
Urban	73	40 333	11 372	28 961	26 497
Rural	58	150 231	109 444	40 787	43 554
	131	190 564	120 816	69 748	70 051
Buildings constructed					
Commercial	336	65 410	36 906	28 504	30 604
Residential	1 118	97 329	27 877	69 452	78 833
Others	134	4 133	1 176	2 957	2 994
	1 588	166 872	65 959	100 913	112 431
Others (a)	-	208	5 638	(5 430)	(5 430)
	1 719	**357 644**	**192 413**	**165 231**	**177 052**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed
(b) Determined in accordance with accounting policy mentioned in Note 6.18

The detail of real estate properties included in Other Assets, by ageing, is as follows:

(in thousands of Euros

	31.12.2022				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	353	74	52	6 981	7 460
Rural	30	20	543	24 379	24 972
	383	94	595	31 360	32 432
Buildings constructed					
Commercial	4 223	1 128	10 588	11 127	27 066
Residential	1 221	2 255	9 852	36 608	49 936
Other	296	11	1 680	398	2 385
	5 740	3 394	22 120	48 133	79 387
Others [(a)]	2	(3 582)	3	-	(3 577)
	6 125	**(94)**	**22 718**	**79 493**	**108 242**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed

(in thousands of Euros

	31.12.2021				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	15 945	92	33	12 891	28 961
Rural	14	71	14 525	26 177	40 787
	15 959	163	14 558	39 068	69 748
Buildings constructed					
Commercial	1 309	2 562	8 339	16 294	28 504
Residential	3 492	4 721	19 574	41 665	69 452
Other	6	2 509	173	269	2 957
	4 807	9 792	28 086	58 228	100 913
Others [(a)]	5	(5 435)	-	-	(5 430)
	20 771	**4 520**	**42 644**	**97 296**	**165 231**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed

As of 31 December 2022, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 9,970 thousand (31 December 2021: Euro 9,848 thousand), having the Bank recorded impairment losses for these assets in the total amount of Euro 2,954 thousand (31 December 2021: Euro 4,863 thousand).

NOTE 29 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

This caption on 31 December 2022 and 2021, is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Assets of discontinued operations		
Banco Well Link (formerly known as NB Ásia)	2 175	2 039
Banco Delle Tre Venezie	17 437	-
ESEGUR	7 473	-
novobanco - Spain branch	12 875	-
Ijar Leasing Algerie	13 146	12 597
Others	50	50
	53 156	**14 686**
Impairment losses		
Ijar Leasing Algerie	(8 035)	(8 035)
Others	(50)	(50)
	(8 085)	**(8 085)**
	45 071	**6 601**

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

The impairment movement for non-current Assets for disposal classified as held for sale is as follow:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**8 085**	**179 236**
Allocation / (reversals) for the exercise	(623)	10 000
Utilizations	(3 837)	(164 954)
Transfers	4 460	-
Exchange differences and other	-	(16 197)
Balance at the end of the exercise	**8 085**	**8 085**

As of 31 December 2022 and 2021, the results from discontinued operations is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Results from discontinued operations		
novobanco - Spain branch	-	1 091
	-	**1 091**

During 2021 the associated company Ijar Leasing was transferred to non-current assets held for sale as it is in the process of selling assets with the objective of their sale in the short term.

Spanish Branch

Following the accounting policy followed by the Bank, and in accordance with IFRS5 5 - Non-current assets held for sale and discontinued operations, during 2020 the Bank transferred its activity in Spain to the caption Non-current assets and disposal groups classified as held for sale, as it is expected that its value will be recovered through a sale transaction and this is highly probable, and the respective assets are in immediate sale conditions. The determination of fair value less costs of sale, carried out by an independent external entity, took into consideration the amounts received from potential parties interested in partial sales of this activity, the cost of sale of selected credit portfolios, and the cost of discontinuing the remaining residual activity, and resulted in a need for impairment of 166.0 million euros.

On 2 April 2021, novobanco entered into an agreement to sell a number of assets and liabilities of the Spanish Branch with ABANCA CORPORACIÓN BANCARIA, S.A, which was completed on 30 November 2021 with the derecognition of the assets and liabilities sold. The assets and liabilities excluded from this transaction, of residual value, remained in the branch's balance sheet, having integrated the consolidation perimeter of novobanco, as presented below:

(in thousands of Euros)

	Sold Assets / Liabilities	Assets / Liabilities remaining in the Branch
Assets		
Cash, cash balances at Central Banks and other demand deposits	-	5 000
Financial assets held for trading		
Financial assets at fair value through profit or loss	-	2 751
Financial assets at amortized cost	(462 796)	33 794
Títulos		
Deposits	(462 796)	33 794
Investments in subsidiaries, joint ventures and associates	-	604
Tax assets	-	37 910
Current tax assets	-	11 929
Deferred tax assets	-	25 981
Other assets	-	9 591
Non-current assets and disposal groups classified as held for sale	(1 294 344)	-
Total Assets	**(1 757 140)**	**89 650**
Liabilities		
Resources from Central Banks and other credit institutions	-	33 885
Provisions	-	6 611
Other liabilities	-	28 259
Liabilities included in disposal groups classified as held for sale	(1 757 140)	-
Total Liabilities	**(1 757 140)**	**68 755**
Equity		
Other reserves	-	19 804
Results attributable to shareholders of the parent company	-	1 091
Total Equity	**-**	**20 895**
Total Liabilities and Equity	**(1 757 140)**	**89 650**

The conclusion of this transaction had no impact on the income statement at the date of derecognition, since there was a provision recorded in the balance sheet for Euro 176 million (of which Euro 10 million reinforced already during 2021), which was partially used. The remaining amount of Euro 15.2 million was transferred to Provisions for other contingencies related to this transaction (advisory costs, tax contingencies and other possible claims).

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.

NOTE 30 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as of 31 December 2022 and 2021 is analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Deposits from Central Banks and Other credit institutions	10 506 509	11 497 829
Due to customers	28 425 223	26 997 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 601 454	1 479 066
Other financial liabilities	371 511	371 609
	40 904 697	**40 346 362**

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:

(in thousands of Euros)

	31.12.2022	31.12.2021
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	198	53 126
Other funds	6 327 000	7 954 000
	6 327 198	**8 007 126**
Deposits from Other credit institutions		
Domestic		
Deposits	1 071 278	968 975
Other funds	39 187	24 534
	1 110 465	**993 509**
Foreign		
Deposits	430 487	426 711
Loans	479 880	531 973
Operations with repurchase agreements	2 150 824	1 529 847
Other resources	7 655	8 663
	3 068 846	**2 497 194**
	4 179 311	**3 490 703**
	10 506 509	**11 497 829**

As of 31 December 2022, the balance of the European Resources System of Central Banks includes Euro 6,327 million collateralised by the Bank's financial assets as part of the third series of longer-term refinancing operations of the European Central Bank (TLTRO III) (31 December 2021: Euro 7,954 million). The subsidy introduced by the ECB in the interest rate of these transactions, in accordance with the provisions of IAS 20, is being deducted from financing costs on a linear basis for accounting purposes, as the Bank has complied with the eligibility requirements set by the ECB.

It should be recalled that on 28 October 2022, with the Central Bank raising its main interest rates, the ECB announced the recalibration of TLTRO III to cope with unexpected and extraordinary increases in inflation, reinforcing the transmission of reference rates to bank lending conditions and funding costs.

Accordingly, on this date, the ECB also announced changes to the terms and conditions of TLTRO III as of 23 November 2022. These changes consisted, in particular, of:

- to maintain the calculation of the interest rate existing at that time (28 October 2022) only until 22 November 2022; and
- changing the calculation of the interest rate as of 23 November 2022, for those Banks that met the eligibility requirements defined by the ECB. The interest rate applicable to TLTRO III from 23 November 2022 until the maturity of each tranche will be equal to the average interest rate of the deposit facility during that period.

This change in the TLTRO III remuneration conditions means that as of 22 November 2022, it is financially neutral to maintain the lines of this third series, since these lines will have a cost approximately equal to the income obtained from the application of these funds at the ECB. Based on the DFR projection (as of 31 December 2022), the average cost of these lines from 22 November 2022 to maturity is expected to be 2.55%.

After the December 2022 repayment of Euro 1.6 billion, an additional Euro 5.4 billion of TLTRO III will mature in 2023, with the remaining Euro 0.95 billion maturing in December 2024.

Given the maturity of these lines, novobanco's exit strategy from TLTRO III was to reduce the size of the balance sheet and increase other stable financing instruments, mainly collateralised interbank operations and customer deposits.

It should be recalled that already in 2022, to mitigate the impact of the shortening of the term and/or maturity of TLTRO III, collateralised funding through medium-term repurchase agreements increased by Euro 2.5 billion and the Bank completed a private placement (senior preferred bond issue) in the amount of Euro 0.1 billion.

Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 7.22.

The breakdown of Deposits from Central Banks and other credit institutions, by residual maturity, as of 31 December 2022 and 2021, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Deposits from Central Banks		
Up to 3 months	1 627 198	53 126
From 3 months to 1 year	3 750 000	1 627 000
From 1 to 5 years	950 000	6 327 000
	6 327 198	**8 007 126**
Deposits from Other Credit Institutions		
Up to 3 months	1 001 089	1 487 742
From 3 months to 1 year	669 315	1 287 514
From 1 to 5 years	2 214 958	181 609
More than 5 years	293 949	533 838
	4 179 311	**3 490 703**
	10 506 509	**11 497 829**

The analysis of Repurchase agreements operations, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Foreign		
Up to 3 months	123 620	679 782
From 3 months to 1 year	-	850 065
From 1 to 5 years	2 027 204	-
	2 150 824	**1 529 847**

Due to customers

The balance of Deposits due to costumers is composed, as to its nature, as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Repayable on demand		
Demand deposits		
Companies and other entities	7 190 941	7 584 926
Private companies	5 453 281	4 803 868
	12 644 222	**12 388 794**
Time deposits		
Time deposits		
Companies and other entities	2 964 295	2 856 548
Private companies	6 229 606	6 155 100
Other	187	180
	9 194 088	**9 011 828**
Savings accounts		
Retirement saving accounts	215 643	226 003
Other	5 516 120	5 125 652
Companies and other entities	2 549 547	1 864 335
Private companies	3 416 573	3 261 317
	5 731 763	**5 351 655**
Other funds		
Repurchase agreement	450 906	-
Other	404 244	245 581
	855 150	**245 581**
	28 425 223	**26 997 858**

As of 31 December 2022 and 2021, the schedule of Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Repayable on demand	**12 644 222**	**12 388 794**
Term deposits		
Up to 3 months	8 850 798	7 670 678
From 3 months to 1 year	5 460 348	5 607 590
From 1 to 5 years	1 469 855	1 290 725
More than 5 years	-	40 071
	15 781 001	**14 609 064**
	28 425 223	**26 997 858**

Debt Securities issued, Subordinated Debt and Financial liabilities associated to transferred assets

This caption breaks down as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Debt securities issued		
Euro Medium Term Notes (EMTN)	461 576	445 633
Bonds	679 855	573 588
	1 141 431	**1 019 221**
Subordinated debt		
Bonds	415 572	415 394
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	44 451
	1 601 454	**1 479 066**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias"*), which has a maximum amount of Euro 10,000 million, the Bank issued covered bonds which, on 31 December 2022, amount to Euro 5,500 million (31 December 2021: Euro 5,500 million), being these covered bonds totally repurchased by the Bank. The main characteristics of the outstanding issues as of 31 December 2022 and 2021 are as follows:

(in thousands of Euros)

31.12.2022									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0.25%	XDUB	Aa3	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	Aa3	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0.25%	XDUB	Aa3	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2028	Quarterly	Euribor 3 Months + 0.25%	XDUB	Aa3	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	Aa3	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2029	Quarterly	Euribor 3 Months + 0.25%	XMSM	Aa3	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	Aa3	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2021									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in 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 2022, the assets that collateralize these covered debt securities amount to Euro 6,078.4 million (31 December 2021: Euro 6,075.1 million) (see Note 22).

The changes in the exercises of 2022 and 2021 in debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2021	Issues	Net purchases	Other movements a)	Balance as at 31.12.2022
Debt securities issued					
Euro Medium Term Notes (EMTN)	445 633	-	(500)	16 443	461 576
Bonds	573 588	100 000	-	6 267	679 855
	1 019 221	100 000	(500)	22 710	1 141 431
Subordinated debt					
Bonds	415 394	-	-	178	415 572
Financial liabilities associated to transferred assets					
Asset lending operations	44 451	-	-	-	44 451
	1 479 066	**100 000**	**(500)**	**22 888**	**1 601 454**

a) The other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.

(in thousands of Euros)

	Balance as at 31.12.2020	Issues	Net purchases	Other movements a)	Balance as at 31.12.2021
Debt securities issued					
Euro Medium Term Notes (EMTN)	515 311	-	(84 916)	15 238	445 633
Bonds	-	575 000	-	(1 412)	573 588
	515 311	575 000	(84 916)	13 826	1 019 221
Subordinated debt					
Bonds	415 234	-	-	160	415 394
Financial liabilities associated to transferred assets					
Asset lending operations	44 451	-	-	-	44 451
	44 451	**575 000**	**(84 916)**	**13 986**	**1 479 066**

a) The other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.

Liability Management Exercise (LME)

On 30 July 2021, following a voluntary tender offer (Tender Offer and Solicitation Memorandum), EMTN issued by the Luxembourg branch were redeemed, with a total nominal value of 84.3 million euros (representing 31.9% of the total nominal amount issued). This operation resulted in a loss of Euro 73,415 thousand.

The main characteristics of the debt securities issued and the subordinated debt, as of 31 December 2022 and 2021, are as follows:

(in thousands of Euros)

Entity	ISIN	Description	31.12.2022 Currency	Issue date	Unit price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
novobanco	PTNOBIOM0014	NB 3,5% 23/07/24 OBRG.	EUR	2021	100,00	303 992	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23 OBRG.	EUR	2021	100,00	275 874	2023	Euribor 3M + 4.25%	XDUB
Euro Medium Term Notes									
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24 OBRG.	EUR	2022	100,00	99 989	2024	Fixed rate 5.5%	XDUB
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	43 363	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	99 065	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	64 774	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	47 641	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	35 711	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	43 694	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	12 146	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	16 672	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	11 729	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	40 180	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	38 891	2052	Zero Coupon	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	7 710	2046	Zero Coupon	XLUX
Subordinated debt									
novobanco	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 572	2023 a)	8,50%	XDUB
						1 557 003			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	31.12.2021 Currency	Issue date	Unit price (€)	Carrying Book value	Maturity	Interest rate	Market
Obrigações									
novobanco	PTNOBIOM0014	NB 3,5% 23/07/24 OBRG.	EUR	2021	100,00	303 571	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23 OBRG.	EUR	2021	100,00	270 017	2022 a)	Euribor 3M + 4.25%	XDUB
Euro Medium Term Notes									
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	42 807	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	98 081	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	63 952	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	47 063	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	33 649	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	40 947	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	11 375	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	15 602	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	10 974	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	37 479	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	36 512	2052	Zero Coupon	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	7 192	2046	Zero Coupon	XLUX
Subordinados									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100,00	415 394	2023 a)	8,50%	XDUB
						1 434 615			

a) Date of the next call option

The Bank did not present capital or interest defaults on its debt issued in the exercises of 2022 and 2021.

The residual duration of debt securities issued and subordinated liabilities as of 31 December 2022 and 2021 is as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Debt securities issued		
From 3 months to 1 year	275 874	270 017
From 1 to 5 years	403 981	303 571
More than 5 years	461 576	445 633
	1 141 431	**1 019 221**
Subordinated debt		
From 3 months to 1 year	415 572	-
From 1 to 5 years	-	415 394
	415 572	**415 394**
Financial liabilities associated to transferred assets		
Undertimined maturity	44 451	44 451
	44 451	**44 451**
	1 601 454	**1 479 066**

NOTE 31 – PROVISIONS

As of 31 December 2022 and 2021, the caption Provisions presents the following changes:

(in thousands of Euros)

	Provision for restructuring	Provision for guarantees and commitments	Commercial Offers	Other Provisions	Total
Balance as at 31 December 2020	**96 973**	**101 484**	**11 199**	**228 916**	**438 572**
Charges / (Write-backs)	10 070	(9 900)	-	111 600	111 770
Utilizations	(60 358)	-	(10 205)	(26 083)	(96 646)
Exchange differences and others	1	191	-	24 282	24 474
Balance as at 31 December 2021	**46 686**	**91 775**	**994**	**338 715**	**478 170**
Charges / (Write-backs)	1 332	(2 555)	(123)	12 240	10 894
Utilizations	(28 870)	-	(871)	(36 746)	(66 487)
Exchange differences and others	-	238	-	375	613
Balance as at 31 December 2022	**19 148**	**89 458**	**-**	**314 584**	**423 190**

In order to meet the financial needs of its customers, the Bank assumes several irrevocable commitments and contingent liabilities, consisting of financial guarantees, letters of credit and other credit commitments, which may require the payment by the Bank, on behalf of its customers, in the event of specific, contractually prescribed events. Although these commitments are not recorded on the balance sheet, they carry credit risk and, therefore, are part of the Bank's overall risk exposure.

The changes in the caption provisions for guarantees are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**1 314**	**24 005**	**66 586**	**91 905**
Increases due to changes in credit risk	596	3 006	14 833	18 435
Decreases due to changes in credit risk	(593)	(17 826)	(12 772)	(31 191)
Other moviments [(a)]	128	(2 355)	2 417	190
Balance as at 31 December 2021	**1 445**	**6 830**	**71 064**	**79 339**
Changes in the value of the impairment				
- transfers to stage 1	615	(615)	-	-
- transfers to stage 2	(427)	538	(111)	-
- transfers to stage 3	(13)	(1 200)	1 213	-
Increases due to changes in credit risk	346	1 960	21 502	23 808
Decreases due to changes in credit risk	(1 027)	(2 360)	(17 606)	(20 993)
Other movements	5	34	199	238
Balance as at 31 December 2022	**944**	**5 187**	**76 261**	**82 392**

The changes in the caption provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2020	**5 623**	**3 956**	**-**	**9 579**
Increases due to changes in credit risk	1 876	6 857	1 897	10 630
Decreases due to changes in credit risk	(1 780)	(5 961)	(33)	(7 774)
Other moviments [(a)]	636	(723)	88	1
Balance as at 31 December 2021	**6 355**	**4 129**	**1 952**	**12 436**
Changes in the value of the impairment				
- transfers to stage 1	1 584	(1 584)	-	-
- transfers to stage 2	(688)	688	-	-
- transfers to stage 3	-	(3)	3	-
Increases due to changes in credit risk	1 635	507	787	2 929
Decreases due to changes in credit risk	(3 838)	(1 719)	(2 742)	(8 299)
Other movements	(2)	2	-	-
Balance as at 31 December 2022	**5 046**	**2 020**	**-**	**7 066**

The transfers between stages that have occurred in guarantees and commitments are presented as follows:

(in thousands of Euros)

	Capital					
	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

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Bank's sale and restructuring process.

Other provisions amounting to Euro 314.6 million (31 December 2021: Euro 338.7 million), are intended to cover certain identified contingencies related to the Bank's activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Bank maintains provisions of Euro 24.2 million (31 December 2021: Euro 21.9 million);
- Contingencies associated with legal proceedings amounting to Euro 4.0 million (31 December 2021: Euro 4.2 million);
- Contingencies associated with sales processes in the amount of Euro 7.1 million (31 December 2021: Euro 39.9 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million (31 December 2021: Euro 19.2 million), transferred from the liability captions net of the value of the assets of the Pension Fund (see Note 15);
- The remaining amount, of Euro 260.1 million (31 December 2021: Euro 253.5 million), is intended to cover losses arising from the Bank's normal activity, such as fraud, theft and robbery and lawsuits ongoing lawsuits for contingencies related to asset sale processes, among others.

The increase in 2021 stems from the State Budget Law for 2021 ("LOE 21"), which changed the rules of the Code of Tax on Onerous Real Estate Transfers ("IMT") and the Municipal Property Tax ("IMI"), with the extension of the scope of incidence of the increased rate of IMI and IMT, and losses of exemptions, for properties held by taxpayers who are controlled, directly or indirectly, by an entity that is subject to a more favorable tax regime, listed approved by order of the Minister of Finance. At this date the calculation of the application of the aggravated IMI rates to all properties in the direct and indirect ownership of the novobanco amounts to approximately Euro 172.1 million at 31 December 2022 (31 December 2021: Euro 115.8 million).

NOTE 32 – OTHER LIABILITIES

As of 31 December 2022 and 2021, the caption other liabilities are analysed as follows:

	31.12.2022	31.12.2021
Public sector	32 830	36 290
Creditors for supply of goods	105 063	98 983
Creditors for insurance operations	478 750	-
Other creditors	113 244	92 499
Career bonuses (see Note 15)	5 506	7 335
Retirement pensions and health-care benefits (see Note 15)	-	22 562
Other accrued expenses	81 501	69 069
Deferred income	1 111	888
Foreign exchange transactions to be settled	-	14
Other transactions pending settlement	26 774	35 196
	844 779	**362 836**

(in thousands of Euros)

As of 31 December 2022, the caption Creditors for supply of goods includes Euro 82,088 thousand related to creditors of assets for right of use (31 December 2021: Euro 79,998 thousand), whose maturity dates are present the following detail:

(in thousands of Euros)

	31.12.2022	31.12.2021
Up to 3 months	255	233
From 3 months to one year	6 016	1 177
From one to five years	18 490	18 429
More than five years	57 327	60 159
	82 088	**79 998**

NOTE 33 – SHARE CAPITAL

Ordinary Shares

As of 31 December 2022, the Bank's share capital of Euro 6,304,660,638 is represented by 10,391,043,938 registered shares with no par value and is fully subscribed and paid up by the following shareholders (31 December 2021: share capital of Euro 6,054,907,314 represented by 9,954,907,311 registered shares):

	% Share Capital	
	31.12.2022	31.12.2021
Nani Holdings, SGPS, SA (1)	75,00%	73,83%
Resolution Fund (2)	19,31%	24,61%
Directorate General for the Treasury and Finance	5,69%	1,56%
	100,00%	**100,00%**

(1) as a result of the agreements celebrated between the Resolution Fund and the shareholder Lone Star in the context of the sale of 75% of the share capital of novobanco, only the Resolution Fund will see its participation diluted with the conversion of the conversion rights, pending the delivery of the shares by the Resolution Fund to Nani Holdings on December 31, 2021. When such delivery occurs, Nani Holdings' shareholding percentage will increase to 75.00% and the Resolution Fund's to 23.44%.Nani Holdings' economic interest in the new bank remains unchanged at 75%.

(2) In view of the commitments assumed by the Portuguese Republic before the European Commisson, 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 34).

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 34).

As mentioned in Note 27, novobanco adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that entitle the State to require novobanco to increase its share capital by incorporating the amount of the special reserve and consequently issuing and delivering free of charge ordinary shares. It is estimated that the conversion rights to be issued and attributed to the State following the negative net results of the exercises between 2015 and 2020 will give it a stake of up to approximately 15.84% of the share capital of novobanco, which will only dilute, in accordance with the sale agreement, the stake of the Resolution Fund.

For the exercises 2018 and 2019, the Tax Authority has already validated the tax credit, and the final value of conversion rights granted to the State represents an additional participation of 6.27% of the novobanco's share capital (11.96% for the exercises 2015 to 2019).

NOTE 34 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES

As of 31 December 2022 and 2021, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2022	31.12.2021
Other accumulated comprehensive income	**(1 155 271)**	**(968 987)**
Retained earnings	**(8 577 074)**	**(8 576 860)**
Other reserves	**6 040 802**	**6 064 434**
Originating reserve	1 885 693	1 848 691
Special reserve	400 377	701 136
Legal reserve	36 594	-
Other reserves and Retained earnings	3 718 138	3 514 607
	(3 691 543)	**(3 481 413)**

Other accumulated comprehensive income

The changes in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income						
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Cash flow hedging reserves	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2020	**3 667**	**9 214**	**(24 788)**	**(31 757)**	**-**	**(705 595)**	**(749 259)**
Actuarial deviations	-	-	-	-	-	(75 649)	(75 649)
Fair value changes, net of taxes	-	-	-	(134 562)	-	-	(134 562)
Impairment reserves of securities at fair value through other comprehensive income	1	-	-	-	-	-	1
Reserves of sales of securities at fair value through other comprehensive income	-	-	(9 518)	-	-	-	(9 518)
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)
Other comprehensive income of associated companies	-	-	-	-	(100 418)	-	(100 418)
Balance as at 31 December 2022	**589**	**9 214**	**(35 168)**	**(344 729)**	**(100 418)**	**(684 759)**	**(1 155 271)**

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:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the exercis	**(123 313)**	**(43 006)**	**(166 319)**	**70 520**	**(102 277)**	**(31 757)**
Changes in fair value	(325 981)	-	(325 981)	(191 007)	-	(191 007)
Foreign exchange differences	2 006	-	2 006	2 351	-	2 351
Disposals in the exercise	66 274	-	66 274	(5 177)	-	(5 177)
Impairment in the exercise	-	-	-	-	-	-
Deferred taxes recognized in the exercise	-	79 291	79 291	-	59 271	59 271
Balance at the end of the exercise	**(381 014)**	**36 285**	**(344 729)**	**(123 313)**	**(43 006)**	**(166 319)**

The fair value reserves are analysed as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Amortised cost of financial assets at fair value through other comprehensive income	2 576 036	7 256 821
Market value of financial assets at fair value through other comprehensive income	2 183 034	7 133 508
Unrealised gains / (losses) recognized in fair value reserve	(393 002)	(123 313)
Fair value reserve transferred to Results [(1)]	(11 988)	-
Potential gains / (losses) recognized in the fair value reserve	(381 014)	(123 313)
Deferred Taxes	36 285	(43 006)
Fair value reserve attributable to shareholders of the Bank	**(344 729)**	**(166 319)**

[(1)] In the context of fair value hedge operations (see Note 23)

The movements in cash flow hedging reserves are presented as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Balance at the beginning of the exercise	**-**	**-**
Change in the fair value of the covered item recognized in another comprehensive income	(101 299)	-
Reclassification of other comprehensive income for results	881	-
Balance at the end of the exercise	**(100 418)**	**-**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to novobanco, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 27, the special reserve was created as a result of the adhesion of novobanco to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the clearance of a negative net result in the 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:

	(in thousands of Euros)	
	31.12.2022	**31.12.2021**
2016 (net loss of 2015)	-	14 004
2017 (net loss of 2016)	-	109 421
2018 (net loss of 2017)	-	140 332
2019 (net loss of 2018)	146 367	178 171
2020 (net loss of 2019)	116 817	122 015
2021 (net loss of 2020)	137 193	137 193
	400 377	**701 136**

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. In addition, a value of Euro 14,004 thousand for the conversion of tax credits into capital as referred to in the preceding paragraph has been incorporated into the legal reserve.

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 35 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As of 31 December 2022, these assets had a net value of Euro 1.1 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2021: net value of Euro 1.8 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 amount related to the Contingent Capital Agreement recorded in 2020 as receivable by the Resolution Fund (Euro 598,312 thousand) differs from the amount paid as a result of disagreements, between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, leading to a limitation to the immediate access to this amount, which despite being recorded as receivables, the Bank deducted, as at 31 December 2021, to the regulatory capital calculation (Euro 165,442 thousand). Additionally, the variable remuneration of the Executive Board of Directors for 2019 and 2020 (Euro 3,857 thousand) was also deducted.

In 2021, an amount receivable by the Resolution Fund of Euro 209,220 thousand was recorded in relation to the Contingent Capital Agreement, under Other Reserves and which results, on the date of each balance sheet, from the losses incurred and the regulatory ratios in force at the time of its determination. As a result of the above and in line with the Regulator's guidelines, on 31 December of 2022 and 2021, this value was also deducted from the regulatory capital calculation. Novobanco considers this amount as due under the Contingent Capitalisation Mechanism and is triggering the legal and contractual mechanisms at its disposal to ensure the receipt of them.

NOTE 35 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as of 31 December 2022 and 2021 are the following:

(in thousands of Euros)

	31.12.2022	31.12.2021
Contingent liabilities		
Guarantees and standby letters	2 262 092	2 221 575
Financial assets pledged as collateral	12 036 520	14 086 256
Open documentary credits	169 410	402 332
Others	80 373	32 929
	14 548 395	**16 743 092**
Commitments		
Revocable commitments	5 397 330	5 305 121
Irrevocable commitments	557 766	544 160
	5 955 096	**5 849 281**

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 11.2 billion (31 December 2021: Euro 13.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 6.8 million (31 December 2021: Euro 7.9 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 64.6 million (31 December 2021: Euro 66.1 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 578.3 million (31 December 2021: Euro 651.4 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 99.5 million (31 December 2021: 100.5 million).
- Deposits delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 100.0 million (31 December 2021: 100.0 million).

The above-mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank's balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Bank (e.g., undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Bank requires the 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:

(in thousands of Euros)

	31.12.2022	31.12.2021
Deposit and custody of securities and other items	31 031 260	31 812 211
Amounts received for subsequent collection	207 006	197 907
Securitized loans under management (servicing)	1 697 076	2 018 237
Other responsibilities related with banking services	723 197	537 957
	33 658 539	**34 566 312**

Pursuant to the resolution measure applied to BES by resolution of Bank of Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Bank of Portugal of 11 August 2014, the "excluded liabilities" of transfer to novobanco include "any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (…) ".

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include "any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions".

On December 29, 2015, Bank of Portugal adopted a new resolution on "Clarification and retransmission of responsibilities and contingencies defined as liabilities excluded in subparagraphs (v) to (vii) of paragraph 2 (b) of Annex 2 to the Resolution of Bank of Portugal of 3 August 2014 (8 pm), as amended by the Resolution of Bank of Portugal of 11 August 2014 (5 pm) ". Under the terms of this resolution, Bank of Portugal came:

(i) 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 2022 (as well as in the previous financial statements), novobanco incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet 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 deliberation.

In addition, also by the deliberation of Bank of Portugal of 29 December 2015, it was decided that it is the responsibility of Resolution Fund to 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 2022 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.

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) Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against novobanco and Calm Eagle Holdings, S.A.R.L. through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness.

(ii) Lawsuits brought after the execution of the contract for the purchase and sale of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on 31 March 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which novobanco is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the CCA is requested.

With respect to the amount requested to the Resolution Fund for the exercise 2020, differences remain between novobanco and the Resolution Fund regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, which are subject to an ongoing arbitration. novobanco considers these amounts (Euro 165 million) to be due under the Contingent Capitalization Mechanism and has filed arbitration proceedings to claim payment of these amounts. There is also another divergence related to the application, by novobanco, at the end of 2020, of the dynamic option of the IFRS 9 transitional regime, which is also being assessed in the same arbitration action. These amounts (Euro 165 million) are recorded as receivables and are subject to a favorable arbitration decision.

Resolution Fund

Resolution Fund is a public legal entity with administrative and financial autonomy, created by Decree-Law No. 31-A/2012, of 10 February, which is governed by the RGICSF and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Bank of Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal, based, essentially, on the amount of its liabilities. As of 31 December 2022, the periodic contribution made by the Bank amounted to Euro 16,017 thousand (31 December 2021: Euro 14,854 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to novobanco, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of novobanco’s share capital, the Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective sise. 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 36 – 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 2022, the following transactions with Related Parties identified on 31 December 2022 (credit and other types) were carried out:

1) 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	750
Byron James MacBean Haynes	Members of the Administration and Supervision bodies	Credit Card Limits	10 000
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
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)	23 000 000 50 000 000
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	Entity dominated by members of the Administration / Supervision	Full subscription of the issue of Senior Debt Securities (non-preferred) at the novobanco dos Açores by the novobanco	up to 7 000 000
Novo Banco Group (BEST, NB Açores e NB Finance)	Entity dominated by members of the Administration / Supervision	• Interbank Limits (Trading Room Operations) • Commercial Limits	1 818 000 000
Nuno Duarte	Persons or entities whose relationship with the institution potentially influences their management	Credit Card Limits	10 000
Unicre - Cartão Internacional de Crédito S.A.	Entities for which there is a relationship of economic interdependence	Current-Account Loan Account (renewal)	up to 38 050 000
Vicente Moreira Rato	Persons or entities whose relationship with the institution potentially influences their management	Housing Credit (increase)	50 000
William Henry Newton	Members of the Administration and Supervision bodies	Credit Card Limits	7 500

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation	Amount (euros)
GNB Soc Gestora de Fundo de Pensões S.A.	Entities for which there is a relationship of economic interdependence	Change to distribution agreement	na
GNB Gestão de Ativos	Entities for which there is a relationship of economic interdependence	Change to distribution agreement	na
GNB International Management S.A.	Entities for which there is a relationship of economic interdependence	Change to distribution agreement	na
LOCARENT Companhia Portuguesa de Aluguer de Viaturas SA	Entities for which there is a relationship of economic interdependence	Change to distribution agreement	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:

(in thousands of Euros)

	31.12.2022					31.12.2021				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholders										
NANI HOLDINGS	-	152	-	389	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	198 180	54 101	-	-	16 017	209 220	11 040	-	-	25 894
Subsidiary companies										
GNB RECUPERAÇÃO DE CRÉDITO	-	-	-	-	-	-	-	-	-	42
GNB CONCESSÕES	83 473	39 189	-	-	-	83 473	39 264	-	-	-
GNB GA	3 552	14 752	4 025	6 303	-	2 261	73 201	6	6 486	-
ES TECH VENTURES	46 732	74 426	-	-	-	46 732	70 348	-	-	-
BEST	2 610	647 221	37	7 878	5 900	1 716	605 863	37	2 250	3 112
novobanco AÇORES	124 017	216 280	1 295	1 369	2 898	145 649	204 898	1 295	967	1 381
FCR PME	-	-	-	-	-	-	218	-	-	-
SPE-LM6	243 371	1 915	-	338	-	268 623	1 909	-	287	-
SPE-LM7	628 541	3 000	-	932	-	797 831	4 586	-	985	-
FCR NB CAPITAL GROWTH	15 015	3 547	-	-	-	15 050	3 357	-	-	-
NB ÁFRICA	-	7 166	-	-	-	-	7 145	-	-	-
FUNGEPI	-	40 180	2 414	44	446	-	25 614	1 232	45	83
FUNGEPI II	-	23 742	35	2 692	513	-	84 523	35	5 681	3 631
FUNGERE	-	-	-	13	1	-	57 841	1 182	28	4
IMOINVESTIMENTO	-	5 561	-	20	-	-	3 196	-	25	-
PREDILOC	-	3 938	-	-	-	-	2 668	-	-	-
IMOGESTÃO	-	478	-	28	1	-	38 787	-	-	3
ARRABIDA	-	-	-	-	1	-	2 553	-	-	1
INVESFUNDO VII	-	980	-	4	-	-	1 088	-	4	-
NB LOGÍSTICA	-	-	-	-	1	-	29 741	-	-	3
NB PATRIMÓNIO	-	46 022	387	-	4 199	-	60 365	-	-	4 433
FUNDES	-	-	-	-	1	-	16 796	-	-	1
AMOREIRAS	-	30 671	-	-	-	-	30 168	-	-	-
FIMES ORIENTE	16	13 551	-	-	10	18	13 948	-	-	1
NB ARRENDAMENTO	-	897	-	-	-	-	797	-	-	-
NB FINANCE	-	7 067	1 952	-	145	-	6 968	1 820	16	331
FEBAGRI	-	1 150	71	-	-	-	913	71	-	-
AUTODRIL	-	-	-	-	-	-	63	-	-	-
GREENWOODS	-	7 483	-	-	-	-	3 156	-	-	-
QUINTA DA AREIA	-	-	-	-	-	-	7	-	-	-
VÁRZEA DA LAGOA	-	-	-	-	-	-	42	-	-	-
HERDADE DA BOINA	-	-	-	-	-	-	6	-	-	-
RIBAGOLFE	-	-	-	-	-	-	49	-	-	-
BENAGIL	-	21	-	-	-	-	101	-	-	-
QUINTA DA RIBEIRA	-	-	-	-	-	-	247	-	-	-
PROMOFUNDO	-	65	-	-	-	-	124	-	-	-
GREENDRAIVE	6 445	20	106	-	-	6 445	252	106	-	-
FIVE STARS	-	17 986	-	-	1 885	-	4 634	-	4 811	17 468
AROLERI	4 262	-	-	-	-	-	-	-	-	-
IMALGARVE	-	10 887	-	-	-	-	-	-	-	-
	1 356 214	**1 272 448**	**10 322**	**20 010**	**32 018**	**1 577 018**	**1 406 629**	**5 784**	**21 917**	**56 388**
Associated Companies										
LINEAS	-	3 176	-	-	-	-	3 123	-	2 395	-
LOCARENT	139 286	3 218	-	1 727	3 161	121 982	3 146	-	1 040	3 278
ESEGUR	-	-	-	-	-	1 894	919	915	-	-
UNICRE	38 365	76	-	919	-	38 193	6	-	522	-
MULTIPESSOAL	2 023	35	273	-	-	2 017	43	273	-	-
OUTRAS	2	88 601	-	1 968	29	1	76 197	-	2 039	11
	179 676	**95 106**	**273**	**4 614**	**3 190**	**164 087**	**83 434**	**1 188**	**5 996**	**3 289**
Other related entities										
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 638	-	-	-	-	4 138
NACIONAL CONTA LDA	324	5	-	-	-	375	18	-	-	-
ESMALGLASS	-	-	-	-	-	-	100	2	-	-
Other	**324**	**5**	**-**	**-**	**4 638**	**375**	**118**	**2**	**-**	**4 138**

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 Capitalisation Mechanism contract.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and novobanco, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted or debt securities acquired in the scope of the Bank's activity. The liabilities relate mainly to bank deposits taken.

The guarantees relating to associated undertakings included in the table above mainly refer to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest between 0% and 9,6% (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 2022 and 2021, are as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	3 092	1 257	4 349	2 524	1 183	3 707
Post-employment benefits	2	-	2	2	-	2
Other long-term benefits	197	38	235	51	50	101
Termination benefits	-	-	-	-	-	-
Stock-based payment	-	-	-	-	-	-
	3 291	**1 295**	**4 586**	**2 577**	**1 233**	**3 810**

In 2022 and 2021, the value of variable remuneration for the management bodies amounted to Euro 1,931 thousand and Euro 1,600 thousand, respectively, which relates to remuneration that does not constitute vested rights of the respective members until after the end of the restructuring period and is subject to deferral and verification of certain conditions. Additionally, in 2022, costs of Euro 260 thousand were recorded as sign-on bonus resulting from the entry into office of two new Executive Directors were registered, and compensation for termination of the mandate of two Executive Directors in the amount of Euro 460 thousand was recorded.

As of 31 December 2022 and 2021, the value of loans and deposits of members of the Key Management Personnel of the novobanco was as follows:

Credit granted
(i) to members of the Executive Board of Directors and their direct relatives was Euro 351 thousand (31 December 2021: Euro 317 thousand); and (ii) members of the General and Supervisory Board and their direct relatives had no credit liabilities (31 December 2021: no exposure).

Deposits
(i) of members of the Executive Board of Directors and their direct relatives was Euro 1,138 thousand (31 December 2021: Euro 1,080 thousand); and (ii) of members of the General and Supervisory Board and their direct relatives was Euro 1,544 thousand (31 December 2021: Euro 1,562 thousand).

NOTE 37 – SECURITISATION OF ASSETS

As of 31 December 2022 and 2021, the outstanding securitisation transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2022	31.12.2021	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	214 061	246 943	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	330 075	373 147	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	317 612	355 513	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	817 287	907 327	Mortgage loans (general scheme)

The main characteristics of these operations, as of 31 December 2022 and 2021, may be analysed as follows:

(in thousands of Euros)

31.12.2022

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	Classe A	1 134 000	163 785	-	-	Dezembro de 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Classe B	22 800	10 842	-	-	Dezembro de 2048	AA	Aa2	AA	-	A-	A2	AA-	-
	Classe C	19 200	9 130	-	-	Dezembro de 2048	A+	A1	A+	-	BB+	Baa3	A-	-
	Classe D	24 000	11 412	-	-	Dezembro de 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Classe E	10 200	5 100	-	-	Dezembro de 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Classe A	1 323 000	245 724	-	-	Dezembro de 2059	AAA	Aaa	AAA	-	A+	Aa2	AA+	-
	Classe B	26 600	20 113	-	-	Dezembro de 2059	AA	Aa2	AA	-	BBB+	Baa2	AA+	-
	Classe C	22 400	16 937	-	-	Dezembro de 2059	A	A1	A	-	B+	Ba3	BBB	-
	Classe D	28 000	21 172	-	-	Dezembro de 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Classe E	11 900	11 301	-	-	Dezembro de 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Classe A	943 250	152 014	128 051	124 100	Março de 2060	AAA	Aaa	AAA	-	AA+	Aa2	A-	-
	Classe B	65 450	65 450	63 950	55 286	Março de 2060	AA	Aa3	AA	-	AA	Aa2	A-	-
	Classe C	41 800	41 800	41 800	31 303	Março de 2060	A	A3	A	-	BB+	A3	A-	-
	Classe D	17 600	17 600	17 600	12 414	Março de 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Classe E	31 900	31 900	31 900	20 017	Março de 2060	BB	-	BB	-	CC	-	D	-
	Classe F	22 000	22 000	22 000	-	Março de 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Classe A	1 425 000	345 770	345 770	326 254	Outubro de 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Classe B	294 500	294 500	294 500	242 031	Outubro de 2064	-	-	BBB-	-	-	-	AA+	-
	Classe C	180 500	180 500	180 500	59 141	Outubro de 2064	-	-	-	-	-	-	-	-
	Classe D	57 000	57 000	57 000	-	Outubro de 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2021

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	189 071	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Class B	22 800	12 515	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	A-	-
	Class C	19 200	10 539	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	BBB-	-
	Class D	24 000	13 174	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Class E	10 200	5 100	-	-		NA	-	NA	-	-	-	-	-
						December 2059								
Lusitano Mortgages No.5 plc	Class A	1 323 000	277 689	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Class B	26 600	22 729	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Class C	22 400	19 141	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Class D	28 000	23 926	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Class E	11 900	11 301	-	-		N/A	-	N/A	-	-	-	-	-
						March 2060								
Lusitano Mortgages No.6 plc	Class A	943 250	189 723	157 956	152 431	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Class B	65 450	65 450	63 950	61 124	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Class C	41 800	41 800	41 800	33 936	March 2060	A	A3	A	-	BB-	A3	A-	-
	Class D	17 600	17 600	17 600	12 388	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	8 568	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-		-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	437 435	437 434	409 580	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	266 902	October 2064	-	-	BBB-	-	-	-	A	-
	Class C	180 500	180 500	180 500	121 349	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

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 38 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures, and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of a quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of recent transaction prices, similar and carried out under market conditions, discounted cash flow techniques and 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: 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.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls 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:

Presupposition	Hotels			Real Estate in Development			Real Estate			Shopping Malls			Agricultural Properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Average Rate per Room (€)	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.
Evaluation Methodology		Market Yield			Market Yield			Market Yield			Market Yield			Market Yield	

Notes:

1. *All the above assumptions were calculated based on the average of the values considered by the external evaluators per property assessed*
2. *The average presented was calculated on the property-weighted average in the sum of the value of the underlying assets per category presented*
3. *Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or projects are included under Real Estate under Development together with their respective property)*
4. *€/m2 consider the gross construction area*

In addition, additional assumptions considered in the fair value measurement of the financial investments held in the restructuring funds are presented below:

Background typology	Discount based on P/BV observed in the market
Real Estate and Tourism	16,6%
Real Estate and Tourism / Others	15,3%
Other	12,0%

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:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total Fair Value
31 December 2022				
Financial assets held for trading	**36 428**	**134 419**	**-**	**170 847**
Securities held for trading	36 428	-	-	36 428
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	**15 832**	**21 409**	**1 500 429**	**1 537 670**
Titles	15 832	21 409	1 500 411	1 537 652
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 accounted for at fair value through results	**-**	**-**	**13**	**13**
Obligations of other issuers	-	-	*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	**-**	**562 886**	**-**	**562 886**
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	**-**	**96 711**	**2 606**	**99 317**
Derivatives held for trading	-	96 711	2 606	99 317
Exchange rate contracts	-	*22 024*	-	*22 024*
Interest rate contracts	-	*71 807*	*2 606*	*74 413*
Other	-	*2 880*	-	*2 880*
Derivatives - Hedge Accounting	**-**	**120 612**	**-**	**120 612**
Loans	-	*120 612*	-	*120 612*
Liabilities at fair value	**-**	**217 323**	**2 606**	**219 929**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total Fair Value
31 December 2021				
Financial assets held for trading	**114 465**	**263 244**	**-**	**377 709**
Securities held for trading	114 465	-	-	114 465
Bonds issued by public entities	*114 465*	-	-	*114 465*
Derivatives held for trading	-	263 244	-	263 244
Exchange rate contracts	-	*29 172*	-	*29 172*
Interest rate contracts	-	*225 196*	-	*225 196*
Other	-	*8 876*	-	*8 876*
Financial assets mandatorily at fair value through profit or loss	**187 621**	**26 309**	**2 036 378**	**2 250 308**
Bonds issued by other entities	*52 532*	*50*	*506 645*	*559 227*
Shares	*135 089*	-	*290 274*	*425 363*
Other variable income securities	-	*26 259*	*1 239 459*	*1 265 718*
Financial assets at fair value through other comprehensive income	**7 091 159**	**6 624**	**35 725**	**7 133 508**
Bonds issued by public entities	*5 685 067*	-	-	*5 685 067*
Bonds issued by other entities	*1 398 899*	-	-	*1 398 899*
Shares	*7 193*	*6 624*	*35 725*	*49 542*
Derivatives - Hedge Accounting	**-**	**20 150**	**-**	**20 150**
Interest rate contracts	-	*20 150*	-	*20 150*
Assets at fair value	**7 393 245**	**316 327**	**2 072 103**	**9 781 675**
Financial liabilities held for trading	**-**	**303 562**	**1 950**	**305 512**
Derivatives held for trading	-	303 562	1 950	305 512
Exchange rate contracts	-	*34 690*	-	*34 690*
Interest rate contracts	-	*265 939*	*1 950*	*267 889*
Credit default contracts	-	*574*	-	*574*
Other	-	*2 359*	-	*2 359*
Derivatives - Hedge Accounting	**-**	**44 460**	**-**	**44 460**
Loans	-	*44 460*	-	44 460
Liabilities at fair value	**-**	**348 022**	**1 950**	**349 972**

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 2022 and 2021, can be analysed as follows:

(in thousands of Euros)

	31.12.2022						
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through results	Financial assets at fair value through other comprehensive income	**Total ativos**	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 thousands of Euros)

	31.12.2021						
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through results	Financial assets at fair value through other comprehensive income	**Total ativos**	Financial liabilities held for trading	**Total liabilities**
	Securities	Credit				Derivatives held for trading	
Balance as at 31 December 2020	**2 188 519**	**-**	**-**	**35 733**	**2 224 252**	**2 158**	**2 158**
Acquisitions	81 650	-	-	556	82 206	24 117	24 117
Attainment of maturity	(138 500)	-	-	-	(138 500)	-	-
Settlements	(122 392)	-	-	(4 246)	(126 638)	(24 117)	(24 117)
Transfers in	2 751	-	-	2 300	5 051	-	-
Changes in value	24 350	-	-	1 382	25 732	(208)	(208)
Balance as at 31 December 2021	**2 036 378**	**-**	**-**	**35 725**	**2 072 103**	**1 950**	**1 950**

In the exercises 2022 and 2021 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated on 31 December 2022 and 2021 were as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	(655)	(655)	-	144	144
Risk Management Derivatives	-	-	-	-	(24 117)	(24 117)
Financial assets mandatorily at fair value through profit or loss	-	(117 028)	(117 028)	-	29 501	29 501
Financial assets at fair value through other comprehensive income	23 350	-	23 350	9 122	-	9 122
	23 350	**(117 683)**	**(94 333)**	**9 122**	**5 528**	**14 650**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	31.12.2022						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets at fair value through results			**0,0**				
Obligations of other issuers	*Other*	(a)	0,0				
Financial assets mandatorily at fair value through profit or loss			**1 500,4**		**(43,3)**		**54,5**
Obligations of other issuers			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*		-		-
Credit			0,0				
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*
	Other	*(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 more than 90% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 5.8% and -5.7% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**2 036,4**		**(37,6)**		**58,7**
Obligations of other issuers			506,6				
	Discounted cash flow model	*Specific Impairment*	*2,4*	*-50%*	*(2,4)*	*+50%*	4,8
	Discounted cash flow model	*Discount rate*	*504,3*	*(-) 100 bps*	*(35,2)*	*(+) 100 bps*	*54,0*
Shares			290,3		-		-
	Valuation of the management company (adjusted)	(b)	287,5		-		-
	Others	*(a)*	*2,8*		-		-
Other variable income securities			1 239,5		-		-
	Valuation of the management company (adjusted)	*(b)*	*236,5*		-		-
	Valuation of the management company	*(c)*	*1 002,9*		-		-
Financial assets at fair value through other comprehensive income			**35,7**		**(1,7)**		**0,1**
Shares			35,7		-		-
	Discounted cash flows	*Renewable Energy Tariff*	*9,6*		*(1,7)*		*0,1*
	Other	*(a)*	*26,1*		-		-
Total			**2 072,1**		**(39,3)**		**58,8**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 5.8% and -5.7% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, on 31 December 2022 and 2021, in the valuation models were as follows:

Interest rate curves
The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	31.12.2022			31.12.2021		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	1,9501	4,3650	3,5750	-0,5740	0,0644	0,2100
1 month	1,8840	4,4200	3,6500	-0,5830	0,1013	0,2400
3 months	2,1320	4,7700	3,8000	-0,5720	0,2091	0,3900
6 months	2,6930	5,1500	4,3350	-0,5460	0,3388	0,6100
9 months	2,9920	5,2350	4,5250	-0,5235	0,4603	0,6700
1 year	3,2910	5,1130	4,6768	-0,5010	0,5831	0,8246
3 years	3,3005	4,3010	4,6088	-0,1450	1,1495	1,2972
5 years	3,2390	4,0110	4,3280	0,0160	1,3460	1,2910
7 years	3,2020	3,8780	4,1350	0,1300	1,4530	1,2373
10 years	3,2020	3,8220	3,9920	0,3030	1,5610	1,2095
15 years	3,1410	3,7970	3,9377	0,4920	1,6800	1,1817
20 years	2,9310	3,7260	3,8647	0,5480	1,7708	1,1518
25 years	2,7150	3,6170	3,7967	0,5240	1,7316	1,1264
30 years	2,5320	3,4720	3,7257	0,4790	1,7160	1,1030

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:

Index	Series	1 year	3 years	5 years	7 years	10 years
						(basis points)
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	-	-
31 December 2021						
CDX USD Main	**37**	0,00	0,00	49,57	68,55	0,00
iTraxx Eur Main	**36**	10,43	26,82	47,76	66,71	87,01
iTraxx Eur Senior Financial	**36**	0,00	0,00	54,86	0,00	85,86

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2022			**31.12.2021**		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	99,28	23,33	55,24	23,16	73,74	76,14
3 years	124,23	38,10	49,59	55,79	59,15	63,57
5 years	124,77	40,72	47,00	65,81	56,88	71,17
7 years	121,60	39,38	45,73	68,34	54,59	79,98
10 years	115,66	35,95	42,81	68,98	50,93	88,08
15 years	107,02	-	-	66,28	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	**31.12.2022**	**31.12.2021**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,0666	1,1326	8,60	8,80	8,41	8,25	8,15
EUR/GBP	0,8869	0,8403	7,57	7,68	7,76	7,87	7,94
EUR/CHF	0,9847	1,0331	5,80	6,00	6,05	6,12	6,12
EUR/NOK	10,5138	9,9888	8,75	9,10	9,23	9,36	9,42
EUR/PLN	4,6808	4,5969	7,27	7,68	8,03	8,28	8,45
EUR/RUB	117,2010	85,3004	7,51	8,07	8,71	9,29	9,58
USD/BRL [a)]	5,2865	5,5713	19,55	19,43	19,21	19,12	19,05
USD/TRY [b)]	18,7183	13,4500	8,76	13,01	21,19	25,23	28,24

[a)] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b)] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Bank uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	31.12.2022	31.12.2021	% Change	1 month	3 months	
DJ Euro Stoxx 50	3 794	4 298	-1174,36%	16,17	19,27	18,70
PSI 20	5 726	5 569	281,23%	11,27	16,45	-
IBEX 35	8 229	8 714	-556,24%	12,67	16,72	-
FTSE 100	7 452	7 385	91,00%	9,77	13,28	13,15
DAX	13 924	15 885	-1234,68%	15,08	19,53	18,72
S&P 500	3 840	4 766	-1944,28%	19,57	25,43	19,84
BOVESPA	109 735	104 822	468,62%	22,81	25,19	24,85

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analysed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total fair value
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	8 618 778	6 296 968	281 254	1 662 275	8 240 497
Loans and advances to credit institutions	145 464	-	145 464	-	145 464
Loans and advances to customers	22 955 229	-	-	23 450 085	23 450 085
Financial assets	**38 106 766**	**6 296 968**	**6 814 013**	**25 112 360**	**38 223 341**
Financial liabilities measured at amortised cost					
Deposits from Central Banks and other credit institutions	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**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total fair value
31 December 2021					
Cash, cash balances at central bank and other demand deposits	5 674 461	-	5 674 461	-	5 674 461
Financial assets at amortised cost					
Debt securities	2 893 829	1 065 084	332 194	1 729 846	3 127 124
Loans and advances to credit institutions	186 089	-	186 089	-	186 089
Loans and advances to customers	21 897 382	-	-	22 263 293	22 263 293
Financial assets	**30 651 761**	**1 065 084**	**6 192 744**	**23 993 139**	**31 250 967**
Financial liabilities measured at amortised cost					
Deposits from Central Banks and other credit institutions	11 497 829	-	11 532 025	-	11 532 025
Due to customers	26 997 858	-	-	26 997 858	26 997 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 479 066	1 736 200	-	44 451	1 780 651
Other financial liabilities	371 609	-	-	371 609	371 609
Financial liabilities	**40 346 362**	**1 736 200**	**11 532 025**	**27 413 918**	**40 682 143**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.
Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost
The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers
The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the 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.

NOTE 39 – 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 VI of the Market Discipline Report.

39.1 - 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.

- Independence from the other units of the group, in particular from the risk-taking units.
- Universality by application throughout **novobanco**;
- Integrality of the risk culture, through a holistic vision and anticipation of its materialization.
- 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.

39.2 - Governance and risk management structure

Risk Management, vital to the development of the novobanco's activity, is centralised in the Risk Management Function, comprising the Global Risk Department (*Departamento de Risco Global* (DRG)) and the Rating Department (*Departamento de Rating* (DRT)), which holistically defines the principles of risk management and control, in close coordination with the other second line units of novobanco, 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.

Operationally, DRG centralises the Risk Management Function of novobanco, namely the responsibilities inherent to the function, supervising the various materially relevant financial institutions of the, ensuring independence from the business areas.

novobanco Head of the Risk Management Function is the head of the DRG. To ensure greater efficiency in liaison with the DRG, a local Risk Officer has been appointed in each relevant entity of the novobanco. The DRG intervention is direct or in coordination and articulation 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.
- Operational risk.

We also highlight ESG (Environmental, Social and Governance) risk - in particular, the subcategories of climate and environmental risk and other environmental risks - as risks with growing relevance, and whose impact is estimated to be materialised in the medium and long term (and, therefore, over a longer horizon 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 evaluation of the materiality of its impacts is analysed transversally, since the ESG factors are intrinsically present in the other risk categories foreseen in the Bank's taxonomy of risks.

In this context, we highlight the factors that have merited greater specialization by the Bank, in terms of its methodologies for risk assessment and control and their respective 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).

The following are the main risk management guidelines for 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.
- operational risk: operational risk policies are defined by a specialised DRG team, with other units such as the Compliance department and the Information security office issuing specific risk policies. The effectiveness of the methodologies for the identification and control of operational risk is guaranteed through the actions of the operational risk management representatives appointed for each organic unit, who promote the risk culture in the first line of defense in continuous collaboration with the DRG.

39.3 - 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 6.10.6.

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 2022

During 2022, we highlight below in chronological order, the non-recurring situations that had the greatest impact on the cost of risk for the period:

1. Classification as Unlikely to pay - and, consequently, change to stage 3 - on the universe of clients who ended the moratorium and where there were later situations of overdue credit with more than 45 days throughout the first half of the year.
2. Increases in impairments arising from individual analysis for counterparties from countries in the conflict zone.
3. Constitution of impairments due to the deterioration of macroeconomic expectations, rise in reference interest rates and increase in the inflation rate.

Regarding the reinforcements of impairment mentioned in points 1. and 2. above, these situations had a manageable impact on the cost of risk since (1) exposure to countries from the conflict zone is reduced and (2) the level of claims verified with the criteria defined for the purpose was insignificant. In relation to point 3. above, this addressed the timely recording of impairments arising from the deterioration of the macroeconomic outlook as a result of the effects of the conflict between Russia and Ukraine and the increases observed in both reference interest rates and inflation. Accordingly, given the need for the impairment to reflect prospective information, the impact relative to this framework was estimated and accounted for, contemplating:

3.1 Effects arising from the continuation of the Russia/Ukraine conflict, with an increase in raw material costs, but also from the generalised increase in prices of goods and services. To consider this situation, the practical expedient was followed of increasing the weight attributed to the less favorable scenario that is currently used to support the IFRS9 impairment calculation, against the other scenarios used - base and most favorable;

3.2 Effects arising from the rise in reference interest rates, whose impact on impairment was estimated via the LGD risk parameter. The estimation/development of this parameter was based on interest rate values prior to 2022, where reference rates assumed negative values. With the recent rise in these rates to positive values it became urgent to ensure that the LGD risk parameter and, consequently, the impairment constituted for the credit portfolio to date incorporated this impact.

3.3 Effects of potential deterioration in the level of risk of companies in sectors more vulnerable to the current economic environment, in this case companies whose activities involve intensive energy consumption. To anticipate this impact, the sectors in these conditions were defined as well as the clients associated with the same in order to simulate and account for the impact on impairment resulting from a generalised deterioration of the rating on the exposures of this specific portfolio.

Until it is possible to complete and implement updated collective risk parameters according to revised macroeconomic scenarios as well as to ensure a complete review of the risk assessment in companies most exposed to the effect of the energy crisis, the above impacts were estimated based on simulations and accounted without allocation to specific exposures since 31 March 2022 until the release of accounts on 30 September 2022.

During the last quarter of 2022, based on the revised macroeconomic scenarios:

- collective risk parameters have been updated and fully implemented in accordance with the models for incorporating forward-looking information, incorporating appropriate adjustments, including the shock effect of interest rates on both the probability of non-compliance parameters and their severity in all segments; and
- the weighting attributed to the results of each scenario was reviewed, in particular the adverse scenario that went from 30% to 20% in return for the basic and alternative scenarios. Despite this reduction, the weighting allocated remains at the appropriate level

Also, in this period of the last quarter of 2022, the review of the credit rating associated with customers with economic activity most exposed to the increase in energy costs was completed.

Thus, the effects on impairment resulting from these events came to replace the estimated amount of parity based on simulations - criteria described above - an amount that was previously accounted for without allocation to specific exposures.

Although the effect of these changes is not immediately measurable, it was estimated that the impact on impairments arising from these events would be around Euro 40 million. Even so, despite this specific effect, the annual observed cost of credit risk remained at controlled levels and below those of 2021.

39.3.1 - Credit risk exposure

novobanco maximum credit risk exposure is analysed as follows:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Gross value	Impairment	Net Value	Gross value	Impairment	Net Value
Deposits with and loans and advances to banks	414 135	(674)	413 461	452 884	(1 183)	451 701
Derivatives for trading and fair value option derivatives	134 419	-	134 419	263 244	-	263 244
Securities held for trading	36 428	-	36 428	114 465	-	114 465
Securities at fair value through profit/loss	13	-	13	-	-	-
Securities at fair value through profit/loss - mandatory	433 665	-	433 665	559 227	-	559 227
Securities at fair value through other comprehensive income	2 109 045	(589)	2 108 456	7 083 966	(3 668)	7 080 298
Securities at amortised cost	8 691 800	(291 567)	8 400 233	3 138 465	(247 772)	2 890 693
Loans and advances to customers	23 848 444	(1 057 567)	22 790 877	23 165 062	(1 235 757)	21 929 305
Derivatives - hedge accounting	1 537 652	-	1 537 652	2 250 308	-	2 250 308
Other assets	591 030	(117 590)	473 440	783 245	(165 832)	617 413
Guarantees and standby letters provided	2 262 092	(82 392)	2 179 700	2 221 575	(79 339)	2 142 236
Documentary credits	169 410	-	169 410	402 332	-	402 332
Revocable and irrevocable commitments	5 955 096	(7 066)	5 948 030	5 849 281	(12 436)	5 836 845
	46 183 229	**(1 557 445)**	**44 625 784**	**46 284 054**	**(1 745 987)**	**44 538 067**

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 6.16. 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.

39.3.2 - 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 Scenario, with a relative weight of 65%.

	Unit	2018	2019	2020	2021	2022	2023	2024	2025
GDP	Real growth %	2,6	2,7	-8,4	4,9	6,4	2,4	2,1	2,0
Private Consumption	Real growth %	2,9	3,0	-5,5	4,4	4,9	1,3	1,6	1,8
Government Expenditure	Real growth %	0,9	2,1	0,4	5,0	2,2	-0,9	-0,2	0,1
Investment	Real growth %	6,2	3,2	-5,7	6,1	5,1	7,4	5,0	4,2
Exports	Real growth %	4,5	4,1	-18,6	13,0	13,6	5,5	3,7	4,5
Imports	Real growth %	5,7	4,9	-12,1	12,8	8,8	4,8	3,4	4,4
Domestic Demand	Real growth %	2,8	3,1	-5,6	5,1	4,5	2,1	2,0	2,0
Prices									
CPI	%	1,0	0,3	0,0	1,3	5,9	2,6	2,0	1,7
Real Estate (Residential)	%	10,3	10,0	8,8	9,4	8,3	2,5	4,8	5,0
Real Estate (Commercial)	%	4,9	3,1	2,8	5,1	3,6	-0,2	1,3	1,5
Equity prices (incremental change)	%	-11,0	10,2	-6,1	13,7	0,0	0,0	0,0	0,0
Unemployment	% labour force	7,0	6,6	7,0	6,6	5,8	5,7	5,8	5,8
Euribor (annual average)									
3-month	%	-0,32	-0,36	-0,43	-0,55	0,01	1,62	2,02	2,08
end-of-period	*%*	*-0,31*	*-0,38*	*-0,55*	*-0,57*	*1,22*	*2,01*	*2,02*	*2,13*
6-month	%	-0,27	-0,30	-0,37	-0,52	0,28	1,75	2,04	2,10
end-of-period	*%*	*-0,24*	*-0,32*	*-0,53*	*-0,55*	*1,46*	*2,03*	*2,04*	*2,16*
12-month	%	-0,17	-0,22	-0,31	-0,49	0,65	1,87	2,06	2,15
end-of-period	*%*	*-0,12*	*-0,25*	*-0,50*	*-0,50*	*1,70*	*2,04*	*2,07*	*2,22*
Sovereign Yields (average)									
Bund 10Y	%	0,46	-0,21	-0,47	-0,31	1,10	1,69	1,79	1,87
end-of-period	*%*	*0,24*	*-0,19*	*-0,57*	*-0,18*	*1,64*	*1,74*	*1,83*	*1,91*
PGB 10Y	%	1,85	0,77	0,42	0,29	2,10	2,85	3,04	3,21
end-of-period	*%*	*1,72*	*0,44*	*0,03*	*0,47*	*2,75*	*2,95*	*3,12*	*3,29*
PGB 2Y	%	-0,13	-0,42	-0,42	-0,65	0,78	1,80	2,05	2,39
end-of-period	*%*	*-0,35*	*-0,55*	*-0,73*	*-0,66*	*1,72*	*1,88*	*2,22*	*2,55*
10Y PGB-Bund spread									
Annual Average	bps	138	98	89	60	100	116	125	134
end-of-period	bps	148	63	60	65	111	121	129	138
10Y-2Y PGB Spread									
Annual Average	bps	198	119	84	94	132	105	99	82
end-of-period	bps	207	99	76	113	103	107	90	74

The baseline scenario assumes strong GDP growth in 2022, supported by the favorable performances of private consumption and exports, and the removal of Covid-19 constraints. Private consumption is also seen to benefit from household income support, the use of savings accumulated during the pandemic, and a contained unemployment rate. Exports benefit from the strong contribution of tourism services, with demand picking up after the confinement periods. For 2023, the baseline scenario assumes that the economy suffers a strong deceleration, especially with the falling contributions of private consumption and exports. These developments result from the effects of rising inflation (loss of purchasing power), tighter monetary and financial conditions, with rising interest rates, and unfavorable base effects. In the period 2024-25, GDP growth is assumed to trend around 2%. After the highest records in 2022 and 2023, inflation gradually declines until 2025. This picture translates into rising long-term market interest rates, but with the Portuguese OT spread against the German benchmark remaining contained. Real estate prices reflect rising interest rates and cooling demand and decelerate sharply in 2023, then recover to moderate growth.

B - Less favourable / adverse scenario, with a relative weight of 20%

	Unit	2018	2019	2020	2021	2022	2023	2024	2025
GDP	Real growth %	2,6	2,7	-8,4	4,9	5,7	-3,7	-0,9	2,0
Private Consumption	Real growth %	2,9	-3,3	-7,1	4,5	3,8	-3,9	-1,2	1,6
Government Expenditure	Real growth %	0,9	2,1	0,4	4,1	1,8	0,6	1,5	-0,2
Investment	Real growth %	6,2	3,3	-5,7	7,9	4,9	-5,3	-0,4	5,0
Exports	Real growth %	4,5	4,1	-18,6	13,1	9,2	-2,9	1,6	4,7
Imports	Real growth %	5,7	4,9	-12,1	13,1	4,4	-2,3	2,3	4,4
Domestic Demand	Real growth %	2,8	3,1	-5,6	5,1	3,7	-3,4	-0,6	1,9
Prices									
CPI (12m/12m average rate)	%	1,0	0,3	0,0	1,3	8,7	6,6	4,3	2,4
Real Estate (Residential)	%	10,3	10,0	8,8	9,4	7,1	-8,5	-10,1	-1,3
Real Estate (Commercial)	%	4,9	3,1	2,8	5,1	3,3	-10,3	-12,2	-1,6
Equity prices (incremental change)	%	-11,0	10,2	-6,1	13,7	0,0	0,0	0,0	0,0
Unemployment	% labour force	7,0	6,6	7,0	6,6	6,3	9,4	13,7	9,6
Euribor (annual average)									
3-month	%	-0,32	-0,36	-0,43	-0,55	0,37	3,23	4,28	3,60
end-of-period	*%*	*-0,31*	*-0,38*	*-0,55*	*-0,57*	*2,06*	*4,40*	*4,15*	*3,05*
6-month	%	-0,27	-0,30	-0,37	-0,52	0,64	3,34	4,27	3,55
end-of-period	*%*	*-0,24*	*-0,32*	*-0,53*	*-0,55*	*2,25*	*4,42*	*4,12*	*2,97*
12-month	%	-0,17	-0,22	-0,31	-0,49	0,98	3,41	4,27	3,53
end-of-period	*%*	*-0,12*	*-0,25*	*-0,50*	*-0,50*	*2,38*	*4,43*	*4,10*	*2,95*
Sovereign Yields (average)									
Bund 10Y	%	0,46	-0,21	-0,47	-0,31	0,99	1,78	1,89	1,84
end-of-period	*%*	*0,24*	*-0,19*	*-0,57*	*-0,18*	*1,71*	*1,84*	*1,93*	*1,75*
PGB 10Y	%	1,85	0,77	0,42	0,29	2,01	3,31	3,57	3,16
end-of-period	*%*	*1,72*	*0,44*	*0,03*	*0,47*	*2,78*	*3,83*	*3,31*	*3,02*
PGB 2Y	%	-0,13	-0,42	-0,42	-0,65	0,78	2,54	2,77	2,25
end-of-period	*%*	*-0,35*	*-0,55*	*-0,73*	*-0,66*	*1,97*	*3,10*	*2,44*	*2,05*
10Y PGB-Bund spread									
Annual Average	bps	138	98	89	60	102	153	169	132
end-of-period	bps	148	*63*	*60*	*65*	*107*	*199*	*138*	*127*
10Y-2Y PGB Spread									
Annual Average	bps	198	119	84	94	123	77	80	92
end-of-period	bps	207	99	76	113	81	73	87	97

The adverse scenario assumes a scenario of stagflation in the European and Portuguese economies. In Portugal, inflation is higher and more persistent than in the baseline scenario, mainly due to a negative energy shock and a more visible transmission of the increase in energy and food prices to wages and the prices of other goods and services. Inflation reaches 8.7% in 2022 and 6.6% in 2023, remaining above the 2% target in 2024. Activity falls back significantly in 2023, and the contraction extends into 2024, not only due to the energy shock but also resulting from a more aggressive rise in reference interest rates by the ECB, creating restrictive monetary and financial conditions.

A high and persistent increase in interest rates is assumed (3-month Euribor rises to close to 4.3% in 2024 and remains around 3.6% in 2025, in annual average terms). This picture translates into contractions in private consumption and investment in 2023-24. It is assumed that the adverse conditions associated with this scenario postpone the execution of RRP funds. In any case, their effect on investment becomes visible towards the end of the projection horizon. The recession and rising interest rates contribute to a sharp contraction in activity and property prices. With the Portuguese economy being seen as especially vulnerable to interest rate increases, a more pronounced widening of the spread between the yields on Treasury bonds and the German benchmark is assumed.

C - Most favourable scenario, with a relative weight of 15%

	Unit	2019	2020	2021	2022	2023	2024	2025
GDP	Real growth %	2,7	-8,4	4,9	6,7	3,6	3,4	2,5
Private Consumption	Real growth %	3,0	-5,5	4,4	5,1	3,5	2,8	2,6
Government Expenditure	Real growth %	2,1	0,4	5,0	2,2	0,4	0,4	0,1
Investment	Real growth %	3,2	-5,7	6,1	5,1	8,6	7,1	4,2
Exports	Real growth %	4,1	-18,6	13,0	13,9	21,1	11,2	6,6
Imports	Real growth %	4,9	-12,1	12,8	8,7	21,6	10,8	6,5
Domestic Demand	Real growth %	3,1	-5,6	5,1	4,6	3,9	3,2	2,5
Prices								
CPI	%	0,3	0,0	1,3	5,9	2,1	1,8	1,7
Real Estate (Residential)	%	10,0	8,8	9,4	8,3	6,9	5,7	4,9
Real Estate (Commercial)	%	3,1	2,8	5,1	3,6	3,1	2,6	2,1
Equity prices (2022-25, change vs. base year)	%	10,2	-6,1	13,7	0,0	15,0	20,0	25,0
Unemployment	% labour force	6,6	7,0	6,6	5,7	5,4	5,3	5,1
Euribor (annual average)								
3-month	%	-0,36	-0,43	-0,55	0,01	1,75	2,40	2,53
end-of-period	*%*	*-0,38*	*-0,55*	*-0,57*	*1,22*	*2,27*	*2,52*	*2,53*
6-month	%	-0,30	-0,37	-0,52	0,28	1,88	2,42	2,55
end-of-period	*%*	*-0,32*	*-0,53*	*-0,55*	*1,46*	*2,30*	*2,54*	*2,55*
12-month	%	-0,22	-0,31	-0,49	0,65	2,01	2,45	2,58
end-of-period	*%*	*-0,25*	*-0,50*	*-0,50*	*1,70*	*2,32*	*2,57*	*2,58*
Sovereign Yields (average)								
Bund 10Y	%	-0,21	-0,47	-0,31	1,18	2,01	2,28	2,43
end-of-period	*%*	*-0,19*	*-0,57*	*-0,18*	*1,77*	*2,25*	*2,30*	*2,55*
PGB 10Y	%	0,77	0,42	0,29	2,10	2,96	3,05	3,13
end-of-period	*%*	*0,44*	*0,03*	*0,47*	*2,87*	*3,05*	*3,05*	*3,20*
PGB 2Y	%	-0,42	-0,42	-0,65	0,78	1,90	2,07	2,30
end-of-period	*%*	*-0,55*	*-0,73*	*-0,66*	*1,82*	*1,98*	*2,15*	*2,45*
10Y PGB-Bund spread								
Annual Average	bps	98	89	60	92	95	78	70
end-of-period	bps	63	60	65	110	80	75	65
10Y-2Y PGB Spread								
Annual Average	bps	119	84	94	132	106	99	83
end-of-period	bps	99	76	113	105	107	90	75

The favorable scenario assumes that the increase in inflation in 2022 is transitory. After recording more than 5%, price growth converges, over the remaining projection horizon, to values around or below 2%. This evolution could be associated with a quick resolution of the war in Ukraine and/or a strong easing of energy and food prices, thus not observing the normalization of inflation to values around its target, allowing for a rise in benchmark and short-term market interest rates, but to contained values, up to 2.5%. In this context, economic activity is assumed to expand at an above-trend pace over the entire projection horizon. GDP growth benefits from positive performances in investment (with the implementation of RRP funds) and exports. Strong external demand and favorable financing conditions support house price growth, albeit at single-digit records. The unemployment rate is seen receding to near 5% of the labor force.

39.3.3 – Impairment Models

At 31 December 2022 and 2021, the detail of the amount of gross credit exposure and impairment assessed individually and collectively, by segment was as follows:

(in thousands of Euros)

	31.12.2022					
	Individual Assessment		Collective Assessment		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 Loans	**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**

(in thousands of Euros)

	31.12.2021					
	Individual Assessment		Collective Assessment		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	**1 295 587**	**623 390**	**12 270 140**	**390 865**	**13 565 727**	**1 014 255**
Stage 1	-	-	8 802 731	66 005	8 802 731	66 005
Stage 2	2 831	855	3 411 737	293 028	3 414 568	293 883
Stage 3	1 292 756	622 535	55 672	31 832	1 348 428	654 367
Mortgage Loans	**2 955**	**145**	**8 330 891**	**44 480**	**8 333 846**	**44 625**
Stage 1	-	-	7 522 047	4 336	7 522 047	4 336
Stage 2	-	-	670 959	14 503	670 959	14 503
Stage 3	2 955	145	137 885	25 641	140 840	25 786
Other Loans	**147 997**	**132 353**	**1 117 492**	**44 524**	**1 265 489**	**176 877**
Stage 1	-	-	907 983	10 001	907 983	10 001
Stage 2	-	-	173 550	17 674	173 550	17 674
Stage 3	147 997	132 353	35 959	16 849	183 956	149 202
Total	**1 446 539**	**755 888**	**21 718 523**	**479 869**	**23 165 062**	**1 235 757**

In the case of credits analysed by the Impairment Committee for which the impairment determined automatically by the Impairment Model has not been changed, they are included and presented in the "Collective Assessment".

As of 31 December 2022 and 2021, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by geography, is presented as follows:

(in thousands of Euros)

Country	31.12.2022					
	Individual Assessment *		Colective Assessment **		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**

* Loans and advances for which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

Country	31.12.2022					
	Individual Assessment *		Colective Assessment **		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**

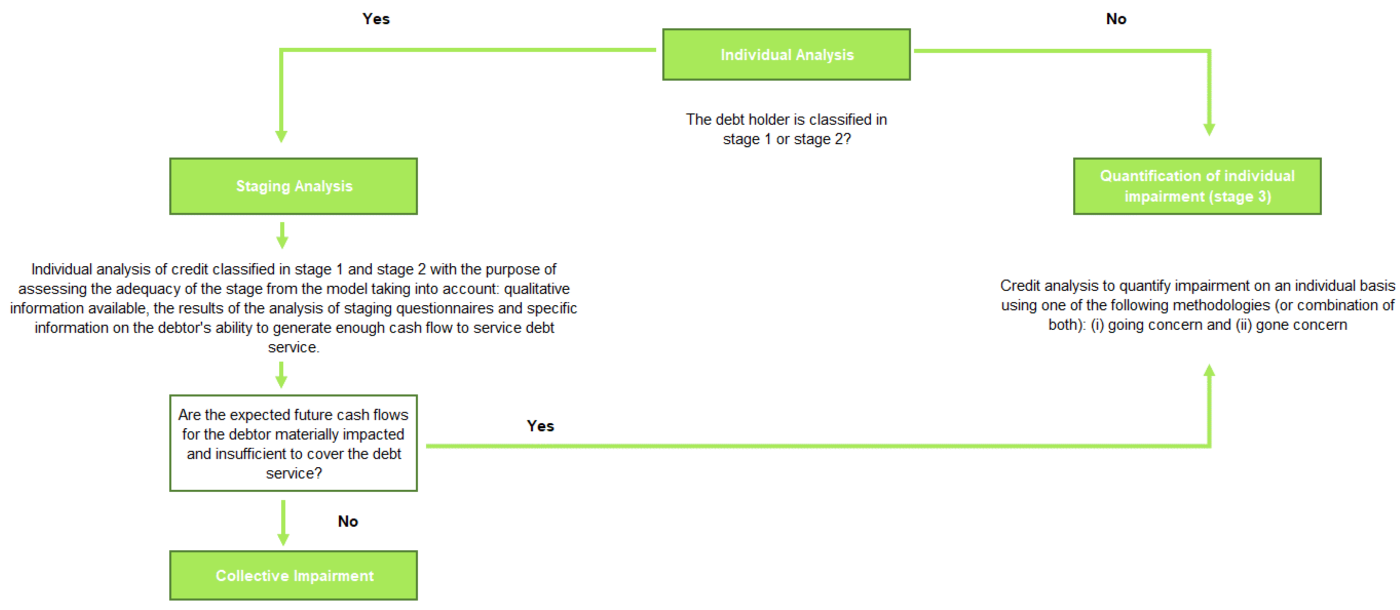
* Loans and advances for which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

39.3.3.1 - Individual Credit Analysis

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

The 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

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

- Register Stage 3 exposure equal to or greater than Euro 1 million.
- Register Stage 2 exposure equal to or greater than Euro 5 million.
- Register Stage 2 exposure equal to or greater than Euro 1 million and have no rating assigned.
- Register Stage 1 exposure equal to or greater than Euro 5 million and have no rating assigned.
- Register Stage 1 exposure equal or greater than Euro 25 million (individually significant exposure).
- Fit into the risk segment Financial Holding and liability equal to or greater than Euro 5 million.
- Fit into the Financial Holding risk segment and register exposure equal to or greater than Euro 5 million.
- Fit into the Real Estate risk segment and register exposure equal to or greater than Euro 5 million.

- Are identified by the Committee itself based on another criteria that justify (e.g., sector of activity).
- In the past, specific impairment has been attributed to them.
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

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

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

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

Rules of Operation

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

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

39.3.3.2 **- 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.

Apart from adjustments made during the first half of the year on the universe that was moratorium in 2021, the remaining adjustments made in 2022 result mainly from the need for revision / correction of data that, punctually and on a temporary basis, led to the respective adjustment.

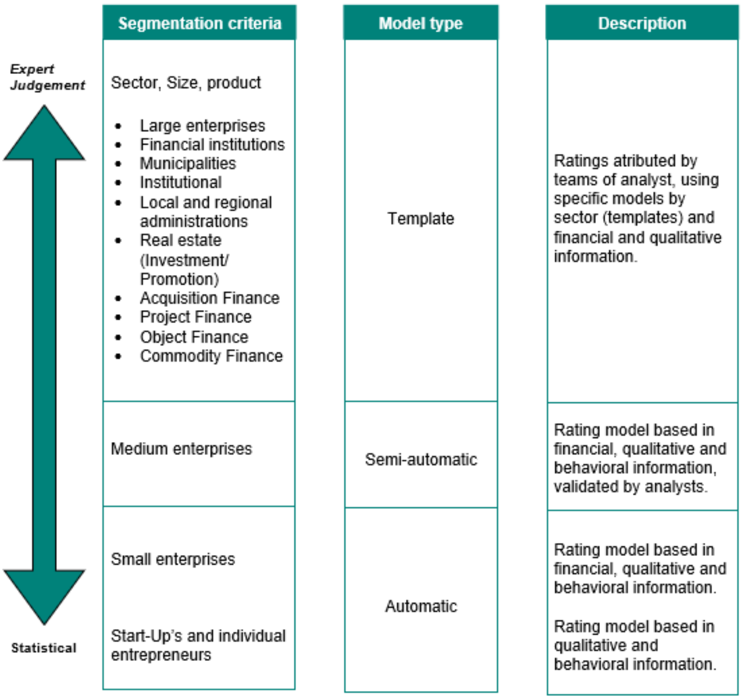
In relation to the adjustments related to the universe of clients who benefited from the above-mentioned moratorium, they were progressively discontinued during the second semester. This decision resulted from the assessment in this universe over a reasonable period of the ability to resume the amortization plan after it was resumed, so the implemented risk assessment model would faithfully translate the appropriate level of parity, without the need for additional adjustments.

39.3.4 - Credit Risk Monitoring (DRG)

39.3.4.1 **- Internal rating models for Corporates, Institutions and shares**

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 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.

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

39.3.4.2 - 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 (www.moodys.com and www.fitchratings.com).

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

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

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

S&P	Moody's	Fitch	*S&P equivalent external rating*	*Rating aggregation classes**
AAA	Aaa	AAA	AAA	*Prime Grade*
AA+	Aa1	AA+	AA+	*High grade*
AA	Aa2	AA	AA	
AA-	Aa3	AA-	AA-	
A+	A1	A+	A+	*Upper medium grade*
A	A2	A	A	
A-	A3	A-	A-	
BBB+	Baa1	BBB+	BBB+	*Lower medium grade*
BBB	Baa2	BBB	BBB	
BBB-	Baa3	BBB-	BBB-	
BB+	Ba1	BB+	BB+	*Non-investment grade speculative*
BB	Ba2	BB	BB	
BB-	Ba3	BB-	BB-	
B+	B1	B+	B+	*Highly speculative*
B	B2	B	B	
B-	B3	B-	B-	
CCC+	Caa1	CCC+	CCC+	*Others*
CCC	Caa2	CCC	CCC	
CCC-	Caa3	CCC-	Lower than CCC	
CC	Ca	CC		
SD	C	C		
D		RD/D		

39.3.4.3 - 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.

39.3.4.4 - Other specific disclosures

- Specific disclosures under Decreto-Lei nº 80-A/2022"Measures aimed at mitigating the effects of increasing the reference indexes of credit agreements for the acquisition or construction of permanent own housing", although at this stage it still goes fundamentally through the operationalization of contacts with customers and monitoring of requests that, according to the Bank, are still residual taking into account the universe at this stage:

  In the current context of continuous increase in housing credit indexes, and in line with the legislative measures provided in Decreto-Lei nº 80-A/2022 aimed at mitigating their effects on credit agreements for the acquisition or construction of permanent housing, novobanco has developed different initiatives aimed at supporting customers who are or are expected to find themselves in a situation of financial difficulty to ensure compliance with their own responsibilities. In cases where it has up-to-date information on household income, the Bank has the possibility to determine the current stress rate and identify those cases that are at a significant stress rate level or that have significantly increased their value, providing their support with the presentation of renegotiation solutions when required by the situation of proven financial difficulty.

  In cases where it does not have up-to-date income information, the novobanco has an action strategy consistent with those legislative requirements, communicating at an initial moment with all eligible customers, and later and in anticipation of each indexing update event, with the aim of ensuring adequate information from customers, requesting them to provide up-to-date income information and being able to offer remediation solutions in cases where the financial difficulty requires it.

- Follow up of the moratoriums that is in the "discontinuation" phase in terms of monitoring by the Bank:

  As a result of the time elapsed since the end of the moratoriums granted in the Covid pandemic period under public and private regimes, the history of regular compliance with the claims that have re-entered the amortization phase, and due to the small claims observed, the novobanco considers it currently unnecessary to maintain a dedicated follow-up on the set of private clients and companies that during that phase had a conditioning in the form of exercising their activity and the level of income earned.

- Segmentation by affected macro clusters, which the bank has been identifying throughout 2022, after the degradation of macroeconomic scenarios

Due to the macroeconomic developments that have occurred throughout 2022 - and the impact from the business fabric – novobanco monitored the most affected economic sectors very closely, with particular emphasis on those energy consumers more intensively. Although the Bank continues to monitor its clients in general in various forums, 15 particularly impacted sectors (mainly related to industry and related to textile activity) have been identified, and the effect on the business risk of the offending companies in these sectors has been identified and targeted at this more specific type of monitoring.

For 2023, the same type of surveillance is envisaged, but sectoral selection variables can be adjusted in line with developments in the macroeconomic environment.

39.3.5 – Delinquency

The table below displays the assets impaired, or overdue but not impaired:

(in thousands of Euros)

	31.12.2022					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	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 results	13	-	-	13	-	13
Debt instruments - other issuers	*13*	-	-	*13*	-	*13*
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

(in thousands of Euros)

	31.12.2021					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	452 884	-	-	452 884	(1 183)	451 701
Securities held for trading	114 465	-	-	114 465	-	114 465
Bonds issued by government and other public entities	*114 465*	-	-	*114 465*	-	*114 465*
Securities at fair value through profit/loss - mandatory	559 227	-	-	559 227	-	559 227
Bonds issued by other entities	*559 227*	-	-	*559 227*	-	*559 227*
Securities at fair value through other comprehensive income	7 061 196	-	22 770	7 083 966	(3 668)	7 080 298
Bonds issued by government and other public entities	*5 685 067*	-	-	*5 685 067*	*(2 995)*	*5 682 072*
Bonds issued by other entities	*1 376 129*	-	*22 770*	*1 398 899*	*(673)*	*1 398 226*
Securities at amortised cost	2 826 278	-	312 187	3 138 465	(247 772)	2 890 693
Bonds issued by government and other public entities	*371 273*	-	-	*371 273*	*(540)*	*370 733*
Bonds issued by other entities	*2 455 005*	-	*312 187*	*2 767 192*	*(247 232)*	*2 519 960*
Loans and advances to customers	21 448 271	8 422	1 708 369	23 165 062	(1 235 757)	21 929 305

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):

(in thousands of Euros)

	31.12.2022					
	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						
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
	-	**102 968**	**-**	**-**	**5 765**	**332 385**
Due						
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
	-	**332 374**	**-**	**-**	**-**	**1 023 012**
	-	**435 342**	**-**	**-**	**5 765**	**1 355 397**

(in thousands of Euros)

	31.12.2021					
	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						
Up to 3 months	-	-	-	-	6 879	16 132
From 3 months to 1 year	-	210 598	-	-	1 095	17 628
From 1 to 3 years	-	1 940	-	-	385	45 925
From 3 to 5 years	-	37 594	-	-	36	70 988
More than 5 years	-	84 825	-	-	27	142 392
	-	**334 957**	**-**	**-**	**8 422**	**293 065**
Due						
Up to 3 months	-	-	-	-	-	95 219
From 3 months to 1 year	-	-	-	-	-	201 267
From 1 to 3 years	-	-	-	-	-	246 010
From 3 to 5 years	-	-	-	-	-	137 820
More than 5 years	-	-	-	-	-	734 988
	-	**-**	**-**	**-**	**-**	**1 415 304**
	-	**334 957**	**-**	**-**	**8 422**	**1 708 369**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2022				31.12.2021			
	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	-	-	25 248	25 248	-	-	22 770	22 770
Securities at amortised cost	-	-	410 094	410 094	-	-	312 187	312 187
Loans and advances to customers	-	-	1 361 162	1 361 162	4 874	3 548	1 708 369	1 716 791
	-	**-**	**1 796 504**	**1 796 504**	**4 874**	**3 548**	**2 043 326**	**2 051 748**

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.

(in thousand of Euros)

	31.12.2022					
	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 enti	-	-	-	-	*36 428*	*36 428*
Securities at fair value through results	-	-	-	-	13	13
Debt instruments - other issuers	-	-	-	-	*13*	*13*
Securities at fair value through profit/loss - mandatory	-	-	-	-	433 665	*433 665*
Bonds issued by other entities	-	-	-	-	*433 665*	*433 665*
Securities at fair value through other comprehensive incom	700 313	717 790	616 785	-	48 909	2 083 797
Bonds issued by government and other public enti	*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 enti	*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

(in thousand of Euros)

	31.12.2021					
	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	26 580	57 521	78 598	289 560	452 884
Securities held for trading	-	-	-	-	114 465	114 465
Bonds issued by government and other public enti	-	-	-	-	*114 465*	*114 465*
Securities at fair value through profit/loss - mandatory	-	-	-	-	559 227	559 227
Bonds issued by other entities	-	-	-	-	*559 227*	*559 227*
Securities at fair value through other comprehensive incom	1 449 335	1 982 997	3 478 155	1 788	148 921	7 061 196
Bonds issued by government and other public enti	*988 890*	*1 934 969*	*2 713 682*	-	*47 526*	*5 685 067*
Bonds issued by other entities	*460 445*	*48 028*	*764 473*	*1 788*	*101 395*	*1 376 129*
Securities at amortised cost	10 631	157 161	417 707	258 867	1 981 912	2 826 278
Bonds issued by government and other public enti	-	-	-	-	*371 273*	*371 273*
Bonds issued by other entities	*10 631*	*157 161*	*417 707*	*258 867*	*1 610 639*	*2 455 005*
Loans and advances to customers	3 130 230	7 773 753	2 460 371	6 865 797	1 218 120	21 448 271

As of 31 December 2022 and 2021, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

Segment	31.12.2022													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	12 906 116	299 681	32 143	3 585	12 938 259	303 266	714 541	318 183	425 500	258 182	1 140 041	576 365	14 078 300	879 631
Mortgage Loans	8 367 083	23 506	29 490	1 617	8 396 573	25 123	46 635	10 845	40 926	8 921	87 561	19 766	8 484 134	44 889
Other Loans	1 150 131	27 932	8 101	1 580	1 158 232	29 512	53 747	43 274	74 031	60 261	127 778	103 535	1 286 010	133 047
Total	**22 423 330**	**351 119**	**69 734**	**6 782**	**22 493 064**	**357 901**	**814 923**	**372 302**	**540 457**	**327 364**	**1 355 380**	**699 666**	**23 848 444**	**1 057 567**

(in thousands of Euros)

Segment	31.12.2021													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	12 041 900	312 746	137 406	17 497	12 179 306	330 243	876 737	367 913	509 684	316 099	1 386 421	684 012	13 565 727	1 014 255
Mortgage Loans	8 166 486	19 899	28 662	1 139	8 195 148	21 038	100 041	16 894	38 657	6 693	138 698	23 587	8 333 846	44 625
Other Loans	1 070 498	23 262	8 499	1 539	1 078 997	24 801	153 151	136 809	33 341	15 267	186 492	152 076	1 265 489	176 877
Total	**21 278 884**	**355 907**	**174 567**	**20 175**	**21 453 451**	**376 082**	**1 129 929**	**521 616**	**581 682**	**338 059**	**1 711 611**	**859 675**	**23 165 062**	**1 235 757**

As of 31 December 2022 and 2021, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of years)

Year of production	Corporate			Mortgage loans			Consumer and other loans			Total		
	31.12.2022											
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	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**

(in thousands of years)

Year of production	Corporate			Mortgage Loans			Other loans			Total		
	31.12.2021											
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	3 886	251 754	20 380	58 196	1 090 237	8 193	674 193	54 086	2	736 275	1 396 077	28 575
2005	663	44 858	4 602	4 826	179 557	1 516	9 622	6 466	269	15 111	230 881	6 387
2006	808	168 268	33 528	6 989	287 520	1 715	12 196	7 499	808	19 993	463 287	36 051
2007	1 039	268 896	47 712	10 832	433 898	3 331	23 227	9 766	526	35 098	712 560	51 569
2008	1 032	478 108	31 258	10 340	468 928	3 221	18 427	8 455	304	29 799	955 491	34 783
2009	822	192 832	19 262	8 099	400 808	2 351	10 777	16 420	9 222	19 698	610 060	30 835
2010	953	180 669	32 221	7 720	424 284	2 898	16 591	21 945	555	25 264	626 898	35 674
2011	968	183 065	47 648	4 146	191 270	1 121	18 055	13 257	381	23 169	387 592	49 150
2012	1 243	235 250	36 521	2 307	82 796	819	24 783	11 479	491	28 333	329 525	37 831
2013	1 587	419 132	86 678	2 686	127 725	1 503	22 115	19 703	1 815	26 388	566 560	89 996
2014	1 653	310 977	113 995	1 710	92 430	719	20 551	13 349	424	23 914	416 756	115 138
2015	2 457	607 522	106 205	2 633	159 906	803	26 067	110 583	96 719	31 157	878 011	203 727
2016	3 564	638 085	50 094	5 459	365 317	1 952	41 939	65 244	23 583	50 962	1 068 646	75 629
2017	6 104	863 002	55 074	8 457	662 614	3 706	47 247	79 283	7 392	100 343	1 604 899	66 172
2018	7 630	1 492 690	84 909	9 644	882 450	3 594	56 365	134 694	6 847	73 639	2 509 834	95 350
2019	9 113	2 399 569	147 112	9 886	955 084	3 493	62 443	218 276	11 720	81 442	3 572 929	162 325
2020	10 891	2 452 419	59 859	7 148	709 118	2 107	40 602	170 741	6 963	58 641	3 332 278	68 929
2021	12 497	2 378 631	37 197	7 262	819 904	1 583	58 848	304 243	8 856	78 607	3 502 778	47 636
Total	**66 910**	**13 565 727**	**1 014 255**	**168 340**	**8 333 846**	**44 625**	**1 184 048**	**1 265 489**	**176 877**	**1 457 833**	**23 165 062**	**1 235 757**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of novobanco.

39.3.6 - 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 date of granting the credit and is periodically reassessed. Below is the gross value of the credits and the respective fair value of the collateral, limited to the value of the associated credit:

(in thousands of Euros)

	31.12.2022				31.12.2021			
	Amount of loans	Impairment	Net Value	Fair value of collateral	Amount of loans	Impairment	Net Value	Fair value of collateral
Mortgage Loans								
Stage 1								
Mortgages	7 429 201	(3 017)	7 426 184	7 429 201	7 316 635	(3 913)	7 312 722	7 310 111
Pledges	210 610	(71)	210 539	203 912	154 202	(69)	154 133	148 386
Not collateralized	75 095	(125)	74 970	-	51 210	(354)	50 856	-
Stage 2								
Mortgages	644 671	(16 762)	627 909	643 353	654 743	(14 055)	640 688	653 823
Pledges	21 188	(699)	20 489	19 797	7 264	(192)	7 072	7 223
Not collateralized	13 237	(1 365)	11 872	-	8 952	(256)	8 696	-
Stage 3								
Mortgages	87 312	(22 346)	64 966	87 016	137 681	(24 849)	112 832	137 007
Pledges	33	(12)	21	33	133	(25)	108	133
Not collateralized	2 787	(492)	2 295	-	3 026	(912)	2 114	-
Total								
Mortgages	8 161 184	(42 125)	8 119 059	8 159 570	8 109 059	(42 817)	8 066 242	8 100 941
Pledges	231 831	(782)	231 049	223 742	161 599	(286)	161 313	155 742
Not collateralized	91 119	(1 982)	89 137	-	63 188	(1 522)	61 666	-
	8 484 134	**(44 889)**	**8 439 245**	**8 383 312**	**8 333 846**	**(44 625)**	**8 289 221**	**8 256 683**
Other Loans								
Stage 1								
Mortgages	241 787	(330)	241 457	241 434	201 811	(407)	201 404	201 349
Pledges	91 867	(1 081)	90 786	91 047	82 933	(723)	82 210	81 251
Not collateralized	653 885	(13 051)	640 834	-	623 239	(8 871)	614 368	-
Stage 2								
Mortgages	44 122	(1 109)	43 013	43 769	33 818	(892)	32 926	33 659
Pledges	4 821	(239)	4 582	4 630	3 882	(289)	3 593	3 706
Not collateralized	124 321	(16 786)	107 535	-	135 850	(16 493)	119 357	-
Stage 3								
Mortgages	5 994	(2 035)	3 959	5 562	7 373	(2 965)	4 408	5 665
Pledges	66 953	(61 799)	5 154	13 428	126 637	(118 802)	7 835	13 847
Not collateralized	52 260	(36 617)	15 643	-	49 946	(27 435)	22 511	-
Total								
Mortgages	291 903	(3 474)	288 429	290 765	243 002	(4 264)	238 738	240 673
Pledges	163 641	(63 119)	100 522	109 105	213 452	(119 814)	93 638	98 804
Not collateralized	830 466	(66 454)	764 012	-	809 035	(52 799)	756 236	-
	1 286 010	**(133 047)**	**1 152 963**	**399 870**	**1 265 489**	**(176 877)**	**1 088 612**	**339 477**
Corporate								
Stage 1								
Mortgages	2 053 125	(12 881)	2 040 244	1 839 860	1 820 752	(13 552)	1 807 200	1 669 918
Pledges	1 691 145	(5 851)	1 685 294	701 387	1 366 149	(4 442)	1 361 707	413 881
Not collateralized	6 337 848	(24 615)	6 313 233	-	5 615 830	(48 011)	5 567 819	-
Stage 2								
Mortgages	890 069	(88 368)	801 701	800 854	1 159 566	(104 994)	1 054 572	1 059 059
Pledges	573 690	(93 599)	480 091	294 167	475 631	(73 679)	401 952	236 698
Not collateralized	1 392 364	(77 952)	1 314 412	-	1 779 371	(115 210)	1 664 161	-
Stage 3								
Mortgages	457 887	(220 793)	237 094	366 273	503 219	(229 829)	273 390	397 851
Pledges	190 047	(82 518)	107 529	97 470	191 285	(87 305)	103 980	87 188
Not collateralized	492 125	(273 054)	219 071	-	653 924	(337 233)	316 691	-
Total								
Mortgages	3 401 081	(322 042)	3 079 039	3 006 987	3 483 537	(348 375)	3 135 162	3 126 828
Pledges	2 454 882	(181 968)	2 272 914	1 093 024	2 033 065	(165 426)	1 867 639	737 767
Not collateralized	8 222 337	(375 621)	7 846 716	-	8 049 125	(500 454)	7 548 671	-
	14 078 300	**(879 631)**	**13 198 669**	**4 100 011**	**13 565 727**	**(1 014 255)**	**12 551 472**	**3 864 595**
Total	**23 848 444**	**(1 057 567)**	**22 790 877**	**12 883 193**	**23 165 062**	**(1 235 757)**	**21 929 305**	**12 460 755**

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, this value not being impacted by collaterals with a fair value higher than the credit to which they are associated.

The details of the collateral – mortgages are presented as follows:

(in thousands of Euros)

	31.12.2022							
Collateral intervals [a)]	Mortgage Loans		Other Loans		Corporate Loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	157 859	7 837 881	6 635	273 580	18 414	440 729	182 908	8 552 190
>= 0,5M€ e <1,0M€	367	228 517	13	8 659	2 364	238 296	2 744	475 472
>= 1,0M€ e <5,0M€	65	93 172	4	8 526	9 816	717 599	9 885	819 297
>= 5,0M€ e <10,0M€	-	-	-	-	1 904	539 832	1 904	539 832
>= 10,0M€ e <20,0M€	-	-	-	-	134	399 451	134	399 451
>= 20,0M€ e <50,0M€	-	-	-	-	5 717	401 813	5 717	401 813
>=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 based on the total amount of collateral per credit agreement

(in thousands of Euros)

Collateral intervals [a)]	31.12.2021							
	Mortgage Loans		Other Loans		Corporate Loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	162 672	7 875 489	5 625	227 443	10 326	466 686	178 623	8 569 618
>= 0,5M€ and <1,0M€	264	161 929	14	6 039	1 935	252 393	2 213	420 361
>= 1,0M€ and <5,0M€	47	63 523	3	7 191	18 518	794 583	18 568	865 297
>= 5,0M€ and <10,0M€	-	-	-	-	13 225	460 762	13 225	460 762
>= 10,0M€ and <20,0M€	-	-	-	-	2 241	530 515	2 241	530 515
>= 20,0M€ and <50,0M€	-	-	-	-	155	451 567	155	451 567
>=50M€	-	-	-	-	1 565	170 322	1 565	170 322
	162 983	**8 100 941**	**5 642**	**240 673**	**47 965**	**3 126 828**	**216 590**	**11 468 442**

[a)] The allocation by intervals was based on the total amount of collateral per credit agreement

The values of mortgages collateral, shown above, represents the maximum coverage value of the covered assets, i.e., which concur 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 considered, in accordance with internal rules and procedures.

The relevant collaterals are essentially the following:
- Real estate, where the value considered is the correspondent to the last available valuation.
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month, in the case of being a listed security, or the value of the pledge, in the case of being cash.

The acceptance of collateral as a guarantee for credit operations refers to the need to define and implement risk mitigation techniques to which these collaterals are exposed. Thus, and as an approach to this matter, the Bank stipulated a set of procedures applicable to collateral (namely 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 rules on credit powers thus have a specific chapter on this point, "Acceptance of collateral - techniques for mitigating the risks to which collateral is exposed, namely liquidity and volatility risks".

The revaluation process for real estate is performed by independent valuation experts registered in CMVM, following the methodologies as described in Note 7.6.

39.3.7 - Concentration of credit risk

The analysis of risk exposure by sector of activity, on 31 December 2022 and 2021, is presented as follows:

(in thousands of Euros)

	31.12.2022												
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss -mandatory	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment						Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	314 282	(6 361)	-	-	-	-	-	8 616	-	5 788	(15)	11 878	(5 902)
Mining	65 487	(5 033)	-	-	-	-	-	14 277	(7)	18 445	(8)	8 851	(335)
Food, Beverages and Tobacco	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)
Leather and Shoes	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 Printing Industry	95 294	(5 900)	-	629	-	-	-	-	-	28 906	(139)	5 780	(22)
Refining of Petroleum	16 314	(114)	-	1	-	-	-	13 718	(2)	59 816	(16)	2 264	-
Chemicals and Rubber	288 743	(7 069)	-	357	-	-	-	-	-	221 901	(186)	15 775	(135)
Non-metallic Minerals	186 565	(2 412)	-	4	-	-	-	14 839	(5)	93 571	(105)	35 468	(165)
Metallurgical Industries and Metallic Products	389 416	(16 041)	-	145	-	-	-	433	-	48 649	(75)	34 232	(390)
Production of Machinery, Equipment and Elec	229 052	(10 721)	-	42	-	-	-	41 511	(25)	191 510	(63)	21 824	(3 559)
Production of Transport Material	176 450	(4 941)	-	-	-	-	-	-	-	58 643	(65)	12 813	(290)
Other Transforming 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 Communication	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)
Public Administration and Services	409 300	(25 241)	36 428	-	-	-	-	1 629 863	(382)	4 403 137	(1 714)	21 158	(109)
Other activities of collective services	423 173	(42 174)	-	145	-	2 378	-	24 849	(9)	92 579	(662)	38 037	(962)
Mortgage Loans	8 484 134	(44 889)	-	-	-	-	-	-	-	-	-	-	-
Consumers Loans	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)**

(in thousands of Euros)

	31.12.2021												
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss -mandatory	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment						Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	311 832	(8 492)	-	397	-	-	-	29 007	(14)	20 249	(45)	11 175	(6 318)
Mining	40 882	(333)	-	-	-	-	-	14 189	(13)	19 391	(4)	5 841	(183)
Food, Beverages and Tobacco	507 539	(14 190)	-	7 233	-	-	-	-	-	75 391	(195)	49 419	(319)
Textiles and Clothing	366 985	(13 791)	-	290	-	-	-	-	-	4 298	(2)	7 450	(741)
Leather and Shoes	79 044	(728)	-	5	-	-	-	-	-	1 501	(6)	1 363	(122)
Wood and Cork	108 090	(2 866)	-	500	-	-	-	-	-	2 199	(12)	7 322	(259)
Paper and Printing Industry	148 885	(10 071)	-	96	-	-	-	-	-	1 497	(4)	2 150	(18)
Refining of Petroleum	11 459	(20)	-	-	-	-	-	-	-	40 793	(22)	4 022	(1)
Chemicals and Rubber	337 394	(5 155)	-	271	-	-	-	19 410	(13)	133 694	(123)	18 453	(80)
Non-metallic Minerals	166 695	(3 112)	-	-	-	-	-	-	-	33 754	(153)	15 122	(297)
Metallurgical Industries and Metallic Products	389 961	(11 905)	-	370	-	-	-	16 235	(11)	1 299	(62)	31 575	(456)
Production of Machinery, Equipment and Elec	170 624	(9 123)	-	159	-	-	-	66 078	(49)	48 010	(24)	20 425	(2 248)
Production of Transport Material	118 847	(3 514)	-	43	-	-	-	-	-	15 046	(8)	10 625	(526)
Other Transforming Industries	140 459	(10 598)	-	-	-	-	-	-	-	4 983	(20)	19 208	(2 821)
Electricity, Gas and Water	293 197	(3 320)	-	17 062	-	-	-	53 579	(41)	113 203	(3 988)	33 018	(687)
Construction and Public Works	1 288 788	(134 972)	-	75 005	-	-	-	-	-	196 417	(94 332)	667 673	(37 863)
Wholesale and Retail Trade	1 366 114	(40 405)	-	765	-	-	-	40 669	(29)	49 398	(53)	200 010	(3 401)
Tourism	1 029 948	(96 443)	-	191	-	-	-	118	-	-	-	51 565	(1 024)
Transport and Communication	861 457	(51 305)	-	49 111	-	-	-	96 999	(61)	42 850	(178)	347 343	(2 008)
Financial Activities	483 518	(44 807)	-	101 455	-	2 133 630	20 150	909 281	(317)	1 045 549	(2 254)	151 950	(3 408)
Real Estate Activities	1 650 174	(144 160)	-	6 281	-	2 751	-	908	-	178 280	(33 430)	107 266	(5 075)
Services Provided to Companies	2 429 405	(238 573)	-	3 250	-	111 549	-	78 561	(45)	655 753	(111 600)	386 254	(10 111)
Public Administration and Services	571 501	(22 809)	114 465	-	-	-	-	5 685 319	(2 995)	371 273	(540)	19 965	(108)
Other activities of collective services	581 079	(75 218)	-	758	-	2 378	-	123 155	(80)	83 637	(717)	36 158	(959)
Mortgage Loans	8 333 846	(44 625)	-	-	-	-	-	-	-	-	-	-	-
Consumers Loans	1 265 489	(176 877)	-	-	-	-	-	-	-	-	-	-	-
Others	111 850	(68 345)	-	2	-	-	-	-	-	-	-	16 223	(306)
TOTAL	**23 165 062**	**(1 235 757)**	**114 465**	**263 244**	**-**	**2 250 308**	**20 150**	**7 133 508**	**(3 668)**	**3 138 465**	**(247 772)**	**2 221 575**	**(79 339)**

Exposure to sovereign debt of "peripheral" Eurozone countries

On 31 December 2022 and 2021, the Bank' exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

	31.12.2022					
	Loans and advances to customers	Securities held for trading	Derivative instruments [(1)]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	319 849	31 517	-	223 527	609 502	1 184 395
Spain	-	-	-	623 743	1 520 591	2 144 334
Ireland	-	-	-	-	230 216	230 216
Italy	-	-	-	24 878	59 608	84 486
	319 849	**31 517**	**-**	**872 148**	**2 419 917**	**3 643 431**

[(1)] Amounts presented by the net: payable/(payable)

(in thousands of Euros)

	31.12.2021					
	Loans and advances to customers	Securities held for trading	Derivative instruments [(1)]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	546 563	114 465	-	2 492 521	370 733	3 524 282
Spain	-	-	-	1 619 260	-	1 619 260
Ireland	-	-	-	171 608	-	171 608
Italy	-	-	-	148 601	-	148 601
	546 563	**114 465**	**-**	**4 431 990**	**370 733**	**5 463 751**

[(1)] Amounts presented by the net: payable/(payable)

Except for Loans and advances to customers, all the exposures presented above, except those relating to loans and advances to customers, are recorded in the Bank's balance sheet at fair value, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters/prices.

The details of the exposure regarding the securities are as follows:

(in thousands of Euros)

31.12.2022	Nominal value	Quotation Value	Accrued interest	Book value	Impairment	Fair Value Reserves
Securities at fair value through other comprehensive income						
Portugal	**227 000**	**223 527**	**-**	**223 527**	**-**	**(486)**
Maturity exceeding 1 year	227 000	223 527	-	223 527	-	(486)
Spain	**634 000**	**623 587**	**156**	**623 743**	**-**	**(1 335)**
Maturity exceeding 1 year	634 000	623 587	156	623 743	-	(1 335)
Italy	**25 000**	**24 878**	**-**	**24 878**	**-**	**(3)**
Maturity exceeding 1 year	25 000	24 878	-	24 878	-	(3)
	886 000	**871 992**	**156**	**872 148**	**-**	**(1 824)**
Securities held for trading						
Portugal	**610 855**	**604 757**	**3 150**	**609 502**	**401**	**-**
Maturity exceeding 1 year	610 855	604 757	3 150	609 502	401	-
Espanha	**1 663 250**	**1 396 284**	**3 118**	**1 520 591**	**482**	**-**
Maturity exceeding 1 year	1 663 250	1 396 284	3 118	1 520 591	482	-
Ireland	**241 000**	**200 775**	**638**	**230 216**	**82**	**-**
Maturity exceeding 1 year	241 000	200 775	638	230 216	82	-
Italy	**64 000**	**51 331**	**110**	**59 608**	**21**	**-**
Maturity exceeding 1 year	64 000	51 331	110	59 608	21	-
	2 579 105	**2 253 147**	**7 016**	**2 419 917**	**986**	**-**
Securities at amortised cost						
Portugal	35 000	31 315	202	31 517	-	-
	35 000	**31 315**	**202**	**31 517**	**-**	**-**

(in thousands of Euros)

31.12.2021	Nominal value	Quotation Value	Accrued interest	Book value	Impairment	Fair Value Reserves
Títulos ao justo valor através de outro rendimento integral						
Portugal	**2 231 290**	**2 466 964**	**25 557**	**2 492 521**	**-**	**86 400**
Maturity up to 1 year	411 385	418 663	1 581	420 244	-	2 986
Maturity exceeding 1 year	1 819 905	2 048 301	23 976	2 072 277	-	83 414
Spain	**1 529 200**	**1 594 096**	**25 164**	**1 619 260**	**-**	**46 283**
Maturity up to 1 year	755 000	758 261	17 334	775 595	-	1 729
Maturity exceeding 1 year	774 200	835 835	7 830	843 665	-	44 554
Ireland	**153 600**	**170 350**	**1 258**	**171 608**	**-**	**13 457**
Maturity exceeding 1 year	153 600	170 350	1 258	171 608	-	13 457
Italy	**148 561**	**148 286**	**315**	**148 601**	**-**	**215**
Maturity exceeding 1 year	148 561	148 286	315	148 601	-	215
	4 062 651	**4 379 696**	**52 294**	**4 431 990**	**-**	**146 355**
Securities at amortised cost						
Portugal	**369 646**	**418 828**	**1 627**	**370 733**	**540**	**-**
Maturity exceeding 1 year	369 646	418 828	1 627	370 733	540	-
	369 646	**418 828**	**1 627**	**370 733**	**540**	**-**
Securities held for trading						
Portugal	106 500	114 017	448	114 465	-	-
	106 500	**114 017**	**448**	**114 465**	**-**	**-**

39.3.8 - Forborne modified loans

The ´Bank proceeds to the identification and register of restructured credit contracts due to the client's financial difficulties whenever there are changes to the terms and conditions of a contract in which the client 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 to the benefit of the customer, such as extending the term, introducing grace periods, reducing the rate or partial debt forgiveness; (ii) there is a contracting of a new credit operation to settle the existing debt (total or partial); or (iii) the new terms of the contract are more favorable than those applied to other customers with the same risk profile.

The cancellation of a restructured credit due to the client's financial difficulties can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively fulfilled: (i) regular payment of capital and interest; (ii) the customer has no capital or interest due; and (iii) there were no debt restructuring mechanisms by the client in that period.

The amounts of the restructured loans due to financial difficulties of the customer as of 31 December 2022 and 2021, are as follows:

(in thousands of Euros)

	31.12.2022	31.12.2021
Corporate	1 180 626	1 272 621
Mortgage loans	162 891	128 219
Consumer and other loans	81 378	137 276
Total	**1 424 895**	**1 538 116**

The details of the restructuring measures applied to loans restructured up to 31 December 2022 and 2021 are the following:

(in thousands of Euros)

Solution	31.12.2022								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	41	13 990	901	61	95 035	53 859	102	109 025	54 760
Assets received in partial settlement of loan	23	1 068	164	8	146	129	31	1 214	293
Capitalization of interest	16	4 965	923	87	52 218	29 659	103	57 183	30 582
New loan in total or partial payment of existing loan	1 028	191 512	14 132	506	177 111	79 690	1 534	368 623	93 822
Extension of repayment period	1 366	262 295	50 333	631	246 792	162 833	1 997	509 087	213 166
Introduction of grace period of principal or interest	809	114 982	6 864	169	71 619	27 336	978	186 601	34 200
Decrease in the interest rates	481	40 574	461	39	76 714	29 588	520	117 288	30 049
Changes of the lease payment plan	118	16 714	1 637	59	9 389	4 517	177	26 103	6 154
Changes in the interest payment	5	2 011	207	3	674	198	8	2 685	405
Other	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**

(in thousands of Euros)

Solution	31.12.2021								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	37	14 027	1 886	98	163 190	98 330	135	177 217	100 216
Assets received in partial settlement of loan	16	1 043	145	19	420	195	35	1 463	340
Capitalization of interest	35	6 754	346	100	79 248	46 515	135	86 002	46 861
New loan in total or partial payment of existing loan	1 307	170 750	12 664	422	121 570	57 096	1 729	292 320	69 760
Extension of repayment period	2 100	389 220	60 170	859	434 881	272 462	2 959	824 101	332 632
Introduction of grace period of principal or interest	335	27 700	783	80	55 167	25 157	415	82 867	25 940
Decrease in the interest rates	82	10 549	459	24	19 823	6 050	106	30 372	6 509
Changes of the lease payment plan	112	6 994	390	44	8 682	2 885	156	15 676	3 275
Changes in the interest payment	3	2 017	228	2	1 997	1 694	5	4 014	1 922
Other	1 193	17 015	675	274	7 069	3 265	1 467	24 084	3 940
Total	**5 220**	**646 069**	**77 746**	**1 922**	**892 047**	**513 649**	**7 142**	**1 538 116**	**591 395**

39.4 - 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.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. novobanco's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2022				31.12.2021			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	328	1 299	4 362	328	2 551	1 966	3 464	807
Interest rate risk	586	5 532	47 720	586	31 454	24 522	41 240	10 628
Shares and commodities	0	0	0	-	3	33	225	0
Volatility	1	380	2 117	1	0	66	422	0
Credit spread	415	841	2 386	229	719	1 329	4 146	579
Diversification effect	(433)	(1 738)	(7 766)	(248)	(4 399)	(3 017)	(7 032)	1 422
Total	**897**	**6 314**	**48 820**	**897**	**30 329**	**24 899**	**42 465**	**13 436**

novobanco has a VaR of Euro 897 thousand (31 December 2021: Euro 13,346 thousand) 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.

39.4.1 - Interest Rate Risk

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2018/02, novobanco Bank calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2022						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with 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)**

(in thousands of Euros)

	31.12.2021						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	5 790 475	-	5 646 973	100 000	10 967	32 522	14
Loans and advances to customers	22 211 085	-	7 215 292	3 148 017	3 829 143	6 556 216	1 462 417
Securities	10 238 741	-	1 511 857	802 196	964 450	3 656 609	3 303 630
Other assets	399 920	-	399 920	-	-	-	-
Total			**14 774 042**	**4 050 213**	**4 804 560**	**10 245 347**	**4 766 061**
Deposits from banks	11 493 449	-	6 102 027	4 778 199	321 025	(569)	292 767
Due to customers	26 981 348	-	16 099 055	2 264 928	3 830 371	3 571 640	1 215 353
Debt securities issued	2 540 658	-	-	-	275 000	700 000	1 565 658
Other liabilities	257 274	-	118 484	28 687	54 587	55 517	-
Total			**22 319 566**	**7 071 814**	**4 480 983**	**4 326 588**	**3 073 778**
Balance sheet GAP (Assets - Liabilities)	(2 632 509)		(7 545 524)	(3 021 602)	323 577	5 918 758	1 692 282
Off-Balance sheet	(4 829)		2 867 467	813 050	(99 357)	(1 307 266)	(2 278 723)
Structural GAP	**(2 637 338)**		**(4 678 057)**	**(2 208 552)**	**224 220**	**4 611 492**	**(586 441)**
Accumulated GAP			**(4 678 057)**	**(6 886 609)**	**(6 662 389)**	**(2 050 897)**	**(2 637 338)**

Sensitivity analyses are carried out for the interest rate risk of the banking portfolio based on the current difference in the interest rate mismatch discounted at current rates and the discounted value of the same cash flows, through scenarios of displacement of the parallel yield curves (displacements of +/- 200 bp) and non-parallel (short rate shock up/down, steepener/flattener shocks), according to the *outliers' tests* defined by the EBA.

(in thousands of Euros)

	31.12.2022					
	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)

(in thousands of Euros)

	31.12.2021					
	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	75 258	49 546	(55 767)	68 719	87 821	(100 929)
Exercise average	8 175	64 196	(59 017)	70 148	52 295	(44 255)
Exercise maximum	75 258	81 887	(55 767)	77 666	87 821	(15 767)
Exercise minimum	(21 605)	49 546	(63 163)	65 671	34 359	(100 929)

39.4.2 - Average rates of financial assets and liabilities

The following table presents the average interest rates for the Bank's major financial asset and liability categories, on 31 December 2022 and 2021, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2022			31.12.2021		
	Average balance of the period	**Interest of the exercise**	**Average interest rate**	**Average balance of the period**	**Interest of the exercise**	**Average interest rate**
Monetary assets	7 703 743	13 385	0,17%	4 566 715	2 653	0,06%
Loans and advances to customers	23 922 921	571 255	2,39%	23 162 232	492 762	2,10%
Securities and other	11 586 916	180 306	1,56%	11 254 711	154 879	1,36%
Differential liabilities	-	-	-	-	-	-
Financial assets and differentials	**43 213 580**	**764 946**	**1,77%**	**38 983 658**	**650 294**	**1,65%**
Monetary Liabilities	11 314 546	(13 917)	-0,12%	11 252 385	(66 125)	-0,58%
Due to customers	27 911 300	47 622	0,17%	25 988 282	50 231	0,19%
Resources titled and other	1 429 109	106 245	7,43%	1 030 250	85 104	8,26%
Differential liabilities	2 558 625	-	-	712 741	-	-
Financial liabilities and differentials	**43 213 580**	**139 950**	**0,32%**	**38 983 658**	**69 210**	**0,18%**
Net interest income		**624 996**	**1,45%**		**581 084**	**1,47%**

39.4.3 - 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:

(in thousands of Euros)

		31.12.2022				31.12.2021			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(635 627)	634 533	91	(1 003)	(177 489)	169 546	(15)	(7 958)
GBP	GREAT BRITISH POUND	(47 219)	46 965	-	(254)	(42 549)	47 842	-	5 293
BRL	BRAZILIAN REAL	866	-	-	866	783	-	-	783
MOP	MACAO PATACA	(3 439)	3 079	-	(360)	(6 542)	6 885	-	343
JPY	JAPANESE YEN	(2 357)	2 318	-	(39)	(1 353)	2 310	-	957
CHF	SWISS FRANC	(9 359)	9 769	-	410	(13 303)	16 281	-	2 978
SEK	SWEDISH KRONE	17 568	(17 578)	-	(10)	19 751	(19 077)	-	674
NOK	NORWEGIAN KRONE	53 277	(53 059)	-	218	54 362	(54 035)	-	327
CAD	CANADIAN DOLLAR	(17 250)	19 003	-	1 753	(18 620)	21 502	-	2 882
ZAR	SOUTH AFRICAN RAND	(11)	(530)	-	(541)	1 128	(1 207)	-	(79)
AUD	AUSTRALIAN DOLLAR	9 589	(9 463)	-	126	10 216	(9 990)	-	226
VEB	VENEZUELAN BOLIVAR	2	-	-	2	2	-	-	2
PLN	POLISH ZLOTY	2 409	-	-	2 409	2 256	-	-	2 256
MAD	MOROCCAN DIRHAN	(2 558)	2 256	-	(302)	(2 996)	2 936	-	(60)
MXN	MEXICAN PESO	(7)	-	-	(7)	(14)	9	-	(5)
AOA	ANGOLAN KWANZA	(23)	-	-	(23)	(1)	-	-	(1)
PLN	ZLOTY	(2 998)	3 010	-	12	36 099	(35 643)	-	456
CZK	CZECH KORUNA	6	(114)	-	(108)	16 208	(17 041)	-	(833)
DZD	ALGERIAN DINAR	7 638	-	-	7 638	5 507	-	-	5 507
CNY	YUAN REN-MIN-BI	326	(347)	-	(21)	51 351	(50 975)	-	376
	OTHER	(406)	1 574	-	1 168	(3 337)	2 334	-	(1 003)
		(629 573)	**641 416**	**91**	**11 934**	**(68 541)**	**81 677**	**(15)**	**13 121**

39.5 - Liquidity Risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its liabilities as they mature, without incurring substantial losses.

Liquidity risk can be divided into two types:

- Liquidity of assets (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to the lack of liquidity in the market, which translates into the widening of the bid / offer spread or the application of a haircut to the market value.
- Financing (funding liquidity risk) - consists of the impossibility of financing the assets in the market and / or refinancing the debt that is maturing, in the terms and in the desired currency. This impossibility can be reflected through a strong increase in the cost of financing or the requirement for 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 must be minimised through an adequate diversification of funding sources and maturity terms.

Banks are subject to liquidity risk due to their maturity transformation business (long-term lenders and short-term depositors), so prudent liquidity risk management is therefore crucial.

As of 31 December 2022, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 16,9 billion (31 December 2021: Euro 16,5 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 0,9 billion.

During 2022, gross financing from the ECB decreased by Euro 1,6 million to a total of Euro 6.3 billion (2021: increase in the amount of Euro 974 million for a total of Euro 8,0 billion).

The liquidity of novobanco is managed in a centralised manner, in the Headquarters, for the prudential consolidation perimeter, and the analysis and decision making made based on the mismatch reports, which allow, not only to identify negative mismatches but also to make a dynamic hedging of those mismatches. On 31 December 2022 and 2021, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2022						
	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
OUTPUTS							
Liabilities arising from securities issued (if not treated as retail deposits)	1 426 968	2 247	4 593	10 535	5 486	296 776	1 107 331
Liabilities arising from secured loan operations and capital market operations	10 059 656	57 154	66 513	1 732 249	3 341 048	739 188	4 123 504
Behavioral exits resulting from deposits	29 944 525	490 403	45 719	145 209	166 803	416 287	28 680 104
Foreign exchange swaps and derivatives	753 198	5 230	52 647	384 395	82 939	65 165	162 822
Other outputs	623 245	4 477	-	-	15 824	34 000	568 944
Total Exits	**42 807 592**	**559 511**	**169 472**	**2 272 388**	**3 612 100**	**1 551 416**	**34 642 705**
Entries							
Behavioral inflows resulting from loans and advances	36 105 674	5 817 950	63 286	169 329	252 210	507 323	29 295 576
Foreign exchange swaps and derivatives	753 433	6 056	53 146	385 920	83 582	63 089	161 640
Own portfolio securities to mature and Other entries	12 335 751	49 286	167 097	266 806	225 215	2 091 882	9 535 465
Total Entries	**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**
REBALANCE CAPACITY	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
Coins and banknotes	176 797						
Central bank mobilisable reserves	5 653 802	(5 653 802)					
Marketable and non-marketable assets eligible for central banks	7 841 356	56 109	62 178	(116 348)	(126 324)	(1 918 431)	(5 794 060)
Authorised and unused facilities received	-	(23 829)	(77 909)	1 378 676	2 739 531	(84 317)	(3 932 151)
Net change in rebalancing capacity	-	(5 621 522)	(15 731)	1 262 328	2 613 207	(2 002 748)	(9 726 211)
Accumulated rebalancing capacity	**13 671 955**	**8 050 433**	**8 034 702**	**9 297 030**	**11 910 237**	**9 907 489**	**181 278**

(in thousands of Euros)

	31.12.2021						
	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
OUTPUTS							
Liabilities arising from securities issued (if not treated as retail deposits)	710 947	-	-	-	-	22 054	688 893
Liabilities arising from secured loan operations and capital market operations	9 948 704	-	626 980	52 669	-	2 514 555	6 754 500
Behavioral exits resulting from deposits	29 286 247	459 384	316 628	213 461	216 116	575 321	27 505 337
Foreign exchange swaps and derivatives	520 853	5 940	45 222	376 528	43 099	25 734	24 330
Other outputs	478 049	-	-	-	11 515	33 814	432 720
Total Exits	**40 944 800**	**465 324**	**988 830**	**642 658**	**270 730**	**3 171 478**	**35 405 780**
Entries							
Guaranteed loan operations and operations associated with the capital market	172 139	-	-	-	-	40 991	131 148
Behavioral inflows resulting from loans and advances	30 327 148	5 180 565	52 796	175 110	316 874	420 764	24 181 039
Foreign exchange swaps and derivatives	675 752	7 826	40 850	376 467	61 089	39 413	150 107
Own portfolio securities to mature and Other entries	11 752 499	148 242	130 897	503 810	707 762	607 767	9 654 021
Total Entries	**42 927 538**	**5 336 633**	**224 543**	**1 055 387**	**1 085 725**	**1 108 935**	**34 116 315**
Net contractual deficit	1 982 737	4 871 309	(764 288)	412 728	814 995	(2 062 541)	(1 289 466)
Accumulated net contractual deficit	**-**	**4 871 309**	**4 107 021**	**4 519 749**	**5 334 744**	**3 272 203**	**1 982 737**
REBALANCE CAPACITY	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
Coins and banknotes	144 220						
Central bank mobilisable reserves	4 999 674	(4 999 674)					
Marketable and non-marketable assets eligible for central banks	7 178 648	-	432 159	(326 174)	(537 314)	(451 505)	(6 154 300)
Authorised and unused facilities received	-	(42 401)	(73 498)	(226 102)	(281 873)	1 314 154	(690 281)
Net change in rebalancing capacity	-	(5 042 075)	358 661	(552 276)	(819 187)	862 649	(6 844 581)
Accumulated rebalancing capacity	**12 322 542**	**7 280 467**	**7 639 128**	**7 086 852**	**6 267 665**	**7 130 314**	**285 733**

At the end of 2021 there was an accumulated one-year net contractual surplus of Euro 3,272 million (considering in the entries the availability in central banks, deducted from the minimum reserves), having shifted at the end of 2022 to an accumulated one-year net contractual surplus accumulated at a year of Euro 2,037 million.

The one-year counterbalancing capacity at the end of 2022 was Euro 9,907 million, higher by Euro 2,777 million at the end of 2021 (Euro 7,130 million). This increase is mainly due to increased customer deposits and secured funding.

In order to anticipate any negative impacts, internal liquidity stress scenarios representing the types of crises that may occur are carried out, based on idiosyncratic scenarios (characterised by a loss of confidence in the Bank), and market scenarios.

Additionally, given the importance of liquidity risk management, a Liquidity Coverage Ratio (LCR) and a stable financing ratio (NSFR) are included in regulatory legislation. The LCR aims to promote banks' resilience to short-term liquidity risk by 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 financing for their assets and off-balance sheet operations, for a period of one year.

In accordance with existing regulatory legislation, the Bank is required to comply with a regulatory minimum limit of 100% in the LCR. The Bank continues to follow regulatory changes to comply with all obligations, including the implementation of the NSFR and its limit.

39.6 - 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.

39.7 - 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.

The summary of own funds, risk weighted assets and capital ratios capital of novobanco as of 31 December 2022 and 2021 are presented in the following table:

(in millions of Euros)

		31.12.2022	31.12.2021
Realised ordinary share capital, issue premiums and own shares		6 305	6 055
Reserves and Retained earnings		(3 692)	(3 481)
Net income for the year attributable to shareholders of the Bank		454	226
A - Equity (prudential perspective)		**3 067**	**2 799**
Adjustments of additional valuation		(5)	(10)
Transitional period to IFRS9		122	229
Goodwill and other intangibles		(70)	(68)
Insufficiency of provisions given the expected losses		-	(9)
Pension fund assets with defined benefits		(52)	-
Deferred tax assets and shareholdings in financial companies		(332)	(198)
Other[1]		(248)	(321)
B - Regulatory adjustments to equity		**(584)**	**(378)**
C - Own principal funds level 1 - CET I (A+B)		**2 483**	**2 422**
D - Additional own funds Level 1 - Additional Tier 1		**-**	**-**
E - Level 1 own funds - Tier I (C+D)		**2 483**	**2 422**
Subordinated liabilities elegible for Tier II		399	399
Other elements elegible for Tier II		91	108
Regulatory adjustments for Tier II		-	-
F - Level 2 own funds - Tier II		**490**	**506**
G - Eligible own funds (E+F)		**2 973**	**2 928**
Credit risk		19 855	22 063
Market risk		77	1 205
Operational risk		1 621	1 620
H - Risk Weighted Assets		**21 553**	**24 888**
Solvability ratio			
CET I ratio	**(C/H)**	**11,5%**	**9,7%**
Tier I ratio	**(E/H)**	**11,5%**	**9,7%**
Solvability ratio	**(G/H)**	**13,8%**	**11,8%**
Leverage ratio[2]		**5,2%**	**5,2%**

(1) Since the end of 2020 it encompasses the adjustments to the CCA receivable, reflected at the level of reserves, and not received from the Resolution Fund.

(2) The leverage ratio results from dividing Tier 1 by the exposure measure determined under the CRR.

NOTE 40 – PROVISION OF INSURANCE OR REINSURANCE MEDIATION SERVICE

On 31 December of 2022 and 2021, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	31.12.2022	31.12.2021
Life Insurance		
Unit Link and other life commissions	1 795	1 828
Credit protection insurance (life)	877	823
Traditional Products	16 480	14 529
	19 152	**17 180**
Non-Life Insurance		
Personal lines insurance	8 300	7 442
Corporate insurance	177	177
Credit protection insurance (non-life)	1 414	2 249
	9 891	**9 868**
	29 043	**27 048**

Note: the yields shown are net of periodizations

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 41 – **SUBSEQUENT EVENTS**

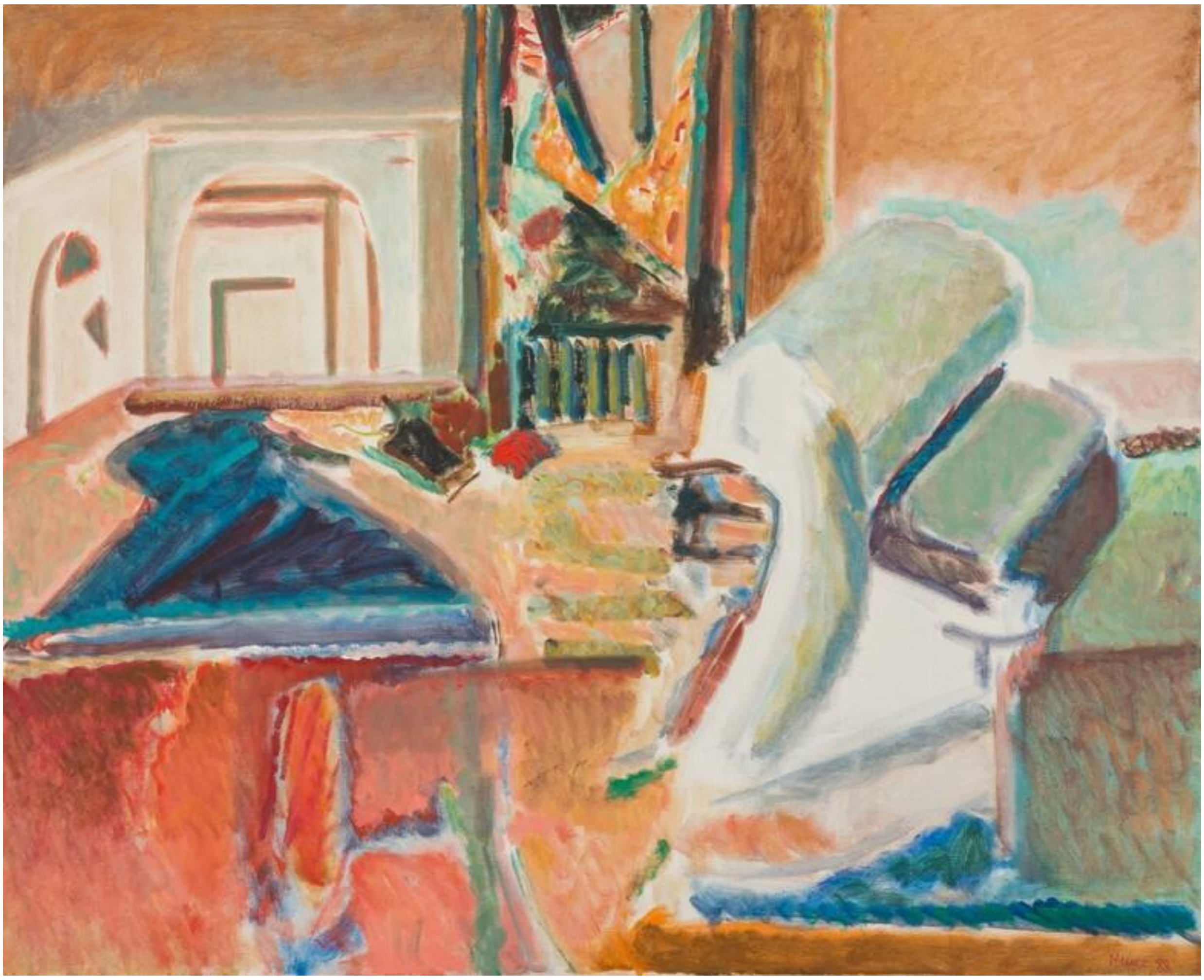
- On February 1, 2023, the novobanco reported that the General and Supervisory Board approved, subject to the authorization of the competent regulatory bodies (Fit & Proper), Benjamin Dickgiesser as a new member of the Executive Board of Directors for the current warrant terminated in 2025, for the role of Chief Financial Officer.
- On 13 February 2023, novobanco informed the Communication from the European Commission's Directorate General for Competition regarding the successful completion of the novobanco Restructuring Period.

Sem título, 1988 – Menez (Maria Inês Ribeiro da Fonseca)

Oil on canvas 81 x 100cm

"Untitled" transports us to a tranquil and luminous universe, with open contrasts between light and shadow. Menez suggests and deconstructs realities, in imaginary windows that multiply and let in light, interior spaces that evoke exterior spaces, patches of color that are impressions of everyday spaces and objects.

CRATO, Museu Municipal do Crato



ANNEX

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
www.ey.com

(Translation from the original document in the Portuguese language. The opinion on European Single Electronic Format is only applicable in the Portuguese Version. 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 2022 (showing a total of 45,995,029 thousand euros and a total equity of 3,511,618 thousand euros, including a net profit for the year of 560,842 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 a summary of significant accounting policies.

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 2022, 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 1,066,392 thousand euros ("K€"), with an impairment loss of 34,535 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 notes to 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

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
consolidated financial statements (Notes 7.16, 8.1, 20, 24 and 44.3). 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.	customers, comparing it with last year and with the 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 of the correspondence with the Resolution Fund; 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 499,567 K€ and 114,235 K€, respectively. The accounting policies and the details of these assets are disclosed in the notes to the financial statements (notes 7.18, 7.19, 8.6, 28, 31 and 42).
 	
As disclosed in note 7.18 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 28) 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 38) that may represent a possible obligation to the Group resulting from past events. The occurrence of these obligations is dependent on one or more future	Our audit approach included, amongst others, the execution of the following procedures: ► reading the minutes of the management bodies of the Group, the correspondence with regulators and with the Resolution Fund;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
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 7.28 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.	► 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 2021 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 1,389,421 K€, with a total of 515,423 K€ recognizes in the other comprehensive income as an actuarial gain 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 6.26, 7.4 and 15). 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, 2022 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, 2022, 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.

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 508-G 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 2022 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 XX, 2023

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás - ROC nr. 1661
Registered with the Portuguese Securities Market Commission under license nr. 20161271

Building a better
working world

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
www.ey.com

(Translation from the original document in the Portuguese language. The opinion on European Single Electronic Format is only applicable in the Portuguese Version. In case of doubt, the Portuguese version prevails)

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 Balance Sheet as at 31 December 2022 (showing a total of 45,464,048 thousand euros and a total equity of 3,066,948 thousand euros, including a net profit for the year of 453,830 thousand euros), and the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 2022, 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 1,057,567 thousand euros ("K€"), with an impairment loss of 36,869 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 notes to the financial statements (Notes 6.16, 7.1, 18, 22 and 39.3)	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 expectations, considering the changes in the loan portfolio;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
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 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.	► 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 of the correspondence with the Resolution Fund; 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.

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 108,242 K€. The accounting policies and the details of these assets are disclosed in the notes to the financial statements (notes 6.18, 7.6 and 28). As disclosed in note 6.18 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 35) that may represent a possible obligation to the Bank resulting from past events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Bank.	Our audit approach included, amongst others, the execution of the following procedures: ► reading the minutes of the management bodies of the Bank, the correspondence with regulators and with the Resolution Fund;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 6.27 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.	► 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 2021 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 1,389,421 K€, with a total of 515,423 K€ recognizes in the other comprehensive income as an actuarial gain 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 6.26, 7.4 and 15). 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, 2022 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, 2022, 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 508-G 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 2022 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.

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 xx, 2023

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás - ROC nr. 1661
Registered with the Portuguese Securities Market Commission under license nr. 20161271

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 Article 60 of Notice N 3/2020 from the Bank of Portugal

INTRODUCTION

1. This evaluation report is presented to comply with Article 60 of Notice N 3/2020 from the Bank of Portugal ("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, 2021 to November 30, 2022.

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 to;
   - promotes a professional conduct of prudence and responsibility 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 in the Group, both internally and in its 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 organizational 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 a yearly report on the results of that evaluation (the "Report").

3. For the purposes of inclusion in the Report, it is our responsibility to issue this report prepared in accordance with paragraphs b), c) and d) of nº1 of article 58 of the Notice.

ACTIVITIES PERFORMED

4. 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 and we read the minutes of the meetings of the Executive Board of Directors. During these meetings, the situation of the Group was presented to us, including matters related to the subsidiaries, which allowed us to understand the internal controls in place at Group level;
   - We met with the managers responsible for the Risk Management, Compliance, and Internal Audit functions at Group level; we read the annual reports of these control functions; we reviewed the statement of independence and inquired if there was any fact or circumstance which may impair that

independence. Regarding the internal audit annual report, we took into consideration the validation of the classification of internal control deficiencies;

- We assessed the audit plan for 2022 and the results of the internal audit actions described in the reports;
- We analyzed the Group Novo Banco Self Assessment – Conclusions & Action Plan Report on the implementation of the Notice in the Group, and met with the managers responsible for this report;
- 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 2022 and the preliminary version of the Factual Findings Report to be issued by Ernst & Young – Audit & Associados – SROC, S.A., including the test on the classification of the deficiencies. We reviewed the content of the communication of significant deficiencies of internal control of the Group sent by the external auditor on December 12, 2022;
- 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 assessed the coherence between the internal control systems of the subsidiaries, having analyzed the content of the evaluation reports of the supervisory boards of the relevant subsidiaries, in addition to the procedures mentioned above.

INHERENT LIMITATIONS

5. The General and Supervisory Board is aware of the inherent limitations of any internal control framework which, irrespective of 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, the existence of an appropriate internal control regarding the financial and prudential reporting is not in 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 judgement 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 on another date on the same deficiency could reach different conclusions, and the impact of a deficiency can materialize differently from what was estimated.

CONCLUSION

6. As described in the Report, there are deficiencies classified as F3 – High risk and F4 – Severe, which can lead to a high or very high impact on the financial position, capital requirements, governance, leverage, business model or risk monitoring of the Group.
7. For each of the deficiencies a mitigation plan and a proposed implementation timeline was presented to us. Considering the importance of the matter in the Group, these deficiencies are being monitored by the internal structure, by the internal control functions and by the Executive Board of Directors, and the implementation status will be regularly reviewed by the General and Supervisory Board.

8. The Group Novo Banco Self Assessment – Conclusions & Action Plan report identifies several matters of the Notice where the Group is still in the process of implementing the measures to adequately comply with it.

9. Considering the activities we performed, which are described in paragraph 4 above, and except for the eventual impact of the matters described in paragraphs 6 to 7, notwithstanding the ongoing implementation of 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 November 30, 2022.
   - We appreciated positively the completeness status of the defined measures from December 1, 2021 to November 30, 2022 to correct the deficiencies identified in the Report.
   - We declare that the classification given to the deficiencies classified as level F3 "High" or level F4 "Severe" is adequate.
   - In our opinion, the internal control functions, including the outsourced operational procedures, are performed with adequate quality and independence.
   - The financial and prudential reporting processes were, insofar as we could appreciate due to the procedures inherent in our responsibilities, reliable from December 1, 2021 to November 30, 2022.
   - 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 the procedures inherent in our responsibilities, reliable from December 1, 2021 to November 30, 2022.
   - The requirements to disclose information to the public resulting from applicable law or regulation and related to the matters described in the Notice were, insofar as we could appreciate due to the procedures inherent in our responsibilities, adequately complied with from December 1, 2021 to November 30, 2022.
   - The internal control systems of the subsidiaries were, insofar as we could appreciate due to the procedures inherent in 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

10. This Evaluation Report is prepared and issued solely for the 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, it cannot be used for any other purpose, or read outside the context of the Report, nor can it be presented to third parties without our previous written consent.

Lisbon, December 15, 2022

(*This report was approved by the General and Supervisory Board at a meeting held on December 15, 2022)*

Report of the General and Supervisory Board and Opinion of the Financial Affairs (Audit) Committee on the Management Report and on the Separate and Consolidated Financial Statements of Novo Banco, S.A. for the year ended 31 December 2022

Pursuant to the mandate we have 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 General and Supervisory Board ("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 separate and consolidated financial statements of novobanco, which comprise the separate and consolidated income statement and separate and consolidated statement of comprehensive income, separate and consolidated balance sheet, separate and consolidated statement of changes in equity and separate 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 2022.

1. Report of the General and Supervisory Board for the year 2022

1.1. Composition and scope

In accordance with the applicable law, novobanco's bylaws and best practices at the date of this Annual Report, six of the ten members who comprise the GSB, including the Chairman, are independent. A new independent member was approved at the Shareholders meeting on the 22nd December 2022 for mandate 2021-2024, with the approval process still ongoing. The GSB has the powers given to it by law, by the Bylaws and by its own regulation, including the supervision of all matters related to risk management, compliance and internal audit.

During 2022, we monitored the activity of the Bank and its most significant subsidiaries. The activity of the General and Supervisory Board is directly supported by 5 (five) Committees, 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 statutes of novobanco and in the GSB Regulations.

These Committees are chaired and composed by members of the GSB 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 monthly and additionally when required, performing the duties assigned to it by law, by the Bylaws of the Bank and by its own regulation.

1.2. Activity undertaken in 2022

General and Supervisory Board

During the year 2022, the GSB held 15 meetings, where several issues were discussed, analyzed and approved. These issues included the separate and consolidated financial statements of novobanco for the year ended 31 December 2022 and the Half Year 2022 consolidated financial statements as well as the financial results for the first and third quarters of 2022, the 2022-2024 Strategic and Medium Term-Plans, the NPA Plan for 2022-2024 and the strategy and risk appetite for 2022.

Other matters also included 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 sale of non-performing loans (NPLs) portfolios and related assets (Projects Crow and Phoenix), as well as participation in Project Crow's syndicated loan, the sale of REOs portfolios and individual assets (Logistics Portfolio), the follow-up of the Court of Auditors audit, the follow-up of the external communication strategy, the follow-up of the activity of the Internal Audit Department, the Annual Activity Internal Audit Plan 2022, the follow-up of the main legal processes to which the Bank is exposed, the follow-up of the IFRS 9 and 2020 arbitration processes, the follow-up of the Special Audit for the 2021 financial year, and the follow-up of the headquarters project in Tagus Park.

In addition, the GSB analyzed and/or approved several changes to internal policies, 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 Statutory Auditor at novobanco, Remuneration Policies for Management and Supervisory Bodies and approval of the Shaping the Future Regulation of novobanco.

With regard to matters relating to the CCA, the GSB regularly monitored all matters relating to the 2021 capital call and contracting and activity of Verification Agent.

The GSB also closely monitored the evolution of the commitments assumed with DGComp, through the analysis of the various Monitoring Trustee reports, analyzed the Group's Impairment Report, the Group's Internal Control Report, the Self-Assessment Reports of the Risk, Audit and Compliance Functions and approved the 2023 Internal Audit Plan.

With regard to other interactions with regulators, the GSB closely monitored the MREL objectives set by the SRB and approved the operations implemented to achieve these objectives, reviewed and approved the ICAAP and ILAAP for 2022, as well as the Liquidity and Capital Plans, closely monitored the evolution of the implementation of the ESG Strategy, its Governance and approved the Group's ESG Climate Stress Test, was regularly updated on regulatory changes and correspondence with the key stakeholders of novobanco, and approved the annual Fit and Proper revision for the Executive Board of Directors members, General and Supervisory Board members and the members of the Board of Directors of the subsidiaries Novobanco dos Açores, Banco BEST and GNB Gestão de Ativos.

The GSB also approved the 2022 Recovery Plan, the IRB Renovation Strategy and Operational Plan, the AML Annual Report 2021, accompanied the SREP Supervisory Dialogue 2022.

During 2022 the GSB discussed, reviewed and approved a new EBD mandate term (2022 to 2025), new EBD organization structure with updated roles and responsibilities, an increase in the number of EBD members from 6 to 7 with two new members joining and the appointment of a new CEO following the resignation of the previous CEO.

The GSB also approved the activity plan of the General and Supervisory Board and the respective Committees for 2023 (to be updated regularly throughout the year) and monitored issues related to the changes introduced by the State Budget for 2021 (Law no.75-B/2020, of 31 December), as well as the response, actions and initiatives of novobanco regarding the economic crisis arising from the Russia / Ukraine conflict.

The GSB was also informed of the results of the KPMG Report on Organizational Culture, as well as the measures to be taken by the Executive Board of Directors to improve this culture.

Throughout the year, the GSB was updated with regard to 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 regular forecasts (capital and results) for the end of the 2022 financial year.

At the end of the 2022 financial year, the General and Supervisory Board concluded its assessment report on the adequacy and effectiveness of the organizational culture in force in the novobanco Group (the "Group") and the governance and internal control framework with reference to the period from 1 December 2021 to 30 November 2022, in accordance with paragraphs b), c) and d) of Article 58 of Notice no. 3/2020 (the "Notice") of the Bank of Portugal, in which the GSB recognized deficiencies detected, approved the mitigation plans and proposed implementation deadlines for each of these deficiencies, presented by the Executive Board of Directors.

These deficiencies included 37 deficiencies classified as F3 - High Risk and 6 classified as F4 - Severe.

The CEO and CFO participated in the meetings as guests. When requested, other EBD members participated in meetings to discuss specific topics. The Monitoring Committee was present at most of the meetings.

Within the scope and for the purpose of the analyzes and verifications carried out, the General and Supervisory Board requested, and obtained, documentation and clarification of the multiple issues raised.

Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee held 14 meetings during 2022 and focused its activity on assessing the Bank's financial statements and the Statutory Auditor's reports for the 2022 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 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 2022, as well as the approval of the Internal Audit Plans for 2023 (including multi-annual plans). Throughout 2022, the Financial Affairs Committee monitored the main operations for the sale of Non-Productive Assets, namely Project Crow and Project Phoenix, sale of REOs (portfolios and individual assets), as well as the opening of a Representative Office in Spain, following the sale and decision to close the Branch and also the capital impacts of the changes introduced by the State Budget for 2021, Law n.º 75-B/2020, of December 31), as well as the capital increase due to the conversion rights attributed to the State deferred tax assets (“DTAs”) related to the exercises of 2016 and 2017. During 2022, the Committee also monitored the evolution of novobanco’s capital ratios, as well as the evolution of several other relevant projects, including 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 2022, the Financial Affairs Committee 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 the provision of other additional services to novobanco’s Group performed by that auditor. The meeting agendas included updates on the regulatory aspects of the Bank's activity, the follow-up of the 2022-2024 Medium-Term Plan (as well as the preparation of the 2023-2025 Medium-Term Plan) and the evaluation process for supervisory purposes (SREP) for 2022.

The Committee also followed up closely the OSI on Internal Audit Function and the 2022 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. 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 Audit 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 Statutory Auditor, as well as the Head of Internal Audit, the CEO and the Chief Financial Officer (CFO) participated in the meetings as guests, whenever necessary.

The members of the Committee met with the Supervisory Boards 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., 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 these Audit Committees.

In addition, the Committee members met separately with the Statutory Auditor and the Head of Internal Audit, without the presence of EBD members.

Risk Committee

The Risk Committee held 17 meetings during 2022. In addition to approving loans to individual customers or groups of associated customers, in accordance with its Regulations, it also assessed and discussed the strategy and risk appetite and limits for 2022, in accordance with the Medium-Term Plan for 2022-2024, the NPA Plan for 2022-2024 and the Main Initiatives and Activities in 2022 related to the economic crisis arising from the Russia / Ukraine conflict. Other topics discussed by the Risk Committee included the main monthly risk indicators (credit risk, market risk and operational risk) and the credit provisions and impairments contained in the financial statements for the 2022 financial year, as well as the approval of the Risk Activity Plan for 2023. The Bank's non-performing loans portfolio (NPL) was also reviewed 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 2022. 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), IRBB (interest rate risk of the banking book) and the review of the risks inherent to the sectors affected by COVID 19, the analysis of economic groups with high exposure to these 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 analyzed throughout the year, including the results of the OSI (On-Site Inspections).

The Risk Committee approved ICAAP, ILAAP, ESG Stress Tests and the IRB Renovation Strategy and Operational Plan.

At the end of 2022, the Risk Committee analyzed 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 6 meetings during 2022, deliberating on government, regulatory and legal issues related to the Bank's Complianceactivity and analyzing and discussing the Bank's regulatory compliance issues, including the 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 the prevention of money laundering, legislation on personal data protection, whistleblowing procedures, other legal and regulatory matters and other relevant ongoing projects, such as APIC (for updated information on clients to be obtained). Also the activity plan of the Compliance Department has been followed by the Compliance Committee. The Committee also analyzed and discussed topics related to transactions with related parties and conflicts of interest, compliance matters relating to subsidiaries and the branches of Spain and Luxemburg, including local inspections and audits on AML in Luxemburg and the remediation plan that encompassed the transfer of legacy accounts from Luxembourg to Lisbon, as well as regularly monitoring the most relevant fines and sanctions against the Bank.

Nomination Committee

The Nomination Committee held 9 meetings during 2022. Through the Fit & Proper Office, it carried out an 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 (“Key Function Holders”). During 2022, the Fit and Proper processes were also approved for the new interim head of the risk area of novobanco, as well as for the governing bodies for Banco BEST and the governing bodies for GNB-GA and its subsidiaries.

During 2022 the Nomination Committee discussed, reviewed and approved a new EBD mandate term (2022 to 2025), new EBD organization structure with updated roles and responsibilities, an increase in the number of EBD members from 6 to 7 with two new members joining and the appointment of a new CEO following the resignation of the previous CEO.

The report on gender diversity and the performance of top management at novobanco were also analysed.

The Nomination Committee also approved the appointment of a new member to the General and Supervisory Board, submitted to the General and Supervisory Board and approved by General Shareholders' Meeting, subject to Fit & Proper's approval by the competent authorities.

Remuneration Committee

The Remuneration Committee held 6 meetings during the year 2022. At these meetings, the Committee monitored the implementation of policies relating to the remuneration of the management and supervisory bodies and staff and adopted a set of decisions related to the variable component of remuneration for EBD and identified staff for year 2021. The Remuneration Committee also set and approved the main individual and collective performance indicators for the EBD members for the year 2022, based on the approved budget for this year and approved the 2021’s EBD KPI results. The Remuneration Committee approved the Identified Staff for year 2022 following a recommendation of the EBD. It also approved the budget for 2022 for variable remuneration and the amounts allocated to identified staff and EBD members (subject to the rules in the respective policy).

The Remuneration Committee also approved the regulations for novobanco's “Shaping the Future” Program, proposed at the General Shareholders' Meeting.

At the end of 2022, the Remuneration Committee concluded the review of a centralized and independent internal analysis aimed at verifying compliance of the remuneration policies in force with Notice 3/2020 of the Bank of Portugal.

During 2022, the GSB and the respective Committees approved various requests made by the EBD, namely under article 15, paragraph 5 of the Articles of Association.

The GSB and the Financial Affairs Committee held 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, 2022, 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 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 General and Supervisory Board analyzed all matters contained in the Legal Certifications of Accounts and Audit Reports on the individual and consolidated financial statements issued by the Statutory Auditor for the year ended December 31, 2022, 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;
- Financial impacts and impairments arising from the amendment to the State Budget Law 2021, Law No. 75B/2020 of December 31;
- Contingent Capital mechanism matters; and
- Aviso 3/2020 Bank of Portugal matters.

All these matters were monitored by the GSB and their Committees, which, on these matters, were kept updated by the EBD, by the relevant Departments and by the external auditors.

In preparing the accounts of the financial year, the GSB analyzed 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 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 20212 on 1 March 2023, 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 auditors on the same date, which corresponds in substance to the issues that have been discussed along the year, and for which they have obtained all the necessary clarifications.

2. Opinion of the Audit Committee on the Management Report and the separate and consolidated financial statements

Within the scope of our work, and in accordance with article 444, number 2, of the Code of Commercial Companies, we verified that:

(a) the separate and consolidated balance sheet, the separate and consolidated income statement and the separate and consolidated statement of comprehensive income, the demonstration of changes in individual and consolidated equity, the separate and consolidated cash flow statement and the corresponding Annex, allow a proper understanding of the asset, liabilities and the separate and consolidated financial position of novobanco, its separate and consolidated results of changes in equity and the separate 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[20] of the Securities Code and other applicable legislation.

Therefore, it is the Committee's opinion to:

(a) Approve the management report as well as the other documents of account, for the year of 2022, presented by the Executive Board of Directors, considering the aspects highlighted in the Audit report on the consolidated and separate financial statements of the Bank for that year issued by the audit firm; and
(b) Approve the proposed application of results submitted by the EBD in its Management Report.

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, 3 March 2023

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 Matters Committee (Audit)

Karl-Gerhard Eick
Vice-Chairman of the General and Supervisory Board and Chairman of the Financial Matters Committee (Audit)

[20] Article 245.º-A of the Securities Code - which is indicated in article 420.º, paragraph 5 of the Commercial Companies Code - was revoked by Law nº 99-A/2021 of 31 December. The matters included therein are now addressed in article 29.º-H of the Securities Code in its current version.

Kambiz Nourbakhsh
Member of the General and Supervisory Board and member of the Financial Matters Committee (Audit)

Mark Andrew Coker
Member of the General and Supervisory Board

John Herbert
Member of the General and Supervisory Board

Donald John Quintin
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

novobanco