novobanco

INTERIM REPORT AND ACCOUNTS

CONSOLIDATED & SEPARATE

FIRST HALF 2023

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
QoQ	Quarter-on-Quarter - change on a quarter earlier
NII	Net Interest Income
RGICSF	Regime Geral das Instituições de Crédito e Sociedades Financeiras
	Legal Framework of Credit Institutions and Financial Companies
LCR	Liquidity Coverage Ratio
€	euro
€mn	million euro
€bn	billion euro
bps	basis points
pp	percentage points

Novo Banco, S.A.

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

Registered at Lisbon Commercial Registry, under the single registration and tax identification number 513 204 016

Share Capital: 6 567 843 862.91 Euros represented by 11 130 841 957 shares

(Audited financial information under IFRS as adopted by the European Union)

(In accordance with article 9 of CMVM Regulation nr 5/2008)

This report is a free translation into English of the original Portuguese version.

In case of doubt or misinterpretation the Portuguese version will prevail.

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MANAGEMENT REPORT

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1 WHO WE ARE

1.1 Novo Banco Group

Novo Banco, S.A. ("novobanco" or "the bank") together with the subsidiaries and equity holdings that make up the Novo Banco Group ("Group" or "novobanco Group") is mainly active in the Portuguese banking sector, in both corporate and retail segments, also developing activity in asset management. In addition, the bank has equity stakes in companies operating in venture capital, real estate 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
1H 23 STRATEGY DELIVERING	Novobanco is delivering consistent growth and exceeding expectations, reinforcing its position as an independent, strong and successful Portuguese bank. Novobanco remains committed to support families and companies throughout their lifetime.

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

Corporate

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)

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

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

Retail

ACCOUNTS, CARDS & PAYMENTS
- Accounts bundled for different needs; fully online opening
- Strong authentication system; functionalities incl: contactless, virtual cards, MB Way (...)

HOUSING LOANS
- Acquisition & maintenance works
- Online loan submission
- Special conditions for young and non-resident

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

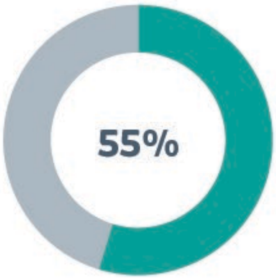
INSURANCE
- Life Protection
- Health and Property & Casualty
- Special solutions for self employed workers

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

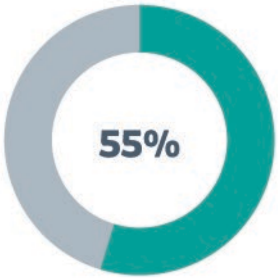
CONSUMER FINANCE
- Online simulation and submission
- Credit insurance option with unemployment and life coverage
- POS lending partnership "Heypay"

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

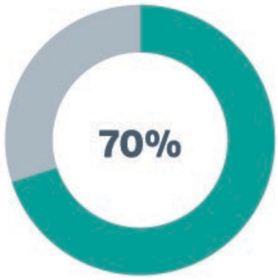
CORPORATE BANKING



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]

20.3%	15.7%	14.7%	9.6%	9.1%	9.1%	9.8%
TRADE FINANCE	POS	CORPORATE LOANS	DEPOSITS	MORTGAGE LOANS	ASSET MGMT	GLOBAL

1. Grupo Novobanco customers, including Novobanco Açores and Best
2. 31 December 2022; Affluent customers includes Singular; % calculated as a proxy for management data;
3. Data as of May 2023; Source: Banco de Portugal, APS, APFIPP;

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

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

novobanco dos Açores has as its mission to serve its clients (individuals 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

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 is one of the national asset 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 June 2023, GNB Gestão de Ativos had €8.0bn 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

4,132 employees of novobanco Group, of which 54% women

19.2 years average seniority of employees at Grupo novobanco

9.5 thousand ESG training hours in the first half of 2023

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

BUSINESS

1.5 million clients

98.7% satisfied and very satisfied clients – Medium Enterprises

91.6% satisfied and very satisfied clients – Retail

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

FINANCIAL RESOURCES

€25.8bn Loans granted

€1.8bn Loans origination in the first half of 2023

€28.2bn Deposits

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

TECHNOLOGY & EXPERIENCE

64% active clients in the digital channels

>70% of self-service transactions in the household's segments

39% growth in digital sales (vs first half of 2022)

to give back to community the support it has received.

SOCIETY

€223.4k in donations (72% Health Patronage; 1% Social Patronage; 11% Cultural Patronage; 16% Training and Research)

557 volunteer hours in environmental and social initiatives

1.1.2 Main Events

10 January – Novo Banco, S.A. informs about conclusion of Project Crow (Restructuring Funds)

novobanco made further clarifications following the announcements dated 23 and 29 of December 2022 about the conclusion of Project Crow and following CMVM request.

1 February – Novo Banco, S.A. informs about new Chief Financial Officer

novobanco informed that 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 mandate term until 2025, becoming the next Chief Financial Officer.

13 February – Novo Banco, S.A. announces DG Comp notification

novobanco announced the notification by Directorate General for Competition to the Minister of Finance, of the successful completion of novobanco's Restructuring Period.

24 February – Novo Banco, S.A. informs about Governing Bodies

novobanco informed that Benjamin Dickgiesser has resigned as member of the General and Supervisory Board. This announcement was made following the one on 1 February 2023, in which the GSB approved, subject to Fit & Proper, Benjamin Dickgiesser as a new member of the Executive Board of Directors.

9 March – Novo Banco, S.A. informs about FY2022 consolidated results

novobanco announced an annual net profit of €560.8mn (vs 2021: €184.5mn), with a strong strategic focus delivering a sustainable growth of business with increased revenues and capital generation despite the uncertain macro background.

22 March – Novo Banco, S.A. informs about the share capital increase

novobanco noted that that, following the General Shareholders Meeting, it was decided to increase its share capital arising from the conversion of the conversion rights relating to 2018 and 2019 fiscal years.

22 March – Novo Banco, S.A. informs about Governing Bodies

novobanco informed the market and the public in general that, subject to the approval of the competent regulatory authorities, the General Shareholders' Meeting approved the appointment of Evgeniy Kazarez as a member of the General and Supervisory Board for the current mandate term (2021-2024).

29 March – Novo Banco, S.A. informs about LT Issuer Rating upgrade to BB (low) by DBRS Morningstar

novobanco informed that DBRS Morningstar upgraded novobanco's Long-Term Issuer ratings to BB (low) from B (high). The Trend on all ratings remains at Stable.

19 April – Novo Banco, S.A. informs about multi-notch rating upgrade from Moody's, maintaining positive outlook

novobanco informed that Moody's upgraded novobanco's senior unsecured debt and senior unsecured medium-term note (MTN) programme by 3 notches from B3 to Ba3. The outlook on the long-term deposit and senior unsecured debt ratings remains positive.

28 April – Novo Banco, S.A. informs about 1Q23 consolidated results

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

24 May – Novo Banco, S.A. informs about issuance of subordinated debt

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

31 May – Novo Banco, S.A. informs about the results of its Tier 2 tender offer

novobanco informed that following the announcement of a tender offer on its outstanding €400 million 8.500% Fixed Rate Reset Callable Subordinated Notes due 2028, a total of €206.4 million was tendered and accepted with settlement scheduled for 1 June 2023.

01 June – Novo Banco, S.A. informs about early redemption option of its Tier 2

novobanco informed that it has taken the decision to execute the early redemption of the remaining outstanding nominal of its 8.5% Fixed Rate Reset Callable Subordinated Notes due 2028.

19 June – Novo Banco, S.A. informs about early redemption option of Senior Preferred Notes due 2024

novobanco informed that informs that, following the authorization received from the Single Resolution Board, it has taken the decision to exercise the early redemption option of its €300,000,000 3.500% Fixed/Floating Rate Callable Senior Preferred Notes due 2024.

22 June – Novo Banco, S.A. 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 requirements, on a consolidated basis, as determined by the Single Resolution Board.

27 June – Novo Banco, S.A. informs about Governing Bodies

novobanco informed that, following the announcement on September 19th 2022 and the authorization of the relevant regulatory authorities (fit and proper), Monika Wildner has joined the current mandate of the General and Supervisory Board of novobanco as an independent member.

Subsequent Event

On July 23, 2023, novobanco carried out the early repayment of the issue of €300mn 3.500% Fixed/Floating Rate Callable Senior Preferred Notes maturing in 2024 (ISIN: PTNOBIOM0014).

1.1.3 Main Awards

Novobanco selected the Best Trade Finance Provider, in Portugal

Novobanco was once again considered, for the fifth year in a row, the best Trade Finance Provider in Portugal, by the international magazine "Global Finance".

novobanco elected Best Distributor Portugal at the SRP Europe Awards 2023

novobanco once again receives the "Best Distributor, Portugal" award, attributed by SRP (Structured Retail Products), thus seeing recognized at international level, both the solidity and consistency of its offer within the scope of Structured Products.

NB Euro Bond from GNB Gestão de Ativos awarded by Refinitiv Lipper

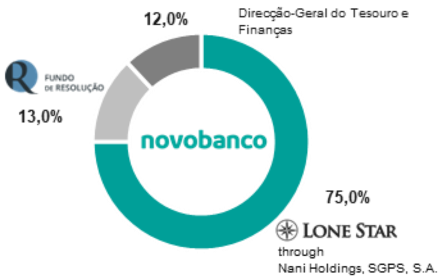
NB Euro Bond was awarded by the Refinitiv Lipper Fund Awards 2023, for the 12th consecutive year, as the best Euro bond fund marketed in Europe for the last 3, 5 and 10 years.

1.2 Organisation

The share capital of novobanco totals €6,567,843,862.91 divided into 11,130,841,957 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

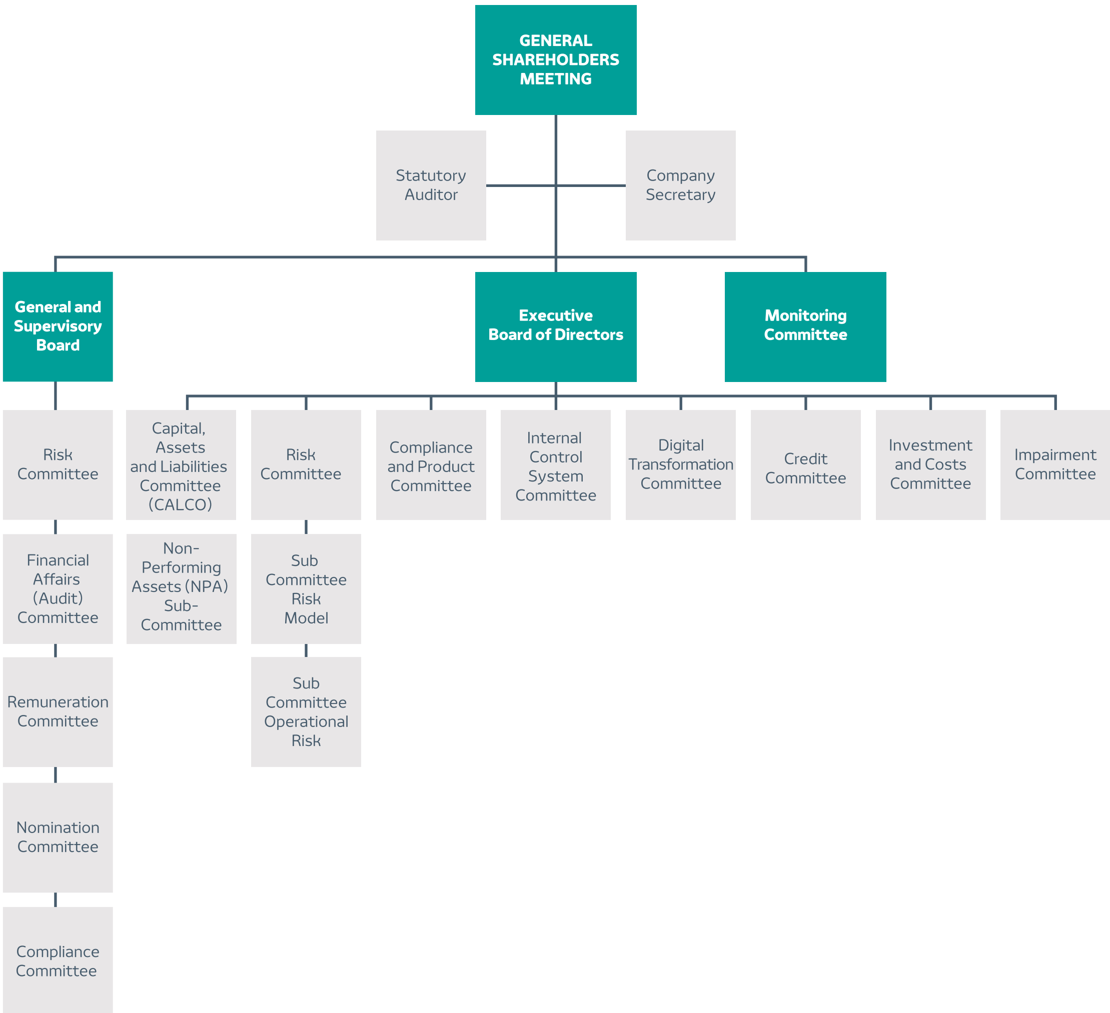
novobanco 's management relies on a governance model that is unique and distinct if compared with systemic banks within the Portuguese financial sector. In line with international best practices in management, and under the new shareholder structure, since 18 October 2017, the Bank changed its governance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

The 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.

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



1.2.2 **Organisational structure**

Board of the General Meeting

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

Monitoring Committee

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

Statutory Auditor

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

Company Secretary

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

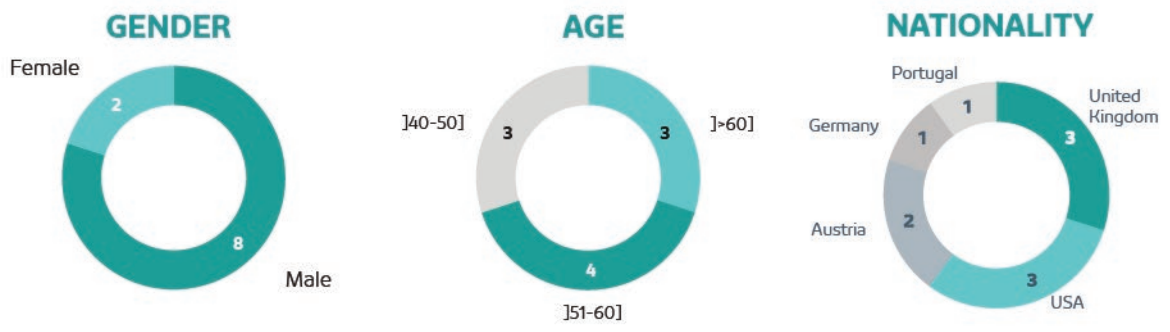
The composition of the corporate and statutory bodies, on 30 June 2023, was as follows:

General and Supervisory Board (GSB) [1]

								GSB Committees				
Chairman (C)	Vice-Chairman	Member		M/F	Independent	Date of 1st appointment	Expiry date	Financial Affairs	Risk	Compliance	Nomination	Remuneration
•			Byron James Macbean Haynes	M	•	18-10-2017	31-12-2024	•	•			C
	•		Karl-Gerhard Eick	M	•	18-10-2017	31-12-2024	C	•			•
		•	Donald John Quintin	M		18-10-2017	31-12-2024				•	
		•	Kambiz Nourbakhsh	M		18-10-2017	31-12-2024	•	•			
		•	Mark Andrew Coker	M		18-10-2017	31-12-2024			•	•	
		•	John Ryan Herbert	M	•	18-10-2017	31-12-2024			•	C	
		•	Robert Alan Sherman	M	•	18-10-2017	31-12-2024			C	•	
		•	Carla Antunes da Silva	F	•	06-06-2018	31-12-2024				•	
		•	William Henry Newton	M	•	29-04-2021	31-12-2024		C			
		•	Monika Wildner	F	•	21-06-2023	31-12-2024			•		

[1] In February 2023, the GSB approved the appointment of Benjamin Dickgiesser as Chief Financial Officer, conditional on the completion of his Fit & Proper process, having ceased his duties as a GSB member in February 2023. In March 2023, the Fit & Proper process of Evgeniy Kazarez was initiated to join the GSB for the current term. As of 30 June 2023, both Fit & Proper processes were ongoing and awaiting authorization to take up office.

The Board is composed by 10 members, of which 7 are independent, showing diversity in several dimensions: age[2], nationality, education and areas of expertise:

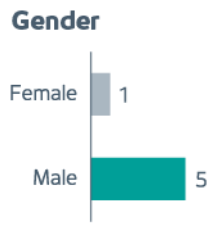


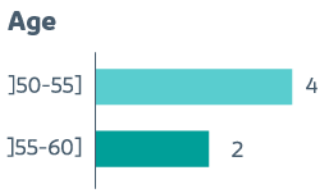
[2] As of 30 June 2023

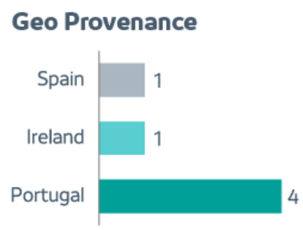
Executive Board of Directors (EBD) [3,4]

A Board currently composed by 6 members and with diversity in several dimensions including age[5] 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







In February 2023, the 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 ceased in February 2023. At the time of signing this Report, the Fit & Proper process was ongoing.

[3] 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..

[4] 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.

[5] As of 30 June 2023

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.

4 132 Employees	46.2 Average Age	19.2 Average Seniority	46% Male / 54% Female
(- 42 vs 1H 22)	(46 vs 1H 22)	(19.1 vs 1H 22)	(46%, 54% vs 1H 22)

Further information is provided in the Management Report – 2.2) Strategic Pillars – Develop People

2 OUR STRATEGY

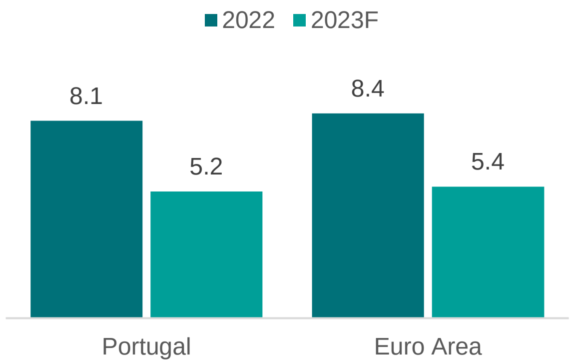
2.1 Business Environment

The global economy and the financial markets faced a number of headwinds in the first half of 2023, including (i) the ongoing war in Ukraine; (ii) the collapse of some medium-sized regional US banks as a result of their excessive exposure to interest rate risk, generating fears of financial instability; (iii) the risk of default by the US government, due to the restrictions imposed by the public debt ceiling; (iv) the persistence of high inflation, particularly in services and food; and (v) the sharp rise in benchmark interest rates by major central banks, tightening financing conditions. At the same time, the cooling of global demand for goods and the deceleration in international trade flows led to a contraction in industrial activity across the main economic areas. Taken together, these factors fuelled fears of a recession.

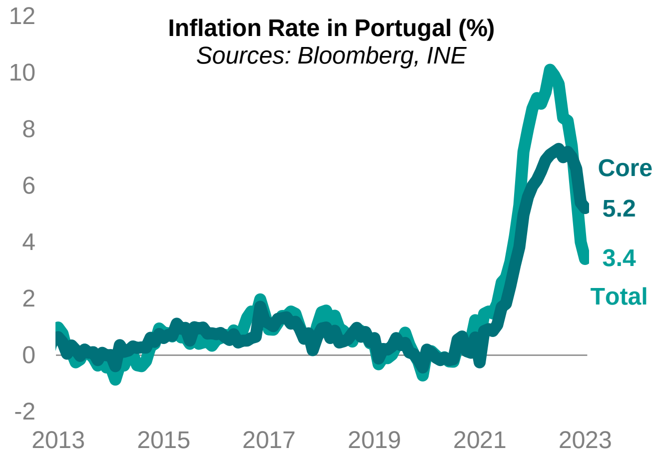
However, the performance of activity in this period turned out to be better than expected, even prompting a modest upward revision of the growth outlook for the full year. In the US, GDP is estimated to have grown by 2% in the 1Q and by around 1.5% in the 2Q (annualised). The Eurozone, which was relatively more penalised by the contraction in industry, witnessed a 0.1% QoQ decline in economic activity in the first three months of the year, followed by growth of approximately 0.2% QoQ in the 2Q. In China, GDP expanded by 4.5% in the 1Q quarter and by around 6.3% in the 2Q (YoY).

The substantial decline in energy and other commodity prices played a significant role in fostering positive global growth. The price of oil (Brent) fell by 12.8% in the 1st half of the year, to USD 74.9/barrel, and was down by 34.8% YoY at the end of June. In Europe, the price of natural gas fell by 51.4% in the 1st half of the year and by 74.3% year-on-year in June, to €37.1 MW/h. Global activity also benefited from the lifting of most Covid-19 restrictions in China, improving the initial outlook for demand in this economy. Also noteworthy was the resilience of private consumption in advanced economies, bolstered by the utilisation of "surplus savings" accrued during the pandemic, fiscal support to income and expenditure, and an increased propensity towards consumption in the services sector. The relative buoyancy of consumption was fuelled by persistently low unemployment rates in the US and Europe, which put upward pressure on nominal wage growth.

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



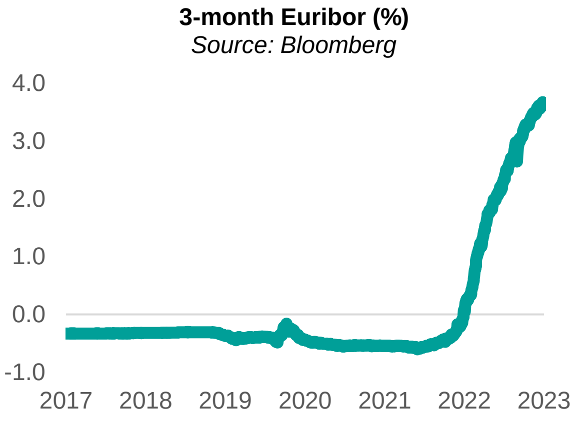
Inflation Rate in Portugal (%)
Sources: Bloomberg, INE



In this context, year-on-year inflation fell in the first six months of the year - from 6.5% to 3% in the US and from 9.2% to 5.5% in the Eurozone -, underpinned by falling energy prices (in June, -16.7% in the US and -5.6% in the Eurozone, YoY). Core inflation proved more persistent, rising from 5.2% to 5.7% YoY in the Eurozone and retreating in the US, from 5.7% to 4.8% YoY.

The persistence of core inflation led major central banks to reaffirm the need to raise benchmark interest rates to levels deemed "sufficiently restrictive". The US Federal Reserve raised the fed funds target rate in three 25 bps moves to 5%-5.25%, announcing in June a pause in the cycle of hikes, perceived by the market as temporary. The ECB lifted the benchmark interest rates by a cumulative 150 bps (2x50 bps plus 2x25 bps), bringing the main refinancing rate to 4% and the deposit facility rate to 3.5%. The Eurozone monetary authority also reaffirmed its intention to gradually reduce its asset purchases. Expectations of further interest rate hikes exerted upward pressure on short-term interest rates and heightened the inversion of the yield curve. The 3-month Euribor rose by 145 bps between January and June, to 3.577%. While subsequently rising in the second quarter, the 10-year Bund yield fell by 18 bps in the first six months of the year, to 2.392%. In the US, the 10-year Treasury yield dropped by 4 bps in the same period, to 3.837%.

The resilience of economic activity, decreasing inflation, and the expectation of an end to the cycle of interest rate hikes bolstered the equity market and contributed to keeping spreads relatively contained. In the US, the S&P 500 and Nasdaq stock indices surged by 15.9% and 31.7%, respectively, with the technology sector experiencing additional gains fuelled by advancements in artificial intelligence. In Europe, the Euro Stoxx and DAX were up by 8.7% and 16%. The euro rose by 1.9% against the dollar, to EUR/USD 1.0918.



In Portugal, economic activity showed a sturdy performance in the first half of the year, surpassing expectations with a 1.6% QoQ and 2.5% YoY growth in the 1st quarter, and estimated growth of approximately 0.3% QoQ and 2.6% YoY in the 2nd quarter. These growth rates - above the Eurozone average - benefited from a strong contribution from net external demand. Of particular note is the double-digit growth in services exports, driven by the impressive performance of the tourism sector, which in the 1st half of 2023 surpassed the 2019, pre-pandemic, activity levels. In the period of January to May, the number of overnight stays of non-residents in tourist establishments grew by 29.3% YoY, or 10.9% compared to the same period of 2019. From a supply-side perspective, the highest GVA growth rates were observed in the "accommodation, restaurants and trade", "transport and logistics" and "other services" sectors. Exports of goods also posted robust growth (+6.3% YoY in the first quarter).

Private consumption continued to experience a prolonged slowdown, penalised by the impact of high inflation and the upward trend of interest rates. The YoY inflation rate retreated from 8.4% in January to 3.4% in June, benefiting from the sharp fall in energy prices (-18.8% YoY in June). Average annual inflation, however, was still lingering at 7.8% at the end of the 1st half of the year, only slightly below the 8.2% recorded in January. The interest rate implicit in mortgage loans under the general regime rose from 1.883% in December 2022 to 3.354% in May 2023 (or from 2.722% to 3.871% in contracts signed within the preceding 3 months), resulting in a corresponding rise in the monthly instalment, from €304 to €361 (or from €536 to €591 in contracts signed within the preceding 3 months).

Even so, household consumption proved resilient, with retail sales recording real growth of more than 3% in May, in monthly and year-on-year terms. This resilience was supported by the buoyancy of the labour market, the use of surplus savings accumulated during the pandemic, fiscal support measures and the gradual moderation of inflation. The household saving rate reached 5.9% of disposable income in the 12 months to March 2023, down from 6.5% in the 4th quarter of 2022. Like in other parts of Europe, the pursuit of higher returns amid a climate of escalating interest rates led to a decrease in bank deposits in Portugal, as investors favoured alternative savings instruments, particularly saving certificates (certificados de aforro). By May 2023, the unemployment rate had retreated from 6.8% to 6.4% of the labour force, accompanied by a net increase of 63 thousand workers (primarily in the services sector) and a reduction in the number of unemployed by approximately 16 thousand.

Except for the transport equipment component, which benefited from the strong performance of the tourism sector, investment in fixed assets experienced limited or negative growth due to the tighter financing conditions for businesses and households, as well as increased uncertainty in the economic outlook. Weaker private sector investment intentions resulted in YoY falls in the flow of new mortgage loans and loans to non-financial companies. Non-performing loan ratios remained contained in all segments, partly reflecting the context of low unemployment and rising disposable income of both companies and households. In the 1st quarter of 2023, the NPL ratio stood at 3.1% of total loans, down from 3.6% a year earlier.

The real estate sector maintained a robust pace of activity in the first half of 2023, although showing signs of cooling down. House prices rose by 8.7% YoY in the 1st quarter, decelerating from the 11.3% YoY increase observed in the 4th quarter of 2022. The number of transactions fell by 10.5% in the quarter and by 20.8% YoY, with contributions from both the domestic and the external segments.

Reflecting the expansion of economic activity and the improvement in public accounts, Moody's upgraded the outlook for Portugal's sovereign rating (Baa2) from "stable" to "positive" in May. Portugal's rating was maintained at BBB+ by S&P and Fitch and at A(low) by DBRS. The spread between the Portuguese 10-year Treasury Bond yield and the German benchmark narrowed in the 1st half of the year, from 102 bps to 73 bps.

Outlook for 2023

The second half of 2023 is expected to see a slowdown in activity in the major advanced economies, reflecting tighter monetary and financial conditions. With inflation remaining above the 2% target, the Fed and, even more so, the ECB, are expected to extend their cycle of benchmark interest rate hikes. In the Eurozone, at least two additional increases in key rates are expected. In the US, one to two interest rate hikes are anticipated. The slowdown in activity should, however, be toned down by lower inflation and persistently subdued unemployment rates in the main economies. In the Eurozone, growth is expected to benefit 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. A potential escalation in the war in Ukraine, along with heightened tensions between Russia and Western nations, are also relevant risks. 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.

In Portugal, quarterly growth rates of around 0.5% are expected for the second half of the year. The annual GDP growth rate is reckoned to reach around 2.7%, mainly supported by net external demand and, in particular, by the buoyancy of tourism services exports. Private consumption should be penalised by rising interest rates and debt service, albeit benefiting from a decline in inflation. The year-on-year change in consumer prices is expected to wind down to around 2%, although the average annual rate of change should close the year at nearly 5%. The unemployment rate should remain contained, at around 6.5% of the labour force. Private investment is expected to be constrained by rising interest rates and high levels of uncertainty, while public investment should register a strong expansion, driven by 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.

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. In the first half of 2023, novobanco continued to grow consistently and exceed expectations, reinforcing its position as a solid and independent domestic Bank, while maintaining its commitment to supporting families and businesses throughout their lifetime.

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

novobanco's strategy is 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.

The strategic plan of the novobanco consists of 4 pillars:

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...

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

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

2023

INSURANCE
- New simulation festure for home insurance with option to save simulations
- E2E subscription home insurance

PHYGITAL
- Phygital solutions extended to more products like Credit Cards, Salary Accounts and Non-Life Insurance

CREDIT CARDS
- Revised and optimized solution for credit card applications on digital channels

NOVOBANCO ONLINE EMPRESAS
- Improvements and new features in the Confirming dashboard and new Factoring and Confirming reports

APP: SMARTER
- Apple Pay, Google Pay and 3D Secure

...UNLOCKING CURRENT AND FUTURE POTENTIAL

+39% vs 1H22 in digital Sales (exc. Deposits and investments)

+4.4 pp vs 1H22 in % of digitally active clients to **64 %**

+3.6 pp vs 1H22 in % of self-service transactions to **70.3%**

+30% vs 1H22 in % mobile interactions, measured in number of logins to private clients

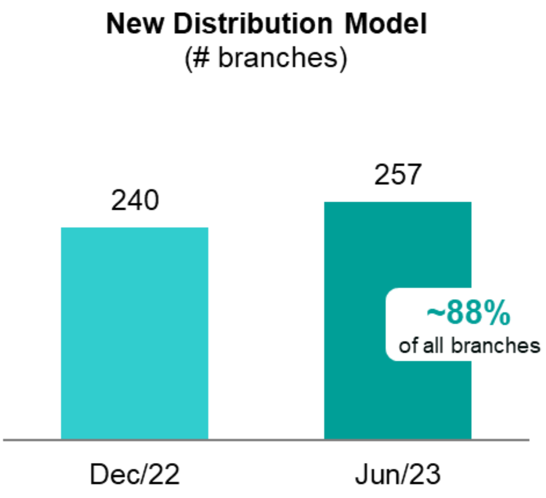
In the Corporate segment, novobanco's in-depth knowledge of the Portuguese business sector allows it to develop specialised approaches, which offer each sector of the economy, and in particular those that are key for national economic growth, a set of products and services suited to their challenges 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.

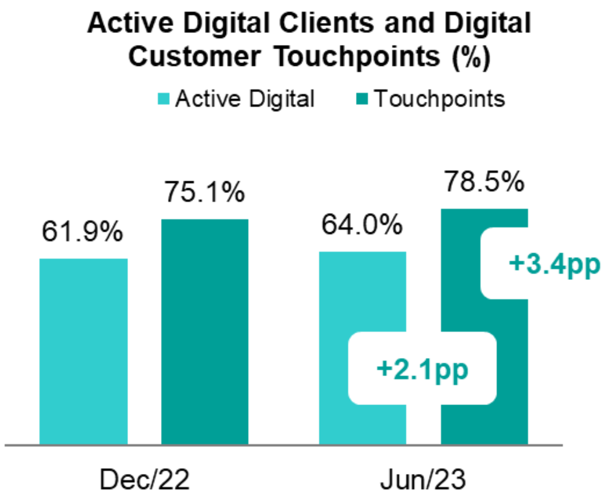
This in-depth knowledge of the market, of its opportunities, but also of its expectations and challenges, positions novobanco as the natural financial partner for large, medium and small national companies.

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.



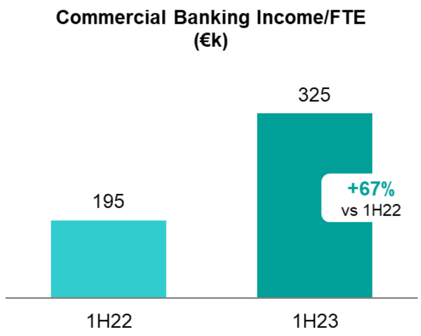


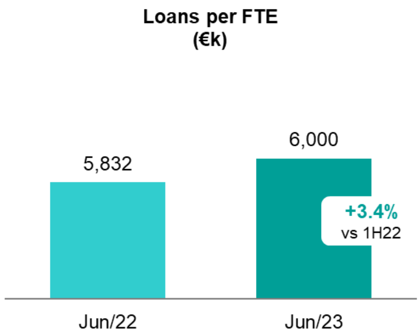
SIMPLE AND EFFICIENT

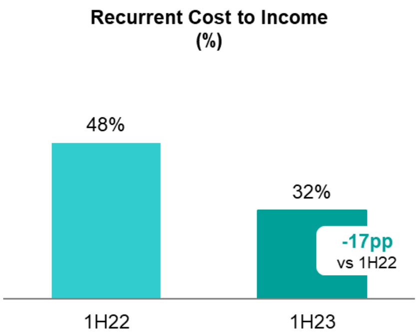
To address the market of today, with its very exacting clients and the challenges posed by new players, which spur the sector to evolve its operating model, the second pillar of novobanco's strategy is to accelerate its transformation into an organisation that provides customers with a lean and straightforward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





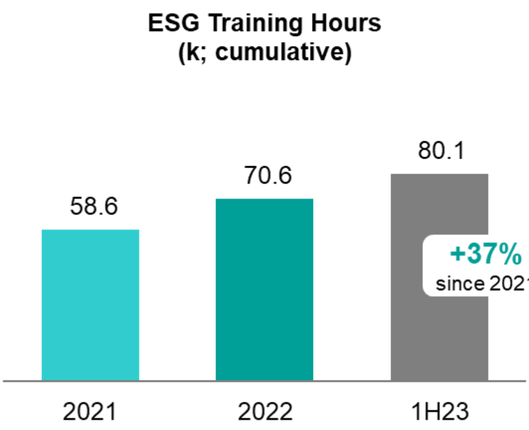


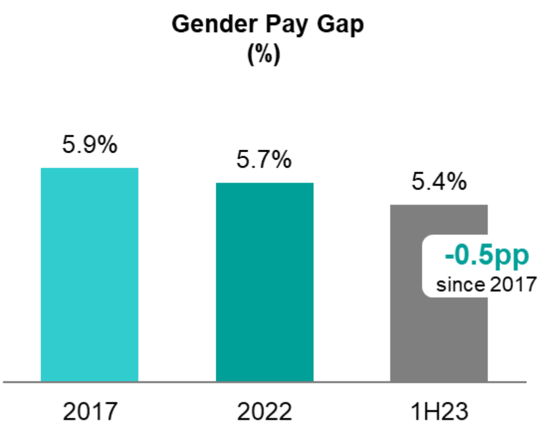
PEOPLE AND CULTURE

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.





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.

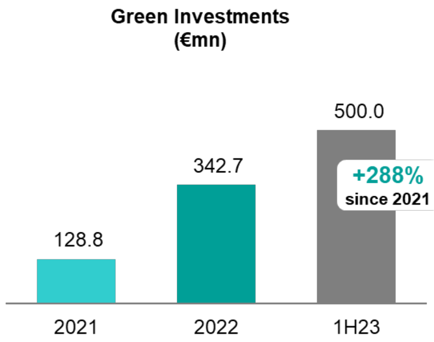
This provides the framework into which the entire programme for integrating ESG (Environmental, Social and Governance) issues into the organisation is set, which includes (i) implementing the ESG operating model and training the organisation, (ii) adapting the offer of products and services, (iii) transforming 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.

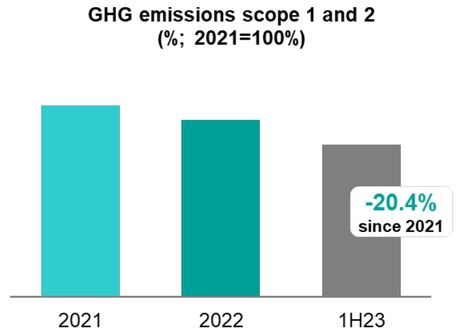
Based on the strategy and the 3 axes that reflect how material issues and Sustainable Development Goals (SDGs) are addressed, identified with the participation of stakeholders, was defined the Social Dividend model for 2022 - 2024 that integrates the three dimensions of sustainability: environmental,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

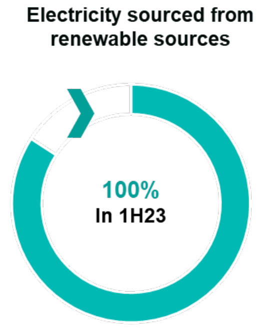
Comprising three programmes - Environment, Financial and Social Well-Being and Responsible Banking -, objectives for 2024 and various initiatives, the quarterly monitoring model of ESG performance meets novobanco's strategic objectives, which include adopting the best sustainability practices in order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







In the first half of the year, novobanco recorded another period of strong commercial and financial performance:

1H23 Execution

Net Interest Margin	**2.50%**	**Cost to Income**	**33.6%**
Cost of Risk	**38 bps**	**NPL Ratio**	**4.4%** (w/ 80% coverage)
Profit Before Tax[1]	**€377mn** (above 1H23E)	**Capital Generation**	**+c.200 bps** (CET1: 15.1%)

(1) PBT deducted by Special Tax on Banks

2.3 ESG Strategy

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

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.

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.

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.

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.

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

The Commitments of Novo Banco, S.A. for 2024:

novobanco 2024 commitments

Group novobanco	ESG	**+ 4.5 p.p.** women in senior leadership positions[11]	**- 18%** GHG emissions (scope 1 and 2)[5]	**+ 20%** low emissions vehicles (electric or hybrid)	**100%** green electricity procurement[15]	
novobanco	Sustainable Business	**+ €600mn** in Green Investment[1] (vs. 2021)	**€0mn** financing to excluded sectors[2]	**30%** investment products with ESG characteristics[3]	**- 30%** paper consumption[4] (ton, vs. 2021)	**-18%** CO2 emissions from own operations[5] (ton. vs. 2021)
novobanco	Social and Financial Well-being	**40%** employees benefiting from social well-being program[6]	**+ 3 p.p.** employees assessed Healthy (psychosocial assessment[7]) (vs. 2021)	**+ 8 p.p.** employees *engagement* level[8] (vs. 2021)	**+ 11.8 points** in customers' NPS[9] (vs. 2021)	**+ 9,594 hours** from employees volunteering service initiatives[10] (vs. 2021)
novobanco	Responsible Banking	**+ 2.5 p.p.** women in senior leadership positions[11]	**- 0.9 p.p.** gender pay gap[12]	**+ 3** partnerships with to promote employment of people with disabilities[13]	**90%** suppliers with sustainability scoring[14]	**+ 39,160 hours** ESG training to employees

1. Origination of financing or own portfolio investments in companies whose main economic activity is eligible to the European 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 European 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 Trade in wildlife and endangered species; 3. Investment Funds, Financial Insurance and Structured Products; 4. Reduction of the consumption of photocopy paper, resulting from the implementation of the Phygital program in the commercial network (started in 2019) and the dematerialization of processes in central services; 5. Scope 1 and 2 GHG emissions; 6. Percentage of employees who attended at least 2 program 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 with the Bank; 14. Suppliers with a continuous relationship with novobanco and annual turnover of over 10 thousand euros; 15. In all locations where the option is available and the contract is held by novobanco.

With clear achievements in the first half of 2023:

Sustainable Business	
€500mn	Green investment[1] (2022-1H23 cumulative)
-20.4%	Reduction in Scope 1 and 2 emissions (vs. 2021)
~100%[2]	Of electricity sourced from renewable sources
34.7 Ton	Paper consumption avoided with Phygital process YTD

Social & Financial Well-being	
3.5 K	Participations in 5+ program (promoting physical and mental health, well-being and work-life balance for employees launched in June 22)
15%	Employees benefited from support to mitigate inflation impacts (extended amortization period on mortgages)
€223K	In donations
172	Hours volunteered by employees to social and environmental initiatives YtD

Responsible Banking	
5.4%	Gender pay-gap[3] (vs 6.0% in Jun-22)
26.9%	Of women in senior leaders' roles[4]
64.9%	Of suppliers with Sustainability scoring
+9.5K	Hours of ESG training to employees YtD

:

Note: (1) Novo Banco S.A; Includes financing and investment in 8 sectors inherently aligned with EU Taxonomy and in Green Bonds (as labeled by Bloomberg). Does not include remaining Taxonomy eligible sectors or other ESG/Sustainable/ Social linked bonds/ loans; (2) In all locations where the option is available and the contract is held by novobanco; (3) Adjusted by function; (4) includes EBoD team and senior managers;

2.4 Regulatory Framework

The collapse of three US regional banks (SVB, First Republic Bank and Signature Bank) in March and the ensuing crisis at Credit Suisse (leading to its acquisition by UBS) prompted the European Commission to come forward in April with a proposal to revise the legislation applicable to the Crisis Management Framework, including proposals to amend the Bank Resolution Directive and Regulation and the Deposit Guarantee Directive. These proposals fall short of the goal of completing the Banking Union with the creation of a Single Deposit Guarantee Fund, but point to national schemes as financiers of crisis management in smaller institutions.

On ESG, as of 1 January 2023 disclosure requirements are extended to cover the six environmental objectives set out in the Taxonomy Regulation and the rules of the Sustainable Financial Reporting Delegated Regulation (SFDR) enter into force.

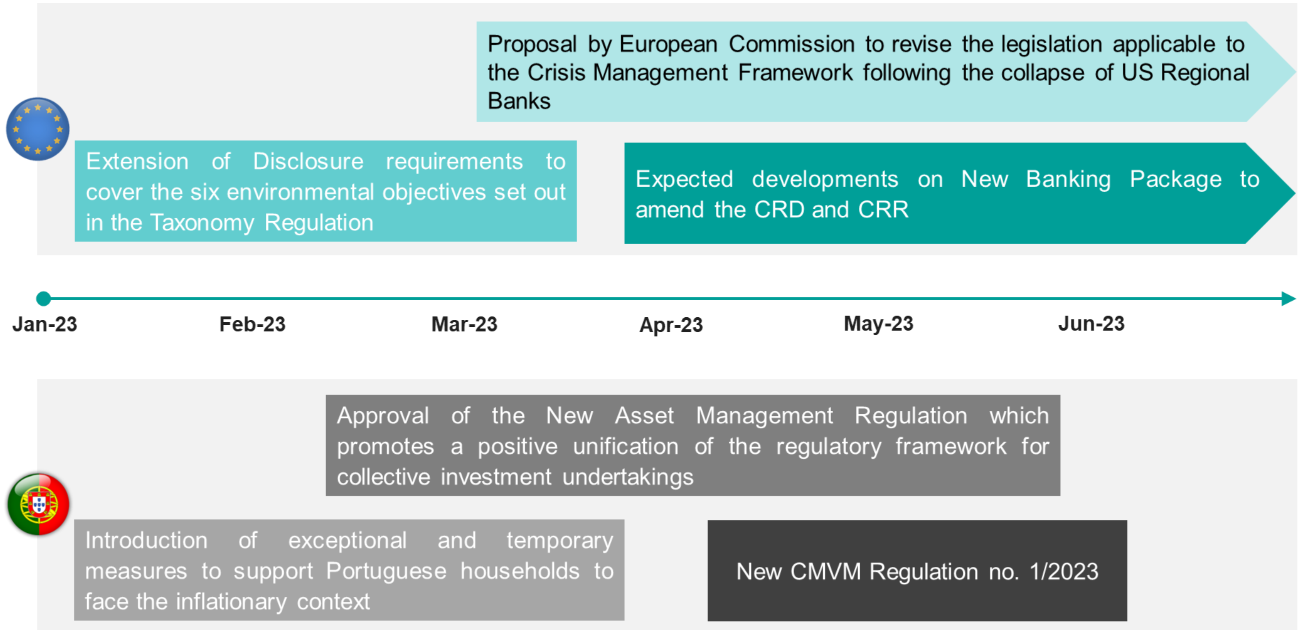
In the second half of 2023, developments are expected on the European Commission's legislative proposal (New Banking Package) to amend the Capital Requirements Directive and Regulation (CRD and CRR), with a very relevant impact for institutions. Developments are also expected under other legislative projects such as the digital euro, the retail investment package, the PSD3 and the extension of Open Banking.

In Portugal

Between the end of 2022 and the first half of 2023, the introduction of exceptional and temporary measures to support Portuguese households stands out, to face the inflationary context and the increase in the reference indexes in credit contracts: Decree-Law no. 80-A/2022, of November 25 (introduced the new PARI and other mitigants for the effect of the increase in interest rates on housing loans), Decree-Law no. 20-B/2023, of March 22 (provides a temporary interest subsidy when the index exceeds a certain threshold), and Law no. 24/2023, of May 29 (provides a temporary interest subsidy when the index exceeds a certain threshold). º 20-B/2023, of March 22 (grants a temporary interest subsidy when the index exceeds a certain threshold), and Law no. 24/2023, of May 29 (brings new obligations for credit institutions in the marketing of housing loans, extends the services included in the minimum banking services account and introduces new restrictions on the collection of commissions).

Regarding asset management, the new Asset Management Regulation was approved on 28 April, which promotes a positive unification of the regulatory framework for collective investment undertakings, harmonized with European Union law.

The new CMVM Regulation no. 1/2023 simplifies the duties of issuing companies, eliminating redundant or additional duties in relation to European legislation.



2.5 Risk Management

Main Risks and Uncertainties

Since the beginning of 2021, novobanco have been reporting 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 growing sophistication of cyber threats, coupled with the increasing digitization of financial services and the existence of gaps in the level of digital financial literacy of the Portuguese population;

(v) 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;

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

vii) Climate risks, in particular with regard to the transition effort with relevant impacts on the business sector and, in reputational terms, with the public focus on more sustainable solutions;

viii) 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 non-financial risks.

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.

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

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

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) non financial / operational risk, which includes operations risk, information systems risk, compliance risk, and reputational risk, and
v) business risk and ESG risk.

Management of ESG Risks

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

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

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

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

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

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

ESG risk profile

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

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

The management of risks is considered vital for novobanco Group

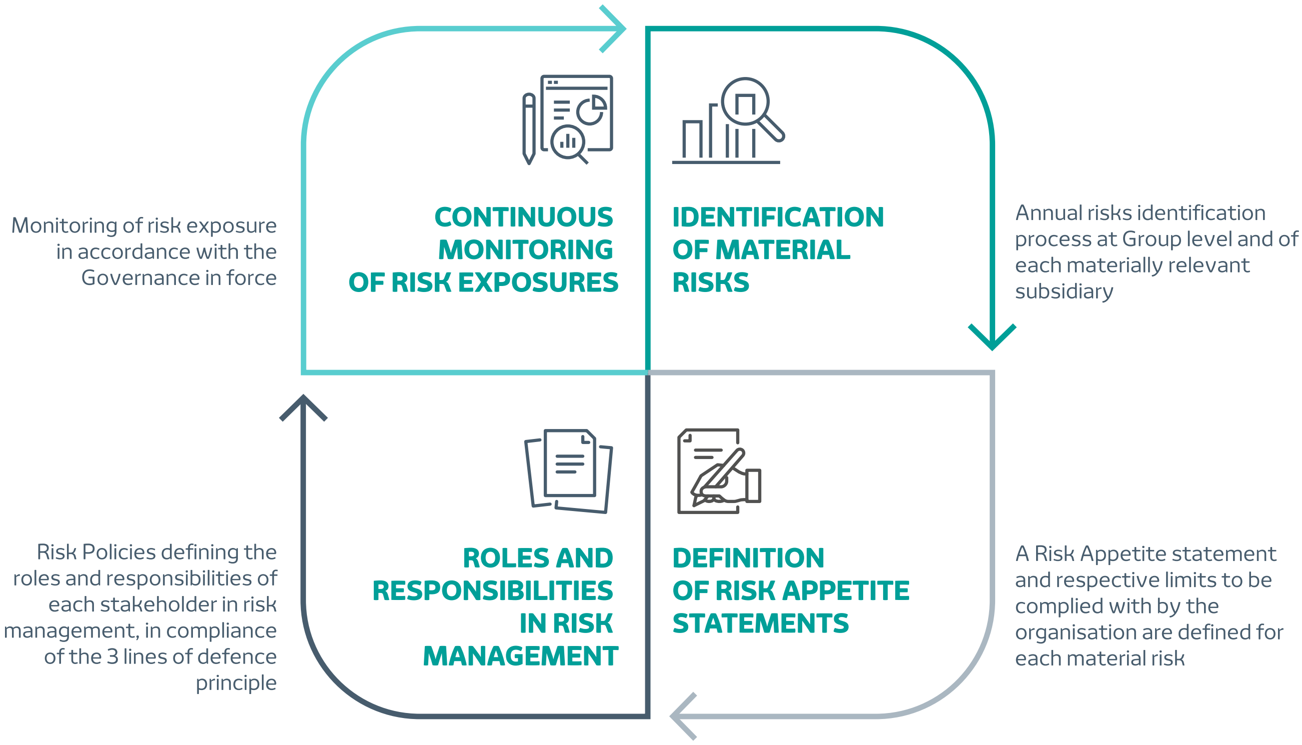
Risk Management, as a vital function for the development of novobanco Group’s activity, is centralised in the Risk Management Function, and is assumed by the Global Risk Department (GRD). It defines holistic principles for risk management and control, in close coordination with the remaining 2nd line units of novobanco Group, and with the Internal Audit Department.

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

The GRD as novobanco Group's Risk Management Function, namely ensures 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.

3 OUR PERFORMANCE

3.1 Highlights

CONSISTENT STRATEGY DELIVERING INCREASED PROFITABILITY

- Novobanco announces a **Net income of €373.2mn** (1Q23: €148.4mn; 2Q23: €224.8mn), showing the sustainable growth of business and revenues, as well as strong capital generation capacity.
- **NII was €524.0mn** (2Q22: €277.7mn; +13% QoQ), an improvement of assets average asset yield in the excess of the increase in the cost of funding. In 2Q23 the NII continued to evolve favorably, growing by 12.7% compared to 1Q23. **The Net Interest Margin in the period was 2.50%** (1Q23: 2.34%; 2Q23: 2.66%)**, outperforming the initial 2023 guidance of >2.2%.**
- **Fees and commissions totalled €145.4mn**, in line YoY (1H22: €144.4mn).
- **Operating costs totalled €225.1mn, increasing 7.8% YoY** (+1.1% QoQ), reflecting both inflation and the continued investment in optimization and simplification of the bank's operations. Reflecting top-line performance and cost-efficiency measures, **Commercial Cost to Income ratio was 33.6%** (2Q23: 32.0%).
- **Cost of risk was 38bps** (1H22: 40bps; 1Q23; 41bps), including impairment of credit and corporate bonds, being consistent with 2023 guidance.

STRONG ORGANIC CAPITAL GENERATION

- In the period, **fully loaded CET1 ratio increased by c.200bps to 15.1%** while **Total Capital ratio increased by c.230 bps to 17.8%** (+100bps and +130bps QoQ respectively), showing consistent organic capital generation, solid top-line performance and disciplined capital allocation. Total capital ratio also benefited from the net increase of €100mn of Tier 2 instruments, following the issuance of the new €500mn 10.5NC5.5 Tier 2 due in 2033.
- MREL as a percentage of Total Risk Exposure Amount (TREA) reached 21.2% in Jun/23, being above the linear progression of MREL requirements.

A RESILIENT BUSINESS MODEL WITH SOUND LIQUIDITY AND FUNDING RATIOS

- **Gross Customers loans at €25.8bn (+0.7% YTD), with €1.8bn YTD origination** supported by new client acquisition (>25% YoY).
- **Non-performing loans** (NPL) continue to decrease, with a **reduction of 8% and 2% compared to Dec/22 and Mar/23** respectively, standing at €1,269mn in Jun/23. **NPL ratio stood at 4.4%** (Dec/22: 4.3%; Mar/23; 4.4%), with **coverage ratio at 80.0%** (Dec/22: 77.5%; Mar/23: 81.3%).
- **Total customer funds of €35.7bn** (+2.5% YTD), with **customer deposits growing by 2.5% in 2Q23.** This performance is reflected in the **growth of the novobanco's deposits market share to 9.6%** in May/23 (Dec/22: 9.3%). Loan to Deposits ratio remained at healthy levels of 82.6%.
- **Strong liquidity position** above regulatory requirements with a planned reduction of the liquidity ratio (LCR) to 147% (Dec/22: 210%), reflecting TLTRO III reimbursement, and NSFR of 117% (Dec/22: 113%), as well as liquidity buffer of €13.8bn as of Jun/23 (+€0.6bn QoQ).

Main Highlights	30-Jun-22	31-Dec-22	30-Jun-23
Activity (€mn)			
Net Assets	45 493	45 995	43 900
Customer Loans (gross)	25 541	25 617	25 808
Customer Deposits	28 385	28 412	28 219
Equity	3 252	3 512	3 981
Solvency *(fully-loaded)*			
Common EquityTier I / Risk Weighted Assets (1)	11.2%	13.1%	15.1%
Tier I / Risk Weighted Assets (1)	11.2%	13.1%	15.1%
Total Capital / Risk Weighted Assets (1)	13.4%	15.5%	17.8%
Leverage Ratio (1)	5.4%	5.8%	7.1%
Liquidity (€mn)			
European Central Bank Funding (2)	2 162	385	-1,237
Eligible Assets for Repo Operations (ECB and others), net of haircut	16 513	16 917	16 685
(Total Credit - Credit Provision) / Customer Deposits (3)	83%	83%	83%
Liquidity Coverage Ratio (LCR) (1)	187%	210%	147%
Net Stable Funding Ratio (NSFR) (1)	106%	113%	117%
Asset Quality			
Overdue Loans > 90 days / Customer Loans (gross)	1.3%	1.2%	1.1%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	5.4%	4.3%	4.4%
Credit Provision / Overdue Loans > 90 days	380.2%	336.0%	359.9%
Credit Provision / Customer Loans (gross)	4.8%	4.2%	3.9%
Cost of Risk (4)	0.15%	0.45%	0.38%
Profitability			
Net Income for the Period (mn€)	266.7	560.8	373.2
Income before Taxes and Non-controlling interests / Average Net Assets (3)	1.4%	1.2%	1.7%
Banking Income / Average Net Assets (3)	2.6%	2.5%	3.1%
Income before Taxes and Non-controlling interests / Average Equity (3)	20.8%	17.8%	21.8%
Efficiency			
Operating Costs / Banking Income (3)	36.5%	39.8%	32.5%
Operating Costs / Commercial Banking Income	50.6%	48.8%	33.6%
Staff Costs / Banking Income (3)	19.6%	20.7%	17.4%
Employees (No.)			
Total	4 167	4 090	4 132
Branch Network (No.)			
Total	304	292	292

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

3.2 Novo Banco Group (Consolidated)

3.2.1 Results

In the first half of 2023, novobanco Group reported a profit of €373.2mn (+39.9% YoY).

Income Statement (€mn)	30-Jun-22	30-Jun-23	Change absolute	Change %
Net Interest Income	268.0	524.0	256.0	95.5%
+ Fees and Commissions	144.4	145.4	0.9	0.7%
= Commercial Banking Income	**412.4**	**669.4**	**256.9**	**62.3%**
+ Capital Markets Results	85.8	28.0	- 57.8	-67.3%
+ Other Operating Results	73.2	- 5.0	- 78.2	...
= Banking Income	**571.5**	**692.4**	**120.9**	**21.2%**
- Operating Costs	208.7	225.1	16.3	7.8%
= Net Operating Income	**362.7**	**467.3**	**104.6**	**28.8%**
- Net Impairments and Provisions	**19.8**	**56.0**	**36.2**	**...**
Credit	19.3	47.9	28.6	...
Securities	41.7	8.7	- 33.0	-79.2%
Other Assets and Contingencies	- 41.2	- 0.6	40.6	98.5%
= Income before Taxes	**343.0**	**411.4**	**68.4**	**19.9%**
- Corporate Income Tax	18.9	1.6	- 17.3	-91.7%
- Special Tax on Banks	34.1	34.2	0.0	0.1%
= Income after Taxes	**289.9**	**375.6**	**85.7**	**29.6%**
- Non-Controlling Interests	23.2	2.4	- 20.7	-89.5%
= Net Income for the period	**266.7**	**373.2**	**106.4**	**39.9%**

The 62.3% growth of the commercial banking income was backed by positive commercial performance and favourable interest rates, which more than offset the effect of inflation and investment in the improvement on the bank's processes. Operating costs increased by 7.8% (+6.3% excluding items of an exceptional nature).

Provisions for credit and securities show a slight reduction compared to the values recorded in 1H22 (-4.4mn).

By quarter, Income statement is as follows:

Income Statement (€mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	QoQ change absolute	QoQ change %	YoY change absolute	YoY change %
Net Interest Income	133.5	134.5	137.9	219.5	246.3	277.7	31.3	12.7%	143.2	106.4%
+ Fees and Commissions	68.8	75.6	71.3	77.6	68.9	76.4	7.5	10.9%	0.8	1.0%
= Commercial Banking Income	**202.3**	**210.1**	**209.2**	**297.2**	**315.3**	**354.1**	**38.8**	**12.3%**	**144.0**	**68.5%**
+ Market Results	91.4	-5.6	-17.6	-44.2	5.8	22.2	16.4	...	27.9	...
+ Other Operating Results	16.7	56.5	88.0	22.3	2.4	-7.4	-9.8	...	-63.9	...
= Banking Income	**310.4**	**261.0**	**279.6**	**275.3**	**323.5**	**368.9**	**45.4**	**14.0%**	**107.9**	**41.3%**
- Operating Costs	103.6	105.1	105.5	134.1	111.9	113.2	1.3	1.1%	8.1	7.7%
= Net Operating Income	**206.8**	**155.9**	**174.1**	**141.1**	**211.6**	**255.8**	**44.2**	**20.9%**	**99.8**	**64.0%**
- Net Impairments and Provisions	**21.8**	**-2.0**	**2.7**	**88.7**	**27.7**	**28.3**	**0.6**	**2.2%**	**30.3**	**...**
= Income before Taxes	**185.0**	**157.9**	**171.4**	**52.4**	**183.9**	**227.5**	**43.5**	**23.7%**	**69.5**	**44.0%**
- Taxes	7.4	11.6	8.9	-81.1	0.7	0.8	0.1	12.0%	-10.7	-92.8%
- Special Tax on Banks	34.1	0.0	0.0	0.0	34.1	0.0	-34.1	-99.9%	0.0	...
= Income after Taxes	**143.5**	**146.4**	**162.5**	**133.6**	**149.0**	**226.6**	**77.5**	**52.0%**	**80.2**	**54.8%**
- Non-controlling Interests	0.9	22.3	0.9	1.1	0.7	1.8	1.1	...	-20.5	-92.1%
= Net Income	**142.7**	**124.0**	**161.6**	**132.5**	**148.4**	**224.8**	**76.5**	**51.5%**	**100.8**	**81.2%**

Key features of the activity in the second quarter of 2023 are the following:

- Commercial banking income of €354.1mn, with net interest income performance (+€31.3mn vs 1Q23) driven by a loan portfolio mostly indexed to floating interest rates and by the favorable interest rate environment.
- Operating costs of €113.2mn, €107.6mn (excluding exceptional items), showing an increase of 1.1% compared to 1Q23;
- Net impairments and provisions amounted €28.3mn (of which €21.9mn to Credit), in line with previous quarter.

NET INTEREST INCOME

Net Interest Income was €524.0mn (+€256.0mn YoY), reflecting improvement of average assets yield, which more than offset the increase in the cost of funding.

Net Interest Income (NII) and Net Interest Margin (NIM) (€mn)	1H 2022			2022			1H 2023		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
Interest Earning Assets	41,009	1.51%	310.9	41,914	1.79%	761.3	41,762	3.69%	775.7
Customer Loans	25,211	2.02%	255.8	25,424	2.31%	595.4	25,606	4.15%	533.7
Mortgage Loans	9,782	1.04%	51.0	9,836	1.36%	135.9	9,976	3.21%	160.9
Consumer Loans and Others	1,432	5.85%	42.1	1,430	5.96%	86.4	1,441	6.90%	50.0
Corporate Lending	13,997	2.31%	162.6	14,158	2.60%	373.2	14,188	4.53%	322.9
Money Market Placements	6,013	-0.32%	-9.6	6,308	0.20%	12.7	4,792	2.76%	66.5
Securities and Other Assets	9,785	1.32%	64.8	10,181	1.48%	153.3	11,364	3.07%	175.5
Interest Earning Assets And Other	**41,009**	**1.51%**	**310.9**	**41,914**	**1.79%**	**761.3**	**41,762**	**3.69%**	**775.7**
Interest Bearing Liabilities	39,750	0.21%	41.5	40,230	0.32%	131.2	38,731	1.27%	247.4
Customer Deposits	27,813	0.15%	21.4	28,322	0.17%	48.5	28,656	0.52%	74.9
Money Market Funding	10,496	-0.70%	-26.1	10,455	-0.09%	-10.0	8,480	2.79%	119.1
Other Liabilities	1,441	6.38%	46.3	1,452	6.30%	92.7	1,596	6.66%	53.4
Other Non-Interest Bearing Liabilities	1,259	-	-	1,684	-	-	3,031	-	-
Interest Bearing Liabilities And Other	**41,009**	**0.20%**	**41.5**	**41,914**	**0.31%**	**131.2**	**41,762**	**1.18%**	**247.4**
NIM / NII (without stage 3 impairment adjustment)		**1.31%**	**269.4**		**1.48%**	**630.1**		**2.52%**	**528.3**
Stage 3 impairment			-1.4			-4.7			-4.2
NIM / NII		**1.30%**	**268.0**		**1.47%**	**625.5**		**2.50%**	**524.0**

The average yield on assets increased by 190bps, from 1.79% in 2022 to 3.69% in the period, with the average yield on customer credit increasing by 184bp compared to 2022, to 4.15%. The average balance of financial assets remained stable at €41.8bn (vs €41.9bn as of Dec/22).

The average balance of deposits was €28.7bn, with an average interest rate of 0.52% (+35bps YTD) and Money Market Funding was €8.5bn, with an average interest rate of 2.79% (-0.09% in 2022).

The yield expansion on interest earning assets (3.69%; 2022: 1.79%), more than compensated the increase of the cost of liabilities (1.18%; 2022: 0.31%), with overall net interest margin increasing to 2.50% in the period (1Q23: 2.34%; 2Q23: 2.66%).

FEES AND COMMISSIONS

Fees and commissions were €145.4mn, with a stable performance YoY, with the increased contribution of Payments Management (+10.5%; +€6.4mn YoY), from higher volume of transactions, offsetting regulatory headwinds on loans

Fees and Commissions (€mn)	30-Jun-22	30-Jun-23	Change	
			absolute	%
Payments Management	60.6	66.9	6.4	10.5%
Commissions on Loans, Guarantees and Similar	42.6	38.8	-3.7	-8.8%
Asset Management and Bancassurance	33.2	33.2	0.0	0.1%
Advising, Servicing and Other	8.1	6.4	-1.7	-21.0%
Fees and Commissions Total	**144.4**	**145.4**	**0.9**	**0.7%**

CAPITAL MARKETS AND OTHER OPERATING RESULTS

The results of financial operations were €28.0mn, benefiting from the interest rates environment and capital markets performance. YoY performance was impacted by gains from interest rate risk hedging accounted in 2022. The fair value reserves of the securities portfolio increased by €21.6mn during the first half of the year.

Other operating results totalled -€5.0mn, with YoY performance impacted by €77.1mn gain from the sale of real estate assets accounted in the first half of 2022. Other operating results includes the annual contribution to the Single Resolution Fund (€15.0mn) and the Portuguese Resolution Fund (€7.1mn), along with gains from credit recovery and real estate results.

OPERATING COSTS

Operating costs increased +7.8% YoY (+€16.3mn). Staff costs amounted to €120.6mn (+€8.7mn YoY), General and administrative costs totalled €84.7mn (+€7.3mn vs 1H22) and Depreciation was €19.8mn, in line with previous period. Benefitting from top-line performance and cost-efficiency initiatives, Commercial Cost to Income ratio continued to a show positive momentum, reaching 33.6% (1H22: 50.6%).

Excluding exceptional items, costs would have been €212.5mn (+6.3% YoY), equivalent to 31.7% Commercial Cost to Income ratio (1H22: 48.5%).

Operating Costs (€mn)	30-Jun-22	30-Jun-23	Change	
			absolute	%
Staff Costs	111.8	120.6	8.7	7.8%
General and Administrative Costs	77.3	84.7	7.3	9.5%
Depreciation	19.5	19.8	0.3	1.5%
Operating Costs Total	**208.7**	**225.1**	**16.3**	**7.8%**

As of 30 June 2023, novobanco Group had 4,132 employees (Dec/22: 4,090; +42 YTD) and the number of branches remained unchanged at 292 as of 31 December 2022, of which more than 257 already aligned with the new distribution model and more than 231 equipped with VTM (Virtual Teller Machine).

NET IMPAIRMENTS AND PROVISIONS

In the first half 2023, novobanco Group recorded net impairments and provisions amounting to €56.0mn, being almost entirely for customer loans and securities, with these two aggregates showing a €4.4mn reduction compared to previous year.

The cost of risk was 38bps (including loans impairments and corporate securities) which compares with 40bp in 1H22 and with 45bp in 2022.

Net Impairments and Provisions (€mn)	30-Jun-22	30-Jun-23	Change	
			absolute	%
Customer Loans	19.3	47.9	28.6	...
Securities	41.7	8.7	-33.0	-79.2%
Other Assets and Contingencies	- 41.2	- 0.6	40.6	98.5%
Net Impairments and Provisions Total	**19.8**	**56.0**	**36.2**	**...**

3.2.2 Balance Sheet and Activity

CUSTOMER LOANS

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

Customer Loans (€mn)	30-Jun-22	31-Dec-22	31-Mar-23	30-Jun-23	YTD Change	
					absolute	%
Loans to corporate customers	**14 268**	**14 244**	**14 252**	**14 209**	**- 35**	**-0.2%**
Loans to Individuals	**11 273**	**11 373**	**11 404**	**11 599**	**226**	**2.0%**
Residential Mortgage	9 833	9 978	9 984	10 131	154	1.5%
Other Loans	1 440	1 395	1 421	1 468	73	5.2%
Customer Loans (gross)	**25 541**	**25 617**	**25 656**	**25 808**	**191**	**0.7%**
Customer Loans Provisions	1 237	1 066	1 048	1 015	- 51	-4.8%
Customer Loans (net)	**24 304**	**24 551**	**24 608**	**24 793**	**242**	**1.0%**

Loans to customers (gross) totalled €25,8mn (+0.7% YTD), of which corporate customers represented 55% (+5bp vs Dec/22), Residential Mortgage 39% (-3bp vs Dec/22) and other loans to individuals 6%. The commercial activity momentum registered in 2022 continued in the first half of 2023, with origination totalling €1.8bn (stable YoY), of which 47% corporate, 44% mortgage and 9% consumer and others.
The asset quality indicators of June 2023, and comparison with previous year, are presented below:

Asset Quality and Coverage Ratios (€mn)	30-Jun-22	31-Dec-22	31-Mar-23	30-Jun-23	YTD Change	
					absolute	%
Overdue Loans > 90 days	325	317	308	282	- 35	-11.1%
Non-Performing Loans (NPL)[1]	1 695	1 376	1 289	1 269	- 107	-7.8%
Overdue Loans > 90 days / Customer Loans (gross)	1.3%	1.2%	1.2%	1.1%	-0.1 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	**5.7%**	**4.3%**	**4.4%**	**4.4%**	**0.1 p.p.**	
Credit Provisions / Customer Loans	4.8%	4.2%	4.1%	3.9%	-0.2 p.p.	
Coverage of Overdue Loans > 90 days	380.2%	336.0%	340.4%	359.9%	23.8 p.p.	
Coverage of Non-Performing Loans [1]	**73.0%**	**77.5%**	**81.3%**	**80.0%**	**2.5 p.p.**	

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

Non-performing loans (NPLs) continue to show a downward trend (-7.8% YTD; -1.5% QoQ), standing at €1,269M as of Jun/23. The NPL ratio stood at 4.4% (Dec/22: 4.3%; Mar/23: 4.4%), with a coverage ratio of 80.0% (Dec/22: 77.5%; Mar/23: 81.3%).

SECURITIES

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €11.8bn as of 30 June 2023, representing 26.8% of assets, of which more than 75% were HQLA (High-Quality Liquid Assets). From the total €11.8bn, 74% was accounted at amortised cost with unrealised marked to market losses of €226mn (net of tax and hedges), equivalent to c.28bps impact in CET1 from a full liquidation.

Securities portfolio (€mn)	30-Jun-22	31-Dec-22	30-Mar-23	30-Jun-23	YTD Change	
					absolute	relative
Portuguese sovereign debt	2 162	981	1 129	1 147	166	16.9%
Other sovereign debt	3 284	5 241	5 517	5 556	315	6.0%
Bonds	4 088	4 036	4 378	4 695	659	16.3%
Other	655	387	381	356	- 32	-8.2%
Securities portfolio Total (net of impairment)	**10 188**	**10 646**	**11 406**	**11 754**	**1 108**	**10.4%**

As of June 2023, the ALCO portfolio totalled €8.7bn, representing 74% of the securities portfolio, being 18% rated as AAA, 26% from AA+ to AA-, 34% from A+ to A-, 20% from BBB+ to BBB-, and 2% rated BB+ to B+.

FUNDING

As of June 2023, total customer funds amounted to €35.7bn (+€870mn; +2.5% YTD), of which deposits represent 79.1%. The increase in total customer funds in the period was driven by the positive performance of other customer funds (+€673mn) and the increase of subordinated debt (+€296mn), following the issuance of €500mn 10.5NC5.5 Tier 2 and the tender of the 10NC5 €400mn bond.

Total Funds (€mn)	30-Jun-22	31-Dec-22	31-Mar-23	30-Jun-23	YTD change	
					absolute	%
Deposits	28 385	28 412	27 526	28 219	- 193	-0.7%
Other Customer Funds [(1)]	645	866	1 132	1 539	673	77.8%
Debt Securities [(2)]	1 066	1 169	1 166	1 177	8	0.7%
Subordinated Debt	432	416	424	711	296	71.1%
Sub -Total	**30 528**	**30 862**	**30 248**	**31 646**	**783**	**2.5%**
Off-Balance Sheet Funds	4 046	3 933	3 987	4 019	86	2.2%
Total Funds	**34 575**	**34 795**	**34 235**	**35 664**	**870**	**2.5%**

(1) Includes checks and pending payment instructions, Repos and other funds.
(2) Includes funds associated to consolidated securitisation operations.

Customer deposits had a positive performance in the quarter, growing by 2.5%, and leading to an increase of novobanco's market share to 9.6% in May/23 (Dec/22: 9.3%).

3.3 Business Segments

Novobanco Group develops its activity in the Portuguese banking sector, serving both corporate and retail segments. Its decision center is in Portugal, making the domestic territory its main market. The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, broker and custodian services and the commercialization of life and non-life insurance products, among others.

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

Retail

Corresponds to all the activity developed with private customers and small businesses, along with the fully consolidated operating subsidiaries novobanco Açores, BEST and GNBGA. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services.

Corporate

Includes the activities developed with medium and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centres. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity.

Support Functions

This area does not correspond to an operational segment in the true sense of the concept, it is an aggregation of transversal corporate structures that ensure the basic functions of the Group's global management, including Treasury and Real Estate assets.

€ million

	30-Jun-22				30-Jun-23						
	Retail	Corporate	Support functions	Total	Retail	▲ €mn	Corporate	▲ €mn	Support functions	▲ €mn	Total
Commercial Banking Income	194	192	26	412	384	190	294	102	- 9	- 35	**669**
Banking Income	202	198	172	571	383	181	308	110	2	- 170	**692**
Operating Costs	135	41	33	209	152	17	46	5	27	- 6	**225**
Net Operating Income	67	157	139	363	231	164	262	105	- 25	- 164	**467**
Net Impairments and Provisions	- 2	44	- 22	20	17	19	33	- 11	6	28	**56**
Income before Taxes	**69**	**113**	**161**	**343**	**213**	**145**	**229**	**116**	**- 31**	**- 192**	**411**
Total Assets	14 232	13 311	17 950	45 493	14 525	292	14 353	1 042	15 022	-2 927	**43 900**
Customer Loans (net)	13 017	11 285	2	24 304	13 399	382	11 380	95	14	12	**24 793**
Net Interest margin	0.9%	2.2%	0.4%	1.3%	2.7%	1.7%	3.6%	1.4%	-0.2%	-0.5%	**2.5%**
Cost to Income	69.4%	21.3%	-	50.6%	39.6%	-29.8%	15.6%	-5.6%	-	-	**33.6%**

In the first half of 2022, the results of the Support function include €77.1mn of gains from the sale of real estate assets accounted as Other operating results.

3.3.1 **Retail**

Since 2021, novobanco's Retail segment has carried out a strong adjustment of its customer service structure, reshaping its geographic presence and deeply changing the service experience, in a move to deepen long-term relationships with clients and balancing between the convenience of the digital channels and the importance of face-to-face service to clients. Currently, more than 257 branches operate under the new distribution model and more than 231 have a VTM (Virtual Teller Machine; +41 vs Dec/22), which offers advanced transaction management solutions and stands out as a tool towards branch efficiency and customer satisfaction.

New clients acquisition continues to evolve positively, growing more than 25% YoY, supported by initiatives such as (i) wage domiciliation (+7% YoY); (ii) client loyalty program aimed at strengthening and deepening the commercial relationship, and (iii) cross segment program, through which employees of companies with a protocol with novobanco have access to preferential conditions in several of the bank's products and services, covering around 300,000 employees in more than 25,000 companies.

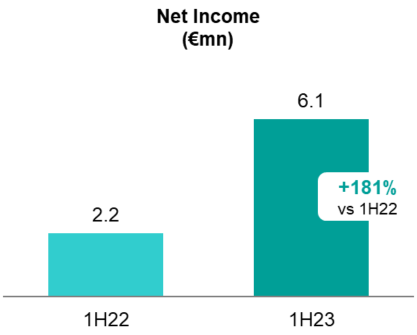
As of Jun-23, Loans to Customers (net) totalled €13.4bn (+2.9% YoY; +1.8% YTD), mainly as the result of solid mortgage origination (€1.4bn since Jun-22; €0.8bn YTD) following the successful strategy of partnerships with Credit Intermediaries, which represent the bank's largest channel of attraction in this product. As of May/23, novobanco's mortgage market share was 9.1% (unchanged YTD) in mortgage. In the period, the customer base of the small business increased by 7.2%, with service accounts products and meal cards increasing by 8.8% and 13.5%, respectively.

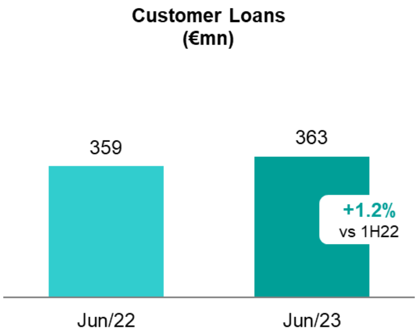
The Net Interest Margin increased to 2.7% (+175 bps YoY), which together with higher volumes and commercial activity resulted in €384mn of Commercial Banking Income (+97.8% YoY). Operating costs increased by 13% YoY, to €152mn, leading to a Commercial Cost to Income ratio of 39.6% in the period.

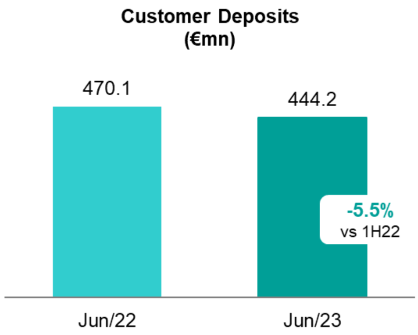
All in all, the Retail segment had an Income before Tax of €213mn (1H22: €69mn) driven by the commercial performance and a favourable interest rates environment.

novobanco dos Açores

The strategy of novobanco dos Açores has a special focus on supporting the Azorean regional business fabric, namely SMEs and companies that incorporate innovation in their products, services or production systems. In 2023, Novobanco dos Açores continued its extensive proximity activity with its Customers, supporting the pressing and growing needs of Azorean society:







The net income of novobanco dos Açores for the first half of 2023, registered a positive value of €6.1 million, an increase of 181% compared to 1H22. The performance derives mainly from the strong growth in net interest margin which reached 2.6%, and contributed to an increase of 151.4% in the bank's financial result. Thus, Cost to Income, including market and other operating income, improved significantly, standing at 30.2% in the first half of 2023 (Jun/22: 53.4%).

In this period, and compared to the same period of the previous year, net customer loans showed a positive variation of 1.2% (+€4.2 million). Regarding non-performing loans, €4,818 million were recorded, which translates into a NPL rate of only 1.3%.

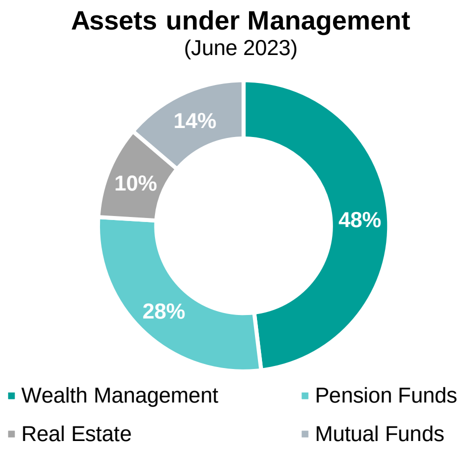
As to customer funds, at June 2023 the total amount of customer deposits was €444.2 million, which represents a year-on-year decrease of 5.5%.

GNB Gestão de Ativos

The Asset Manager closed the first half of 2023 with total assets under management of €8.0 billion, corresponding to a growth of €226 million compared to the end of the previous year. This growth reflects the recovery of key financial markets, mainly credit and equity markets. The market share at the end of the semester was 9.1%.

In the first half of 2023, GNB Gestão de Ativos presented a net operating income of €10.0 million and a net profit of €2.0 million, representing for both indicators a reduction compared to the same period of 2022, mainly as a result of the drop in assets under management recorded in that year due to the negative behavior of the markets in that period, which will eventually have a more prolonged impact in the subsequent year of 2023, with an impact on the accumulated net commissions of the manager (-€1.5 million vs June 2022).

Equity increased by 3.1% compared to the same period last year, closing the year in June 2023 with €96.0 million.



The quality of GNB Gestão de Ativos' management continues to be recognized with the attribution of several awards throughout the quarter. APFIPP awarded the prize for best fund in the category of other bond funds to NB Euro Bond and the prize for best pension fund in its risk category to the open pension fund Multireforma Capital Garantido. And for the 12th consecutive year, NB Euro Bond was awarded at the Refinitiv Lipper Fund Awards 2023, being considered the best Euro bond fund marketed in Europe at 3, 5 and 10 years.

Highlights in 1H23:

- GNB Gestão de Ativos started the merger project of GNB Fundos Mobiliários with GNB Gestão de Patrimónios, GNB Real Estate and GNB Gestão de Ativos SGPS. The creation of a single management structure for the different business lines aims to simplify decision-making processes, optimize strategic planning and the approach to different market segments, as well as a greater capacity to pursue a growth strategy and efficient resource management.
- In terms of product offering, as a result of the good reception that the launch of the GNB Obrigações 2026 fund had among the clients of the novobanco group, the Asset Manager launched the GNB Obrigações 2026 2nd series at the end of June.

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

Banco Best generated a net profit of €3.8 million in the 1st half of 2023, well above the €-204 thousand recorded in the same period of the previous year, benefiting mainly from the increase in net interest income, which reached €6.3 million above the previous year and also from the reduction in operating costs by €319 thousand compared to the previous year.

With regard to the 100% digital strategy, in this period there was a clear reinforcement in the different platforms with the objective of growing the Customer base and increasing the awareness of the Best brand. It should also be noted that in this field several facilitators were implemented in the account opening process, making it more agile, faster and likely to convert Customers directly, namely with the use of the app channel as a strong driver of this aspect. Thus, the digital channels, app and website, continue to grow and are now responsible for onboarding over 60% of new customers.

In June, Best marked its anniversary with the launch of a campaign that offers several gifts for new and existing customers, positioning itself at the forefront of the best savings offers: several deposits with very competitive rates, the best 12-month term deposit for new customers and special term deposit auction campaigns every week. In addition to the term deposit offers, Best celebrated its anniversary with annual fee waivers on debit and credit cards and a special rate on personal loans.

Highlights in 1H23:

Digital Channels (App and website)	*Offer*
Multiple evolutions in the product offer and introduction of several adjustments in the Customer's digital journey. ***App – Homepage renewal:** to highlight the key tools of the platform, offering greater visibility, facilitating access for Customers, maintaining personalization and allowing each user to adjust the input according to their individual preferences* ***App - security** was reinforced with improvements covering the registration control of new equipment as well as installed versions, and also the implementation of security and privacy certificates.* ***Website**: new features have been launched to help users choose the best product for them with significant user experience/interface improvements.*	***In Loans,** we highlight the relaunch of the collateral loan offer, now with visibility on the various digital platforms. Without having to mobilize their savings, Customers have access to financing at a competitive rate compared to traditional credit.* ***The protection insurance offer** was strengthened with the inclusion of Liberty Seguros, one of the leading insurance companies, with Customers now having the entire Liberty offer - with emphasis on Home, Auto and Personal Accidents in the alternatives available to optimize their insurance portfolio.* ***Investments -** launched a fund with a defined maturity and target return - GNB Obrigações 2026 and made available two structured products, SG Taxa Variable 23-27, with the 3-month Euribor rate as the underlying asset, and Barclays Europa 2024, a product on the EuroStoxx50, both with capital guaranteed at maturity by the issuer.*

3.3.2 **Corporate**

Positioning as a customer-centric bank offering a distinctive experience, novobanco has two hubs dedicated to large corporate customers (Oporto and Lisbon) and 20 business centres distributed throughout the country, with specialised teams dedicated to the medium-sized companies' segment. On the top of the physical hubs, there is a new online corporate bank aiming to simplify the day-to-day of corporate customers and enhanced functionalities, such a as in short-term loans and treasury management. High penetration in the digitalization of Corporate Customers, with more than 78% of corporate customers active in digital channels.

Novobanco continued to strengthen its commitment to Portuguese companies, to which it provided a set of solutions for investment and working capital needs, with significant growth in short-term loans, especially through factoring and confirming, driving annual increases of 7% in cumulative invoicing undertaken and a market share of 11% in factoring. This underpinned the continued growth of the corporate customer base, with high levels of penetration 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 14.7% in loans (+0.2pp YTD) and 13.1% (+0.9pp YTD) of deposits from Non-financial Companies, reflecting companies' confidence in novobanco.

Novobanco maintains a strong presence in the exports sector, with a wide range of products and specialised advice for international trade, being more than 65% of national exports made by novobanco clients. The know-how in this segment is reflected in a 20.3% market share (+1.7pp YTD) and by being, for the 5th consecutive year, elected the best Trade Finance Bank in Portugal by Global Finance.

With regards to Payments Solutions, the simplification and innovation was reflected in an annual increase of POS (point of sale) market share to 15.7%.

As a result of the commercial strategy in place, as of Jun-23, Loans to Customers (net) totalled €11.4bn (+0.8% YoY; flat YTD). Reflecting the interest rates environment, in the period, Net Interest Margin increased to 3.6% (+138bps YoY), which together with higher volumes resulted in Commercial Banking Income of €294mn (+53.2% YoY). Operating costs increased 12.6% to €46mn. All in all, Income before Tax totalled €229mn (+103% YoY; +€116mn).

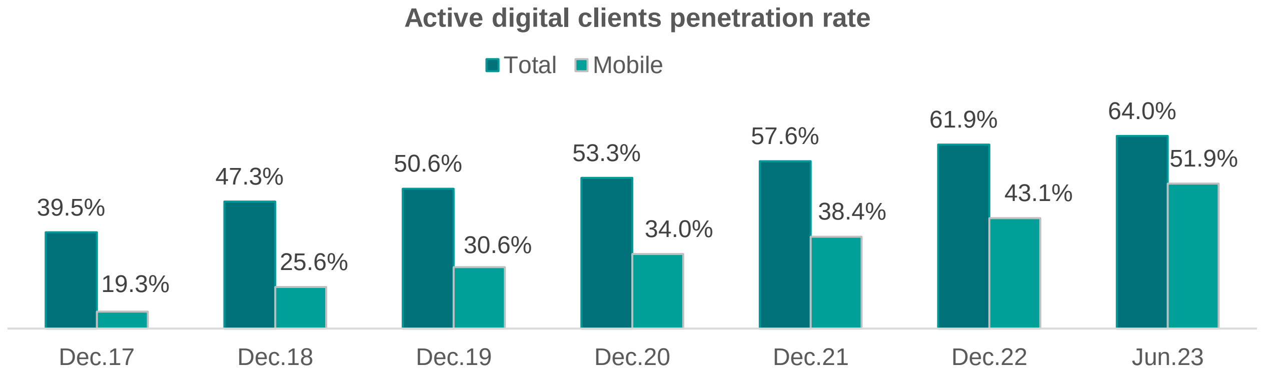
DIGITAL TRANSFORMATION

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

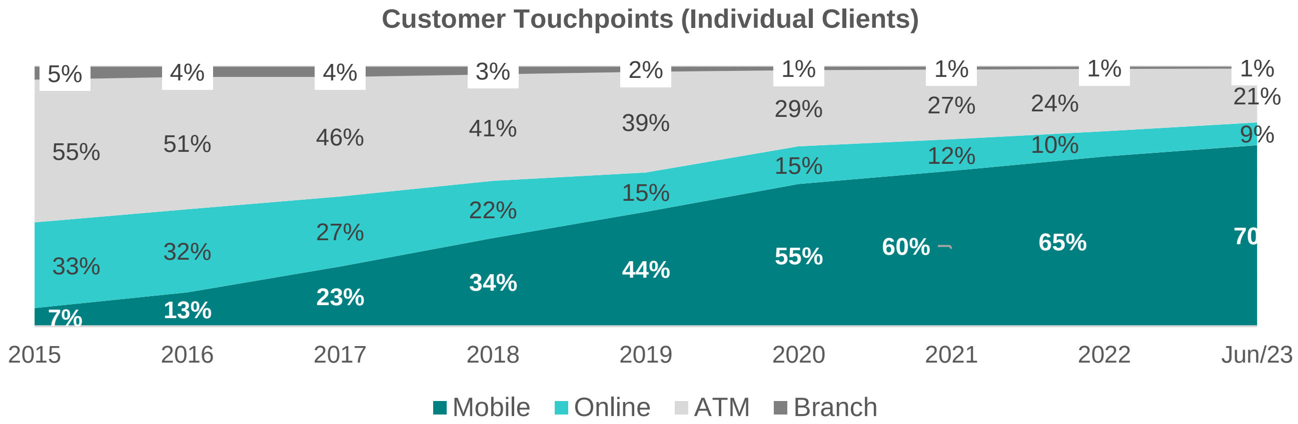
- to accelerate front-to-back digitisation to improve experience and efficiency in the approach to the customer journeys and the transformation of the operating model, and
- to transform the digital channels to provide a fully omnichannel experience and greater personalisation, leveraging on best-in-class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

This strategy drove an increase in active digital customers, to 64.0% by June 2023 (Dec/22: 61.9%; the number of digital customers increased by 7% YoY) and annual growth of 13% in the number of active mobile customers (52% of customers are mobile vs 48% in Dec/22).

In the first half of 2023, more than 70% of the operations in the individual client's segment were carried out in self-service mode, this figure increased to 84% and 94% in the small businesses and medium-large companies' segments, respectively. In turn, this underpinned an increase in the share of digital sales of Life and Non-Life Insurance (+92% YTD; 7% of segment sales; +3pp YoY), Personal Loans (+42% YTD; 18% of segment sales; +5pp YoY), and Credit Cards (+46% YTD; 3% of sales).



In the period, 79% of individual clients' contacts with novobanco were made through the digital channels (+5 pp YoY). Reflecting a reinforced focus on a "mobile digital first" strategy, mobile continues to be the main means of contact of individual clients, with annual interactions (as measured by the number of *logins*) growing by 30%.



3.4 Novo Banco Separate

Results

In the first half of 2023, novobanco posted a positive result of €395.9 million, which compares with the result of the first half of 2022 of €212.0 million.

Commercial banking income amounted to €645.0 million (+60.2% compared to Jun/22), essentially sustained by the increase in net interest income (+89.2%).

Results from financial operations were positive at €54.3 million, which compares with the positive result of €75.1 million in the same period of the previous year.

Operating costs amounted to €212.7 million, an increase compared to the previous year (+8.0%), resulting not only from the inflation rate, but also from the continued strategic investment in digital transformation, optimization and simplification of the organization.

The operating result was positive at €473.2 million, and impairments and provisions totaled €48.9 million.

Income Statement (€mn)	30-Jun-22	30-Jun-23	Change
			absolute
Net Interest Income	269.9	510.7	240.8
+ Fees and Commissions	132.7	134.3	1.5
= **Commercial Banking Income**	**402.7**	**645.0**	**242.3**
+ Capital Markets Results	75.1	54.3	- 20.8
+ Other Operating Results	- 34.1	- 13.3	20.8
= **Banking Income**	**443.6**	**685.9**	**242.3**
- Operating Costs	197.0	212.7	15.7
= **Net Operating Income**	**246.6**	**473.2**	**226.6**
- **Net Impairments and Provisions**	**- 15.4**	**48.9**	**64.2**
Credit	20.4	49.8	29.3
Securities	40.9	8.7	- 32.2
Other Assets and Contingencies	- 76.7	- 9.6	67.1
= **Income before Taxes**	**262.0**	**424.4**	**162.4**
- Corporate Income Tax	16.6	- 4.9	- 21.5
- Special Tax on Banks	33.4	33.4	0.0
= **Income after Taxes**	**212.0**	**395.9**	**183.9**
= **Net Income for the period**	**212.0**	**395.9**	**183.9**

Activity

Novobanco's activity in the first half of 2023 developed around the guidelines already mentioned for the novobanco Group.

Activity Evolution (€mn)	31-Dec-22	30-Jun-23	Change	
			absolute	%
Assets	**45 464**	**43 442**	**-2 022**	**-4.4%**
Customer Loans (gross)	**24 013**	**24 266**	**253**	**1.1%**
Loans to Individuals	9 918	10 214	296	3.0%
Residential Mortgage	8 632	8 848	217	2.5%
Other Loans	1 286	1 365	79	6.2%
Loans to corporate customers	14 095	14 052	- 43	-0.3%
On Balance Sheet Funds	**29 982**	**30 829**	**846**	**2.8%**
Deposits	27 570	27 442	- 128	-0.5%
Other Customer Funds (1)	855	1 524	668	78.2%
Debt Securities	1 141	1 152	11	0.9%
Subordinated Debt	416	711	296	71.1%

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

As at June 30 2023, deposits amounted to €27.4 billion, a decrease of €0.1 billion compared to Dec/22 (€27.6 billion). This reduction is mainly due to the transfer to Savings Certificates, whose trend has been reversed during the second quarter of 2023, when there is already an increase in customer deposits driven by SME customers and stabilization of retail deposit outflows.

Gross loans and advances to customers amounted to €24,266mn (+1.1% compared to Dec/2022), reflecting the new bank's commitment to Portuguese companies and the domestic market, reinforcing products in support of treasury, provision of support lines with financial guarantee by Banco Português de Fomento, financing lines with EIF/EIB guarantee to support companies' liquidity and investment, sectoral financing lines, among others.

Asset Quality and Coverage Ratios (€mn)	31-Dec-22	30-Jun-23	YTD Change	
			absolute	%
Overdue Loans > 90 days	326	292	- 34	-10.5%
Non-Performing Loans (NPL)[1]	1 356	1 237	- 119	-8.7%
Overdue Loans > 90 days / Customer Loans (gross)	1.4%	1.2%	-0.2 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	**4.5%**	**4.5%**	**0.0 p.p.**	
Credit Provisions / Customer Loans	4.4%	4.2%	-0.2 p.p.	
Coverage of Overdue Loans > 90 days	324.3%	345.6%	21.3 p.p.	
Coverage of Non-Performing Loans [1]	**78.0%**	**81.6%**	**3.5 p.p.**	

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

In the first half of 2023, non-performing credit inflows remained at reduced levels, which, coupled with recovery efforts, contributed to the ongoing decrease of non-performing loans, consequently maintaining the NPL ratio at 4.5% (2022: 4.5%). By June the NPL coverage through impairments stood at 81.6% (+3.5 p.p. compared to December 2022).

4 CAPITAL, LIQUIDITY, FUNDING & RISK

4.1 Capital Ratios

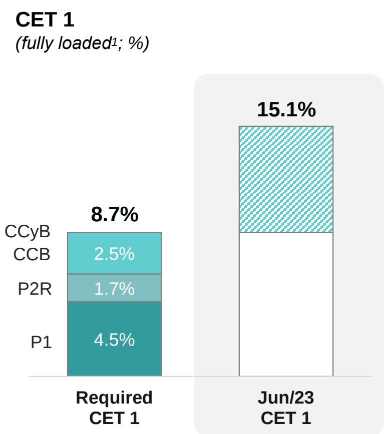
In the period, fully loaded CET1 ratio increased by c.200bps to 15.1% while the Total Capital ratio increased by c.230 bps to 17.8% (vs Dec/22: 13.1% and 15.5% respectively). The organic capital generation reflects the capital accretive business model with solid top-line performance and disciplined capital allocation. Total capital ratio also benefited from the net increase of €100mn of Tier 2 instruments, following the issuance of the new €500mn Tier 2 due in 2033.

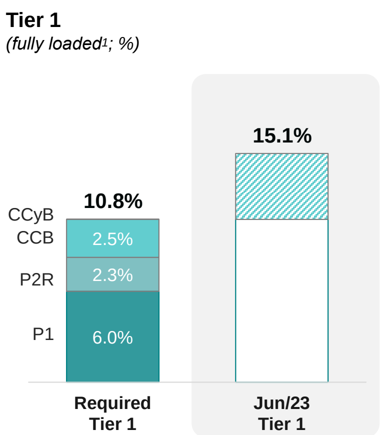
Capital Ratios (CRD IV/CRR) (€mn)		31-Dec-22 (fully loaded)	31-Mar-23 (fully loaded)	30-Jun-23[1] (fully loaded)
Risk Weighted Assets	(A)	21 233	21 197	21 478
Own Funds				
Common Equity Tier 1	(B)	2 787	2 996	3 241
Tier 1	(C)	2 789	2 998	3 243
Total Own Funds	(D)	3 279	3 489	3 832
Common Equity Tier 1 Ratio	(B/A)	13.1%	14.1%	15.1%
Tier 1 Ratio	(C/A)	13.1%	14.1%	15.1%
Solvency Ratio	(D/A)	15.5%	16.5%	17.8%
Leverage Ratio		**5.8%**	**6.4%**	**7.1%**

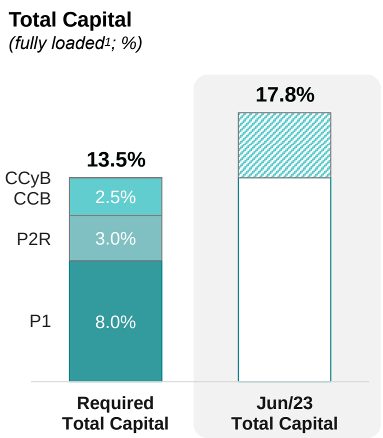
[1] Preliminary

None of the amounts not paid by the Resolution Fund under the Contingent Capital Agreement were considered in the calculation of regulatory capital. Novobanco considers the unpaid amounts in respect of financial year 2020 and 2021 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.







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

(1) The inclusion of positive results depends on an authorization from the ECB;

4.2 Liquidity and Funding

Liquidity Management

On 30 June 2023, novobanco's Liquidity Coverage Ratio (LCR) reflected the planned TLTRO III reimbursement, decreasing to 147% (vs. 180% in Mar/23 and 210% in Dec/22) and Net Stable Funding Ratio increased to 117% (vs. 111% in Mar/23 and 113% in Dec/22), both above the regulatory requirement.

In terms of asset evolution, the loan book (gross) stood at €25.8bn (+€0.2bn YTD) while the securities portfolio increased by €1.1bn YTD, of which about half relate to HQLA (High-Quality Liquid Assets) securities and the remaining to client business securities.

On 30 June 2023, total customer deposits stood at €28.2bn (-€0.2bn YTD; + €0.7bn vs 2Q23), recovering around 80% of the reduction in customer deposits during the first quarter of 2023, which resulted mainly from the competition of government savings products.

In terms of medium-term funding, the bank returned to the capital markets in the second quarter with a new €500mn Tier 2 bond, with maturity on Dec/33 and 6-month par-call option starting on Jun/28. This transaction was accretive in terms of capital, MREL and also liquidity.

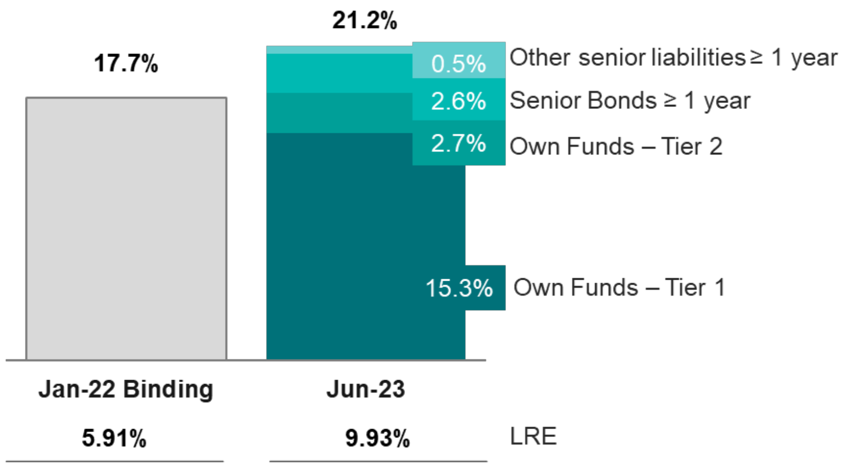
MREL as a percentage of Total Risk Exposure Amount (TREA) reached 21.2% in Jun/23, being above the linear progression of MREL requirements.

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

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

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

MREL ratio
(% RWA; Preliminary)



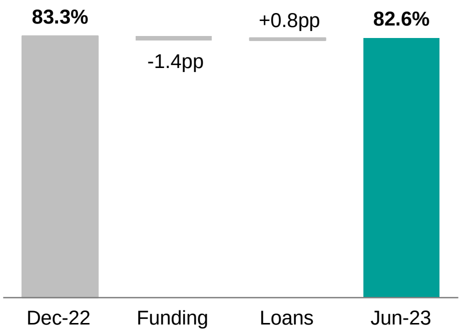
Finally, in terms of market funding, novobanco continued its strategy of ECB funding replacement, further increasing its repo interbank funding.

As of June 2023, gross funding from the ECB amounted to €1.7bn, of which €1.6bn under the TLTRO III line, a reduction of €4.6bn in 1H23, due to the maturity of two TLTRO III tranches totalling €4.7bn in 1H23. An additional amount of €0.7bn of the TLTRO III will mature in the third quarter.

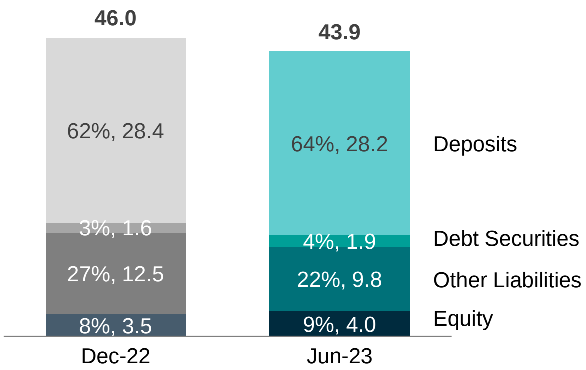
Consequently, deposits at the ECB decreased by €3.0bn (Dec/22: €5.9bn; Jun/23: €2.9bn), bringing net funding at the ECB to -€1.3bn in June 2023 (Dec/22: €0.4bn; -€1.7bn YTD).

The eligible assets portfolio (net of haircut) available for use as collateral with the European Central Bank reduced by €0.2bn versus 31 December 2022, totalling €16.7bn as of June 2023. This evolution already includes the impact on the cash collateral of the haircuts annual review by the ECB, which entered into force on 29 June 2023. As of 30 June 2023, total liquidity buffer amounted €13.8bn (+€0.1bn YTD) which already includes the non-eligible HQLA assets and well as deposits with the ECB.

Loan to Deposit Ratio
(%)



Funding Structure
(%; € billion)



5 SHAREHOLDER STRUCTURE

5.1 Qualified holdings in Novo Banco's share capital

Novo Banco has a share capital of €6,567,843,862.91 (six thousand, five hundred and sixty-seven million, eight hundred and forty-three thousand, eight hundred and sixty-two euros and ninety-one cents), divided into 11,130,841,957 (eleven thousand, one hundred and thirty million, eight hundred and forty-one thousand, nine hundred and fifty-seven) 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.	8 348 131 468	75.00%
Fundo de Resolução	1 451 868 529	13.04%
Direcção-Geral do Tesouro e Finanças	1 330 841 960	11.96%

5.2 Equity holders with special rights

There are no shareholders with special rights.

5.3 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.

5.4 Securities Held by Members of the Management and Supervisory Bodies

As of 30 June 2023, and with regard to the first six months of the year, 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.

5.5 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.

6 CONSOLIDATED FINANCIAL STATEMENTS AND FINAL NOTES

6.1 Consolidated Financial Statements

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2023 AND 2022

thousands of Euros

	30.06.2023	30.06.2022
Interest Income	850 281	365 753
Interest Expenses	(326 264)	(97 723)
Net Interest Income	**524 017**	**268 030**
Dividend income	1 776	2 826
Fees and commissions income	168 017	165 270
Fees and commissions expenses	(23 620)	(22 921)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11 113	(52 582)
Gains or losses on financial assets and liabilities held for trading	4 274	148 420
Gains or losses on financial assets mandatorily at fair value through profit or loss	5 130	(10 955)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	2	30
Gains or losses from hedge accounting	15 883	113
Exchange differences	5 761	(964)
Gains or losses on derecognition of non-financial assets	(283)	4 132
Other operating income	45 663	143 982
Other operating expenses	(79 642)	(69 088)
Operating Income	**678 091**	**576 293**
Administrative expenses	(205 217)	(189 171)
Staff expenses	(120 565)	(111 844)
Other administrative expenses	(84 652)	(77 327)
Cash contributions to resolution funds and deposit guarantee schemes	(22 334)	(41 155)
Depreciation	(19 839)	(19 545)
Provisions or reversal of provisions	(8 935)	21 926
Commitments and guarantees given	(712)	4 685
Other provisions	(8 223)	17 241
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(56 401)	(60 876)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	1	20 773
Impairment or reversal of impairment on non-financial assets	9 350	(1 610)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	2 570	2 453
Profit or loss before tax from continuing operations	**377 286**	**309 088**
Tax expense or income related to profit or loss from continuing operations	(1 577)	(18 921)
Current tax	(9 120)	(2 596)
Deferred tax	7 543	(16 325)
Profit or loss after tax from continuing operations	**375 709**	**290 167**
Profit or loss from discontinued operations	(97)	(270)
Profit or loss for the period	**375 612**	**289 897**
Attributable to Shareholders of the parent	**373 171**	**266 723**
Attributable to non-controlling interests	2 441	23 174
	375 612	**289 897**

The Certificated Accountant

Executive Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2020 AND 31 DECEMBER 2022

thousands of Euros

	30.06.2023	31.12.2022
ASSETS		
Cash, cash balances at central banks and other demand deposits	3 395 086	6 599 078
Financial assets held for trading	498 587	171 810
Financial assets mandatorily at fair value through profit or loss	287 734	313 702
Financial assets designated at fair value through profit or loss	391	13
Financial assets at fair value through other comprehensive income	2 360 688	2 331 099
Financial assets at amortised cost	33 600 248	32 559 148
Securities	8 728 843	7 964 664
Loans and advances to banks	78 406	43 548
Loans and advances to customers	24 792 999	24 550 936
Derivatives – Hedge accounting	626 040	562 845
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(143 720)	(165 144)
Investments in subsidiaries, joint ventures and associates	117 805	119 744
Tangible assets	793 734	798 831
Tangible fixed assets	314 536	299 264
Investment properties	479 198	499 567
Intangible assets	72 334	69 832
Tax assets	997 166	956 000
Current Tax Assets	36 813	32 570
Deferred Tax Assets	960 353	923 430
Other assets	1 235 664	1 618 484
Non-current assets and disposal groups classified as held for sale	58 445	59 587
Total Assets	**43 900 202**	**45 995 029**
LIABILITIES		
Financial liabilities held for trading	97 111	99 386
Financial liabilities measured at amortised cost	38 329 622	40 987 177
Deposits from central banks and other banks	6 252 401	9 705 154
(of which: repos)	3 423 696	2 150 824
Due to customers	29 758 028	29 277 858
(of which: repos)	1 069 887	450 906
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 887 696	1 628 897
Other financial liabilities	431 497	375 268
Derivatives – Hedge accounting	172 476	119 578
Provisions	411 070	413 432
Tax liabilities	9 820	8 427
Current Tax liabilities	8 975	7 582
Deferred Tax liabilities	845	845
Other liabilities	884 724	839 919
Liabilities included in disposal groups classified as held for sale	14 815	15 492
Total Liabilities	**39 919 638**	**42 483 411**
EQUITY		
Capital	6 567 844	6 304 661
Accumulated other comprehensive income	(1 140 311)	(1 234 573)
Retained earnings	(8 577 074)	(8 577 074)
Other reserves	6 735 819	6 439 418
Profit or loss attributable to Shareholders of the parent	373 171	560 842
Minority interests (Non-controlling interests)	21 115	18 344
Total Equity	**3 980 564**	**3 511 618**
Total Liabilities And Equity	**43 900 202**	**45 995 029**

The Certificated Accountant Executive Board of Directors

6.2 Separate Financial Statements

NOVO BANCO, S.A.

SEPARATE INCOME STATEMENT AS AT 30 JUNE 2023 AND 2022

thousands of Euros

	30.06.2023	30.06.2022
Interest Income	843 958	368 315
Interest Expenses	(333 215)	(98 404)
Net Interest Income	**510 743**	**269 911**
Dividend income	5 858	7 162
Fees and commissions income	151 328	147 426
Fees and commissions expenses	(20 343)	(19 085)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11 113	(52 777)
Gains or losses on financial assets and liabilities held for trading	2 944	147 440
Gains or losses on financial assets mandatorily at fair value through profit or loss	28 694	(26 411)
Gains or losses from hedge accounting	15 705	936
Exchange differences	5 854	(139)
Gains or losses on derecognition of non-financial assets	(303)	1 458
Other operating income	20 693	21 095
Other operating expenses	(57 698)	(46 087)
Operating Income	**674 588**	**450 929**
Administrative expenses	(191 712)	(176 787)
Staff expenses	(112 061)	(104 056)
Other administrative expenses	(79 651)	(72 731)
Cash contributions to resolution funds and deposit guarantee schemes	(22 066)	(40 717)
Depreciation	(20 990)	(20 237)
Provisions or reversal of provisions	650	56 405
Commitments and guarantees given	(760)	4 713
Other provisions	1 410	51 692
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(58 296)	(61 057)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	-	15 687
Impairment or reversal of impairment on non-financial assets	8 783	4 331
Profit or loss before tax from continuing operations	**390 957**	**228 554**
Tax expense or income related to profit or loss from continuing operations	4 917	(16 580)
Current tax	(2 918)	(640)
Deferred tax	7 835	(15 940)
Profit or loss after tax from continuing operations	**395 874**	**211 974**
Profit or loss from discontinued operations	-	-
Profit or loss for the period	**395 874**	**211 974**

The Certificated Accountant

Executive Board of Directors

NOVO BANCO, S.A.

SEPARATE BALANCE SHEET AS AT 30 JUNE 2023 AND 31 DECEMBER 2022

thousands of Euros

	30.06.2023	31.12.2022
ASSETS		
Cash, cash balances at central banks and other demand deposits	3 255 364	6 387 295
Financial assets held for trading	497 972	170 847
Financial assets mandatorily at fair value through profit or loss	1 537 207	1 537 670
Financial assets designated at fair value through profit or loss	391	13
Financial assets at fair value through other comprehensive income	2 190 565	2 183 034
Financial assets at amortised cost	32 519 213	31 500 944
Securities	9 108 114	8 400 233
Loans and advances to banks	154 730	145 464
Loans and advances to customers	23 256 369	22 955 247
Derivatives – Hedge accounting	626 066	562 886
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(143 162)	(164 388)
Investments in subsidiaries, joint ventures and associates	251 459	251 457
Tangible assets	271 344	258 963
Tangible fixed assets	271 344	258 963
Intangible assets	72 132	69 640
Tax assets	989 473	947 500
Current Tax Assets	34 626	30 298
Deferred Tax Assets	954 847	917 202
Other assets	1 329 767	1 713 116
Non-current assets and disposal groups classified as held for sale	43 828	45 071
Total Assets	**43 441 619**	**45 464 048**
LIABILITIES		
Financial liabilities held for trading	97 022	99 317
Financial liabilities measured at amortised cost	38 314 966	40 904 697
Deposits from central banks and other banks	7 058 730	10 506 509
(of which: repos)	*3 423 696*	*2 150 824*
Due to customers	28 965 370	28 425 223
(of which: repos)	*1 069 887*	*450 906*
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 863 132	1 601 454
Other financial liabilities	427 734	371 511
Derivatives – Hedge accounting	173 515	120 612
Provisions	410 678	423 190
Tax liabilities	4 449	4 505
Current Tax liabilities	4 449	4 505
Other liabilities	885 128	844 779
Total Liabilities	**39 885 758**	**42 397 100**
EQUITY		
Capital	6 567 844	6 304 661
Accumulated other comprehensive income	(1 062 233)	(1 155 271)
Retained earnings	(8 577 074)	(8 577 074)
Other reserves	6 231 450	6 040 802
Profit or loss attributable to Shareholders of the parent	395 874	453 830
Total Equity	**3 555 861**	**3 066 948**
Total Liabilities And Equity	**43 441 619**	**45 464 048**

The Certificated Accountant

Executive Board of Directors

6.3 Final Notes

6.3.1 Declaration of Conformity with the Financial Information Reported

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

(i) the separate and consolidated financial statements of novobanco, for the year ended on 30 June 2023 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

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

(iii) the management report describes accurately the evolution of the businesses, the performance and the financial position of novobanco and of novobanco Group in 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 26 July 2023.

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, 26 July 2023

The Executive Board of Directors

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

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
		524 017	145 352	28 010	(4 976)	(120 565)	(84 652)	(19 839)	-	(47 910)	(8 681)	606	411 362	(1 577)	(34 173)
Interest Income	850 281	850 281													
Interest Expenses	(326 264)	(326 264)													
Net Interest Income	**524 017**														
Dividend income	1 776			1 776											
Fee and comission income	168 017		168 017												
Fee and comission expenses	(23 620)		(23 620)												
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11 113			1 093	10 020										
Gains or losses on financial assets and liabilities held for trading	4 274			4 274											
Gains or losses on financial assets mandatorily at fair value through profit or loss	5 130			5 130											
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	2			2											
Gains or losses from hedge accounting	15 883			15 883											
Exchange differences	5 761			5 761											
Gains or losses on derecognition of non-financial assets	(283)				(283)										
Other operating income	45 663		955	335	44 373										
Other operating expenses	(79 642)			(6 244)	(39 225)										(34 173)
Operating Income	**678 091**														
Administrative expenses															
Staff expenses	(120 565)					(120 565)									
Other administrative expenses	(84 652)						(84 652)								
Contributions to resolution funds and deposit guarantee schemes	(22 334)				(22 334)										
Depreciation	(19 839)							(19 839)							
Provisions or reversal of provisions															
Commitments and guarantees given	(712)											(712)			
Other provisions	(8 223)											(8 223)			
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(56 401)									(47 910)	(8 681)	190			
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	1											1			
Impairment or reversal of impairment on non-financial assets	9 350											9 350			
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	2 570				2 570										
Profit or loss before tax from continuing operations	**377 286**														
Tax expense or income related to profit or loss from continuing operations															
Current tax	(9 120)													(9 120)	
Deferred tax	7 543													7 543	
Profit or loss after tax from continuing operations	**375 709**														
Profit or loss from discontinued operations	(97)				(97)										
Profit or loss for the period	**375 612**														
Attributable to Shareholders of the parent	**373 171**														
Attributable to non-controlling interests	2 441														
	375 612														

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[6]
Fees and Commissions	Indicator of results of financial activity directly related to services provided to clients Historical financial performance indicator	Fee and commission income less fee and commission expenses	(IS): Fee and commission income and Fee and commission expenses
Commercial banking income	Indicator of the results of commercial activity most directly related to customers Historical financial performance indicator	Financial margin + Customer services	
Capital markets results	Indicator of results of activity in the financial markets Historical financial performance indicator indicator	Results from trading hedging operations, assets at fair value through other comprehensive income and at amortized cost	(IS): Dividend income, gains or losses on the derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets that must be accounted for at fair value through profit or loss, gains or losses on financial assets and liabilities accounted for at fair value through profit or loss, gains or losses from hedge accounting and exchange differences
Other operating results	Indicator of other diverse results, not directly related to activity with customers and markets Historical financial performance	Gains or losses on the derecognition of non-financial assets + Other operating income + Other operating expenses + Proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equity method	(IS): Gains or losses on the derecognition of non-financial assets, other operating income, other operating expenses, proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equivalence method
Banking Income	Financial activity results indicator Historical financial performance indicator	Net interest income + Fees and commissions + Capital markets results + Other operating results	
Operating costs	Indicator of structural costs that support commercial activity and whose analysis allows to assess the trajectory of progression of costs Indicator of histoncal financial performance	Personnel expenses + Other administrative expenses + Depreciation	(IS): Personnel expenses, Other administrative expenses and Depreciation
Operational result	Indicator of results of financial activity less costs and before impairment. Measures the extent to which the income generated covers / exceeds operating costs Historical financial performance indicator	Banking income - Operating costs	

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

Provisions, net of replacement / Impairments	Indicator of net reinforcements of impairments made in the year Historical financial performance indicator	Provisions or reversal of provisions + Impairment or reversal of financial assets not measured at fair value through profit or loss + Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates + Impairment or reversal of impairment of non-financial assets	(IS): Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates and Impairment or reversal of impairment of non-assets financial

BALANCE SHEET/LIQUIDITY

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[7]
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	

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

Total customer funds	Indicator of customer resources registered on the balance sheet and off balance sheet Historical financial performance indicator	Deposits + Other customer resources + Issued bonds + Subordinated liabilities + Disintermediation resources	(BS): Customer resources, Liabilities represented by securities, subordinated liabilities and Liabilities associated with transferred assets
Commercial gap	Indicator that measures the need / excess of financing in absolute value of the commercial area Historical financial performance indicator	Difference between customer deposits and net credit	(BS): Net customer loans and customer deposits
Liquidity gap	Indicator that allows assessing the need / excess liquidity accumulated up to 1 year, in each cumulative scale of residual maturity. Historical financial performance indicator	Difference between [(Net assets - volatile liabilities)]	
Loans to Deposit Ratio Instruction No 16/2004 of Banco de Portugal	Indicator of the relationship between the financing of the activity and the funds raised from customers Historical financial performance indicator	Ratio between [(total credit - accumulated impairment for credit) and deposits customer]	(BS): Net customer loans and customer deposits

ASSET QUALITY AND COVERAGE RATIOS

Designation	Definition	Calculation Basis	Conciliation with the Financial Statements[8]
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,	(BS). Loans identified as non-productive loans and Gross customer loans

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

		according to qualitative criteria; and (ii) having specific impairment and total loans	
Forborne ratio Instruction No 32/2013 of Banco de Portugal	Loans quality indicator, reflects the proportion of the gross loan portfolio that was restructured. Historical financial performance indicator.	Ratio between forborne and total loans	(BS). Loans identified as restructured due to financial difficulties of the customer and loans to customers gross
Overdue loans coverage	Indicator of the ability to absorb potential losses related to loans default Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and the amount of overdue loans	(BS): Provisions for loans and overdue loans to customers
Coverage of loans overdue for more than 90 days	Indicator of the ability to absorb potential losses related to loans default for more than 90 days. Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and loans overdue for more than 90 days	(BS): Provisions for loans and loans to customers overdue by more than 90 days
Non-performing loans coverage	Indicator of the capacity to absorb potential losses related to non- performing loans default. 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**[9]
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

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

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

INTERIM CONDENSED
FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED FINANCIAL STATEMENTS OF NOVO BANCO GROUP

novobanco GROUP

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE THREE AND SIX MONTH PERIOD ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2023	30.06.2022	30.06.2023	30.06.2022
Interest Income	10	461 881	185 528	850 281	365 753
Interest Expenses	10	(184 213)	(51 031)	(326 264)	(97 723)
Net Interest Income		**277 668**	**134 497**	**524 017**	**268 030**
Dividend income	11	1 776	2 724	1 776	2 826
Fees and commission income	12	86 795	85 895	168 017	165 270
Fees and commission expenses	12	(10 893)	(11 703)	(23 620)	(22 921)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	1 134	(34 497)	11 113	(52 582)
Gains or losses on financial assets and liabilities held for trading	13	5 040	22 867	4 274	148 420
Gains or losses on financial assets mandatorily at fair value through profit or loss	13	4 566	(1 554)	5 130	(10 955)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	13	2	-	2	30
Gains or losses from hedge accounting	13	15 984	2 073	15 883	113
Exchange differences	13	(3 132)	1 108	5 761	(964)
Gains or losses on derecognition of non-financial assets	14	1 089	3 574	(283)	4 132
Other operating income	15	27 915	112 251	45 663	143 982
Other operating expenses	15	(19 394)	(17 099)	(79 642)	(69 088)
Operating Income		**388 550**	**300 136**	**678 091**	**576 293**
Administrative expenses		(103 083)	(95 306)	(205 217)	(189 171)
Staff expenses	16	*(62 277)*	*(56 134)*	*(120 565)*	*(111 844)*
Other administrative expenses	18	*(40 806)*	*(39 172)*	*(84 652)*	*(77 327)*
Contributions to resolution funds and deposit insurance	19	(22 078)	(40 856)	(22 334)	(41 155)
Depreciation	27, 29	(10 082)	(9 795)	(19 839)	(19 545)
Provisions or reversal of provisions	34	(7 683)	18 338	(8 935)	21 926
Commitments and guarantees granted		*(1 830)*	*997*	*(712)*	*4 685*
Other provisions		*(5 853)*	*17 341*	*(8 223)*	*17 241*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	20	(26 614)	(35 464)	(56 401)	(60 876)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	20	1	21 134	1	20 773
Impairment or reversal of impairment on non-financial assets	20	6 000	(2 015)	9 350	(1 610)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	26	2 403	2 026	2 570	2 453
Profit or loss before tax from continuing operations		**227 414**	**158 198**	**377 286**	**309 088**
Tax expense or income related to profit or loss from continuing operations		(833)	(11 570)	(1 577)	(18 921)
Current tax		*(5 348)*	*(960)*	*(9 120)*	*(2 596)*
Deferred tax		*4 515*	*(10 610)*	*7 543*	*(16 325)*
Profit or loss after tax from continuing operations		**226 581**	**146 628**	**375 709**	**290 167**
Profit or loss before tax from discontinued operations	32	-	(270)	(97)	(270)
Profit or loss for the period		**226 581**	**146 358**	**375 612**	**289 897**
Attributable to Shareholders of the parent		**224 816**	**124 046**	**373 171**	**266 724**
Attributable to non-controlling interests	37	**1 765**	**22 312**	**2 441**	**23 173**
		226 581	**146 358**	**375 612**	**289 897**
Basic earnings per share (in Euros)	21	0.02	0.01	0.03	0.03
Diluted earnings per share (in Euros)	21	0.02	0.01	0.03	0.03
Basic earnings per share of continuing activities (in Euros)	21	0.02	0.01	0.03	0.03
Diluted earnings per share of continuing activities (in Euros)	21	0.02	0.01	0.03	0.03

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIOD ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2023	**30.06.2022**	**30.06.2023**	**30.06.2022**
Net profit / (loss) for the period		226 581	146 358	375 612	289 897
Other comprehensive income / (loss)					
Items that will not be reclassified to results		***94 629***	***66 808***	***94 772***	***69 337***
Actuarial gains / (losses) on defined benefit plans	a)	57 160	50 776	57 159	52 631
Other comprehensive income from associates accounted for using the equity method	a)	142	41	(633)	233
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	37 327	15 991	38 246	16 473
Items that may be reclassified to results		***(37 839)***	***(39 142)***	***(510)***	***(206 956)***
Foreign exchange differences	a)	209	(142)	310	539
Cash flow hedging		(43 550)	-	(13 877)	-
Financial assets at fair value through other comprehensive income	a)	5 502	(39 000)	13 057	(207 495)
Total other comprehensive income / (loss) for the period		**283 371**	**174 024**	**469 874**	**152 278**
Attributable to non-controlling interest		**1 765**	**22 313**	**2 441**	**23 174**
Attributable to shareholders of the Bank		**281 606**	**151 711**	**467 433**	**129 104**

a) See Interim Condensed Consolidated Statement of Changes in Equity

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

novobanco GROUP

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2023 AND 31 DECEMBER 2022

(in thousands of Euros)

	Notes	30.06.2023	31.12.2022
Assets			
Cash, cash balances at central banks and other demand deposits	22	3 395 086	6 599 078
Financial assets held for trading	23	498 587	171 810
Financial assets mandatorily at fair value through profit or loss	24	287 734	313 702
Financial assets at fair value through profit or loss	24	391	13
Financial assets at fair value through other comprehensive income	24	2 360 688	2 331 099
Financial assets at amortised cost	24	33 600 248	32 559 148
Securities		8 728 843	7 964 664
Loans and advances to banks		78 406	43 548
Loans and advances to customers		24 792 999	24 550 936
Derivatives - Hedge accounting	25	626 040	562 845
Fair value changes of the hedged items in portfolio hedge of interest rate risk	25	(143 720)	(165 144)
Investments in subsidiaries, joint ventures and associates	26	117 805	119 744
Tangible assets		793 734	798 831
Tangible fixed assets	27	314 536	299 264
Investment properties	28	479 198	499 567
Intangible assets	29	72 334	69 832
Tax assets	30	997 166	956 000
Current Tax Assets		36 813	32 570
Deferred Tax Assets		960 353	923 430
Other assets	31	1 235 664	1 618 484
Non-current assets and disposal groups classified as held for sale	32	58 445	59 587
Total Assets		**43 900 202**	**45 995 029**
Liabilities			
Financial liabilities held for trading	23	97 111	99 386
Financial liabilities measured at amortised cost	33	38 329 622	40 987 177
Deposits from banks		6 252 401	9 705 154
(of which, Repurchase Agreements)		*3 423 696*	*2 150 824*
Due to customers		29 758 028	29 277 858
(of which, Repurchase Agreements)		*1 069 887*	*450 906*
Debt securities issued, Subordinated Debt and Liabilities associated to transferred assets		1 887 696	1 628 897
Other financial liabilities		431 497	375 268
Derivatives - Hedge accounting	25	172 476	119 578
Provisions	34	411 070	413 432
Tax liabilities	30	9 820	8 427
Current Tax liabilities		8 975	7 582
Deferred Tax Liabilities		845	845
Other liabilities	35	884 724	839 919
Liabilities included in disposal groups classified as held for sale	32	14 815	15 492
Total Liabilies		**39 919 638**	**42 483 411**
Equity			
Capital	36	6 567 844	6 304 661
Accumulated other comprehensive income	37	(1 140 311)	(1 234 573)
Retained earnings	37	(8 577 074)	(8 577 074)
Other reserves	37	6 735 819	6 439 418
Profit or loss attributable to Shareholders of the parent		373 171	560 842
Minority interests (Non-controlling interests)	37	21 115	18 344
Total Equity		**3 980 564**	**3 511 618**
Total Liabilities and Equity		**43 900 202**	**45 995 029**

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

novobanco GROUP

INTERIM CONDESED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the period attributable to shareholders of the Parent	Non-controlling interests		Total
							Other Comprehensive Income	Other	
Balance as at 31 December 2021		6 054 907	(1 045 489)	(8 576 860)	6 501 374	184 504	(35 301)	66 336	3 149 471
Other increase / (decrease) in Equity		-	2	(214)	168 919	(184 504)	-	(34 196)	(49 993)
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	-	184 504	(184 504)	-	-	-
Other movements		-	-	(214)	636	-	-	(34 196)	(33 774)
Other changes in Non-controlling interests		-	2	-	(16 221)	-	-	-	(16 219)
Total comprehensive income for the period		-	(137 620)	-	-	266 724	23 174	-	152 278
Changes in fair value, net of tax	35	-	(187 736)	-	-	-	-	-	(187 736)
Foreign exchange differences, net of tax		-	539	-	-	-	-	-	539
Remeasurement of defined benefit plans, net of tax	16	-	52 631	-	-	-	-	-	52 631
Other comprehensive income appropriated from affiliates		-	233	-	-	-	-	-	233
Reserves of impairment of securities at fair value through OCI	35	-	(2 210)	-	-	-	-	-	(2 210)
Reserves of sales of securities at fair value through OCI	35	-	(1 077)	-	-	-	-	-	(1 077)
Net income of the period		-	-	-	-	266 724	23 174	-	289 898
Balance as at 30 June 2022		6 054 907	(1 183 107)	(8 577 074)	6 670 293	266 724	(12 127)	32 140	3 251 756
Capital increase by incorporation of special reserve for deferred taxes	36	249 754	-	-	(249 754)	-	-	-	-
Other increase / (decrease) in Equity		-	(1)	-	18 879	-	-	(3 597)	15 281
Other movements		-	1	-	2 658	-	-	(3 597)	(938)
Other changes in Non-controlling interests		-	(2)	-	16 221	-	-	-	16 219
Total comprehensive income for the year		-	(51 465)	-	-	294 118	1 928	-	244 581
Changes in fair value, net of tax	37	-	2 120	-	-	-	-	-	2 120
Foreign exchange differences, net of tax		-	(1 431)	-	-	-	-	-	(1 431)
Remeasurement of defined benefit plans, net of tax	17	-	49 095	-	-	-	-	-	49 095
Other comprehensive income appropriated from affiliates		-	99	-	-	-	-	-	99
Reserves of impairment of securities at fair value through OCI	37	-	(842)	-	-	-	-	-	(842)
Reserves of sales of securities at fair value through OCI	37	-	(88)	-	-	-	-	-	(88)
Cash flow hedge reserves		-	(100 418)	-	-	-	-	-	(100 418)
Net income of the period		-	-	-	-	294 118	1 928	-	296 046
Balance as at 31 December 2022		6 304 661	(1 234 573)	(8 577 074)	6 439 418	560 842	(10 199)	28 543	3 511 618
Capital increase by incorporation of special reserve for deferred taxes	36	263 183	-	-	(263 183)	-	-	-	-
Other increase / (decrease) in Equity		-	-	-	559 584	(560 842)	-	330	(928)
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	-	560 842	(560 842)	-	-	-
Other movements		-	-	-	(1 258)	-	-	330	(928)
Total comprehensive income for the period		-	94 262	-	-	373 171	2 441	-	469 874
Changes in fair value, net of tax	37	-	338 440	-	-	-	-	-	338 440
Foreign exchange differences, net of tax		-	310	-	-	-	-	-	310
Remeasurement of defined benefit plans, net of tax	17	-	57 159	-	-	-	-	-	57 159
Other comprehensive income appropriated from affiliates		-	(633)	-	-	-	-	-	(633)
Reserves of impairment of securities at fair value through OCI	37	-	(379)	-	-	-	-	-	(379)
Reserves of sales of securities at fair value through OCI	37	-	(286 758)	-	-	-	-	-	(286 758)
Cash flow hedge reserves		-	(13 877)	-	-	-	-	-	(13 877)
Net income of the period		-	-	-	-	373 171	2 441	-	375 612
Balance as at 30 June 2023		6 567 844	(1 140 311)	(8 577 074)	6 735 819	373 171	(7 758)	28 873	3 980 564

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

novobanco GROUP

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	30.06.2023	30.06.2022
Cash flows from operating activities			
Interest received		892 091	357 641
Interest paid		(285 803)	(75 048)
Fees and commissions received		168 017	165 270
Fees and commissions paid		(23 620)	(22 921)
Recoveries on loans previously written off		12 647	12 548
Contributions to the pension fund		-	(249)
Contributions to resolution funds and deposit guarantee schemes		(22 334)	(41 155)
Cash payments to employees and suppliers		(199 912)	(197 589)
		541 086	**198 497**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(4 594 641)	(62 066)
Financial assets mandatorily at fair value through profit or loss		93 634	162 478
Financial assets designated at fair value through profit or loss		(308 893)	182 746
Financial assets at fair value through other comprehensive income		271 657	4 193 069
Financial assets at amortised cost		(1 008 062)	(5 296 459)
Debt securities		*(722 836)*	*(4 624 693)*
Loans and advances to banks		*(34 321)*	*3 626*
Loans and advances to customers		*(250 905)*	*(675 392)*
Financial liabilities at amortised cost		1 595 116	632 457
Deposits from banks		*1 136 042*	*(816 986)*
Due to customers		*459 074*	*1 449 443*
Derivatives - Hedge accounting		(250 266)	(132 515)
Other operating assets and liabilities		211 132	433 123
Net cash from operating activities before corporate income tax		**(3 449 237)**	**311 330**
Corporate income taxes paid		(39 131)	(39 880)
Net cash from operating activities		**(3 488 368)**	**271 450**
Cash flows from investing activities			
Sale of investments in subsidiaries and associated companies		-	5 003
Dividends received		1 776	2 826
Acquisition of investment properties		-	(10 524)
Sale of investment properties		41 429	117 818
Acquisition of tangible fixed assets		(31 336)	(44 122)
Sale of tangible fixed assets		11	528
Acquisition of intangible assets		(7 443)	(6 824)
Sale of intangible assets		-	4
Net cash from investing activities		**4 437**	**64 709**
Cash flows from financing activities			
Reimbursement/other movements of bonds and other debt securities		(4 335)	8 949
Issue of subordinated debt		497 714	-
Reimbursement of subordinated liabilities		(206 000)	-
Net cash from financing activities		**287 379**	**8 949**
Net changes in cash and cash equivalents		**(3 196 551)**	**345 108**
Cash and cash equivalents at the beginning of the period		**6 311 181**	**5 606 583**
Net changes in cash and cash equivalents		(3 196 551)	345 108
Cash and cash equivalents at the end of the period		**3 114 630**	**5 951 691**
Cash and cash equivalents include:			
Cash	22	157 796	156 384
Deposits with Central Banks	22	2 962 383	5 792 283
(of which, Restricted balances)		(280 456)	(274 045)
Deposits with banks	22	274 907	277 069
Total		**3 114 630**	**5 951 691**

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

Notes to the Interim condensed consolidated financial statements as at 30 June 2023

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

NOTE 1 – ACTIVITY AND STRUCTURE OF THE GROUP

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

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

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

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

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

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

novobanco Group (hereinafter referred to as Grupo or Grupo NB) has a retail network of 292 branches in Portugal and abroad (31 December 2022: 292 branches), branch in Luxembourg, in addition to 2 representation offices in Spain and Switzerland (31 December 2022: 2 representation 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
Righthour, SA	2013	2013	Portugal	Services provider	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real estate fund management	100.00%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real estate fund management	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund management	99.99%	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	96.34%	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	17.5% 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
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
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**100.00%**	**Full consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2008	2010	Portugal	Holding	40.00%	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	Share-holding %	Consolidation method
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100.00%	Full consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100.00%	Full consolidation

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

During the first half of 2023, the most relevant changes in the structure of the novobanco Group were as follows:

- Subsidiaries and branches

- In March 2023, novobanco's branch in Spain was closed;
- In June 2023, the FCR NB Capital Growth Fund was liquidated and the assets and liabilities of this Fund were transferred to novobanco;
- In June 2023, Fungepi II was merged into Fungepi.

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

- Subsidiary companies and branches

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

novobanco holds in its balance sheet mandatorily convertible securities (VMOC) from two entities obtained through foreclosed credit, measured at the fair value which was estimated to be zero. The extension of the conversion period of these VMOC into shares ended during the month of December 2021. The Group contests this conversion, having addressed to these securities issuers, letters of formal notice for payment of the amounts, and will take legal action to collect this debt.

- Associated Companies:

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

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

(in thousands of Euros)

	30.06.2022						
	Acquisitions			Reductions			
	Acquisition value	Other investments (a)	Total	Sale value	Other repayments (a)	Total	Gain / (loss) on sales / liquidations
Subsidiary companies							
Autodril	-	-	-	504	-	504	(591)
Fungere	-	-	-	-	(15 051)	(15 051)	-
FCR PME NB	-	-	-	-	(3 174)	(3 174)	-
Imogestão	-	-	-	-	(38 000)	(38 000)	-
	-	-	-	504	(56 225)	(55 721)	(591)
Associated companies							
Epedal	-	-	-	1 709	-	1 709	67
Nexxpro	-	-	-	2 790	-	2 790	-
	-	-	-	4 499	-	4 499	67
	-	**-**	**-**	**5 003**	**(56 225)**	**(51 222)**	**(524)**

(a) Capital increases / reductions, supplementary capital contributions, shareholder loans, exchange of financial instruments and incorporation of companies

During the first half of 2023 there are no movements to present.

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

NOTE 2 – BASIS OF PRESENTATION

The consolidated financial statements of novobanco are presented as at 30 June 2023, expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Group in the preparation are consistent with those used in the preparation of the financial statements as at 31 December 2022. The changes to the most relevant accounting policies are described in Note 5.

The consolidated financial statements of novobanco have been prepared under the assumption of continuity of operations from the accounting records and following the historical cost convention, except for the assets and liabilities accounted at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

The interim condensed consolidated financial statements and the Management Report of 30 June 2023 were approved at a meeting of the Executive Board of Directors on 26 July 2023.

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 1 January 2023, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of 19 July 2002, and Notice nº 5/2015 of Bank of Portugal.

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

The interim condensed consolidated financial statements of novobanco are presented as at 30 June 2023. These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"). Consequently, these financial statements do not include all the information required by IFRS, and therefore they should be read together with the financial statements for the year ended on 31 December 2022.

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 interim condensed consolidated financial statements with reference to 30 June 2023, the Group did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Group are as follows:

Standards, interpretations, amendments, and revisions that came into 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 2023:

Standard / Interpretation	Description
IFRS 17 - Insurance Contracts	IFRS 17 applies to all insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.
Amendments to IFRS 17 Insurance Contracts – Initial application of IFRS 17 and IFRS 9 – Comparative information	This amendment to IFRS 17 relates to the presentation of comparative information for financial assets on initial application of IFRS 17. The amendment adds a transition option that allows an entity to apply an overlay to the classification of a financial asset in the comparative period(s) presented in initially applying IFRS 17. The overlay allows all financial assets, including those held in relation to non-contract activities within the scope of IFRS 17 to be classified, instrument by instrument, in the comparative period(s) in a manner aligned with how the entity expects those assets to be classified on initial application of IFRS 9.
Amendments to IAS 1 – Presentation of financial statements - Classification of current and non-current liabilities	This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise that right), or by events occurring after the reporting date, such as the breach of a “covenant”. However, if the right to defer settlement for at least twelve months is subject to certain conditions being met after the reporting date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or noncurrent. This amendment also includes a new definition of "settlement" of a liability and is retrospective.
Amendments to IAS 8 – Definition of accounting estimates	The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgment whether such deductions are attributable to the liability that is recognised in the financial statements or the related asset. This is important in determining whether there are temporary differences in the initial recognition of the asset or liability. According to these amendments, the initial recognition exception is not applicable to transactions that have given rise to equal taxable and deductible temporary differences. It only applies if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not equal.
Amendments to IAS 12 - International Tax Reform - Pillar II Rules	In May 2023, the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. The amendments clarify that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as ‘Pillar Two legislation’ and ‘Pillar Two income taxes’, respectively.

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 securitisation 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 the 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 established 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 of 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 at the acquisition date, the non-controlling interests are measured at their proportional interest in the fair value of the net identifiable assets acquired and liabilities assumed, without their respective portion of goodwill. As a result, the goodwill recognised in these 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

As mentioned, the accounting policies used by the Group in the preparation of the interim condensed consolidated financial statements as at 30 June 2023 are consistent with those used in the preparation of the financial statements as at 31 December 2022.

Recently issued 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 for financial years beginning on or after	Description
Amendments to IAS 1 - Presentation of financial statements - Classification of current and non-current liabilities	1-Jan-2024	This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer their payment at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will exercise such a right), or by events occurring after the reporting date, such as the breach of a covenant. However, if the right to defer settlement for at least twelve months is subject to fulfilment of certain conditions after the balance sheet date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or non-current. This amendment also includes a new definition of 'settlement' of a liability and is retrospective.
Amendments to IFRS 16 - Leasing liabilities in sale and leaseback transactions	1-Jan-2024	This amendment specifies the requirements for the subsequent measurement of lease liabilities related to sale and leaseback transactions that qualify as a "sale" under IFRS 15, with a focus on variable lease payments that do not depend on an index or a rate. On subsequent measurement, seller-lessees should determine 'lease payments' and 'revised lease payments' When subsequently measuring lease liabilities, seller-lessees shall determine 'lease payments' and 'revised lease payments' in such a way that no gain or loss is recognised in respect of the retained right-of-use asset. The application of those requirements does 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. This amendment is retrospective.
Amendments to IAS 7 and IFRS 7 Disclosures: Financial Supply Agreements	1-Jan-2024	In May 2023, the Board issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The Group did not early adopt any of these standards in the financial statements for the year ended 30 June 2023. 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

As at the date of approval of these financial statements, there are no standards, interpretations, amendments and revisions with mandatory application in future financial years that have not been endorsed by the European Union.

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 measured 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 measuredat 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 of the explanatory notes at 31 December 2022 – 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: Novobanco Group’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 novobanco Group 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 Group. 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 designated 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 discount 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 acquisition 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 of the explanatory notes at 31 December 2022. 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 commercialisation of life and non-life insurance products. Additionally, the Group makes short-, medium- and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or to get returns on its available financial resources.

For this purpose, as at 30 June 2023, the Group has novobanco as its main operating unit - with 273 branches in Portugal (31 December 2022: 273 branches), with 1 branch in Luxembourg and 2 representation offices – with novobanco Açores (12 branches), Banco BEST (6 branches), GNB GA, amongst other companies.

In assessing performance by business area, the Group considers the following Operating Segments: (1) Retail, which essentially comprises the activity of private customers and small businesses; (2) Corporate, which comprises the activity of other companies and institutions; and (3) Corporate Structure and Support Units. Each segment integrates the novobanco structures that directly relate to it, as well as the units of the Group whose businesses are mainly related to the segments. The individual and independent monitoring of each operating unit of the Group is complemented, at the Executive Board of Directors of novobanco level, by the definition of specific strategies and commercial programs for each unit.

9.1. Description of the operating segments

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

Retail
This segment includes banking activities with individual customers and small businesses developed in the domestic territory based on the distribution network of branches, investment centers and other channels. The segment's financial information relates to, among other products and services, mortgage loans, consumer loans, small business financing, deposits, insurance products for individuals and companies, account and means of payment management and placement services for investment funds, retirement saving plans and other saving products and services, including the purchase and sale of securities and their custody;

Corporate
Includes the activities developed with medium and large-sized companies, through a commercial structure dedicated to this segment, which includes 20 Corporate Centers. This segment also includes activities with domestic and foreign institutional 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;

Corporate Structure and Support Units
This area does not correspond to an operational segment in the true sense of the concept, it is an aggregation of transversal corporate structures that ensure the basic functions of the Group's global management, such as those linked to the Administration and Supervision, Treasury, Compliance, Planning, Accounting, Risk Management and Control, Institutional Communication, Internal Audit, Human Resources, among others. Strategic decisions with a transversal impact on the entire Group are recognised in this segment.

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

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

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 in accordance with the regulatory capital requirements determined for each 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 Support Functions.

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 Support Functions.

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 Support Functions 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 Support Functions segment . For the remaining subsidiaries these assets are 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 Support Functions, as well as assets and liabilities deferred taxes.

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 (in 2022, meanwhile closed in 2023) and Luxembourg, the units located outside GNB GA and Ijar Leasing Algérie as discontinued operation.

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)

	Six month period ended in 30.06.2023			
	Retail	Corporate	Support Functions	**Total**
Net interest income	284 502	250 565	(11 050)	524 017
Net fees and comissions	99 019	43 850	1 528	144 397
Commercial banking income	**383 521**	**294 415**	**(9 522)**	**668 414**
Other operating income (excluding Special tax on Banks)	(854)	13 673	31 031	43 850
Contributions to resolution funds and deposit insurance	-	-	22 334	22 334
Operating Costs	151 970	46 031	27 055	225 056
Impairment and provisions	17 326	33 017	5 642	55 985
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	2 570	2 570
Profit / (loss) from continued operations before taxes and non-controlling interests (excluding Special tax on Banks)	**213 371**	**229 040**	**(30 952)**	**411 459**
Special tax on Banks	763	-	33 410	34 173
Profit / (loss) from continued operations before taxes and non-controlling interests	**212 608**	**229 040**	**(64 362)**	**377 286**
Taxes	1 185	70	322	1 577
Profit / (loss) of discontinued operations	-	-	(97)	(97)
Net Profit / (loss) for the period attributable to non-controlling interests	2 581	-	(140)	2 441
Net Profit / (loss) for the period attributable to Shareholders of the parent	**208 842**	**228 970**	**(64 641)**	**373 171**
Intersegment operating income (1)	*7 546*	*(18 333)*	*14 367*	*3 580*
Total Net Assets	**14 524 602**	**14 353 136**	**15 022 464**	**43 900 202**
Loans and advances to customers	**13 399 135**	**11 379 928**	**13 936**	**24 792 999**
Total Liabilities	**21 132 677**	**7 820 910**	**10 966 051**	**39 919 638**
Investments in associated companies	**-**	**-**	**117 805**	**117 805**
Investments in tangible fixed assets	**1 854**	**-**	**29 482**	**31 336**
Investments in intangible assets	**20**	**-**	**7 423**	**7 443**
Investments in investment properties	**-**	**-**	**-**	**-**
Investments in other assets - real estate properties	**8**	**-**	**5 870**	**5 878**

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

(in thousands of Euros)

	Six month period ended in 30.06.2022			
	Retail	Corporate	Support Functions	**Total**
Net interest income	94 852	145 477	27 701	268 030
Net fees and comissions	99 061	46 719	(3 431)	142 349
Commercial banking income	**193 913**	**192 196**	**24 270**	**410 379**
Other operating income (excluding Special tax on Banks)	7 651	5 529	186 866	200 046
Contributions to resolution funds and deposit insurance	-	-	41 155	41 155
Operating Costs	134 536	40 897	33 283	208 716
Impairment and provisions	(1 732)	44 015	(22 496)	*19 787*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	2 453	2 453
Profit / (loss) from continued operations before taxes and non-controlling interests (excluding Special tax on Banks)	**68 760**	**112 813**	**161 647**	**343 220**
Special tax on Banks	722	-	33 410	34 132
Profit / (loss) from continued operations before taxes and non-controlling interests	**68 038**	**112 813**	**128 237**	**309 088**
Taxes	1 624	90	17 207	18 921
Profit / (loss) of discontinued operations	-	-	(270)	(270)
Net Profit / (loss) for the period attributable to non-controlling interests	894	-	22 279	23 173
Net Profit / (loss) for the period attributable to Shareholders of the parent	**65 520**	**112 723**	**88 481**	**266 724**
Intersegment operating income (1)	*863*	*26 266*	*(23 688)*	*3 441*
Total Net Assets	**14 232 321**	**13 311 073**	**17 949 607**	**45 493 001**
Loans and advances to customers	**13 016 747**	**11 284 653**	**2 242**	**24 303 642**
Total Liabilities	**21 073 641**	**8 128 730**	**13 038 874**	**42 241 245**
Investments in associated companies	**-**	**-**	**118 687**	**118 687**
Investments in tangible fixed assets	**255**	**-**	**43 867**	**44 122**
Investments in intangible assets	**6**	**-**	**6 818**	**6 824**
Investments in investment properties	**-**	**-**	**10 524**	**10 524**
Investments in other assets - real estate properties	**700**	**829**	**8 200**	**9 729**

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

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

(in thousands of Euros)

	30.06.2023						
	Portugal	Spain	Luxembourg	Brazil	Angola	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	355 291	(174)	18 054	-	-	-	373 171
(of which: related to discontinued units)	*(97)*	-	-	-	-	-	(97)
Total Income	3 397 294	2	120 009	-	-	-	3 517 305
Intersegment operating income	*21 913*	-	*(18 333)*	-	-	-	*3 580*
Net assets	41 138 668	3 640	2 749 578	3 114	876	4 326	43 900 202
(of which: related to discontinued units)	*50 475*	-	-	*3 114*	*530*	*4 326*	*58 445*
Investments in associated companies	117 805	-	-	-	-	-	117 805
Investments in tangible fixed assets	31 336	-	-	-	-	-	31 336
Investments in intangible assets	7 443	-	-	-	-	-	7 443
Investments in investment properties	-	-	-	-	-	-	-
Investments in other assets - real estate properties	5 878	-	-	-	-	-	5 878
Profits / (losses) of continuing operating units before taxes and non-controlling interests [(a)]	353 310	(174)	24 150	-	-	-	377 286
Turnover [(a) (b)]	1 029 656	2	78 274	-	-	-	1 107 932
Number of employees [(a)]	4 113	4	12	-	-	3	4 132
Public subsidies received [(a)]	-	-	-	-	-	-	-

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

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

(in thousands of Euros)

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

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

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

NOTE 10 – NET INTEREST INCOME

The breakdown of this caption as at 30 June 2023 and 2022 is as follows:

(in thousands of Euros)

	Six month period ended in									
	30.06.2023					30.06.2022				
	Effective Interest Rate Method		Other			Effective Interest Rate Method		Other		
	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income / expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income / expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest income										
Credit interest to customers	521 243	14 778	-	246	536 267	250 263	6 820	-	-	257 083
Interest on deposits and applications/resources in credit institutions	66 496	-	9	5	66 510	160	-	40 634	-	40 794
Interest on securities	99 595	23 218	-	4 451	127 264	39 723	24 377	-	685	64 785
Interest on derivatives	-	-	958	113 754	114 712	-	-	763	2 151	2 914
Other interest and similar income	5 528	-	-	-	5 528	177	-	-	-	177
	692 862	**37 996**	**967**	**118 456**	**850 281**	**290 323**	**31 197**	**41 397**	**2 836**	**365 753**
Interest expenses										
Interest on debt securities issued	33 829	-	-	-	33 829	29 305	-	-	-	29 305
Interest on customer resources	63 830	-	-	-	63 830	21 363	-	-	-	21 363
Interest on deposits and applications/resources in credit institutions	130 194	-	25	-	130 219	3 900	-	9 804	-	13 704
Interest on subordinated liabilities	19 584	-	-	-	19 584	16 948	-	-	-	16 948
Interest on derivatives	-	-	63	71 603	71 666	-	-	5 484	6 919	12 403
Other interest and similar income	7 136	-	-	-	7 136	3 487	-	513	-	4 000
	254 573	**-**	**88**	**71 603**	**326 264**	**75 003**	**-**	**15 801**	**6 919**	**97 723**
	438 289	**37 996**	**879**	**46 853**	**524 017**	**215 320**	**31 197**	**25 596**	**(4 083)**	**268 030**

As at 30 June 2023, the caption interest on loans and advances includes Euro 16,609 thousand related to finance lease operations (30 June 2022: Euro 14,275 thousand).

In relation to repurchase agreement operations, interest from deposits with Other banks, customer and credit institutions deposits includes, as at 30 June 2023, the amount of Euro 32 thousand, Euro 11,108 thousand and Euro 37,213 thousand, respectively (30 June 2022: Euro 157 thousand related to deposits with Other banks, Euro 1,077 thousand from customers deposits and Euro 2,783 thousand from credit institutions 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 of the explanatory notes at 31 December 2022, 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 of the explanatory notes at 31 December 2022.

NOTE 11 – DIVIDEND INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Financial assets mandatorily at fair value through profit or loss		
Shares	51	102
Visa Inc CL C	42	98
Other	9	4
Participation units	-	164
Explorer III B	-	164
Financial assets at fair value through other comprehensive income		
Shares	1 724	2 560
SIBS SGPS	939	2 056
RAMADA INV.	3	2
ESA ENERGIA	384	400
TF TURISMO SGFII	399	102
	1 776	**2 826**

NOTE 12 – FEE AND COMMISSION INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	**30.06.2022**
Fees and commissions income		
From banking services	123 012	121 340
Cards	22 145	19 239
Management of Means of Payment	56 131	53 065
Asset Management	17 878	19 277
Credit operations	26 858	29 759
From guarantees provided	15 241	15 625
From transaction of securities	5 980	6 320
From commitments to third parties	3 355	3 281
Bancassurance	16 374	15 140
Other fee and commission income	4 055	3 564
	168 017	**165 270**
Fees and commissions expenses		
With banking services rendered by third parties	15 284	14 442
Cards	4 554	4 567
Management of Means of Payment	6 782	7 140
Asset Management	1 264	1 227
Credit operations	2 684	1 508
With guarantees received	667	1 353
With transaction of securities	2 571	2 341
Other fee and commission income	5 098	4 785
	23 620	**22 921**
	144 397	**142 349**

NOTE 13 – NET TRADING INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2023			30.06.2022		
	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	993	1 306	(313)	29 012	44 216	(15 204)
Issued by other entities	-	-	-	2 976	36 710	(33 734)
	993	**1 306**	**(313)**	**31 988**	**80 926**	**(48 938)**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	3	-	3	2	-	2
Issued by other entities	2 505	1 102	1 403	-	4 567	(4 567)
Loans	13 104	3 084	10 020	2 164	1 243	921
	15 612	**4 186**	**11 426**	**2 166**	**5 810**	**(3 644)**
	16 605	**5 492**	**11 113**	**34 154**	**86 736**	**(52 582)**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	981	1 794	(813)	1 803	22 662	(20 859)
Issued by other entities	93	2	91	10	-	10
Financial Derivatives						
Foreign exchange rate contracts	27 661	26 444	1 217	43 996	38 880	5 116
Interest rate contracts	49 613	48 996	617	421 384	258 577	162 807
Equity / Index contracts	10 308	7 065	3 243	1 185	1 341	(156)
Credit default contracts	8	10	(2)	-	-	-
Other	3 034	3 113	(79)	8 307	6 635	1 672
	91 698	**87 424**	**4 274**	**476 685**	**328 265**	**148 420**
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	-	31	(31)	570	627	(57)
Shares	772	-	772	2 716	12 837	(10 121)
Other variable income securities	4 642	253	4 389	993	1 770	(777)
	5 414	**284**	**5 130**	**4 279**	**15 234**	**(10 955)**
Gains or losses on financial assets and liabilities at fair value through profit and loss						
Securities						
Other variable income securities	2	-	2	34	4	30
	2	**-**	**2**	**34**	**4**	**30**
Gains or losses from hedge accounting						
Fair value changes of hedging instruments						
Foreign exchange rate contracts	48 324	82 014	(33 690)	420 065	176 839	243 226
Fair value changes of hedging item attributable to hedged risk	250 743	201 170	49 573	1 765	244 878	(243 113)
	299 067	**283 184**	**15 883**	**421 830**	**421 717**	**113**
Investments in foreign entities						
Foreign exchange revaluation	**707 283**	**701 522**	**5 761**	**808 036**	**809 000**	**(964)**
	1 120 069	**1 077 906**	**42 163**	**1 745 018**	**1 660 956**	**84 062**

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

In accordance with the accounting policy described in Note 7.5 of the explanatory notes at 31 December 2022, 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 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 Group's access to the (wholesale market).

As at 30 June 2023, the gains recognised in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 1,600 thousand (30 June 2022: Euro 1,499 thousand).

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

As at 30 June 2023, gains or losses on financial assets that are mandatorily accounted for at fair value through profit or loss - securities – include a gain of Euro 4.3 million resulting from the completion of the sale process of shares and participation units in the restructuring funds.

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 at 30 June 2023, there was no compensation received (30 June 2022: Euro 88 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 of the explanatory notes at 31 December 2022.

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

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	**30.06.2022**
Real Estate	(382)	4 213
Equipment	152	(307)
Other	(53)	226
	(283)	**4 132**

NOTE 15 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Other operating income		
Gains / (losses) on recoveries of loans	12 647	12 548
Income of Funds and real estate companies	10 127	15 061
Gains on the acquisition of debt issued by the Group (see Note 33)	-	23
Gains on investment properties revaluation (see Note 28)	15 518	101 415
Other income	7 371	14 935
	45 663	**143 982**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 33)	(550)	-
Direct and indirect taxes	(2 471)	(1 886)
Contribution on the banking sector and solidarity additional	(34 173)	(34 132)
Membership fees and donations	(727)	(1 076)
Expenses of Funds and real estate companies	(3 744)	(7 465)
Charges with Supervisory entities	(1 143)	(1 167)
Losses on investments properties revaluation (see Note 28)	(11 428)	(12 333)
Other expenses	(25 406)	(11 029)
	(79 642)	**(69 088)**
Other operating income / (expenses)	**(33 979)**	**74 894**

As at 30 June 2023, no amount has been received in respect of compensation for interruption of hedging operations, included in other income (30 June 2022: Euro 88 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 at 30 June 2023, novobanco Group recognised Banking Levy charges as a cost in the amount of Euro 28,916 thousand (31 December 2022: Euro 28,881 thousand). The cost recognised as at 30 June 2023 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 Stabilisation 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 at 30 June 2023, the Group recognised as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,257 thousand (31 December 2022: Euro 5,251 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)

	Six month period ended on	
	30.06.2023	30.06.2022
Wages and salaries	93 403	86 017
Remuneration	93 091	86 017
Career bonuses (see Note 17)	312	-
Mandatory social charges	24 139	24 586
Costs with post-employment benefits (see Note 17)	27	249
Other costs	2 996	992
	120 565	**111 844**

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

As at 30 June 2023 and 31 December 2022, the number of employees of novobanco Group has the following breakdown:

	30.06.2023	31.12.2022
novobanco employees	3 858	3 817
Employees of the Group's subsidiaries	274	273
Total employees of the Group	**4 132**	**4 090**

NOTE 17 – EMPLOYEE BENEFITS

Pension and health-care benefits

As mentioned in accounting policy 7.27 of the explanatory notes at 31 December 2022, 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 at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the “Instrumento de Regulação Coletiva de Trabalho” (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor’s pensions will remain under the banks’ responsibility, with the corresponding funding being met through the respective pension funds.

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

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

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. As at 30 June 2023, the amount of Euro 367 thousand was recorded in Personnel Costs related to the defined contribution plan (30 June 2022: Euro 272 thousand and 31 December 2022: Euro 548 thousand).

The Group's liabilities and coverage levels, calculated in accordance with the accounting policy defined in Note 7.27 - Employee benefits of the explanatory notes at 31 December 2022, reportable as at 30 June 2023 and 31 December 2022 are analysed as follows:

(in thousand Euros)

	30.06.2023	31.12.2022
Assets / (liabilities) recognised in the balance sheet		
Total liabilities	**(1 417 528)**	**(1 418 647)**
Pensioners	(1 057 605)	(1 075 292)
Employees	(359 923)	(343 355)
Coverage		
Fair value of plan assets	**1 530 127**	**1 478 263**
Net assets / (liabilities) in the balance sheet (See Note 31)	**112 599**	**59 616**
Accumulated actuarial deviations recognised in other comprehensive income	**640 358**	**697 326**

According to the policy defined in Note 7.27 - Employee Benefits of the explanatory notes at 31 December 2022, the Group calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

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

	30.06.2023		31.12.2022	
	Assumptions	**Actual**	**Assumptions**	**Actual**
Actuarial Assumptions				
Projected rate of return on plan assets	4.00%	6.42%	4.00%	-18.92%
Discount rate	4.00%	-	4.00%	-
Pension increase rate	0.75%	0.54%	0.75%	1.41%
Salary increase rate	1.00%	0.35%	1.00%	2.54%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-3 years	

Disability decrements are not considered in the calculation of the liabilities. The determination of the discount rate as at 30 June 2023 and 31 December 2022 was based on: (i) the evolution of the main indexes in relation to high quality corporate bonds and (ii) the duration of the liabilities.

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

(in thousands of Euros)

	30.06.2023	31.12.2022
Accumulated actuarial losses recognised in other comprehensive income at the beginning of the period	**697 326**	**799 052**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial assumptions	-	(527 073)
- Plan assets return (excluding net of interests)	(57 152)	424 250
Other	184	1 097
Accumulated actuarial losses recognised in other comprehensive income at the end of the period	**640 358**	**697 326**

The costs of retirement pensions and health benefits for the six month period ended on 30 June 2023 and 2022 can be analysed as follows:

(in thousand of Euros)

	30.06.2023	30.06.2022
Current service cost [(a)]	27	(13)
Net interest	558	1 273
Early retirements [(a)]	-	262
Post-employment benefits costs	**585**	**1 522**

(a) recorded in Staff expenses (see Note 16)

In the first half of 2023, the amount of early retirements was Euro 3.6 million (30 June 2022: Euro 2.2 million), of which Euro 3.6 million falls within the Group's restructuring process (30 June 2022: Euro 2.0 million) and as such was recognised against the use of the restructuring provision (see Note 34).

Career bonuses

As at 30 June 2023, the liabilities assumed by the Group amounted to Euro 5,850 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 7.27 – Employee benefits of the explanatory notes at 31 December 2022 (31 December 2022: Euro 5,621 thousand) (see Note 35).

As at 30 June 2023, the costs recognised with career bonuses were Euro 315 thousand (30 June 2022: no costs with career bonuses were recorded) (see Note 16).

NOTE 18 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Rentals	2 643	2 264
Advertising	3 144	2 946
Communication	5 641	5 818
Maintenance and repairs	4 179	4 774
Travelling and representation	1 365	999
Transportation of valuables	1 432	1 454
Insurance	3 735	3 681
IT services	23 567	19 403
Independent work	1 200	1 430
Temporary work	433	412
Electronic payment systems	7 357	6 064
Legal costs	2 567	3 820
Consultancy and audit fees	12 922	10 985
Water, energy and fuel	1 111	1 518
Consumables	868	817
Other costs	12 488	10 942
	84 652	**77 327**

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

The caption rentals and leases includes, at 30 June 2023, an amount of Euro 683 thousand relating to short-term operating lease contracts (30 June 2022: Euro 572 thousand), as described in note 7.24 of the explanatory notes at 31 December 2022.

NOTE 19 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

This caption on 30 June 2023 and 2022 is analysed as follows:

(In thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Contribution to the Resolution Fund	14 977	24 492
Contribution to the National Resolution Fund	7 101	16 364
Contribution to the Deposit Guarantee Fund	256	299
	22 334	**41 155**

NOTE 20 – IMPAIRMENT

As at 30 June 2023 and 2022 the impairment is analysed as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2023			30.06.2022		
	Charges	Reversals	Total	Charges	Reversals	Total
Provisions or reversal of provisions (see Note 34)						
Provisions for guarantees	5 942	(5 931)	11	6 636	(8 441)	(1 805)
Provisions for commitments	2 420	(1 719)	701	1 494	(4 374)	(2 880)
Other provisions	10 044	(1 821)	8 223	2 668	(19 909)	(17 241)
	18 406	**(9 471)**	**8 935**	**10 798**	**(32 724)**	**(21 926)**
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 other comprehensive income	192	(558)	(366)	1 219	(1 816)	(597)
Securities at amortised cost	1 201 441	(1 192 394)	9 047	854 662	(812 406)	42 256
Loans and advances to banks	390	(580)	(190)	353	(436)	(83)
Loans and advances to customers	111 841	(63 931)	47 910	108 244	(88 944)	19 300
	1 313 864	**(1 257 463)**	**56 401**	**964 478**	**(903 602)**	**60 876**
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates (see Note 26)	**(1)**	**-**	**(1)**	**(1 636)**	**(19 137)**	**(20 773)**
Impairment or reversal of impairment on non-financial assets						
Non-current assets and disposal groups classified as held for sale (see Note 32)	334	(808)	(474)	-	(391)	(391)
Tangible fixed assets (see Note 27)	-	(560)	(560)	-	(486)	(486)
Other assets (see Note 31)	3 781	(12 097)	(8 316)	6 791	(4 304)	2 487
	4 115	**(13 465)**	**(9 350)**	**6 791**	**(5 181)**	**1 610**
	1 336 384	**(1 280 399)**	**55 985**	**980 431**	**(960 644)**	**19 787**

NOTE 21 – EARNING PER SHARE

Basic earnings per share

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

(In thousands of Euros)

	Six month period ended on	
	30.06.2023	**30.06.2022**
Net consolidated profit / (loss) attributable to shareholders of the Bank	**373 171**	**266 724**
Weighted average number of common shares outstanding (thousands)	10 762 987	9 954 907
Basic earnings per share attributable to shareholders of novobanco (in Euros)	**0,03**	**0,03**
Basic earnings per share from continuing activities attributable to shareholders of novobanco (in Euros)	**0,03**	**0,03**

Diluted earnings per share

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

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

NOTE 22 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As at 30 June 2023 and 31 December 2022, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Cash	**157 796**	**182 895**
Demand deposits with Central Banks		
Bank of Portugal	2 952 950	5 936 637
Other Central Banks	9 433	5 861
	2 962 383	**5 942 498**
Deposits in other domestic credit institutions		
Repayable on demand	10 268	62 900
Uncollected checks	49 098	159 966
	59 366	**222 866**
Deposits with banks abroad		
Repayable on demand	179 071	213 506
Other deposits	36 470	37 313
	215 541	**250 819**
	3 395 086	**6 599 078**

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 280.5 million (31 December 2022: Euro 287.9 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 at 30 June 2023 and at 31 December 2022 the average interest rate on these deposits was 3.5% and 2%, respectively.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 30 June 2023 was included in the observation period running from 21 June to 1 August 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 at 30 June 2023 and 31 December 2022, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	376 383	36 428
	376 383	**36 428**
Derivatives		
Derivatives held for trading with positive fair value	122 204	135 382
	122 204	**135 382**
	498 587	**171 810**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	97 111	99 386
	97 111	**99 386**

Securities held for trading

In accordance with the accounting policy described in Note 7.10.5 of the explanatory notes at 31 December 2022, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 42.

Derivatives

As at 30 June 2023 and 31 December 2022, derivatives are analysed as follows:

(in thousands of Euros)

	30.06.2023			31.12.2022		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for negotiation						
Exchange rate contracts						
Forward						
- buy	615 011	13 107	11 136	664 046	13 976	13 326
- sell	612 395			662 467		
Currency Swaps						
- buy	1 131 818	2 278	1 914	715 504	2 559	2 137
- sell	1 129 826			713 759		
Currency Options						
- buy	232 218	4 420	4 244	293 418	6 606	6 606
- sell	232 556			293 419		
		19 805	**17 294**		**23 141**	**22 069**
Interest rate contracts						
Interest Rate Swaps						
- buy	3 293 973	91 380	68 884	3 071 249	98 468	70 120
- sell	3 293 973			3 071 249		
Interest Rate Caps & Floors						
- buy	192 475	6 780	6 156	142 992	5 205	4 293
- sell	282 261			233 310		
		98 160	**75 040**		**103 673**	**74 413**
Equity / Index contracts						
Equity / Index Options						
- buy	333 628	3 310	3 412	423 960	8 279	2 695
- sell	333 624			423 956		
		3 310	**3 412**		**8 279**	**2 695**
Credit default contracts						
Credit Default Swaps						
- buy	-	34	765	-	-	-
- sell	50 000			-		
		34	**765**		**-**	**-**
Commodities contracts						
Commodities Swaps						
- buy	15 076	895	600	15 759	289	209
- sell	15 076			15 759		
		895	**600**		**289**	**209**
		122 204	**97 111**		**135 382**	**99 386**

In the first half of 2023, the Group recognised a loss of Euro 175 thousand related to the CVA of derivative instruments (first half of 2022: loss of Euro 1,296 thousand). The way of determining the CVA is explained in Note 42.

NOTE 24 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTISED COST

As at 30 June 2023 and 31 December 2022, these captions are analysed as follows:

(in thousands of Euros)

	30.06.2023					
	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	287 597	391	2 360 688	8 728 843	-	11 377 519
Loans and advances to banks	-	-	-	78 406	-	78 406
Loans and advances to customers	137	-	-	24 792 999	(143 720)	24 649 416
	287 734	**391**	**2 360 688**	**33 600 248**	**(143 720)**	**36 105 341**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

(milhares de 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	7 964 664	-	10 609 460
Loans and advances to banks	-	-	-	43 548	-	43 548
Loans and advances to customers	18	-	-	24 550 936	(165 144)	24 385 810
	313 702	**13**	**2 331 099**	**32 559 148**	**(165 144)**	**35 038 818**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

Securities

As at 30 June 2023 and 31 December 2022, the detail of securities portfolio is as follows:

(in thousands of Euros)

	30.06.2023	**31.12.2022**
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	13 463	13 473
Shares	141 797	141 119
Other variable income securities	132 337	159 092
	287 597	**313 684**
Securities at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	391	13
	391	**13**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	1 820 113	1 764 578
From other issuers	459 195	479 406
Shares	81 380	87 115
	2 360 688	**2 331 099**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	4 676 567	4 610 412
From other issuers	4 544 817	3 864 328
Impairment	(300 512)	(291 531)
Value adjustments for interest rate risk hedging	(192 029)	(218 545)
	8 728 843	**7 964 664**
	11 377 519	**10 609 460**

On 29 December 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.

On 30 June 2023, with the completion of the sale of participation units in a restructuring fund, the Group recorded a gain of Euro 4.3 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 of the explanatory notes at 31 December 2022, 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 at 30 June 2023 and 31 December 2022, 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	**1 835 716**	**354**	**(15 957)**	**-**	**1 820 113**	**(141)**
Residents	440 882	197	(11 603)	-	429 476	(106)
Non residents	1 394 834	157	(4 354)	-	1 390 637	(35)
From other issuers	**502 793**	**144**	**(33 386)**	**(10 356)**	**459 195**	**(140)**
Residents	29 606	-	(4 725)	-	24 881	(1)
Non residents	473 187	144	(28 661)	(10 356)	434 314	(139)
Shares	**149 846**	**40 170**	**(108 636)**	**-**	**81 380**	**-**
Residents	75 774	38 537	(46 408)	-	67 903	-
Non residents	74 072	1 633	(62 228)	-	13 477	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Non residents	-	-	-	-	-	-
Balance as at 30 June 2023	**2 488 358**	**40 668**	**(157 982)**	**(10 356)**	**2 360 688**	**(281)**

[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 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	**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)	-	-	-
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 amortised cost for debt securities.
[2] In the context of fair value hedge operations (see Note 25)

During the first half of 2023, the Group sold Euro 559.0 million of financial instruments classified at fair value through other comprehensive income (31 December 2022: Euro 5,921.9 million), with a loss of Euro 0.3 million (31 December 2022: gain of Euro 82.8 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 286.8 million that were transferred from revaluation reserves to sales-related reserves (31 December 2022: loss of Euro 1.2 million), from the sale of equity instruments.

The changes in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment changes of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	**3 716**	**-**	**-**	**3 716**
Increases due to changes in credit risk	1 219	-	-	1 219
Decreases due to changes in credit risk	(1 796)	-	(20)	(1 816)
Utilisation during the period	(1 645)	-	-	(1 645)
Other changes	12	-	20	32
Balance as at 30 June 2022	**1 506**	**-**	**-**	**1 506**
Increases due to changes in credit risk	1 120	-	-	1 120
Decreases due to changes in credit risk	(956)	-	-	(956)
Utilisation during the period	(1 009)	-	-	(1 009)
Other changes	(2)	-	1	(1)
Balance as at 31 December 2022	**659**	**-**	**1**	**660**
Increases due to changes in credit risk	192	-	-	192
Decreases due to changes in credit risk	(558)	-		(558)
Utilisation during the period	(13)	-	-	(13)
Balance as at 30 June 2023	**280**	**-**	**1**	**281**

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

(in thousands of Euros)

	Impairment changes of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	**5 471**	**38 283**	**203 243**	**246 997**
Increases due to changes in credit risk	12 222	170 620	671 820	854 662
Decreases due to changes in credit risk	(3 127)	(204 661)	(604 618)	(812 406)
Utilisation during the period	(35)	-	-	(35)
Other changes	(6 304)	16	7 116	828
Balance as at 30 June 2022	**8 227**	**4 258**	**277 561**	**290 046**
Increases due to changes in credit risk	3 241	3 151	1 015 886	1 022 278
Decreases due to changes in credit risk	(6 135)	(4 005)	(986 327)	(996 467)
Utilisation during the period	(6)	-	(25 237)	(25 243)
Other changes	20	(31)	928	917
Balance as at 31 December 2022	**5 347**	**3 373**	**282 811**	**291 531**
Increases due to changes in credit risk	3 044	6 350	1 192 047	1 201 441
Decreases due to changes in credit risk	(3 965)	(4 602)	(1 183 827)	(1 192 394)
Utilisation during the period	(59)	-	(4)	(63)
Other changes	(153)	150	-	(3)
Balance as at 30 June 2023	**4 214**	**5 271**	**291 027**	**300 512**

In accordance with the accounting policy mentioned on Note 7.16 of the explanatory notes at 31 December 2022, the Group regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 8.1.

The detail of the securities portfolio by fair value hierarchy is presented in Note 42.

The portfolio securities pledged by the Group are analysed in Note 38.

Loans and advances to Banks

As at 30 June 2023 and 31 December 2022, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros

	30.06.2023	31.12.2022
Loans and advances to banks in Portugal		
Very short-term placements	10 124	-
Deposits	24 113	1
Loans	38 974	39 228
Other loans and advances	3	3
	73 214	**39 232**
Loans and advances to banks abroad		
Deposits	5 779	5 096
	5 779	**5 096**
	78 993	**44 328**
Impairment losses	(587)	(780)
	78 406	**43 548**

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

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

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2021	**217**	**474**	**422**	**1 113**
Increases due to changes in credit risk	134	219	-	353
Decreases due to changes in credit risk	(114)	(322)	-	(436)
Other changes	29	(71)	6	(36)
Balance as at 30 June 2022	**266**	**300**	**428**	**994**
Increases due to changes in credit risk	237	172	-	409
Decreases due to changes in credit risk	(299)	(314)	-	(613)
Other changes	(4)	(4)	(2)	(10)
Balance as at 31 December 2022	**200**	**154**	**426**	**780**
Increases due to changes in credit risk	224	166	-	390
Decreases due to changes in credit risk	(294)	(286)	-	(580)
Other changes	(2)	3	(4)	(3)
Balance as at 30 June 2023	**128**	**37**	**422**	**587**

Loans and advances to customers

As at 30 June 2023 and 31 December 2022, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Domestic loans and advances		
Corporate		
Current account loans	1 213 593	1 124 902
Loans	8 876 142	9 124 077
Discounted bills	71 927	87 358
Factoring	693 856	669 903
Overdrafts	8 448	46 637
Financial leases	698 539	796 661
Other loans and advances	27 490	29 441
Individuals		
Residential Mortgage loans	8 841 860	8 752 330
Consumer credit and other loans	1 327 045	1 262 064
	21 758 900	**21 893 373**
Foreign loans and advances		
Corporate		
Current account loans	64 148	46 898
Loans	2 243 422	1 992 337
Discounted bills	17	13
Factoring	31 035	30 805
Overdrafts	181	72
Individuals		
Residential Mortgage loans	1 282 659	1 214 050
Consumer credit and other loans	114 543	109 192
	3 736 005	**3 393 367**
Overdue loans and advances and interests		
Under 90 days	31 386	13 267
Over 90 days	282 133	317 339
	313 519	**330 606**
	25 808 424	**25 617 346**
Impairment losses	**(1 015 288)**	**(1 066 392)**
	24 793 136	**24 550 954**
Fair value adjustaments of interest rate hedges (See Note 25)		
Corporate		
Loans	-	(16 805)
Individuals		
Residential Mortgage loans	(143 720)	(148 339)
	(143 720)	**(165 144)**
	24 649 416	**24 385 810**

As at 30 June 2023, 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 137 thousand, and the remaining loans and advances to customers portfolio is recorded at amortised cost.

As at 30 June 2023, the amount of loans and advances to customers (net of impairment) includes the amount of Euro 1,067.1 million (31 December 2022: Euro 1,127.6 million), related to securitisation operations in which, according to the accounting policy referred to in Note 6, structured entities are consolidated by the Group (see Note 1 and 41). The liabilities associated with these securitisation operations were recognised as Debt Securities (see Note 33).

As at 30 June 2023, the caption Loans and advances to customers includes Euro 7,448.9 million of mortgage loans related to the issuance of mortgage bonds (31 December 2022: Euro 6,078.4 million) (see Note 33).

As at 30 June 2023, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 68,198 thousand (31 December 2022: Euro 37,310 thousand).

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment changes of loans and advances to customers			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	**63 575**	**322 194**	**862 148**	**1 247 917**
Financial assets derecognised	(4)	-	(5 264)	(5 268)
Increases due to changes in credit risk	13 622	26 660	67 962	108 244
Decreases due to changes in credit risk	(48 639)	(19 046)	(21 259)	(88 944)
Utilisation during the period	-	(80)	(45 295)	(45 375)
Other changes	46 686	(27 970)	1 717	20 433
Balance as at 30 June 2022	**75 240**	**301 758**	**860 009**	**1 237 007**
Financial assets derecognised	-	-	(21 583)	(21 583)
Increases due to changes in credit risk	6 121	37 506	62 943	106 570
Decreases due to changes in credit risk	(45 527)	(22 017)	(23 791)	(91 335)
Utilisation during the period	-	42	(153 445)	(153 403)
Other changes	26 440	(16 682)	(20 622)	(10 864)
Balance as at 31 December 2022	**62 274**	**300 607**	**703 511**	**1 066 392**
Financial assets derecognised	(123)	(188)	(29 721)	(30 032)
Increases due to changes in credit risk	5 564	58 795	47 482	111 841
Decreases due to changes in credit risk	(33 771)	(22 053)	(8 107)	(63 931)
Utilisation during the period	-	(28)	(67 996)	(68 024)
Other changes	26 976	(21 319)	(6 615)	(958)
Balance as at 30 June 2023	**60 920**	**315 814**	**638 554**	**1 015 288**

As at 30 June 2023 and 31 December 2022, the detail of gross credit exposure and impairment assessed individually and collectively by segment was as follows:

(in thousands of Euros)

	30.06.2023					
Segment	Individual Assessment		Collective Assessment		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	**1 012 680**	**503 426**	**13 196 558**	**341 534**	**14 209 238**	**844 960**
Stage 1	-	-	10 311 937	44 536	10 311 937	44 536
Stage 2	1 604	347	2 836 398	271 171	2 838 002	271 518
Stage 3	1 011 076	503 079	48 223	25 827	1 059 299	528 906
Residential Mortgage loans	**273**	**137**	**9 987 500**	**63 341**	**9 987 773**	**63 478**
Stage 1	-	-	9 099 483	4 062	9 099 483	4 062
Stage 2	-	-	796 084	24 522	796 084	24 522
Stage 3	273	137	91 933	34 757	92 206	34 894
Other Loans to individuals	**54 497**	**48 647**	**1 413 195**	**58 204**	**1 467 693**	**106 850**
Stage 1	-	-	1 151 887	13 251	1 151 888	13 250
Stage 2	-	-	213 207	19 766	213 207	19 766
Stage 3	54 497	48 647	48 101	25 187	102 598	73 834
Total	**1 067 450**	**552 210**	**24 597 253**	**463 079**	**25 664 704**	**1 015 288**

(in thousands of Euros)

Segment	31.12.2022					
	Individual Assessment		Collective Assessment		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
Residential Mortgage loans	**3 626**	**395**	**9 825 757**	**54 440**	**9 829 383**	**54 835**
Stage 1	-	-	8 939 605	3 595	8 939 605	3 595
Stage 2	-	-	781 080	20 958	781 080	20 958
Stage 3	3 626	395	105 072	29 887	108 698	30 282
Other Loans to individuals	**80 441**	**74 467**	**1 314 706**	**60 580**	**1 395 147**	**135 047**
Stage 1	-	-	1 090 919	14 912	1 090 919	14 912
Stage 2	-	-	177 390	18 448	177 390	18 448
Stage 3	80 441	74 467	46 397	27 220	126 838	101 687
Total	**1 177 759**	**617 464**	**24 274 443**	**448 928**	**25 452 202**	**1 066 392**

Main events in the first half of 2023

Below are highlighted the non-recurring situations that had greater relevance in the evolution of the impairment calculation, during the first half of 2023:

1. Impairment booked for contingencies resulting from adverse market conditions - in particular due to the expected impact on portfolios more susceptible to increases in the reference interest rates;
2. Update of the severity rates - LGD risk parameter - resulting from the incorporation of more recent information on the reference interest rates;
3. Developments in the staging model, introducing new stage 2 triggers related to unrated exposures.

These situations stem from the current economic context characterised by (i) the continuation of the war in Ukraine; (ii) the persistence of high inflation, particularly in services and food; and (iii) the sharp rise in the reference interest rates by the main Central Banks, tightening financing conditions.

Regarding the impairment reinforcements mentioned in point 1, this amount has been recognised without specific allocation to individual contracts, reflecting this impact through stage transition simulations and/or deterioration of the portfolio risk level in portfolios more susceptible to the rising in the interest rates.

As for the remaining impacts indicated, these are normal developments in the impairment calculation, with point 2. referring to the update of information supporting a risk parameter - LGD - and point 3. reflecting the introduction of additional stage 2 triggers, associated with exposures without associated risk rating.

NOTE 25 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS

As at 30 June 2023 and 31 December 2022, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Hedging derivatives		
Assets	626 040	562 845
Liabilities	(172 476)	(119 578)
	453 564	**443 267**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets at amortised cost		
Securities at amortised cost (see Note 24) [(1)]	(192 029)	(218 545)
Loans to customers (see Note 24)	(143 720)	(165 144)
	(335 749)	**(383 689)**
Financial assets at fair value through other comprehensive income		
Securities at fair value through other comprehensive income (see Note 24) [(2)]	(10 356)	(11 988)
	(346 105)	**(395 677)**

*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 - financial assets and liabilities held for trading.

As at 30 June 2023, the ineffective part of the fair value hedging operations, which translated into a profit of Euro 15.9 million was recorded in the income statement (31 December 2022: cost of Euro 1.7 million). The Group periodically conducts tests the effectiveness of existing hedging relationships.

NOTE 26 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

(in thousands of Euros)

	Cost of participation		Economic interest (b)		Gross Book Value		Impairment		Net Book Value		Profit / (losses) attributable to the Group	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	30.06.2022
LOCARENT	2 967	2 967	50,00%	50,00%	23 475	23 231	-	-	23 475	23 231	790	807
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40,00%	40,00%	68 437	68 438	(7 406)	(7 406)	61 031	61 032	-	-
EDENRED	4 984	4 984	50,00%	50,00%	3 890	2 932	-	-	3 890	2 932	-	-
UNICRE **a)**	11 497	11 497	17,50%	17,50%	28 402	31 506	-	-	28 402	31 506	1 779	1 106
ESEGUR **b)**	-	-	-	-	-	-	-	-	-	-	-	402
Outras	2 119	2 119			1 007	1 043	-	-	1 007	1 043	1	138
	168 336	**168 336**			**125 211**	**127 150**	**(7 406)**	**(7 406)**	**117 805**	**119 744**	**2 570**	**2 453**

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

b) Disposed of in 2022

In the first half of 2023, dividend income in the amount of Euro 4,339 thousand was recorded in financial assets in investments in associates and subsidiaries, which include dividends received from Unicre in the amount of Euro 3,486 thousand and Euro 853 thousand from Locarent (30 June 2022: Euro 4,692 thousand, which includes dividends received from Unicre in the amount of Euro 3,070 thousand and from Edenred in the amount of Euro 1,009 thousand).

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

(in thousands of Euros)

	30.06.2023	31.12.2022	30.06.2022
Balance at the beginning of the period	**7 406**	**19 483**	**41 751**
Charges	(1)	1 636	(1 636)
Utilisations	-	(8 442)	(1 497)
Reversals	-	(2 409)	(19 137)
Foreign exchange differences and other	1	(2 862)	2
Balance at the end of the period	**7 406**	**7 406**	**19 483**

NOTE 27 – PROPERTY, PLANT AND EQUIPMENT

This caption as at 30 June 2023 and 31 December 2022 is analysed as follows:

(in thousand of Euros)

	30.06.2023	31.12.2022
Real estate properties		
For own use	187 864	175 117
Improvement in leasehold properties	88 745	86 114
	276 609	**261 231**
Equipment		
Computer equipment	118 932	118 739
Fixtures	28 296	34 571
Furniture	52 585	56 890
Security equipment	14 602	17 471
Machinery and tools	10 000	8 215
Transport equipment	583	583
Other	64	86
	225 062	**236 555**
Assets under right of use		
Real estate properties	59 059	58 898
Equipment	11 547	11 758
	70 606	**70 656**
Work in progress		
Improvements in leasehold properties	5 733	32 004
Real estate properties	33 079	29 827
Equipment	22	22
Other	277	277
	39 111	**62 130**
	611 388	**630 572**
Accumulated impairment	(10 886)	(11 445)
Accumulated depreciation	(285 966)	(319 863)
	314 536	**299 264**

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 2021	**366 788**	**249 762**	**65 812**	**11 185**	**693 547**
Acquisitions	10 138	9 243	3 690	21 051	44 122
Disposals/write-offs	(16 042)	(14 458)	(2 450)	-	(32 950)
Transfers **(a)**	(802)	(209)	-	(265)	(1 276)
Foreign exchange differences and other	(7)	15	-	1	9
Balance at 30 June 2022	**360 075**	**244 353**	**67 052**	**31 972**	**703 452**
Acquisitions	32 276	14 895	16 009	30 231	93 411
Disposals/write-offs **(b)**	(130 075)	(22 592)	(12 405)	(15)	(165 087)
Transfers **(c)**	(1 046)	(101)	-	(57)	(1 204)
Foreign exchange differences and other	1	-	-	(1)	-
Balance at 31 December 2022	**261 231**	**236 555**	**70 656**	**62 130**	**630 572**
Acquisitions	2 229	5 082	2 300	21 726	31 337
Disposals/write-offs	(29 871)	(16 574)	(2 349)	-	(48 794)
Transfers **(d) (e)**	43 021	(1)	-	(44 745)	(1 725)
Foreign exchange differences and other	(1)		(1)		(2)
Balance at 30 June 2023	**276 609**	**225 062**	**70 606**	**39 111**	**611 388**
Depreciation					
Balance at 31 December 2021	**204 109**	**208 395**	**28 877**	**-**	**441 381**
Depreciation	2 891	6 446	4 940	-	14 277
Disposals/write-offs	(16 042)	(14 441)	(2 383)	-	(32 866)
Transfers **(a)**	(381)	(208)	-	-	(589)
Foreign exchange differences and other	38	59	(40)	-	57
Balance at 30 June 2022	**190 615**	**200 251**	**31 394**	**-**	**422 260**
Depreciation	2 457	6 599	5 699	-	14 755
Disposals/write-offs **(b)**	(91 893)	(22 148)	(4 755)	-	(118 796)
Transfers **(c)**	(390)	(101)	-	-	(491)
Foreign exchange differences and other	2 071	24	40	-	2 135
Balance at 31 December 2022	**102 860**	**184 625**	**32 378**	**-**	**319 863**
Depreciation	2 827	6 332	5 741	-	14 900
Disposals/write-offs	(29 871)	(16 570)	(2 341)	-	(48 782)
Transfers **(e)**	(879)	(1)	-	-	(880)
Foreign exchange differences and other	788	77	-	-	865
Balance at 30 June 2023	**75 725**	**174 463**	**35 778**	**-**	**285 966**
Impairment					
Balance at 31 December 2021	**13 221**	**-**	**-**	**-**	**13 221**
Reversal of impairment losses	(486)	-	-	-	**(486)**
Balance at 30 June 2022	**12 735**	**-**	**-**	**-**	**12 735**
Impairment losses	46	-	-	-	46
Reversal of impairment losses	(1 336)	-	-	-	**(1 336)**
Balance at 31 December 2022	**11 445**	**-**	**-**	**-**	**11 445**
Reversal of impairment losses	(560)	-	-	-	(560)
Foreign exchange differences and other	1	-	-	-	1
Balance at 30 June 2023	**10 886**	**-**	**-**	**-**	**10 886**
Net book value at 30 June 2023	**189 998**	**50 599**	**34 828**	**39 111**	**314 536**
Net book value at 31 December 2022	**146 926**	**51 930**	**38 278**	**62 130**	**299 264**
Net book value at 30 June 2022	**156 725**	**44 102**	**35 658**	**31 972**	**268 457**

(a) Includes Euros 1,276 thousand of fixed assets (real estate and equipment) and Euros 589 thousand of accumulated depreciation sums for discontinued counters that have been transferred at net value to the appropriate balance sheet items.

(b) Includes Euros 106,395 thousand of fixed assets (real estate and equipment) and Euros 68,164 thousand of accumulated depreciation stemming from the Head Office Building that was sold in 2022.

(c) Includes Euros 2,479 thousand of fixed assets (real estate and equipment) and Euros 1,079 thousand of accumulated depreciation sums for discontinued counters that have been transferred at net value to the appropriate balance sheet items.

(d) Includes Euros 44,745 thousand of real estate within the scope of the New Distribution Model.

(e) Includes Euros 1,725 thousand of real estate and Euros 880 thousand of accumulated depreciation for discontinued counters that have been transferred at net value to the appropriate balance sheet items.

NOTE 28 – INVESTMENT PROPERTIES

The changes in Investment properties is presented as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Balance at the beginning of the period	**499 567**	**625 187**
Acquisitions	-	16 464
Disposals	(25 429)	(242 068)
Improvements	1 136	10 139
Changes in fair value	4 089	91 133
Other	(165)	(1 288)
Balance at the end of the period	**479 198**	**499 567**

According to the accounting policy described in Note 7.19 of the explanatory notes at 31 December 2022, 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.

In the first half of 2023 the increase in the fair value of investment properties in the amount of Euro 4.1 million (first half of 2022: increase of Euro 89.1 million) (see Note 15), and the rental income recorded from investment properties of Euro 7.6 million (first half of 2022: Euro 16.1 million), are recorded in Other operating income and expenses.

The fair value variation that occurred in the first half of 2022 includes the impact of the promissory purchase and sale agreement signed in May for the sale of a portfolio of real estate assets, mainly related to logistics, resulting from a competitive sales process that amounted to Euro 77.1 million (Euro 58.5 million net of non-controlling interests).

NOTE 29 – INTANGIBLE ASSETS

This caption as at 30 June 2023 and 31 December 2022, is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
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	386 428	374 108
	455 940	**443 620**
Work in progress	**27 107**	**31 986**
	483 047	**475 606**
Accumulated amortization	(410 713)	(405 774)
	72 334	**69 832**

The changes in this caption were as follows:

(in thousands of Euros)

	Goodwill	Software - Automatic data processing system	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2021	**13 907**	**456 870**	**13 455**	**484 232**
Acquisitions				
Acquired from third parties	-	73	6 751	6 824
Disposals / write-offs	-	(4)	-	(4)
Transfers	-	216	(216)	-
Foreign exchange differences and other	-	3	-	3
Balance as at 30 June 2022	**13 907**	**457 158**	**19 990**	**491 055**
Acquisitions				
Acquired from third parties	-	6 487	11 995	18 482
Disposals / write-offs	-	(20 026)	-	(20 026)
Foreign exchange differences and other	-	1	1	2
Balance as at 31 December 2022	**13 907**	**443 620**	**31 986**	**489 513**
Acquisitions				
Acquired from third parties	-	76	7 366	7 442
Transfers	-	12 245	(12 245)	-
Foreign exchange differences and other	-	(1)		(1)
Balance as at 30 June 2023	**13 907**	**455 940**	**27 107**	**496 954**
Amortisations				
Balance as at 31 December 2021	**-**	**402 339**	**-**	**402 339**
Amortisation for the period	-	5 268	-	5 268
Foreign exchange differences and other	-	2	-	2
Balance as at 30 June 2022	**-**	**407 609**	**-**	**407 609**
Amortisation for the period	-	18 193	-	18 193
Disposals / write-offs	-	(20 026)	-	(20 026)
Foreign exchange differences and other	-	(2)	-	(2)
Balance as at 31 December 2022	**-**	**405 774**	**-**	**405 774**
Amortisation for the period		4 939		4 939
Balance as at 30 June 2023	**-**	**410 713**	**-**	**410 713**
Impairment				
Balance as at 31 December 2021	**13 907**	**-**	**-**	**13 907**
Balance as at 30 June 2022	**13 907**	**-**	**-**	**13 907**
Balance as at 31 December 2022	**13 907**	**-**	**-**	**13 907**
Balance as at 30 June 2023	**13 907**	**-**	**-**	**13 907**
Net balance at 30 June 2023	**-**	**45 227**	**27 107**	**72 334**
Net balance at 31 December 2022	**-**	**37 846**	**31 986**	**69 832**
Net balance at 30 June 2022	**-**	**49 549**	**19 990**	**69 539**

Goodwill is recognised in accordance with the accounting policy described in Note 6, and can be analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Subsidiaries		
Righthour	13 526	13 526
GNB Concessões	381	381
	13 907	**13 907**
Impairment losses		
Righthour	(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 at 30 June 2023 and 31 December 2022 can be analysed as follows:

(in thousands of Euros)

	30.06.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Current tax	**36 813**	**8 975**	**32 570**	**7 582**
Corporate Tax recoverable / (payable)	11 761	8 566	1 793	7 248
Other	25 052	409	30 777	334
Deferred tax	**960 353**	**845**	**923 430**	**845**
	997 166	**9 820**	**956 000**	**8 427**

The deferred tax assets and liabilities recognised in the balance sheet as at 30 June 2023 and 31 December 2022 are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022
Financial instruments	124 315	94 830	(14 749)	(14 637)	109 566	80 193
Impairment losses on loans (not covered)	308 370	331 523	-	-	308 370	331 523
Impairment losses on loans (covered)	295 298	295 310	-	-	295 298	295 310
Other tangible assets	-	-	(76)	(76)	(76)	(76)
Provisions	96 477	100 914	-	-	96 477	100 914
Pensions	48 813	51 049	-	-	48 813	51 049
Long-term service bonuses	69	20	-	-	69	20
Other	830	991	(845)	(845)	(15)	146
Tax losses carried forward	101 006	63 506	-	-	101 006	63 506
Deferred tax asset / (liability)	**975 178**	**938 143**	**(15 670)**	**(15 558)**	**959 508**	**922 585**
Asset / liability set-off for deferred tax purposes	(14 825)	(14 713)	14 825	14 713	-	-
Net Deferred tax asset / (liability)	**960 353**	**923 430**	**(845)**	**(845)**	**959 508**	**922 585**

As at 30 June 2023 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4 September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1 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 1 January 2019, to continue to apply the tax regime in force before the publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Therefore, on 30 June 2023, 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, except where any deduction or use of tax credit has been made, where the limitation period is that of the exercise of that right. Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, the Bank Management believes that there will be no additional charges of significant value.

As at 30 June 2023 and 31 December 2022, the Group recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As at 30 June 2023, the amounts held by the novobanco Group referring to these realities amount to approximately Euro 41 million (31 December 2022: Euro 57 million).

Deferred tax assets recoverability analysis

Deferred tax assets are recognised to the extent they are expected to be recovered with future taxable income. As at 31 December 2022, 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. As at 31 December 2022, this exercise was made based on the average of the draft medium-term plan (“MTP”) for the period of 2023-2025 and a stress scenario exercise.

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 the reference interest rate, 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 the reference interest rate 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 recognsed for tax losses, per year of expiry, is as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
No expiry period	**953 858**	**933 178**
With expiry period	**478 489**	**478 489**
2025	91 728	91 728
2026	135 452	135 452
2029	170 236	170 236
2033	81 073	81 073
	1 432 347	**1 411 667**

Additionally, regarding the adjustments resulting from the application of the fair value model to the participation units of real estate investment funds and venture capital funds, which do not contribute to the formation of taxable profit for the tax period in which they are recognised in accounting, having only tax relevance at the time of their realisation, namely in the onerous transfer of the participation units or liquidation of the funds. The overall amount of deferred tax assets relating to these temporary differences, not recognised in the balance sheet, as at 30 June 2023 amounts to Euro 239 million (31 December 2022: Euro 229 million).

Special Regime applicable to Deferred Tax Assets

During 2014, novobanco adhered to the Special Regime applicable to deferred tax assets, after a 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 19 August, limited the temporal application of the above-mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 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
Tax Credit	124 721

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 31 – OTHER ASSETS

As at 30 June 2023 and 31 December 2022, the caption Other assets is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Demand deposits	197 207	251 225
Derivative products	*92 648*	*133 864*
Collateral CLEARNET and VISA	*38 942*	*41 423*
Collateral deposits relating to reinsurance operations	*61 067*	*71 387*
Other collateral deposits [b]	*4 551*	*4 552*
Debtors for mortgage credit interest subsidies	21 153	18 714
Public sector	230 446	498 349
Contingent Capital Agreement	198 180	198 180
Other debtors	325 661	328 366
Income receivable	44 058	127 771
Deferred costs	14 787	13 984
Retirement pensions and health benefits (see Note 17)	112 599	59 616
Precious metals, numismatics, medal collection and other liquid assets	10 514	10 440
Real estate properties [a]	210 782	237 243
Equipment [a]	3 054	3 013
Stock exchange transactions pending settlement	12 044	4 449
Other assets	89 899	122 167
	1 470 384	**1 873 517**
Impairment losses		
Real estate properties [a]	(107 010)	(123 008)
Equipment [a]	(2 206)	(2 195)
Other debtors - Shareholder loans, supplementary capital contributions	(77 929)	(76 968)
Other	(47 575)	(52 862)
	(234 720)	**(255 033)**
	1 235 664	**1 618 484**

a) Real estate properties and equipment received in settlement of loans and discontinued

b) Includes the amount of 4.5M€ in the escrow account 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 the first half of 2023 in the caption Public Administrative Sector includes about Euro 263.2 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 at 30 June 2023, the caption Other debtors includes, amongst others:

- 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 2022: Euro 61.9 million, fully provisioned);
- Euro 1.8 million of receivables related to the sale operation of non-performing loans (NATA II Project) (31 December 2022: Euro 1.8 million);
- Euro 0.6 million of receivables related to the real estate property sale carried out in 2019 (called "Sertorius Project") (31 December 2022: Euro 0.7 million);
- Euro 0.4 million of receivables related to the sale operation of non-performing loans in 2020 (the "Carter Project") (31 December 2022: Euro 0.4 million) (see Note 24); and

- Euro 20.9 million of receivables related to the sale of the restructuring funds (31 December 2022: Euro 20.9 million).

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 of the explanatory notes at 31 December 2022, 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 the first half of 2023, an impairment charge of Euro 6.9 million was recorded for the properties in the portfolio (first half of 2022: Euro 3.5 million).

As described in accounting policy 7.27 of the explanatory notes at 31 December 2022, 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)

	30.06.2023	31.12.2022	30.06.2022
Balance at the beginning of the period	**255 033**	**533 825**	**575 441**
Dotation for the period	3 781	11 667	6 791
Utilisation during the period	(9 859)	(158 018)	(7 446)
Write-back for the period	(12 097)	(20 089)	(4 304)
Foreign exchange differences and other (a)	(2 138)	(112 352)	(36 657)
Balance at the end of the period	**234 720**	**255 033**	**533 825**

(a) In 2022 includes Euros 122.291 thousand of other Fungere assets at the time of the merger of Fungepi.

As at 30 June 2023, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 1,524 thousand (31 December 2022: Euro 9,970 thousand), having the Group recorded impairment losses for these assets in the total amount of Euro 404 thousand (31 December 2022: Euro 2,954 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 Bank intends to sell and are actively in the process of selling with the net value of assets and liabilities measured at the lower of book value or fair value net of costs to sell.

The breakdown of Non-current assets and liabilities held for sale and discontinued operations as at 30 June 2023 and 31 December 2022, net of consolidation adjustments, is as follows:

(in thousand of Euros)

	30.06.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Assets / Liabilities from discontinued operations				
International Investment Bank, S.A. (former BICV)	1 300	-	1 300	-
Banco Well Link (former NB Ásia)	-	-	2 175	-
Económico FI	3 060	-	3 060	-
Greendraive	788	1 294	1 596	2 028
Compagris	1 004	5	4	5
Barrosinha	30 784	5 744	30 784	5 744
Solago	17 387	6 882	17 387	6 882
Ijar Leasing	9 051	-	9 051	-
Imbassaí	3 114	890	2 747	833
	66 488	**14 815**	**68 104**	**15 492**
Impairment losses				
Económico FI	(2 530)	-	(2 196)	-
Greendraive	(788)	-	(1 596)	-
Ijar Leasing	(4 725)	-	(4 725)	-
	(8 043)	**-**	**(8 517)**	**-**
	58 445	**14 815**	**59 587**	**15 492**

In March 2023, the position held in Well Link Bank was disposed of as the put options on the Group's remaining position in this financial institution were exercised.

As at 30 June 2023 and 31 December 2022, the results from discontinued operations are as follows:

(in thousand of Euros)

	30.06.2023	30.06.2022
Profit / (loss) generated by discontinued operations		
Greendraive	(97)	(270)
	(97)	**(270)**

The impairment change for non-current Assets and Liabilities for disposal classified as held for sale is as follows:

(in thousand of Euros)

	30.06.2023	31.12.2022	30.06.2022
Balance at the beginning of the period	**8 517**	**8 006**	**8 475**
Charges / (Write-backs)	(474)	(273)	(391)
Utilisations	-	(3 837)	-
Foreign exchange differences and other	-	4 621	(78)
Balance at the end of the period	**8 043**	**8 517**	**8 006**

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 at 30 June 2023 and 31 December 2022 is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Deposits from banks	6 252 401	9 705 154
Due to customers	29 758 028	29 277 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 887 696	1 628 897
Other financial liabilities	431 497	375 268
	38 329 622	**40 987 177**

Deposits from Banks

The balance of Deposits from banks is composed, as to its nature, as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	134 734	198
Other funds	1 600 000	6 327 000
	1 734 734	**6 327 198**
Deposits from credit institutions		
Domestic		
Deposits	179 001	209 663
Other funds	11 937	39 216
	190 938	**248 879**
Foreign		
Deposits	445 158	459 328
Loans	413 159	479 880
Operations with repurchase agreements	3 423 696	2 150 824
Other resources	44 716	39 045
	4 326 729	**3 129 077**
	4 517 667	**3 377 956**
	6 252 401	**9 705 154**

As at 30 June 2023, the balance of the European Resources System of Central Banks caption includes Euro 1,600 million (31 December 2022: Euro 6,327 million) collateralised 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 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.

Repurchase agreements operations corresponds to the sale of securities with a repurchase agreement (repos), recorded in accordance with the accounting policy mentioned in Note 7.22 of the explanatory notes at 31 December 2022.

Due to customers

The balance of Deposits due to customers is composed, as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Repayable on demand		
Demand deposits	12 424 506	13 169 335
Companies and other entities	6 640 054	7 807 804
Individuals	5 784 452	5 361 531
Time deposits		
Time deposits	10 501 442	9 429 379
Companies and other entities	3 642 490	3 002 123
Individuals	6 858 952	6 427 256
Other	212	198
	10 501 654	**9 429 577**
Savings accounts		
Retirement saving accounts	158 668	215 968
Other	5 134 022	5 597 165
Companies and other entities	2 078 934	2 296 118
Individuals	3 055 088	3 301 047
	5 292 690	**5 813 133**
Other funds		
Transactions with repurchase agreement	1 069 887	450 906
Other	469 291	414 907
	1 539 178	**865 813**
	29 758 028	**29 277 858**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	30.06.2023	31.12.2022
Debt securities issued		
Euro Medium Term Notes (EMTN)	568 310	563 517
Bonds	608 265	605 357
	1 176 575	**1 168 874**
Subordinated debts		
Euro Medium Term Notes (EMTN)	501 772	-
Bonds	209 349	415 572
	711 121	**415 572**
Financial liabilities associated with transferred assets		
Asset lending operations	-	44 451
	1 887 696	**1 628 897**

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, as at 30 June 2023, amount to Euro 5,500 million (31 December 2022: Euro 5,500 million), being these covered bonds totally repurchased by the Group.

The main characteristics of the outstanding issues as at 30 June 2023 and 31 December 2022 are as follows:

(in thousands of Euros)

30.06.2023									
Designation	Nominal Value	Carrying book value	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aa2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aa2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aa2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2028	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aa2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0,25%	XDUB	Aa2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2029	Quarterly	Euribor 3 Months + 0,25%	XMSM	Aa2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0,25%	XMSM	Aa2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2022									
Designation	Nominal Value	Carrying book value	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	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	**-**							

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 of 2006 and Instruction nº 13/2006 of Bank of Portugal. As at 30 June 2023, the assets that collateralise these covered debt securities amount to Euro 7,448.9 million (31 December 2022: Euro 6,078.4 million) (see Note 24).

The changes in the first half of 2023 and in the financial exercise of 2022 in debt securities issued, subordinated debt and financial liabilities associated to transferred assets were as follows:

(in thousands of Euros)

	Balance as at 31.12.2022	Issues	Redemptions	Net purchases	Other movements [a]	Balance as at 30.06.2023
Debt securities issued						
Euro Medium Term Notes (EMTN)	563 517	-	-	(258)	5 051	568 310
Bonds	605 357	-	-	(2 966)	5 874	608 265
	1 168 874	-	-	(3 224)	10 925	1 176 575
Subordinated debt						
Euro Medium Term Notes (EMTN)	-	500 000	-	-	1 772	501 772
Bonds	415 572	-	(206 000)	-	(223)	209 349
	415 572	500 000	(206 000)	-	1 549	711 121
Financial liabilities associated to transferred assets						
Asset lending operations	44 451	-	-	-	(44 451)	-
	1 628 897	**500 000**	**(206 000)**	**(3 224)**	**(31 977)**	**1 887 696**

[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 31.12.2021	Issues	Redemptions	Net purchases	Other movements [a]	Balance as at 31.12.2022
Debt securities issued						
Euro Medium Term Notes (EMTN)	447 453	100 000	-	(500)	16 564	563 517
Bonds	606 855	6 000	-	(13 798)	6 300	605 357
	1 054 308	106 000	-	(14 298)	22 864	1 168 874
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.

The main characteristics of these liabilities, as at 30 June 2023 and 31 December 2022, are as follows:

(in thousands of Euros)

Entity	ISIN	Description	Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
			30.06.2023						
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0,14	21 039	2025 a)	Euribor 3m + 0,40%	XDUB
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1,00	1 503	2035 a)	Euribor 3m + 0,60%	XDUB
novobanco	PTNOBIOM0014	NB 3,5% 23/07/23	EUR	2021	100,00	309 565	2023	Fixed rate 3,5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23	EUR	2021	100,00	276 158	2023	Euribor 3m + 4,25%	XDUB
Euro Medium Term Notes									
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24	EUR	2022	100,00	102 717	2024	Fixed rate 5,5%	XDUB
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	42 529	2043	Fixed rate 3,5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	97 278	2043	Fixed rate 3,5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	63 507	2043	Fixed rate 3,5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	46 718	2043	Fixed rate 3,5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	36 793	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	45 134	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	12 550	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	17 233	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	12 123	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	41 590	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	40 135	2052	Zero Coupon	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	7 981	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1,00	2 022	2044	Zero Coupon	XLUX
Subordinated debt									
novobanco	PTNOBFOM0017	NB 06/07/2023	EUR	2018	100,00	209 349	2023 a)	8,50%	XDUB
novobanco	PTNOBLOM0001	NB 9.875% 01/12/33	EUR	2023	100,00	501 772	2023 a)	9,875%	XDUB
						1 887 696			

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
			31.12.2022						
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	EUR	2021	100,00	303 992	2024	Fixed rate 3,5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23	EUR	2021	100,00	275 874	2023	Euribor 3m + 4,25%	XDUB
Euro Medium Term Notes									
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24	EUR	2022	100,00	99 989	2024	Fixed rate 3,5%	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
NB Finance	XS0439764191	EMTN 57	EUR	2009	1,00	1 952	2044	Zero Coupon	XLUX
Subordinated debt									
novobanco	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 terms of medium-term funding, in June 2023, the Group issued a new Euro 500 million Tier 2 bond, maturing on 1 December 2033 with a 6-month call option from 1 June 2028, aiming to replace the existing Tier 2 bond with a spread lower by 150bps. Through the tender offer, the Group was able to repurchase Euro 206 million of the existing Tier 2. The remaining amount was repaid on the call date, which did not occur until 6 July 2023.

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. Since 1 January 2018, in accordance with IFRS 9, this liability component is reflected in Other comprehensive income. With the reimbursement 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 recognised 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 first half of 2023 and in the financial exercise of 2022.

NOTE 34 – PROVISIONS

As at 30 June 2023 and 31 December 2022, 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 2021	**46 686**	**92 336**	**994**	**302 818**	**442 834**
Charge / (Write-back)	-	(4 685)	-	(17 241)	(21 926)
Utilisation	(4 999)	-	(355)	(18 613)	(23 967)
Foreign exchange differences and other	-	272	-	-	272
Balance as at 30 June 2022	**41 687**	**87 923**	**639**	**266 964**	**397 213**
Charge / (Write-back)	1 332	2 000	(123)	57 962	61 171
Utilisation	(23 871)	-	(516)	(18 134)	(42 521)
Foreign exchange differences and other	-	(26)	-	(2 405)	(2 431)
Balance as at 31 December 2022	**19 148**	**89 897**	**-**	**304 387**	**413 432**
Charge / (Write-back)	-	712	-	8 223	8 935
Utilisation	(6 885)	-	-	(5 021)	(11 906)
Foreign exchange differences and other	3	(5 210)	-	5 816	609
Balance as at 30 June 2023	**12 266**	**85 399**	**-**	**313 405**	**411 070**

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 2021	**1 463**	**6 919**	**71 217**	**79 599**
Increases due to changes in credit risk	244	779	5 613	6 636
Decreases due to changes in credit risk	(347)	(1 120)	(6 974)	(8 441)
Other changes	53	(232)	454	275
Balance as at 30 June 2022	**1 413**	**6 346**	**70 310**	**78 069**
Increases due to changes in credit risk	100	1 185	15 908	17 193
Decreases due to changes in credit risk	(681)	(1 281)	(10 716)	(12 678)
Other changes	(48)	266	(255)	(37)
Balance as at 31 December 2022	**959**	**5 240**	**76 348**	**82 547**
Increases due to changes in credit risk	365	1 700	3 877	5 942
Decreases due to changes in credit risk	(1 208)	(1 427)	(3 296)	(5 931)
Other changes	703	(316)	(5 595)	(5 208)
Balance as at 30 June 2023	**819**	**5 197**	**71 334**	**77 350**

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 2021	**6 556**	**4 229**	**1 952**	**12 737**
Increases due to changes in credit risk	1 370	105	19	1 494
Decreases due to changes in credit risk	(1 683)	(774)	(1 917)	(4 374)
Other changes	461	(467)	3	(3)
Balance as at 30 June 2022	**6 704**	**3 093**	**57**	**9 854**
Increases due to changes in credit risk	333	456	768	1 557
Decreases due to changes in credit risk	(2 268)	(979)	(825)	(4 072)
Other changes	(455)	469	(3)	11
Balance as at 31 December 2022	**5 242**	**2 108**	**-**	**7 350**
Increases due to changes in credit risk	1 277	1 143	-	2 420
Decreases due to changes in credit risk	(1 154)	(565)	-	(1 719)
Other changes	204	(206)	-	(2)
Balance as at 30 June 2023	**5 569**	**2 480**	**-**	**8 049**

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 at 30 June 2023, the amount of restructuring provisions in the balance sheet is Euro 12.3 million.

Other provisions amounting to Euro 313.4 million (31 December 2022: Euro 304.4 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 19.7 million (31 December 2022: Euro 24.2 million);
- Contingencies associated with legal proceedings amounting to Euro 3.0 million (31 December 2022: Euro 4.0 million);
- Contingencies associated with sales processes in the amount of Euro 7.1 million (31 December 2022: Euro 7.1 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million (31 December 2022: Euro 19.2 million), transferred from the liability captions net of the value of the assets of the Pension Fund (see Note 17);
- The remaining amount, of Euro 264.4 million (31 December 2022: Euro 249.9 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 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. Given the information available on the shareholder and control structure of novobanco, as well as the knowledge of the position of the Tax Authority obtained in the response to the Binding Information Request, the calculation of the application of aggravated IMI rates to all properties directly and indirectly owned by the novobanco Group amounts to approximately Euro 173.1 million as at 30 June 2023 (31 December 2022: Euro 173.1 million), and a provision has been set up in that amount included in Other provisions.

NOTE 35 – OTHER LIABILITIES

As at 30 June 2023 and 31 December 2022, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Public sector	69 215	35 034
Creditors for supply of goods	54 379	71 102
Margin accounts derivative instruments	485 139	478 750
Other creditors	116 467	115 147
Non-controlling interests of open investment funds (see Note 37)	14 171	14 417
Career bonuses (see Note 17)	5 850	5 621
Retirement pensions and health-care benefits (see Note 17)	-	-
Other accrued expenses	83 799	83 275
Deferred income	1 942	1 950
Foreign exchange transactions pending settlement	139	-
Other operations to be settled	53 623	34 623
	884 724	**839 919**

NOTE 36 – SHARE CAPITAL

Ordinary shares

As at 30 June 2023, the Bank's share capital of Euro 6,567,843,862.91 is represented by 11,130,841,957 registered shares with no par value and is fully subscribed and paid up by the following shareholders (31 December 2022: share capital of Euro 6,304,660,637.69 represented by 10,391,043,938 registered shares):

	% Share Capital	
	30.06.2023	31.12.2022
Nani Holdings, SGPS, SA	75.00%	75.00%
Resolution Fund (1)	13.04%	19.31%
Directorate General for the Treasury and Finance	11.96%	5.69%
	100.00%	**100.00%**

(1) Under the commitments made between the Portuguese State and the European Commission, the Resolution Fund is inhibited from exercising its voting rights.

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).

In April 2023, a capital increase amounting to Euro 263,183 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) relating to the 2018 and 2019 financial years, which gave an additional 6.27% stake to the State in novobanco, and which resulted in the issuance of 739,798,019 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.

NOTE 37 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES AND NON-CONTROLLING INTERESTS

As at 30 June 2023 and 31 December 2022, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	30.06.2023	31.12.2022
Other accumulated comprehensive income	**(1 140 311)**	**(1 234 573)**
Retained earnings	**(8 577 074)**	**(8 577 074)**
Other reserves	**6 735 819**	**6 439 418**
Originating reserve	1 885 693	1 885 693
Special reserve	137 193	400 377
Legal reserve	81 977	36 594
Other reserves and retained earnings	4 630 956	4 116 754
	(2 981 566)	**(3 372 229)**

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**	**Other changes of other comprehensive income**	**Actuarial deviations (net of taxes)**	**Total**
Balance as at 31 December 2021	**3 707**	**9 214**	**(43 296)**	**(201 263)**	**-**	**(14 799)**	**(799 052)**	**(1 045 489)**
Actuarial deviations	-	-	-	-	-	-	52 631	52 631
Fair value changes, net of taxes	-	-	-	(187 736)	-	-	-	(187 736)
Foreign exchange differences	-	-	-	-	-	539	-	539
Impairment reserves of securities at fair value through other comprehensive income	(2 210)	-	-	-	-	-	-	(2 210)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(1 077)	-	-	-	-	(1 077)
Other comprehensive income of associated companies	-	-	-	233	-	-	-	233
Other movements	-	-	-	2	-	-	-	2
Balance as at 30 June 2022	**1 497**	**9 214**	**(44 373)**	**(388 764)**	**-**	**(14 260)**	**(746 421)**	**(1 183 107)**
Actuarial deviations	-	-	-	-	-	-	49 095	(75 584)
Fair value changes, net of taxes	-	-	-	2 120	-	-	-	(125 801)
Foreign exchange differences	-	-	-	-	-	(1 431)	-	95
Impairment reserves of securities at fair value through other comprehensive income	(842)	-	-	-	-	-	-	12
Reserves of sales of securities at fair value through other comprehensive income	-	-	(88)	-	-	-	-	(20 539)
Other comprehensive income of associated companies	-	-	-	99	-	-	-	(252)
Cash flow hedging	-	-	-	-	(100 418)	-	-	-
Other movements	-	-	-	(2)	-	1	-	-
Balance as at 31 December 2022	**655**	**9 214**	**(44 461)**	**(386 547)**	**(100 418)**	**(15 690)**	**(697 326)**	**(1 234 573)**
Actuarial deviations	-	-	-	-	-	-	57 159	57 159
Fair value changes, net of taxes	-	-	-	338 440	-	-	-	338 440
Foreign exchange differences	-	-	-	-	-	310	-	310
Impairment reserves of securities at fair value through other comprehensive income	(379)	-	-	-	-	-	-	(379)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(286 758)	-	-	-	-	(286 758)
Other comprehensive income of associated companies	-	-	-	(633)	-	-	-	(633)
Cash flow hedging	-	-	-	-	(13 877)	-	-	(13 877)
Balance as at 30 June 2023	**276**	**9 214**	**(331 219)**	**(48 740)**	**(114 295)**	**(15 380)**	**(640 167)**	**(1 140 311)**

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)

	30.06.2023			31.12.2022		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the period	**(424 998)**	**38 451**	**(386 547)**	**(157 910)**	**(43 353)**	**(201 263)**
Changes in fair value	(2 758)	-	(2 758)	(331 887)	-	(331 887)
Foreign exchange differences	(5 210)	-	(5 210)	2 006	-	2 006
Disposals in the period	316 325	-	316 325	43 394	-	43 394
Impairment in the period	-	-	-	19 399	-	19 399
Deferred taxes recognised in the period in reserves	-	29 450	29 450	-	81 804	81 804
Balance at the end of the period	**(116 641)**	**67 901**	**(48 740)**	**(424 998)**	**38 451**	**(386 547)**

The fair value reserves are analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Amortised cost of financial assets at fair value through other comprehensive income	2 488 358	2 769 674
Market value of financial assets at fair value through other comprehensive income	2 360 688	2 331 099
Unrealised gains / (losses)	(127 670)	(438 575)
Fair value reserve transferred to Results [1]	(10 356)	(11 988)
Unrealised gains / (losses) recognised in the fair value reserve	(117 314)	(426 587)
Fair value reserves by the equity method	364	997
Non-controlling Interests	309	592
Total fair value reserve	(116 641)	(424 998)
Deferred Taxes	67 901	38 451
Fair value reserve attributable to shareholders of the Bank	**(48 740)**	**(386 547)**

[1] In the context of fair value hedge operations (see Note 25)

The changes in cash flow hedging reserves are presented as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Balance at the beginning of the period	(100 418)	-
Change in the fair value of the covered item recognised in other comprehensive income	(13 636)	(101 299)
Reclassification of other comprehensive income for results	(241)	881
Balance at the end of the period	**(114 295)**	**(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)

	30.06.2023	31.12.2022
2016 (net loss of 2015)	-	-
2017 (net loss of 2016)	-	-
2018 (net loss of 2017)	-	-
2019 (net loss of 2018)	-	146 367
2020 (net loss of 2019)	-	116 817
2021 (net loss of 2020)	137 193	137 193
	137 193	**400 377**

Legal reserve

The legal reserve can only be used to cover accumulated losses or to increase capital. The Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, of 31 December) requires that the legal reserve be credited annually with at least 10% of the annual net profit, up to a limit equal to the value of the share capital or the sum of the free reserves constituted and retained earnings, if higher. In addition, an amount of Euro 14,004 thousand was incorporated into the legal reserve related to the conversion of tax credits into capital as mentioned in the previous point.

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 38 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 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 31 December 2020, 2019, 2018 and 2017, the conditions 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, were met.

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 at 31 December 2022 and 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 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 2022 and 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 their receipt.

Non-controlling interests

The caption non-controlling interests, by subsidiary, is detailed as follows:

(in thousands of Euros)

	30.06.2023			31.12.2022		
	Balance sheet	**Income statement**	**% Non-controlling interests**	**Balance sheet**	**Income statement**	**% Non-controlling interests**
NB Património [a)]	-	(122)	3,66%	-	20 104	3,75%
novobanco Açores	24 761	2 581	42,47%	21 975	1 941	42,47%
Amoreiras	-	(2)	4,76%	-	332	4,76%
Other	(3 646)	(16)		(3 631)	2 725	
	21 115	**2 441**		**18 344**	**25 102**	

[a)] Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 35)

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 30 June 2023 and 31 December 2022 were the following:

(in thousands of Euros)

	30.06.2023	**31.12.2022**
Contingent liabilities		
Guarantees and standby letters	2 287 344	2 269 796
Financial assets pledged as collateral	9 916 035	11 949 619
Open documentary credits	154 603	169 410
Other	100 315	80 373
	12 458 297	**14 469 198**
Commitments		
Revocable commitments	5 348 715	5 405 228
Irrevocable commitments	449 753	559 995
	5 798 468	**5 965 223**

Guarantees and standby letters provided are banking operations that do not imply any mobilisation of funds for the Group.

As at 30 June 2023, 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 9.2 billion (31 December 2022: Euro 11.2 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 10.0 million (31 December 2022: Euro 8.0 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 67.8 million (31 December 2022: Euro 65.6 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 563.3 million (31 December 2022: Euro 648.1 million);
- Securities pledged as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 150.4 million (31 December 2022: Euro 146 million);
- Deposits pledged as collateral to secure the liabilities assumed through the guarantee issuance amounting to Euro 18.1 million (31 December 2022: Euro 29.7 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)

	30.06.2023	**31.12.2022**
Deposit and custody of securities and other items	33 899 671	30 936 968
Amounts received for subsequent collection	196 436	206 387
Securitised loans under management (*servicing*)	503 694	544 136
Other responsibilities related with banking services	913 970	486 577
	35 513 771	**32 060 253**

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 commercialisation, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (…) ”.

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include “any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions”.

On 29 December 2015, Bank of Portugal adopted a new 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 3 August 2014.

In the preparation of its consolidated and individual financial statements as at 30 June 2023 (as well as in the previous financial statements), novobanco incorporated the determinations resulting from the resolution measure, as amended, with regard to the perimeter of transfer of assets, liabilities, off-balance sheet captions and assets under BES management, as well as the decisions of Bank of Portugal of 29 December 2015, in particular, regarding the clarification of the non-transmission to novobanco of contingent and unknown liabilities and clarifications relating to the liabilities contained in paragraph (ii) above, including the lawsuits listed in that resolution.

Additionally, also by resolution of Bank of Portugal of 29 December 2015, it was decided that the Resolution Fund is responsible for neutralising, at the level of novobanco, the effects of decisions that are legally binding, outside the will of novobanco and for which it has not contributed and that, simultaneously, translate into the materialisation of responsibilities and contingencies that, according novobanco’s transfer perimeter, 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 commercialisation 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 30 June 2023 (as well as in the previous financial statements), the Executive Board of Directors reflected the Resolution Measure and related decisions taken by Bank of Portugal, in particular the decisions of 29 December 2015. In this context, these financial statements, namely regarding provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet captions and assets under BES management and liabilities transferred to novobanco, as determined by Bank of Portugal and with reference to the current legal bases and the information available at the present date.

Additionally, within the scope of the novobanco sale operation, concluded on 18 October 2017, the respective contractual documents contain specific provisions that produce effects equivalent to the resolution of the Board of Directors of Bank of Portugal, of 29 December 2015, regarding the neutralisation, 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, in which only Massa Insolvente by ESF (Portugal) appears as the plaintiff, following the withdrawal of the others;

(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 capitalisation obligation assumed by the Resolution Fund within the scope of the Contingent Capitalisation 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 Capitalisation 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.

Like most financial institutions operating in Portugal, the Bank is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal based essentially on the amount of its liabilities. As at 30 June 2023, the Group's periodic contribution amounted to Euro 7,101 thousand (31 December 2022: Euro 16,364 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on 3 August 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 capitalisation being ensured by the Resolution Fund.

For the realisation 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 to the Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to be charged special contributions or any other type of extraordinary contribution to the banks participating in the Resolution Fund.

According to the statement of the Resolution Fund of 21 March 2017, issued following an earlier statement of 28 September 2016 and the statement of the Ministry of Finance issued on the same date, the 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, the 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 novobanco's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalisation 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 capitalisation 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.

Despite 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 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 capitalisation mechanism and the indemnity mechanism referred to in the preceding paragraphs.

Any changes regarding this matter and the application of these mechanisms may have relevant implications for the Group's financial statements.

NOTE 39 – DISINTERMEDIATION

In accordance with the legislation in force, the managing companies together with the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As at 30 June 2023 and 31 December 2022, the value of the assets under management by the Group companies are analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Investment funds	1 101 618	1 095 611
Real estate investment funds	37 941	40 124
Pension funds	2 232 166	2 180 753
Discretionary management	647 046	616 060
	4 018 771	**3 932 547**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 40 – RELATED PARTIES BALANCES AND TRANSACTIONS

The group of entities considered to be related parties by novobanco in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of novobanco); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of novobanco; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which novobanco Group has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of novobanco (joint ventures).

The Group balances with related parties as at 30 June 2023 and 31 December 2022, as well as the respective profit and losses, can be summarised as follows:

(in thousands of Euros)

	30.06.2023					31.12.2022				
	Assets	**Liabilities**	**Guarantees**	**Income**	**Expenses**	**Assets**	**Liabilities**	**Guarantees**	**Income**	**Expenses**
Shareholders										
NANI HOLDINGS	-	148	-	321	-	-	152	-	389	-
FUNDO DE RESOLUÇÃO	198 180	53 105	-	-	7 101	198 180	54 101	-	-	16 364
Associated companies										
LINEAS	-	3 016	-	-	-	-	3 176	-	-	-
LOCARENT	136 049	4 619	-	43	4 919	139 286	3 218	-	1 727	3 163
ESEGUR	-	-	-	-	-	-	-	-	-	-
UNICRE	38 515	26	-	744	-	38 365	76	-	919	-
MULTIPESSOAL	2 009	30	273	-	-	2 023	35	273	-	-
EDENRED	3	116 043	62	1 321	414	2	99 716	62	1 968	41
YUNIT	-	1	-	-	-	-	1	-	-	-
	374 756	**176 988**	**335**	**2 429**	**12 434**	**377 856**	**160 475**	**335**	**5 003**	**19 568**
Other related entities										
HUDSON ADVISORS PORTUGAL	-	-	-	-	1 370	-	-	-	-	4 638
NACIONAL CONTA LDA	267	1	-	-	-	324	5	-	-	-
Other	**267**	**1**	**-**	**-**	**1 370**	**324**	**5**	**-**	**-**	**4 638**

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capitalisation Mechanism regarding the financial year 2021 and 2020, net of the amount to be delivered to the Resolution Fund arising from an addendum made in May 2021 to the Contingent Capitalisation Mechanism agreement.

In June 2018 an agreement was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and novobanco, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted, or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to bank deposits taken.

The guarantees related to associated companies included in the table above refer essentially to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest between 0% and 9.6% (the rates correspond to the rates applied according to the original currency of the asset).

As at 30 June 2023 and 31 December 2022, 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 201 thousand (31 December 2022: Euro 351 thousand); and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted (31 December 2022: no exposure);

Deposits
(i) members of the Executive Board of Directors and their immediate relatives was Euro 3,005 thousand; (31 December 2022: Euro 1,138 thousand) and (ii) the members of the General and Supervisory Board and their immediate relatives was Euro 914 thousand (31 December 2022: Euro 1,544 thousand).

NOTE 41 – SECURITISATION OF ASSETS

As at 30 June 2023 and 31 December 2022, the outstanding securisation transactions made by the Group were as follows:

(in thousands of Euros)

Issue	Start Date	Original Amount	Current Amount		Securitized Asset
			30.06.2023	31.12.2022	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	196 961	214 061	Mortgage Loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	306 733	330 075	Mortgage Loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	298 782	317 612	Mortgage Loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	774 087	817 287	Mortgage Loans (general scheme)

In accordance with the consolidation rules established in IFRS 10, Lusitano Mortgages No. 6 plc and Lusitano Mortgages No. 7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note 1). The following are the main impacts of the consolidation of these entities on the Group's accounts:

(in thousands of Euros)

	30.06.2023	31.12.2022
Cash, cash balances at central banks and other demand deposits	95 692	124 031
Loans and advances to customers (net of impairment)	1 067 088	1 127 628
Debt securities issued [(a)]	22 542	25 491

[(a)] See Note 33

Additionally, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual.

The main characteristics of these operations, as at 30 June 2023 and 31 December 2022, can be analysed as follows:

(in thousands of Euros)

30.06.2023

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Classe A	1 134 000	150 257	-	-	December 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Classe B	22 800	9 946	-	-	December 2048	AA	Aa2	AA	-	A-	A2	AA+	-
	Classe C	19 200	8 376	-	-	December 2048	A+	A1	A+	-	BB+	Baa3	AA	-
	Classe D	24 000	10 470	-	-	December 2048	BBB+	Baa1	BBB-	-	B+	B3	BB+	-
	Classe E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Classe A	1 323 000	227 970	-	-	December 2059	AAA	Aaa	AAA	-	AA+	Aa2	AA+	-
	Classe B	26 600	18 660	-	-	December 2059	AA	Aa2	AA	-	A+	A3	AA+	-
	Classe C	22 400	15 713	-	-	December 2059	A	A1	A	-	BBB+	Ba1	BBB	-
	Classe D	28 000	19 642	-	-	December 2059	BBB+	Baa2	BBB	-	CCC	Caa2	B	-
	Classe E	11 900	5 950	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Classe A	943 250	133 233	112 231	108 874	March 2060	AAA	Aaa	AAA	-	AA+	Aa2	A	-
	Classe B	65 450	65 450	63 950	56 587	March 2060	AA	Aa3	AA	-	AA+	Aa2	A	-
	Classe C	41 800	41 800	41 800	33 695	March 2060	A	A3	A	-	BBB	A1	A	-
	Classe D	17 600	17 600	17 600	13 389	March 2060	BBB	Baa3	BBB	-	CCC	Ba3	BB	-
	Classe E	31 900	31 900	31 900	22 009	March 2060	BB	-	BB	-	CC	-	D	-
	Classe F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Classe A	1 425 000	300 417	300 417	283 974	October 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Classe B	294 500	294 500	294 500	254 250	October 2064	-	-	BBB-	-	-	-	AA+	-
	Classe C	180 500	180 500	180 500	63 981	October 2064	-	-	-	-	-	-	-	-
	Classe D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

(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	-	-	December 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Classe B	22 800	10 842	-	-	December 2048	AA	Aa2	AA	-	A-	A2	AA-	-
	Classe C	19 200	9 130	-	-	December 2048	A+	A1	A+	-	BB+	Baa3	A-	-
	Classe D	24 000	11 412	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Classe E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Classe A	1 323 000	245 724	-	-	December 2059	AAA	Aaa	AAA	-	A+	Aa2	AA+	-
	Classe B	26 600	20 113	-	-	December 2059	AA	Aa2	AA	-	BBB+	Baa2	AA+	-
	Classe C	22 400	16 937	-	-	December 2059	A	A1	A	-	B+	Ba3	BBB	-
	Classe D	28 000	21 172	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Classe E	11 900	11 301	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Classe A	943 250	152 014	128 051	124 100	March 2060	AAA	Aaa	AAA	-	AA+	Aa2	A-	-
	Classe B	65 450	65 450	63 950	55 286	March 2060	AA	Aa3	AA	-	AA	Aa2	A-	-
	Classe C	41 800	41 800	41 800	31 303	March 2060	A	A3	A	-	BB+	A3	A-	-
	Classe D	17 600	17 600	17 600	12 414	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Classe E	31 900	31 900	31 900	20 017	March 2060	BB	-	BB	-	CC	-	D	-
	Classe F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Classe A	1 425 000	345 770	345 770	326 254	October 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Classe B	294 500	294 500	294 500	242 031	October 2064	-	-	BBB-	-	-	-	AA+	-
	Classe C	180 500	180 500	180 500	59 141	October 2064	-	-	-	-	-	-	-	-
	Classe D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

NOTE 42 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Group's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

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

The fair value calculated with reference to 30 June 2023 was influenced by the current economic context, as described in Note 24.

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 of 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 in Develeopment			Real Estate			Commercial Centers			Agriculture Properties		
	Min	Average	Max	Min	Average	Max	Min	Média	Max	Min	Média	Max	Min	Média	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.
Valuation Methodology		Market Income			Market Income			Market Income			Market Income			Market Income	

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, further 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	16.6%
Real Estate and Tourism / Other	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 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 of the explanatory notes at 31 December 2022). The market value of properties for which a promissory purchase and sale agreement has been entered into corresponds to the value of that contract.

Validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for independent price verification for mark-to-market valuations, for mark-to-model valuations, validates the models used and changes to them wherever they exist. For prices supplied by external entities, the validation performed consists in confirming the use of the correct price.

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Group is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	**Valuation models based on observable market parameters (Level 2)**	**Valuation models based on unobservable market parameters (Level 3)**	**Total Fair Value**
30 June 2023				
Financial assets held for trading	**376 383**	**122 204**	**-**	**498 587**
Securities held for trading	376 383	-	-	376 383
Bonds issued by public entities	*376 383*	-	-	*376 383*
Derivatives held for trading	-	122 204	-	122 204
Exchange rate contracts	-	*19 805*	-	*19 805*
Interest rate contracts	-	*98 160*	-	*98 160*
Credit default contract	-	*34*	-	*34*
Other	-	*4 205*	-	*4 205*
Financial assets mandatorily at fair value through profit or loss	**17 213**	**21 190**	**249 331**	**287 734**
Securities mandatorily accounted for at fair value through profit or loss	17 213	21 190	249 194	287 597
Bonds issued by other entities	*11 035*	*50*	*2 378*	*13 463*
Shares	*6 141*	-	*135 656*	*141 797*
Other variable income securities	*37*	*21 140*	*111 160*	*132 337*
Credit default contract	-	-	137	137
Financial assets accounted for at fair value through profit or loss	**-**	**-**	**391**	**391**
Obligations of other issuers	-	-	*391*	*391*
Financial assets at fair value through other comprehensive income	**2 260 162**	**28 591**	**71 935**	**2 360 688**
Bonds issued by public entities	*1 820 113*	-	-	*1 820 113*
Bonds issued by other entities	*438 702*	*20 493*	-	*459 195*
Shares	*1 347*	*8 098*	*71 935*	*81 380*
Derivatives - Hedge Accounting	**-**	**626 040**	**-**	**626 040**
Interest rate contracts	-	*626 040*	-	*626 040*
Investment properties	**-**	**-**	**479 198**	**479 198**
Assets at fair value	**2 653 758**	**798 025**	**800 855**	**4 252 638**
Financial liabilities held for trading	**-**	**94 993**	**2 118**	**97 111**
Derivatives held for trading	-	94 993	2 118	97 111
Exchange rate contracts	-	*17 294*	-	*17 294*
Interest rate contracts	-	*72 922*	*2 118*	*75 040*
Credit default contract	-	*765*	-	*765*
Other	-	*4 012*	-	*4 012*
Derivatives - Hedge Accounting	**-**	**172 476**	**-**	**172 476**
Interest rate contracts	-	*172 476*	-	*172 476*
Liabilities at fair value	**-**	**267 469**	**2 118**	**269 587**

(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*
Other	-	*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 profit or loss	**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 default contract	-	-	*18*	*18*
Financial assets accounted for at fair value through profit or loss	**-**	**-**	**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**

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 first half of 2023 and the financial exercise of 2022 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 2022	**275 388**	**18**	**13**	**71 267**	**499 567**	**846 253**	**2 606**	**2 606**
Acquisitions	170	-	-	1 018	-	1 188	-	-
Attainment of maturity	(3 910)	-	-	-	-	(3 910)	-	-
Settlements	(22 339)	-	-	(560)	-	(22 899)	-	-
Disposals	-	-	-	-	(25 429)	(25 429)	-	-
Changes in value	(115)	119	378	210	5 225	5 817	(488)	(488)
Other movements	-	-	-	-	(165)	(165)	-	-
Balance as at 30 June 2023	**249 194**	**137**	**391**	**71 935**	**479 198**	**800 855**	**2 118**	**2 118**

(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 the first half of 2023 and financial exercise of 2022 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment properties classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective accounting policy. The amounts calculated at 30 June 2023, 31 December 2022 and 30 June 2022 were as follows:

(in thousands of Euros)

	Six month period ended on								
	30.06.2023			**31.12.2022**			**30.06.2022**		
	Recognised in reserves	**Recognised in the income statement**	**Total**	**Recognised in reserves**	**Recognised in the income statement**	**Total**	**Recognised in reserves**	**Recognised in the income statement**	**Total**
Derivatives held for trading	-	488	488	-	(655)	(655)	-	91	91
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	(58 545)	(58 545)	-	12 806	12 806
Financial assets at fair value through other comprehensive income	212	-	212	25 584	-	25 584	81 365	-	81 365
Investment properties	-	4 090	4 090	-	91 133	91 133	-	89 082	89 082
	212	**4 578**	**4 790**	**25 584**	**31 933**	**57 517**	**81 365**	**101 979**	**183 344**

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 thousands of Euros)

Assets classified under level 3	**30.06.2023**						
	Valuation Model	**Variable analysed**	**Carrying book value**	**Unfavorable scenario**		**Favorable scenario**	
				Change	**Impact**	**Change**	**Impact**
Financial assets at fair value through profit or loss			**0.4**		**-**		**-**
Obligations of other issuers	Other	(a)	0.4		-		-
Financial assets mandatorily at fair value through profit or loss			**249.3**		**(2.4)**		**10.8**
Obligations of other issuers	*Discounted cash flows*	*Specific Impairment*	2.4	-50%	(2.4)	+50%	10.8
Shares			135.7		-		-
	Management company adjusted valuation	*(b)*	*135.7*		-		-
Other variable income securities			111.2		-		-
	Management company adjusted valuation	*(b)*	*95.9*		-		-
	Management company valuation	*(c)*	*15.2*		-		-
Credit			0.1				
Financial assets at fair value through other comprehensive income			**71.9**		**(2.9)**		**0.1**
Shares			71.9		*(2.9)*		0.1
	Discounted cash flows	*Renewable energy Rates*	*16.2*		*(2.9)*		*0.1*
	Other	*(a)*	*55.7*		*-*		*-*
Total			**321.7**		**(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 thousands 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 profit or loss			**0.0**		**-**		**-**
Obligations of other issuers	Other	(a)	0.0		-		-
Financial assets mandatorily at fair value through profit or loss			**275.4**		**(2.4)**		**10.8**
Obligations of other issuers	*Discounted cash flows*	*Specific Impairment*	2.4	-50%	(2.4)	+50%	10.8
	Other	*(a)*					
Shares			135.7		-		-
	Management company adjusted valuation	*(b)*	135.7		-		-
	Other	*(a)*			-		-
Other variable income securities			137.4		-		-
	Management company adjusted valuation	*(b)*	*117.6*		-		-
	Management company 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
	Discounted cash flows	*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

The main parameters used, at 30 June 2023 and 31 December 2022, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	30.06.2023			31.12.2022		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	3.5068	5.0800	5.1450	1.9501	4.3650	3.5750
1 month	3.3990	5.2850	5.0800	1.8840	4.4200	3.6500
3 months	3.5770	5.5150	5.4950	2.1320	4.7700	3.8000
6 months	3.9000	5.8150	6.0550	2.6930	5.1500	4.3350
9 months	4.0170	5.8750	6.3000	2.9920	5.2350	4.5250
1 year	4.1340	5.6306	6.2430	3.2910	5.1130	4.6768
3 years	3.6130	4.6374	5.9256	3.3005	4.3010	4.6088
5 years	3.2550	4.1916	5.3030	3.2390	4.0110	4.3280
7 years	3.0960	3.9740	4.9631	3.2020	3.8780	4.1350
10 years	3.0045	3.8300	4.6352	3.2020	3.8220	3.9920
15 years	2.9465	3.7605	4.4195	3.1410	3.7970	3.9377
20 years	2.8105	3.6960	4.2885	2.9310	3.7260	3.8647
25 years	2.6615	3.5770	4.1867	2.7150	3.6170	3.7967
30 years	2.5325	3.4600	4.0932	2.5320	3.4720	3.7257

Credit Spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
30 June 2023						
CDX USD Main	**40**	-	43.14	66.22	-	106.59
iTraxx Eur Main	**39**	21.27	47.98	73.72	93.03	111.24
iTraxx Eur Senior Financial	**39**	-	-	85.31	-	109.18
31 December 2022						
CDX USD Main	**39**	-	56.87	82.02	101.74	117.73
iTraxx Eur Main	**38**	35.05	66.40	90.60	106.87	122.66
iTraxx Eur Senior Financial	**38**	-	-	99.29	-	-

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	30.06.2023			**31.12.2022**		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	87.26	20.5	41.64	99.28	23.33	55.24
3 years	121.98	-	38.2	124.23	38.10	49.59
5 years	119,00	-	38.27	124.77	40.72	47,00
7 years	113.14	38.62	37.87	121.60	39.38	45.73
10 years	105.61	33.1	36.34	115.66	35.95	42.81
15 years	96.27	-	-	107.02	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

			Volatility (%)				
Foreign exchange rate	**30.06.2023**	**31.12.2022**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.0866	1.0666	6.63	6.61	6.65	6.69	6.77
EUR/GBP	0.8583	0.8869	5.88	6.08	6.36	6.58	6.71
EUR/CHF	0.9788	0.9847	4.39	4.68	4.885	5.09	5.24
EUR/NOK	11.7040	10.5138	10.57	10.49	10.21	10.11	10.03
EUR/PLN	4.4388	4.6808	6.75	6.81	6.91	6.97	7.05
EUR/RUB	117.2010	117.2010	31.92	34.03	35.58	36.67	36.45
USD/BRL [a)]	4.8581	5.2865	13.04	13.42	13.77	14.16	14.54
USD/TRY [b)]	26.0623	18.7183	26.03	27.63	30.21	32.3	32.49

[a)] Calculated based on EUR/USD and EUR/BRL exchange rates

[b)] Calculated based on EUR/USD and EUR/TRY exchange rates

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			**Historical volatility**		**Implied volatility**
	30.06.2023	**31.12.2022**	**% Change**	**1 month**	**3 months**	
DJ Euro Stoxx 50	4 399	3 794	15.96%	13.65	15.89	11.00
PSI 20	5 920	5 726	3.39%	12.29	13.99	-
IBEX 35	9 593	8 229	16.57%	12.13	17.15	-
FTSE 100	7 532	7 452	1.07%	10.97	13.37	9.28
DAX	16 148	13 924	15.98%	12.94	15.16	11.03
S&P 500	4 450	3 840	15.91%	11.61	13.75	10.93
BOVESPA	118 087	109 735	7.61%	15.90	18.48	19.74

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 / prices (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
30 June 2023					
Cash, cash balances at central bank and other demand deposits	3 395 086	-	3 395 086	-	3 395 086
Financial assets at amortised cost					
Debt securities	8 728 843	6 653 945	244 518	1 310 125	8 208 588
Loans and advances to banks	78 406	-	78 406	-	78 406
Loans and advances to customers	24 792 999	-	-	25 509 595	25 509 595
Financial assets	**36 995 334**	**6 653 945**	**3 718 010**	**26 819 720**	**37 191 675**
Financial liabilities measured at amortised cost					
Deposits from banks	6 252 401	-	6 252 703	-	6 252 703
Due to customers	29 758 028	-	-	29 758 028	29 758 028
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 887 696	2 006 934	-	21 940	2 028 874
Other financial liabilities	431 497	-	-	431 497	431 497
Financial liabilities	**38 329 622**	**2 006 934**	**6 252 703**	**30 211 465**	**38 471 102**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters / prices (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 assets	1 628 897	1 696 133	-	68 964	1 765 097
Other financial liabilities	375 268	-	-	375 268	375 268
Financial liabilities	**40 987 177**	**1 696 133**	**9 696 251**	**29 722 090**	**41 114 474**

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**

As at 30 June 2023, the Group's total exposure to securities associated with credit assignment operations, amounted to Euro 241.4 thousand (31 December 2022: Euro 253.2 million). The detail is as follows:

(in thousands of Euros)

	30.06.2023						**31.12.2022**					
	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**	
FLIT SICAV	-	-	-	-	-	-	25 000	-	-	-	-	-
Discovery Portugal Real Estate Fund	259 527	135 655	-	-	-	3 950	259 527	135 655	-	-	-	3 950
Fundo Recuperação, FCR	178 405	21 737	-	-	-	9 202	186 602	21 567	-	-	-	17 569
Fundo Reestruturação Empresarial	-	-	-	-	-	-	80 719	21 798	-	-	-	5 680
Fundo Aquarius	166 861	74 202	-	-	-	20 980	166 861	74 202	-	-	-	20 980
Fundo Turismo Algarve	47 188	9 773	-	-	-	944						
	651 981	**241 367**	**-**	**-**	**-**	**35 076**	**718 709**	**253 222**	**-**	**-**	**-**	**48 179**

NOTE 44 – NPL DISCLOSURES

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non Performing 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	658 054	694 550	694 550	694 550	-70 007	-378 029	632 328	238 612
Central banks	0	0	0	0	0	0	0	0
General governments	47	0	0	0	-2	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	0	81 256	81 256	81 256	0	-39 091	34 474	34 474
Non-financial corporations	498 591	545 497	545 497	545 497	-67 174	-292 527	429 250	184 768
Households	159 415	67 798	67 798	67 798	-2 831	-46 411	168 603	19 369
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	1 019	548	548	548	0	0	0	0
Total	**659 073**	**695 098**	**695 098**	**695 098**	**-70 007**	**-378 029**	**632 328**	**238 612**

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	**3 234 545**	**3 234 545**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**24 594 193**	**24 522 541**	**71 652**	**1 269 142**	**703 875**	**106 960**	**73 169**	**193 493**	**98 401**	**20 008**	**73 235**	**1 269 142**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**343 874**	343 135	739	**0**	0	0	0	0	0	0	0	0
Credit institutions	**54 911**	54 911	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**774 488**	774 482	6	**88 330**	43 360	1	1	35 341	15	1 941	7 672	88 330
Non-financial corporations	**12 016 539**	12 007 182	9 357	**986 007**	567 380	75 611	52 246	124 962	89 604	16 925	59 280	986 007
Of which SMEs	***7 372 004***	*7 363 149*	*8 855*	***683 077***	*348 297*	*58 312*	*51 572*	*102 584*	*50 005*	*13 651*	*58 657*	*683 077*
Households	**11 404 381**	11 342 831	61 550	**194 805**	93 135	31 349	20 923	33 190	8 782	1 142	6 283	194 805
Debt securities	**10 878 615**	**10 878 615**	**0**	**437 027**	**334 059**	**0**	**0**	**0**	**0**	**3 861**	**99 107**	**437 027**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**6 305 963**	6 305 963	0	**0**	0	0	0	0	0	0	0	0
Credit institutions	**1 059 312**	1 059 312	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**450 866**	450 866	0	**25 012**	4 519	0	0	0	0	3 861	16 632	25 012
Non-financial corporations	**3 062 474**	3 062 474	0	**412 015**	329 540	0	0	0	0	0	82 475	412 015
Off-balance-sheet exposures	**7 909 585**			**434 052**								**434 052**
Central banks	0			0								0
General governments	166 402			0								0
Credit institutions	465 640			0								0
Other financial corporations	82 807			7 150								7 150
Non-financial corporations	5 946 950			424 677								424 677
Households	1 247 786			2 225								2 225
Total	**46 616 938**	**38 635 701**	**71 652**	**2 140 221**	**1 037 934**	**106 960**	**73 169**	**193 493**	**98 401**	**23 869**	**172 342**	**2 140 221**

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							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			Accumulated partial write-off	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	**3 234 545**	**3 234 545**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**24 594 193**	**20 761 504**	**3 832 689**	**1 269 142**	**0**	**1 269 004**	**-364 060**	**-48 239**	**-315 822**	**-651 815**	**0**	**-651 815**	**-503 258**	**14 910 642**	**441 389**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	343 874	330 539	13 335	0	0	0	-1 419	-326	-1 093	0	0	0	0	32 204	0
Credit institutions	54 911	54 477	434	0	0	0	-587	-571	-16	0	0	0	0	0	0
Other financial corporations	774 488	576 502	197 986	88 330	0	88 330	-30 340	-5 050	-25 290	-42 429	0	-42 429	-188 959	290 237	36 214
Non-financial corporations	12 016 539	9 426 920	2 589 620	986 007	0	985 870	-271 015	-24 979	-246 036	-499 758	0	-499 758	-229 491	4 289 110	331 579
Of which SMEs	7 372 004	5 843 112	1 528 892	683 077	0	683 077	-122 699	-24 979	-97 720	-354 475	0	-354 475	-155 198	3 185 768	232 387
Households	11 404 381	10 373 067	1 031 314	194 805	0	194 805	-60 700	-17 313	-43 387	-109 628	0	-109 628	-84 808	10 299 091	73 596
Debt securities	**10 878 615**	**10 809 197**	**69 418**	**437 027**	**2 824**	**434 203**	**-9 766**	**-4 495**	**-5 271**	**-291 027**	**0**	**-291 027**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	6 305 963	6 305 963	0	0	0	0	-886	-886	0	0	0	0	0	0	0
Credit institutions	1 059 312	1 059 312	0	0	0	0	-238	-238	0	0	0	0	0	0	0
Other financial corporations	450 866	450 866	0	25 012	0	25 012	-265	-265	0	0	0	0	0	0	0
Non-financial corporations	3 062 474	2 993 056	69 418	412 015	2 824	409 191	-8 377	-3 106	-5 271	-291 027	0	-291 027	0	0	0
Off-balance-sheet exposures	**7 909 585**	**6 860 556**	**1 049 029**	**434 052**	**0**	**434 052**	**-14 080**	**-6 412**	**-7 668**	**-71 322**	**0**	**-71 322**		**157 468**	**17 320**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	166 402	165 858	545	0	0	0	-18	-12	-6	0	0	0		3 765	0
Credit institutions	465 640	391 471	74 169	0	0	0	-644	-10	-634	0	0	0		731	0
Other financial corporations	82 807	78 742	4 065	7 150	0	7 150	-67	-21	-46	-38	0	-38		8 206	6 477
Non-financial corporations	5 946 950	5 071 238	875 711	424 677	0	424 677	-8 518	-2 048	-6 471	-71 172	0	-71 172		132 866	10 783
Households	1 247 786	1 153 247	94 539	2 225	0	2 225	-4 833	-4 322	-511	-111	0	-111		11 899	61
Total	**46 616 938**	**41 665 802**	**4 951 136**	**2 140 221**	**2 824**	**2 137 259**	**-387 906**	**-59 146**	**-328 761**	**-1 014 164**	**0**	**-1 014 164**	**-503 258**	**15 068 110**	**458 710**

Guarantees obtained by taking possession and enforcement proceedings

(in thousands of Euros)

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Tangible fixed assets	**0**	**0**
Other than tangible fixed assets	**264 113**	**-120 846**
Residential immovable property	60 303	-18 881
Commercial Immovable property	132 722	-75 989
Movable property (auto, shipping, etc.)	3 054	-2 206
Equity and debt instruments	40 640	-7 719
Other	27 394	-16 051
Total	**264 113**	**-120 846**

NOTE 45 – PROVISION OF INSURANCE OR REINSURANCE MEDIATION SERVICE

As at 30 June 2023 and 2022, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	30.06.2023	30.06.2022
Life Insurance		
Unit Link and other life commissions	908	903
Credit protection insurance (life)	432	415
Traditional Products	8 530	9 340
	9 870	**10 658**
Non-Life Insurance		
Personal lines insurance	5 730	3 699
Corporate insurance	88	88
Credit protection insurance (non-life)	686	695
	6 504	**4 482**
	16 374	**15 140**

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.

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.

NOTE 46 – SUBSEQUENT EVENTS

- On 23 July 2023, novobanco carried out the early repayment of the issue of Euro 300 million 3.500% Fixed/Floating Rate Callable Senior Preferred Notes maturing in 2024 (ISIN: PTNOBIOM0014).

SEPARATE FINANCIAL STATEMENTS OF novobanco

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE INCOME STATEMENT
FOR THE THREE AND SIX MONTH PERIOD ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	Three months period ended on		Six months period ended on	
		30.06.2023	30.06.2022	30.06.2023	30.06.2022
Interest Income	8	458 421	186 689	843 958	368 315
Interest Expenses	8	(188 325)	(51 526)	(333 215)	(98 404)
Net Interest Income		**270 096**	**135 163**	**510 743**	**269 911**
Dividend Income	9	5 858	7 064	5 858	7 162
Fees and commission income	10	78 235	76 908	151 328	147 426
Fees and commission expenses	10	(9 385)	(10 039)	(20 343)	(19 085)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	11	1 134	(34 294)	11 113	(52 777)
Gains or losses on financial assets and liabilities held for trading	11	3 631	21 771	2 944	147 440
Gains or losses on financial assets mandatorily at fair value through profit or loss	11	28 388	(21 967)	28 694	(26 411)
Gains or losses from hedge accounting	11	15 827	2 440	15 705	936
Exchanges differences	11	(2 160)	2 223	5 854	(139)
Gains or losses on derecognition of non-financial assets	12	1 220	157	(303)	1 458
Other operating income	13	11 205	12 074	20 693	21 095
Other operating expenses	13	(10 418)	(5 735)	(57 698)	(46 087)
Operating Income		**393 631**	**185 765**	**674 588**	**450 929**
Administrative expenses		(96 515)	(88 955)	(191 712)	(176 787)
Staff expenses	14	*(57 983)*	*(52 258)*	*(112 061)*	*(104 056)*
Other administrative expenses	16	*(38 532)*	*(36 697)*	*(79 651)*	*(72 731)*
Contributions to resolution funds and deposit guarantee	17	(21 824)	(40 433)	(22 066)	(40 717)
Depreciation	,	(10 650)	(10 173)	(20 990)	(20 237)
Provisions or reversal of provisions	18	(2 298)	35 926	650	56 405
Commitments and guarantees given		*(1 835)*	*962*	*(760)*	*4 713*
Other provisions		*(463)*	*34 964*	*1 410*	*51 692*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	18	(28 035)	(36 356)	(58 296)	(61 057)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	18	-	15 687	-	15 687
Impairment or reversal of impairment on non-financial assets	18	6 168	3 637	8 783	4 331
Profit or loss before tax from continuing operations		**240 477**	**65 098**	**390 957**	**228 554**
Tax expense or income related to profit or loss from continuing operations	27	4 118	(10 604)	4 917	(16 580)
Current tax		(591)	(312)	(2 918)	(640)
Deferred tax		4 709	(10 292)	7 835	(15 940)
Profit or loss for the period		**244 595**	**54 494**	**395 874**	**211 974**
Basic earning per share (in Euros)	19	0.02	0.01	0.04	0.02
Diluted earnings per share (in Euros)	19	0.02	0.01	0.04	0.02
Basic earnings per share of continuing activities (in Euros)	19	0.02	0.01	0.04	0.02
Diluted earnings per share of continuing activities (in Euros)	19	0.02	0.01	0.04	0.02

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

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIOD ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	Three month period ended on		Six month period ended on	
		30.06.2023	30.06.2022	30.06.2023	30.06.2022
Net profit / (loss) for the period		244 595	54 494	395 874	211 974
Other comprehensive income/(loss)					
Items that will not be reclassified to results		***94 497***	***64 483***	***94 948***	***64 924***
Actuarial gains / (losses) on defined benefit plans	a)	57 169	49 952	57 168	49 952
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	37 328	14 531	37 780	14 972
Items that may be reclassified to results		***(38 169)***	***(36 386)***	***(1 910)***	***(201 533)***
Cash flow Hedging		(43 550)	-	(13 877)	-
Financial assets at fair value through other comprehensive income	a)	5 381	(36 386)	11 967	(201 533)
Total other comprehensive income/(loss) for the period		**300 923**	**82 591**	**488 912**	**75 365**

a) See Interim Condensed Separate Statement of Changes in Equity

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

novobanco

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE BALANCE SHEET
AS AT 30 JUNE 2023 AND 31 DECEMBER 2022

(in thousands of Euros)

	Notes	30.06.2023	31.12.2022
ASSETS			
Cash, cash balances at central banks and other demand deposits	20	3 255 364	6 387 295
Financial assets held for trading	21	497 972	170 847
Financial assets mandatorily at fair value through profit or loss	22	1 537 207	1 537 670
Financial assets at fair value through profit or loss	22	391	13
Financial assets at fair value through other comprehensive income	22	2 190 565	2 183 034
Financial assets at amortised cost	22	32 519 213	31 500 944
Securities		9 108 114	8 400 233
Loans and advances to banks		154 730	145 464
Loans and advances to customers		23 256 369	22 955 247
Derivatives - Hedge accounting	23	626 066	562 886
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	(143 162)	(164 388)
Investments in subsidiaries, joint ventures and associates	24	251 459	251 457
Tangible assets		271 344	258 963
Tangible fixed assets	25	271 344	258 963
Intangible assets	26	72 132	69 640
Tax assets	27	989 473	947 500
Current Tax Assets		34 626	30 298
Deferred Tax Assets		954 847	917 202
Other assets	28	1 329 767	1 713 116
Non-current assets and disposal groups classified as held for sale	29	43 828	45 071
TOTAL ASSETS		**43 441 619**	**45 464 048**
LIABILITIES			
Financial liabilities held for trading	21	97 022	99 317
Financial liabilities measured at amortised cost	30	38 314 966	40 904 697
Deposits from banks		7 058 730	10 506 509
(of which, Repurchase Agreements)		*3 423 696*	*2 150 824*
Due to customers		28 965 370	28 425 223
(of which, Repurchase Agreements)		*1 069 887*	*450 906*
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 863 132	1 601 454
Other financial liabilities		427 734	371 511
Derivatives - Hedge accounting	23	173 515	120 612
Provisions	31	410 678	423 190
Tax liabilities	27	4 449	4 505
Current Tax Liabilities		4 449	4 505
Other liabilities	32	885 128	844 779
TOTAL LIABILITIES		**39 885 758**	**42 397 100**
EQUITY			
Capital	33	6 567 844	6 304 661
Accumulated other comprehensive income	34	(1 062 233)	(1 155 271)
Retained earnings	34	(8 577 074)	(8 577 074)
Other reserves	34	6 231 450	6 040 802
Profit or loss attributable to Shareholders of the parent		395 874	453 830
TOTAL EQUITY		**3 555 861**	**3 066 948**
TOTAL LIABILITIES AND EQUITY		**43 441 619**	**45 464 048**

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

NOVO BANCO, S.A.

INTERIM CONDESED SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIODS ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Profit or loss for the period	Total
Balance as at 31 December 2021		**6 054 907**	**(968 987)**	**(8 576 860)**	**6 064 434**	**225 908**	**2 799 402**
Other Increase / (Decrease) in Equity		**-**	**-**	**(214)**	**226 121**	**(225 908)**	**(1)**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	-	*225 908*	*(225 908)*	-
Other movements		-	-	*(214)*	*213*	-	*(1)*
Total comprehensive income for the period		**-**	**(136 609)**	**-**	**-**	**211 974**	**75 365**
Changes in fair value, net of tax	34	-	*(183 269)*	-	-	-	*(183 269)*
Remeasurement of defined benefit plans, net of tax	*15*	-	*49 952*	-	-	-	*49 952*
Reserves of impairment of securities at fair value through OCI	34	-	*(2 213)*	-	-	-	*(2 213)*
Reserves of sales of securities at fair value through OCI	34	-	*(1 079)*	-	-	-	*(1 079)*
Net income of the period		-	-	-	-	*211 974*	*211 974*
Balance as at 30 June 2022		**6 054 907**	**(1 105 596)**	**(8 577 074)**	**6 290 555**	**211 974**	**2 874 766**
Capital increase by incorporation of special reserve for deferred taxes		249 754	-	-	(249 754)	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**-**	**1**	**-**	**1**
Other movements		-	-	-	*1*	-	*1*
Total comprehensive income for the period		**-**	**(49 675)**	**-**	**-**	**241 856**	**192 181**
Changes in fair value, net of tax	34	-	*4 859*	-	-	-	*4 859*
Remeasurement of defined benefit plans, net of tax	*15*	-	*46 533*	-	-	-	*46 533*
Reserves of impairment of securities at fair value through OCI	34	-	*(866)*	-	-	-	*(866)*
Reserves of sales of securities at fair value through OCI	34	-	*217*	-	-	-	*217*
Net income of the period		-	*(100 418)*	-	-	*241 856*	*141 438*
Balance as at 31 December 2022		**6 304 661**	**(1 155 271)**	**(8 577 074)**	**6 040 802**	**453 830**	**3 066 948**
Capital increase by incorporation special deferred tax reserve	33	263 183	-	-	(263 183)	-	-
Other increases/decreases in Equity		**-**	**-**	**-**	**453 831**	**(453 830)**	**1**
Appropriation to retained earnings of net profit / (loss) of the previous period		-	-	-	*453 830*	*(453 830)*	-
Other movements		-	-	-	*1*	-	*1*
Total comprehensive income for the period		**-**	**93 038**	**-**	**-**	**395 874**	**488 912**
Changes in fair value, net of tax	34	-	*311 910*	-	-	-	*311 910*
Remeasurement of defined benefit plans, net of tax	15	-	*57 168*	-	-	-	*57 168*
Reserves of impairment of securities at fair value through OCI	34	-	*(380)*	-	-	-	*(380)*
Reserves of sales of securities at fair value through OCI	34	-	*(261 783)*	-	-	-	*(261 783)*
Cash flow Hedge reserves		-	*(13 877)*	-	-	-	*(13 877)*
Net income of the period		-	-	-	-	*395 874*	*395 874*
Balance as at 30 June 2023		**6 567 844**	**(1 062 233)**	**(8 577 074)**	**6 231 450**	**395 874**	**3 555 861**

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

NOVO BANCO, S.A.

INTERIM CONDENSED SEPARATE CASH FLOW STATEMENT
FOR THE SIX MONTH PERIOD ENDED ON 30 JUNE 2023 AND 2022

(in thousands of Euros)

	Notes	30.06.2023	30.06.2022
Cash flows from operating activities			
Interest received		893 479	352 732
Interest paid		(294 879)	(76 374)
Fees and commissions received		151 328	147 426
Fees and commissions paid		(20 343)	(19 085)
Recoveries on loans previously written off		12 356	12 306
Cash contributions to resolution funds and deposit guarantee schemes		(22 066)	(40 717)
Cash payments to employees and suppliers		(182 176)	(205 405)
		537 699	**170 883**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		(4 594 641)	(62 066)
Financial assets mandatorily at fair value through profit or loss		51 283	253 017
Financial assets designated at fair value through profit or loss		(310 771)	183 604
Financial assets at fair value through other comprehensive income		291 712	4 198 217
Financial assets at amortised cost		(985 961)	(5 309 785)
Debt securities		*(661 880)*	*(4 558 667)*
Loans and advances to banks		*(9 676)*	*3 023*
Loans and advances to customers		*(314 405)*	*(754 141)*
Financial liabilities at amortised cost		1 659 203	597 885
Deposits from banks		*1 139 539*	*(696 209)*
Due to customers		*519 664*	*1 294 094*
Derivatives - Hedge accounting		(250 048)	(133 172)
Other operating assets and liabilities		251 838	541 727
Net cash from operating activities before corporate income tax		**(3 349 686)**	**440 310**
Corporate income taxes paid		(34 657)	(33 801)
Net cash from operating activities		**(3 384 343)**	**406 509**
Cash flows from investing activities			
Sale of investments in subsidiaries and associated companies		-	5 003
Dividends received		5 858	7 162
Acquisition of tangible fixed assets		(29 482)	(43 860)
Sale of tangible fixed assets		4	1 986
Acquisition of intangible assets		(7 423)	(6 818)
Net cash from investing activities		**(31 042)**	**(36 527)**
Cash flows from financing activities			
Reimbursement/other movements of bonds and other debt securities		(819)	(244)
Issue of subordinated debt		497 714	-
Reimbursement of subordinated liabilities		(206 000)	-
Net cash from financing activities		**290 895**	**(244)**
Net changes in cash and cash equivalents		**(3 124 490)**	**369 738**
Cash and cash equivalents at the beginning of the period		**6 099 398**	**5 409 506**
Net changes in cash and cash equivalents		(3 124 490)	369 738
Cash and cash equivalents at the end of the period		**2 974 908**	**5 779 244**
Cash and cash equivalents include:			
Cash	20	150 014	150 126
Deposits with Central Banks	20	2 962 383	5 792 283
(of which, Restricted balances)		(280 456)	(274 045)
Deposits with banks	20	142 967	110 880
Total		**2 974 908**	**5 779 244**

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

novobanco

Notes to the interim condensed separate financial statements as at 30 June 2023

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

NOTE 1 – ACTIVITY

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

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

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

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

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

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

As at 30 June 2023, novobanco has a retail network comprising 274 branches in Portugal and Luxembourg (31 December 2022: 274 branches), and 2 representative offices in Spain and Switzerland (31 December 2022: 2 representative offices).

NOTE 2 – BASIS OF PRESENTATION

The interim condensed separate financial statements of novobanco are presented as at 30 June 2023, expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Bank in the preparation are consistent with those used in the preparation of the financial statements as at 31 December 2022. The changes to the most relevant accounting policies are described in Note 5.

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

The interim condensed consolidated financial statements and the Management Report of 30 June 2023 were approved at a meeting of the Executive Board of Directors on 26 July 2023.

NOTE 3 – STATEMENT OF COMPLIANCE

The separate financial statements of novobanco have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union in force on 1 January 2023, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of 19 July 2002, and Notice nº 5/2015 of Bank of Portugal.

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

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

The interim condensed separate financial statements of novobanco are presented as at 30 June 2023. These financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"). Consequently, these financial statements do not include all the information required by IFRS, and therefore they should be read together with the financial statements for the year ended on 31 December 2022.

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 30 June 2023, the Bank did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Bank are as follows:

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 2023:

Standard / Interpretation	Description
IFRS 17 - Insurance Contracts	IFRS 17 applies to all insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.
Amendments to IFRS 17 Insurance Contracts – Initial application of IFRS 17 and IFRS 9 – Comparative information	This amendment to IFRS 17 relates to the presentation of comparative information for financial assets on initial application of IFRS 17. The amendment adds a transition option that allows an entity to apply an overlay to the classification of a financial asset in the comparative period(s) presented in initially applying IFRS 17. The overlay allows all financial assets, including those held in relation to non-contract activities within the scope of IFRS 17 to be classified, instrument by instrument, in the comparative period(s) in a manner aligned with how the entity expects those assets to be classified on initial application of IFRS 9.
Amendments to IAS 1 – Presentation of financial statements - Classification of current and non-current liabilities	This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise that right), or by events occurring after the reporting date, such as the breach of a "covenant". However, if the right to defer settlement for at least twelve months is subject to certain conditions being met after the reporting date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or noncurrent. This amendment also includes a new definition of "settlement" of a liability and is retrospective.
Amendments to IAS 8 – Definition of accounting estimates	The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgment whether such deductions are attributable to the liability that is recognised in the financial statements or the related asset. This is important in determining whether there are temporary differences in the initial recognition of the asset or liability. According to these amendments, the initial recognition exception is not applicable to transactions that have given rise to equal taxable and deductible temporary differences. It only applies if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not equal.
Amendments to IAS 12 - International Tax Reform - Pillar II Rules	The amendments clarify that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

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

NOTE 6 – MAIN ACCOUNTING POLICIES

As mentioned, the accounting policies used by the Bank in the preparation of the interim condensed separate financial statements as at 30 June 2023 are consistent with those used in the preparation of the financial statements as at 31 December 2022.

Recently issued 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 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 for financial years beginning on or after	Description
Amendments to IAS 1 - Presentation of financial statements - Classification of current and non-current liabilities	1-Jan-2024	This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer their payment at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will exercise such a right), or by events occurring after the reporting date, such as the breach of a covenant. However, if the right to defer settlement for at least twelve months is subject to fulfilment of certain conditions after the balance sheet date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or non-current. This amendment also includes a new definition of 'settlement' of a liability and is retrospective.
Amendments to IFRS 16 - Leasing liabilities in sale and leaseback transactions	1-Jan-2024	This amendment specifies the requirements for the subsequent measurement of lease liabilities related to sale and leaseback transactions that qualify as a "sale" under IFRS 15, with a focus on variable lease payments that do not depend on an index or a rate. On subsequent measurement, seller-lessees should determine 'lease payments' and 'revised lease payments' When subsequently measuring lease liabilities, seller-lessees shall determine 'lease payments' and 'revised lease payments' in such a way that no gain or loss is recognised in respect of the retained right-of-use asset. The application of those requirements does 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. This amendment is retrospective.
Amendments to IAS 7 and IFRS 7 Disclosures: Financial Supply Agreements	1-Jan-2024	In May 2023, the Board issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity’s liabilities, cash flows and exposure to liquidity risk.

The Bank did not early adopt any of these standards in the financial statements for the year ended 30 June 2023. 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

As at the date of approval of these financial statements, there are no standards, interpretations, amendments and revisions with mandatory application in future financial years that have not been endorsed by the European Union.

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 measured 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 measured at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Bank determines its business model based on how it manages the financial assets and its business objectives. The Bank monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the Note 6.16 of the explanatory notes at 31 December 2022 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Bank management, constitutes a significant increase on credit risk;
- Classification of default: 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 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 a 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 to the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

7.2. Fair value of derivative financial instruments and other financial assets and financial liabilities designated 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 assumptions 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 to 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.

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

7.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 15 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries, and discount 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 conducted by independent entities specialised in this type of service, using the market, income or cost methods defined in Note 6.18 of the explanatory notes at 31 December 2022. 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 Significant judgment in determining contract lease term

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

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

NOTE 8 – NET INTEREST INCOME

The breakdown of this caption as at 30 June 2023 and 2022 is as follows:

(in thousands of Euros)

	Six month period ended on									
	30.06.2023					30.06.2022				
	Effective Interest Rate Method			Other		Effective Interest Rate Method			Other	
	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost	From assets at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income										
Interest from loans and advances to customer	493 540	14 744	-	246	508 530	243 118	6 799	-	-	249 917
Interest from deposits with and loans and advances to / deposits from banks	65 613	-	9	-	65 622	377	-	40 373	-	40 750
Interest from securities	109 692	22 190	-	17 635	149 517	45 247	24 086	-	5 200	74 533
Interest from derivatives	-	-	933	113 825	114 758	-	-	781	2 214	2 995
Other interest and similar income	5 531	-	-	-	5 531	120	-	-	-	120
	674 376	**36 934**	**942**	**131 706**	**843 958**	**288 862**	**30 885**	**41 154**	**7 414**	**368 315**
Interest Expenses										
Interest on debt securities issued	33 386	-	-	-	33 386	29 337	-	-	-	29 337
Interest on amount due to customers	62 762	-	-	-	62 762	20 944	-	-	-	20 944
Interest on deposits from / deposits with and loans and advances to banks	138 554	-	25	-	138 579	4 989	-	9 804	-	14 793
Interest on subordinated liabilities	19 584	-	-	-	19 584	16 948	-	-	-	16 948
Interest from derivatives	-	-	63	71 727	71 790	-	-	5 484	6 941	12 425
Other interest and similar expenses	7 114	-	-	-	7 114	3 470	-	487	-	3 957
	261 400	**-**	**88**	**71 727**	**333 215**	**75 688**	**-**	**15 775**	**6 941**	**98 404**
	412 976	**36 934**	**854**	**59 979**	**510 743**	**213 174**	**30 885**	**25 379**	**473**	**269 911**

As at 30 June 2023, the caption interest on loans and advances includes Euro 16,609 thousand related to finance lease operations (30 June 2022: Euro 14,275 thousand).

In relation to repurchase agreement operations, interest from deposits with Other banks, customer and credit institutions deposits includes, as at 30 June 2023, the amount of Euro 33 thousand, Euro 11,108 thousand and Euro 37,213 thousand, respectively (31 December 2022: Euro -160 thousand related to interest with deposits from Other banks, Euro 3,397 thousand from customers deposits and Euro 4,859 thousand from credit institutions deposits).

Interest income and expense items related to derivative interest include interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 6.10.6 e 6.10.7 of the explanatory notes at 31 December 2022.

NOTE 9 – DIVIDEND INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Financial assets mandatorily at fair value through profit or loss		
Shares	**36**	**98**
Visa Inc CL C	36	98
Participation units	**-**	**164**
Explorer III B	-	164
Financial assets at fair value through other comprehensive income		
Shares	**1 482**	**2 208**
SIBS SGPS	852	1 866
ESA Energia	228	238
TF Turismo SGFII	399	-
Other	3	104
Investments in associates and subsidiaries	**4 340**	**4 692**
Unicre	3 487	3 070
Locarent	853	613
Edenred	-	1 009
	5 858	**7 162**

NOTE 10 – FEE AND COMMISSION INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Fees and commissions income		
From banking services	108 652	106 351
Cards	21 187	18 392
Management of Means of Payment	54 876	51 920
Asset Management	6 371	7 004
Credit operations	26 218	29 035
From guarantees provided	15 084	15 467
From transaction of securities	4 757	4 819
From commitments to third parties	3 355	3 280
Bancassurance	15 754	14 510
Other fee and commission income	3 726	2 999
	151 328	**147 426**
Fees and commissions expenses		
With banking services rendered by third parties	13 695	12 891
Cards	4 409	4 417
Management of Means of Payment	6 601	6 958
Asset Management	5	9
Credit operations	2 680	1 507
With guarantees received	667	1 353
With transaction of securities	2 290	1 933
Other fee and commission income	3 691	2 908
	20 343	**19 085**
	130 985	**128 341**

NOTE 11 – NET TRADING INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2023			30.06.2022		
	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	993	1 306	(313)	28 614	44 216	(15 602)
Issued by other entities	-	-	-	2 976	36 710	(33 734)
	993	**1 306**	**(313)**	**31 590**	**80 926**	**(49 336)**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	3	-	3	2	-	2
Issued by other entities	2 505	1 102	1 403	-	4 364	(4 364)
Loans	13 104	3 084	10 020	2 164	1 243	921
	15 612	**4 186**	**11 426**	**2 166**	**5 607**	**(3 441)**
	16 605	**5 492**	**11 113**	**33 756**	**86 533**	**(52 777)**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	981	1 794	(813)	1 803	22 662	(20 859)
Issued by other entities	93	2	91	10	-	10
Financial Derivatives						
Foreign exchange rate contracts	27 411	26 382	1 029	43 235	38 923	4 312
Interest rate contracts	47 938	48 445	(507)	420 326	257 700	162 626
Equity / Index contracts	10 267	7 042	3 225	1 171	1 324	(153)
Credit default contracts	8	10	(2)	-	-	-
Other	3 034	3 113	(79)	8 307	6 633	1 674
Other	-	-	-	-	170	(170)
	89 732	**86 788**	**2 944**	**474 852**	**327 412**	**147 440**
Gains or losses on financial assets mandatorily at fair value through profits or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	18 751	31	18 720	15 971	17 031	(1 060)
Shares	676	-	676	2 634	12 629	(9 995)
Other variable income securities	17 633	8 335	9 298	5 013	20 369	(15 356)
	37 060	**8 366**	**28 694**	**23 618**	**50 029**	**(26 411)**
Gains or losses from hedge accounting						
Fair value changes of hedging instruments						
Foreign exchange rate contracts	48 440	82 110	(33 670)	420 198	177 735	242 463
Fair value changes of hedging item attributable to hedged risk	250 421	201 046	49 375	1 751	243 278	(241 527)
	298 861	**283 156**	**15 705**	**421 949**	**421 013**	**936**
Foreign exchange revaluation	**693 619**	**687 765**	**5 854**	**794 095**	**794 234**	**(139)**
	1 135 877	**1 071 567**	**64 310**	**1 748 270**	**1 679 221**	**69 049**

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

In accordance with the accounting policy described in Note 6.5 of the explanatory notes at 31 December 2022, 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 at 30 June 2023, the gains recognised in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 1,556 thousand (30 June 2022: Euro 1,499 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 at 30 June 2023, there was no compensation received (30 June 2022: Euro 88 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 6.1 of the explanatory notes at 31 December 2022.

NOTE 12 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	**30.06.2022**
Real Estate	(402)	1 539
Equipment	152	(307)
Other	(53)	226
	(303)	**1 458**

NOTE 13 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	**30.06.2022**
Other operating income		
Gains / (losses) on recoveries of loans	12 356	12 306
Other income	8 337	8 789
	20 693	**21 095**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 30)	(552)	-
Direct and indirect taxes	(2 019)	(566)
Contribution on the banking sector and solidarity additional	(33 410)	(33 410)
Membership fees and donations	(701)	(1 041)
Charges with Supervisory entities	(1 143)	(1 167)
Contractual Indemnities (SPE)	(30)	(15)
Other expenses	(19 843)	(9 888)
	(57 698)	**(46 087)**
Other operating income / (expenses)	**(37 005)**	**(24 992)**

As at 30 June 2023, no amount has been received in respect of compensation for interruption of hedging operations, included in other income (30 June 2022: Euro 88 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 notional amount of derivative financial instruments, and whose regime has been extended. As at 30 June 2023, novobanco recognised Banking Levy charges as a cost in the amount of Euro 28,270 thousand (30 June 2022: Euro 28,270 thousand). The cost recognised as at 30 June 2023 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 Stabilisation 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 at 30 June 2023, the Bank recognised as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,140 thousand (30 June 2022: Euro 5,140 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)

	30.06.2023	30.06.2022
Wages and salaries	86 689	79 874
Remuneration	86 380	79 874
Career bonuses (see Note 15)	309	-
Mandatory social charges	22 541	23 019
Costs with post-employment benefits (see Note 15)	55	262
Other costs	2 776	901
	112 061	**104 056**

The provisions and costs related to the restructuring process are presented in Note 31.

As at 30 June 2023, the number of employees of the Bank is 3,858 (30 June 2022: 3,893).

NOTE 15 –EMPLOYEE BENEFITS

Pension and health-care benefits

As mentioned in accounting policy 6.26 of the explanatory notes at 31 December 2022, 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 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, would 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. As at 30 June 2023, the amount of Euro 362 thousand was recorded in Personnel Costs related to the defined contribution plan (30 June 2022: Euro 272 thousand).

The Bank’s liabilities and coverage levels, calculated in accordance with the accounting policy defined in Note 6.26 - Employee benefits, reportable as at 30 June 2023 and 31 December 2022 are analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Assets / (liabilities) recognised in the balance sheet		
Total liabilities	**(1 387 924)**	**(1 389 421)**
Pensioners	(1 044 065)	(1 057 119)
Employees	(343 859)	(332 302)
Coverage		
Fair value of plan assets	**1 492 924**	**1 441 442**
Net assets / (liabilities) in the balance sheet (See Notes 28)	**105 000**	**52 021**
Accumulated actuarial deviations recognised in other comprehensive income	**627 591**	**684 759**

According to the policy defined in Note 6.26 - Employee Benefits of the explanatory notes at 31 December 2022, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

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

	30.06.2023		31.12.2022	
	Assumptions	**Actual**	**Assumptions**	**Actual**
Actuarial Assumptions				
Projected rate of return on plan assets	4.00%	6.42%	4.00%	-18.92%
Discount rate	4.00%	-	4.00%	-
Pension increase rate	0.75%	0.54%	0.75%	1.41%
Salary increase rate	1.00%	0.35%	1.00%	2.54%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-3 years	

Disability decrements are not considered in the calculation of the liabilities. The determination of the discount rate as at 30 June 2023 and 31 December 2022 was based on: (i) the evolution of the main indexes in relation to high quality corporate bonds and (ii) the duration of the liabilities.

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

(in thousands of Euros)

	30.06.2023	31.12.2022
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**684 759**	**781 244**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial assumptions	-	(515 423)
- Plan assets return (excluding net of interests)	(57 168)	418 938
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**627 591**	**684 759**

The costs of retirement pensions and health benefits for the six months periods ended on 30 June 2023 and 2022 can be analysed as follows:

(in thousands of Euros)

	30.06.2023	30.06.2022
Current service cost [a]	55	-
Net interest	452	1 281
Early retirements [a]	-	262
Post-employment benefits costs	**507**	**1 543**

In the first half of 2023, the amount of early retirements was Euro 3.6 million (30 June 2022: Euro 2.2 million), of which Euro 3.6 million falls within the Bank's restructuring process and was recognised as a counterparty to the use of the restructuring provision (see Note 31).

Career bonuses

As at 30 June 2023, the liabilities assumed by the Bank amounted to Euro 5,732 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 6.26 – Employee benefits of the explanatory notes at 31 December 2022 (31 December 2022: Euro 5,606 thousand) (see Note 32).

As at 30 June 2023, the costs recognised with career bonuses were Euro 309 thousand (30 June 2022: no costs with career bonuses were recorded) (see Note 14).

NOTE 16 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	**30.06.2022**
Rentals	3 603	2 872
Advertising	2 855	2 663
Communication	4 261	4 468
Maintenance and repairs	4 056	4 659
Travelling and representation	1 228	912
Transportation of valuables	1 305	1 458
Insurance	3 606	3 583
IT services	22 178	18 248
Independent work	1 034	1 285
Temporary work	418	403
Electronic payment systems	6 746	5 515
Legal costs	2 436	3 710
Consultancy and audit fees	12 474	10 557
Water, energy and fuel	1 040	1 466
Consumables	813	772
Other costs	11 598	10 160
	79 651	**72 731**

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

NOTE 17 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

This caption as at 30 June 2023 and 2022 is analysed as follows:

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Contribution to the Resolution Fund	14 877	24 416
Contribution to the National Resolution Fund	6 947	16 017
Contribution to the Deposit Guarantee Fund	242	284
	22 066	**40 717**

NOTE 18 – IMPAIRMENT

As at 30 June 2023 and 2022 the impairment is analysed as follows:

(in thousands of Euros)

	Six month period ended on					
	30.06.2023			30.06.2022		
	Charges	Reversals	Total	Charges	Reversals	Total
Provisions or reversal of provisions (see Note 31)						
Provisions for guarantees	5 920	(5 917)	3	6 619	(8 422)	(1 803)
Provisions for commitments	2 370	(1 613)	757	1 409	(4 319)	(2 910)
Other provisions	9 986	(11 396)	(1 410)	2 564	(54 256)	(51 692)
	18 276	**(18 926)**	**(650)**	**10 592**	**(66 997)**	**(56 405)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (see Note 22)						
Securities at fair value through other comprehensive income	183	(550)	(367)	1 201	(1 801)	(600)
Securities at amortised cost	1 201 442	(1 192 397)	9 045	854 659	(813 143)	41 516
Loans and advances to banks	342	(479)	(137)	252	(533)	(281)
Loans and advances to customers	108 553	(58 798)	49 755	106 102	(85 680)	20 422
	1 310 520	**(1 252 224)**	**58 296**	**962 214**	**(901 157)**	**61 057**
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates (see Note 24)	**-**	**-**	**-**	**-**	**(15 687)**	**(15 687)**
Impairment or reversal of impairment on non-financial assets						
Tangible fixed assets (see Note 25)	-	(675)	(675)	-	(425)	(425)
Other assets (see Note 28)	3 500	(11 608)	(8 108)	5 287	(9 193)	(3 906)
	3 500	**(12 283)**	**(8 783)**	**5 287**	**(9 618)**	**(4 331)**
	1 332 296	**(1 283 433)**	**48 863**	**978 093**	**(993 459)**	**(15 366)**

NOTE 19 – EARNING PER SHARE

Basic earnings per share

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

(in thousands of Euros)

	Six month period ended on	
	30.06.2023	30.06.2022
Net consolidated profit / (loss) attributable to shareholders of the Bank	**395 874**	**211 974**
Weighted average number of common shares outstanding (thousands)	10 034 965	9 954 907
Basic earnings per share attributable to shareholders of novobanco (in Euros)	**0,04**	**0,02**
Basic earnings per share from continuing activities attributable to shareholders of novobanco (in Euros)	**0,04**	**0,02**

Diluted earnings per share

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

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

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

As at 30 June 2023 and 31 December 2022, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Cash	**150 014**	**176 797**
Demand deposits with Central Banks		
Bank of Portugal	2 952 950	5 936 640
Other Central Banks	9 433	5 861
	2 962 383	**5 942 501**
Deposits in other domestic credit institutions		
Repayable on demand	12 624	20 331
Uncollected checks	48 718	159 129
	61 342	**179 460**
Deposits with banks abroad		
Repayable on demand	81 625	88 537
	81 625	**88 537**
	3 255 364	**6 387 295**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 269.3 million (31 December 2022: Euro 257.7 million), which aim to satisfy the legal requirements regarding the constitution of minimum cash balances. According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 30 June 2023 and at 31 December 2022 the average interest rate on these deposits was 3.5% and 2%, respectively.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 30 June 2023 was included in the observation period running from 21 June 2023 to 1 August 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 at 30 June 2023 and 31 December 2022, this caption is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Financial assets held for trading		
Securities		
Securities held for trading		
Bonds and other fixed income securities		
Issued by government and public entities	376 383	36 428
	376 383	**36 428**
Derivatives		
Derivatives held for trading with positive fair value	121 589	134 419
	121 589	**134 419**
	497 972	**170 847**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	97 022	99 317
	97 022	**99 317**

Securities held for trading

In accordance with the accounting policy described in Note 6.10.5 of the explanatory notes at 31 December 2022, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 38.

Derivatives

As at 30 June 2023 and 31 December 2022, derivatives are analysed as follows:

(in thousands of Euros)

	30.06.2023			31.12.2022		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives held for negotiation						
Foreign exchange rate contracts	1 979 044	19 607	17 240	1 672 066	23 145	22 024
Interest rate contracts	3 200 849	97 777	75 040	2 909 355	102 729	74 413
Equity / Index contracts	332 562	3 276	3 377	422 894	8 256	2 671
Credit default contracts	50 000	34	765	-	-	-
Commodities contracts	15 076	895	600	15 759	289	209
		121 589	**97 022**		**134 419**	**99 317**

In the first half of 2023, the Bank recognised a loss of Euro 175 thousand related to the CVA of derivative instruments (financial exercise of 2022: loss of Euro 1,820 thousand). The way of determining the CVA is explained in Note 38.

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

As at 30 June 2023 and 31 December 2022, these captions are analysed as follows:

(in thousands of Euros

	30.06.2023					
	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	1 537 070	391	2 190 565	9 108 114	-	12 836 140
Loans and advances to banks	-	-	-	154 730	-	154 730
Loans and advances to customers	137	-	-	23 256 369	(143 162)	23 113 344
	1 537 207	**391**	**2 190 565**	**32 519 213**	**(143 162)**	**36 104 214**

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

(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	8 400 233	-	12 120 932
Loans and advances to banks	-	-	-	145 464	-	145 464
Loans and advances to customers	18	-	-	22 955 247	(164 388)	22 790 877
	1 537 670	**13**	**2 183 034**	**31 500 944**	**(164 388)**	**35 057 273**

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

Securities

As at 30 June 2023 and 31 December 2022, the detail of securities portfolio is as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	457 374	433 665
Shares	141 036	140 442
Other variable income securities	938 660	963 545
	1 537 070	**1 537 652**
Securities at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	391	13
	391	**13**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	1 661 156	1 629 639
From other issuers	459 195	479 406
Shares	70 214	73 989
	2 190 565	**2 183 034**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	4 656 872	4 590 460
From other issuers	4 943 817	4 319 885
Impairment	(300 546)	(291 567)
Value adjustments for interest rate risk hedging (see Note 23)	(192 029)	(218 545)
	9 108 114	**8 400 233**
	12 836 140	**12 120 932**

On 29 December 2022, the Crow Project was concluded, between novobanco, Banco Comercial Português, S.A., Caixa Geral de Depósitos, S.A., Banco Santander Totta, S.A. and Oitante, S.A. (the sellers) and Davidson Kempner (the buyer), regarding the sale process of the participation units held by these banks in the restructuring funds. This transaction resulted in: (i) the transfer of the units held in FRT together with the assets directly and indirectly held by the fund to the buyer; (ii) the transfer of the shares in FLIT together with the assets directly and indirectly held by the fund to the buyer; (iii) certain hotel assets indirectly held by the Recovery Fund, FCR were indirectly acquired by FLIT; and (iv) certain assets indirectly held by FLIT and FRT were transferred to the Sellers. As a result of this transaction, novobanco received, in net terms, Euro 224 million, derecognised Euro 267 million of participating units and acquired assets recorded as non-current assets in the amount of Euro 48 million, with a positive impact on results of Euro 4.8 million.

The remaining participations in restructuring funds that remained in the Bank's balance sheet are accounted for as shares and other variable income securities mandatorily measured at fair value through profit or loss, in accordance with the accounting policy described in Note 6.10.4, 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 at 30 June 2023 and 31 December 2022, 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	**1 664 383**	**312**	**(3 539)**	**-**	**1 661 156**	**(69)**
Residents	294 549	155	(283)	-	294 421	(35)
Non residents	1 369 834	157	(3 256)	-	1 366 735	(34)
From other issuers	**502 793**	**144**	**(33 386)**	**(10 356)**	**459 195**	**(140)**
Residents	29 606	-	(4 725)	-	24 881	(1)
Non residents	473 187	144	(28 661)	(10 356)	434 314	(139)
Shares	**132 655**	**34 975**	**(97 416)**	**-**	**70 214**	**-**
Residents	59 948	33 429	(35 188)	-	58 189	-
Non residents	72 707	1 546	(62 228)	-	12 025	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**	**-**
Residents	3	-	(3)	-	-	-
Balance as at 30 June 2023	**2 299 834**	**35 431**	**(134 344)**	**(10 356)**	**2 190 565**	**(209)**

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

[(2)] As part of fair value hedge operations (see Note 23)

(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	**1 634 375**	**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)] As part of fair value hedge operations (see Note 23)

During the first half of 2023, the Bank sold Euro 564.6 million of financial instruments classified at fair value through other comprehensive income (31 December 2022: Euro 5,909.2 million), with a loss of Euro 0.3 million (30 June 2022: gain of Euro 49.3 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 261.8 million that were transferred from revaluation reserves to sales-related reserves (31 December 2022: loss of Euro 0.9 million), from the sale of equity instruments.

The changes in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment change of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	**3 668**	**-**	**-**	**3 668**
Increases due to changes in credit risk	1 201	-	-	1 201
Decreases due to changes in credit risk	(1 781)	-	(20)	(1 801)
Utilisation during the period	(1 645)	-	-	(1 645)
Other changes	12	-	20	32
Balance as at 30 June 2022	**1 455**	**-**	**-**	**1 455**
Increases due to changes in credit risk	1 077	-	-	1 077
Decreases due to changes in credit risk	(934)	-	-	(934)
Utilisation during the period	(1 009)	-	-	(1 009)
Balance as at 31 December 2022	**589**	**-**	**-**	**589**
Increases due to changes in credit risk	183	-	-	183
Decreases due to changes in credit risk	(550)	-	-	(550)
Utilisation during the period	(13)	-	-	(13)
Balance as at 30 June 2023	**209**	**-**	**-**	**209**

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

(in thousands of Euros)

	Impairment change of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	**6 246**	**38 283**	**203 243**	**247 772**
Increases due to changes in credit risk	12 219	170 620	671 820	854 659
Decreases due to changes in credit risk	(3 864)	(204 661)	(604 618)	(813 143)
Utilisation during the period	(34)	-	-	(34)
Other changes	(6 302)	16	7 116	830
Balance as at 30 June 2022	**8 265**	**4 258**	**277 561**	**290 084**
Increases due to changes in credit risk	3 232	3 151	1 015 886	1 022 269
Decreases due to changes in credit risk	(6 129)	(4 005)	(986 327)	(996 461)
Utilisation during the period	(6)	-	(25 237)	(25 243)
Other changes	21	(31)	928	918
Balance as at 31 December 2022	**5 383**	**3 373**	**282 811**	**291 567**
Increases due to changes in credit risk	3 045	6 350	1 192 047	1 201 442
Decreases due to changes in credit risk	(3 968)	(4 602)	(1 183 827)	(1 192 397)
Utilisation during the period	(59)	-	(4)	(63)
Other changes	(153)	150	-	(3)
Balance as at 30 June 2023	**4 248**	**5 271**	**291 027**	**300 546**

In accordance with the accounting policy mentioned on Note 6.16 of the explanatory notes at 31 December 2022, the Bank regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 7.1.

The detail of the securities portfolio by fair value hierarchy is presented in Note 38.

The portfolio securities pledged by the Bank are analysed in Note 35.

Loans and advances to Banks

As at 30 June 2023 and 31 December 2022, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Loans and advances to banks in Portugal		
Very short-term placements	10 124	-
Deposits	100 985	101 811
Loans	38 974	39 228
Other loans and advances	3	3
	150 086	**141 042**
Loans and advances to banks abroad		
Deposits	5 179	5 096
	5 179	**5 096**
Impairment losses	**(535)**	**(674)**
	154 730	**145 464**

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

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

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2021	**284**	**474**	**425**	**1 183**
Increases due to changes in credit risk	33	219	-	252
Decreases due to changes in credit risk	(139)	(394)	-	(533)
Other changes	(41)	1	6	(34)
Balance as at 30 June 2022	**137**	**300**	**431**	**868**
Increases due to changes in credit risk	134	172	-	306
Decreases due to changes in credit risk	(179)	(317)	-	(496)
Other changes	(1)	(1)	(2)	(4)
Balance as at 31 December 2022	**91**	**154**	**429**	**674**
Increases due to changes in credit risk	176	166	-	342
Decreases due to changes in credit risk	(192)	(287)	-	(479)
Other changes	(5)	4	(1)	(2)
Balance as at 30 June 2023	**70**	**37**	**428**	**535**

Loans and advances to customers

As at 30 June 2023 and 31 December 2022, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Domestic loans and advances		
Corporate		
Current account loans	1 161 189	1 080 349
Loans	8 763 756	9 009 712
Discounted bills	69 505	86 539
Factoring	691 914	668 975
Overdrafts	8 351	46 626
Financial leases	698 546	796 669
Other loans and advances	27 740	29 666
Individuals		
Residential Mortgage loans	7 562 001	7 409 318
Consumer credit and other loans	1 233 857	1 162 840
	20 216 859	**20 290 694**
Foreign loans and advances		
Corporate		
Current account loans	64 148	46 898
Loans	2 243 422	1 992 337
Discounted bills	17	13
Factoring	31 035	30 805
Overdrafts	181	72
Individuals		
Residential Mortgage loans	1 280 318	1 212 880
Consumer credit and other loans	106 635	100 983
	3 725 756	**3 383 988**
Overdue loans and advances and interests		
Under 90 days	31 049	11 943
Over 90 days	291 916	326 207
	322 965	**338 150**
	24 265 580	**24 012 832**
Impairment losses	**(1 009 074)**	**(1 057 567)**
	23 256 506	**22 955 265**
Fair value adjustaments of interest rate hedges (see Note 23)		
Corporate		
Loans	-	(16 805)
Individuals		
Residential Mortgage loans	(143 162)	(147 583)
	(143 162)	**(164 388)**
	23 113 344	**22 790 877**

As at 30 June 2023, 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 137 thousand, and the remaining loans and advances to customers portfolio is recorded at amortised cost.

As at 30 June 2023, the caption Loans and advances to customers includes Euro 7,448.9 million of mortgage loans related to the issuance of mortgage bonds (31 December 2022: Euro 6,078.4 million) (see Note 30).

As at 30 June 2023, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 64,476 thousand (31 December 2022: Euro 36,145 thousand).

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment changes of loans and advances to customers			
	Stage 1	*Stage 2*	*Stage 3*	Total
Balance as at 31 December 2021	**62 056**	**317 271**	**856 430**	**1 235 757**
Financial assets derecognised	(4)	-	(5 264)	(5 268)
Increases due to changes in credit risk	13 415	26 096	66 591	106 102
Decreases due to changes in credit risk	(46 455)	(18 459)	(20 766)	(85 680)
Utilisation during the period	-	(80)	(44 862)	(44 942)
Other changes	44 753	(26 653)	1 916	20 016
Balance as at 30 June 2022	**73 765**	**298 175**	**854 045**	**1 225 985**
Financial assets derecognised	-	-	(21 583)	(21 583)
Increases due to changes in credit risk	6 050	36 148	61 474	103 672
Decreases due to changes in credit risk	(44 120)	(19 873)	(23 232)	(87 225)
Utilisation during the period	-	42	(152 260)	(152 218)
Other changes	25 329	(17 796)	(18 597)	(11 064)
Balance as at 31 December 2022	**61 024**	**296 696**	**699 847**	**1 057 567**
Financial assets derecognised	(123)	(188)	(29 721)	(30 032)
Increases due to changes in credit risk	5 090	56 975	46 488	108 553
Decreases due to changes in credit risk	(31 384)	(21 620)	(5 794)	(58 798)
Utilisation during the period	-	(28)	(67 784)	(67 812)
Other changes	25 119	(20 111)	(5 412)	(404)
Balance as at 30 June 2023	**59 726**	**311 724**	**637 624**	**1 009 074**

Main events in the first half of 2023

Below are highlighted the non-recurring situations that had greater relevance in the evolution of the impairment calculation, during the first half of 2023:

1. Impairment booked for contingencies resulting from adverse market conditions - in particular due to the expected impact on portfolios more susceptible to increases in the reference interest rates;
2. Update of the severity rates - LGD risk parameter - resulting from the incorporation of more recent information on the reference interest rates;
3. Developments in the staging model, introducing new stage 2 triggers related to unrated exposures.

These situations stem from the current economic context characterised by (i) the continuation of the war in Ukraine; (ii) the persistence of high inflation, particularly in services and food; and (iii) the sharp rise in the reference interest rates by the main Central Banks, tightening financing conditions.

Regarding the impairment reinforcements mentioned in point 1, this amount has been recognised without specific allocation to individual contracts, reflecting this impact through stage transition simulations and/or deterioration of the portfolio risk level in portfolios more susceptible to the rising in the interest rates.

As for the remaining impacts indicated, these are normal developments in the impairment calculation, with point 2. referring to the update of information supporting a risk parameter - LGD - and point 3. reflecting the introduction of additional stage 2 triggers, associated with exposures without associated risk rating.

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

As at 30 June 2023 and 31 December 2022, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Hedging derivatives		
Assets	626 066	562 886
Liabilities	(173 515)	(120 612)
	452 551	**442 274**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities at amortised cost (see Note 22)	(192 029)	(218 545)
Loans to customers (see Note 22)	(143 162)	(164 388)
	(335 191)	**(382 933)**
Financial assets at fair value through other comprehensive income		
Securities at fair value through other comprehensive income (see Note 22) *	(10 356)	(11 988)
	(345 547)	**(394 921)**

* Amount recorded in fair value reserves transferred to profit or loss

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.

NOTE 24 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

(in thousands of Euros)

	30.06.2023						31.12.2022					
	Number of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Book Value	Number of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Book Value
novobanco dos Açores	2 144 404	57.53%	5.00	10 308	-	10 308	2 144 404	57.53%	5.00	10 308	-	10 308
NB Finance	100 000	100.00%	1.00	1 700	-	1 700	100 000	100.00%	1.00	1 700	-	1 700
BEST	62 999 800	100.00%	1.00	100 418	(20 755)	79 663	62 999 700	100.00%	1.00	100 418	(20 755)	79 663
ES Tech Ventures	71 500 000	100.00%	1.00	71 500	(44 559)	26 941	71 500 000	100.00%	1.00	71 500	(44 559)	26 941
GNB GA	2 350 000	100.00%	5.00	86 720	-	86 720	2 350 000	100.00%	5.00	86 720	-	86 720
GNB Concessões	942 306	98.97%	5.00	20 602	(4 915)	15 687	942 306	98.96%	5.00	20 602	(4 915)	15 687
ES Representações	49 995	99.99%	0.18	9	(9)	-	49 995	99.99%	0.18	9	(9)	-
Locarent	525 000	50.00%	5.00	2 967	-	2 967	525 000	50.00%	5.00	2 967	-	2 967
NB África	13 300 000	100.00%	5.00	66 500	(55 512)	10 988	13 300 000	100.00%	5.00	66 500	(55 514)	10 986
Unicre	350 029	17.50%	5.00	11 497	-	11 497	350 029	17.50%	5.00	11 497	-	11 497
Edenred Portugal	101 477 601	50.00%	0.01	4 984	-	4 984	101 477 601	50.00%	0.01	4 984	-	4 984
Multipessoal	20 000	22.52%	5.00	100	(100)	-	20 000	22.52%	5.00	100	(100)	-
Aroleri	3 500	100.00%	1.00	4	-	4	3 500	100.00%	1.00	4	-	4
Righthour	10 000	100.00%	1.00	-	-	-	-	-	-	-	-	-
				377 309	**(125 850)**	**251 459**				**377 309**	**(125 852)**	**251 457**

The changes in impairment losses for investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022	30.06.2022
Balance at the beginning of the period	**125 852**	**130 791**	**146 478**
Charges	-	3 255	-
Reversals	-	(3 734)	(15 687)
Foreign exchange differences and other	(2)	(4 460)	-
Balance at the end of the period	**125 850**	**125 852**	**130 791**

NOTE 25 – PROPERTY, PLANT AND EQUIPMENT

This caption as at 30 June 2023 and 31 December 2022 is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Real estate properties		
For own use	87 387	79 501
Improvement in leasehold properties	92 896	85 414
	180 283	**164 915**
Equipment		
Computer equipment	113 416	113 428
Fixtures	21 228	27 503
Furniture	48 733	53 173
Security equipment	14 045	16 915
Machinery and tools	9 464	7 702
Transport equipment	562	562
Other	60	82
	207 508	**219 365**
Assets under right of use		
Real estate properties	111 723	111 518
Equipment	10 392	10 615
	122 115	**122 133**
Work in progress		
Improvements in leasehold properties	4 834	31 376
Real estate properties	27 638	25 508
Equipment	16	16
Other	277	277
	32 765	**57 177**
	542 671	**563 590**
Accumulated impairment	(9 700)	(10 375)
Accumulated depreciation	(261 627)	(294 252)
	271 344	**258 963**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Assets under right of use	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2021	**299 602**	**232 349**	**116 041**	**6 452**	**654 444**
Acquisitions	10 127	9 106	3 655	20 972	43 860
Disposals/write-offs	(15 668)	(14 110)	(3 755)	-	(33 533)
Transfers	265	-	-	(265)	-
Other movements	(1)	(1)	-	1	(1)
Balance as at 30 June 2022	**294 325**	**227 344**	**115 941**	**27 160**	**664 770**
Acquisitions	1 356	14 705	15 871	30 089	62 021
Disposals/write-offs	(129 721)	(22 583)	(9 679)	(15)	(161 998)
Transfers	(1 046)	(101)	-	(57)	(1 204)
Foreign exchange differences and other	1	-	-	-	1
Balance as at 31 December 2022	**164 915**	**219 365**	**122 133**	**57 177**	**563 590**
Acquisitions	2 218	4 718	2 213	20 333	29 482
Disposals/write-offs	(29 871)	(16 574)	(2 231)	-	(48 676)
Transfers **(a) (b)**	43 021	(1)	-	(44 745)	(1 725)
Balance as at 30 June 2023	**180 283**	**207 508**	**122 115**	**32 765**	**542 671**
Depreciation					
Acquisitions	**180 880**	**192 397**	**37 677**	**-**	**410 954**
Acquisitions	2 432	6 109	6 657	-	15 198
Disposals/write-offs	(15 668)	(14 102)	(2 221)	-	(31 991)
Foreign exchange differences and other	35	60	-	-	95
Balance as at 30 June 2022	**167 679**	**184 464**	**42 113**	**-**	**394 256**
Acquisitions	1 875	6 277	7 573	-	15 725
Disposals/write-offs	(91 889)	(22 140)	(3 325)	-	(117 354)
Transfers	(390)	(101)	-	-	(491)
Foreign exchange differences and other	2 090	26	-	-	2 116
Balance as at 31 December 2022	**79 365**	**168 526**	**46 361**	**-**	**294 252**
Depreciations of the period	2 191	6 143	7 727	-	16 061
Disposals/write-offs	(29 871)	(16 570)	(2 231)	-	(48 672)
Transfers **(b)**	(879)	(1)	-	-	(880)
Foreign exchange differences and other	788	78	-	-	866
Balance as at 30 June 2023	**51 594**	**158 176**	**51 857**	**-**	**261 627**
Impairment					
Balance as at 31 December 2021	**12 071**	**-**	**-**	**-**	**12 071**
Impairment loss	(425)	-	-	-	(425)
Balance as at 30 June 2022	**11 646**	**-**	**-**	**-**	**11 646**
Reversal of impairment loss	(1 271)	-	-	-	(1 271)
Balance as at 31 December 2022	**10 375**	**-**	**-**	**-**	**10 375**
Reversal of impairment loss	(675)	-	-	-	(675)
Balance as at 30 June 2023	**9 700**	**-**	**-**	**-**	**9 700**
Net book value at 30 June 2022	**118 989**	**49 332**	**70 258**	**32 765**	**271 344**
Net book value at 31 December 2021	**75 175**	**50 839**	**75 772**	**57 177**	**258 963**
Net book value at 30 June 2021	**115 000**	**42 880**	**73 828**	**27 160**	**258 868**

(a) Includes Euros 44 745 thousand of real estate under the New Distribution Model.

(b) Includes Euros 1,725 thousand of real estate and Euros 880 thousand of accumulated depreciation for discontinued counters that have been transferred at net value to the appropriate balance sheet items.

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 at 30 June 2023 and 31 December 2022, is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Internally developed		
Automatic data processing system	65 373	65 373
Acquired from third parties		
Automatic data processing system	378 762	366 444
	444 135	**431 817**
Work in progress	**26 985**	**31 881**
	471 120	**463 698**
Accumulated amortisation	(398 988)	(394 058)
	72 132	**69 640**

Internally generated intangible assets include expenses incurred by the Bank's units specializing in the implementation of IT solutions that will bring future economic benefits (see Note 6.24 of the explanatory notes as at 31 December 2022).

The changes in this caption were as follows:

(in thousands of Euros)

	Software	Work in progress	Total
Acquistion cost			
Balance as at 31 December 2021	**445 152**	**13 410**	**458 562**
Acquisitions			
Acquired from third parties	70	6 748	6 818
Transfers	216	(216)	-
Balance as at 30 June 2022	**445 438**	**19 942**	**465 380**
Acquisitions			
Acquired from third parties	6 404	11 938	18 342
Disposals/write-offs	(20 026)	-	(20 026)
Foreign exchange differences and other	1	1	2
Balance as at 31 December 2022	**431 817**	**31 881**	**463 698**
Acquisitions			
Acquired from third parties	73	7 349	7 422
Transfers	12 245	(12 245)	-
Balance as at 30 June 2023	**444 135**	**26 985**	**471 120**
Amortizations			
Balance as at 31 December 2021	**391 047**	**-**	**391 047**
Amortization for the period	5 039	-	5 039
Balance as at 30 June 2022	**396 086**	**-**	**396 086**
Amortization for the period	17 999	-	17 999
Disposals/write-offs	(20 026)	-	(20 026)
Foreign exchange differences and other	(1)	-	(1)
Balance as at 31 December 2022	**394 058**	**-**	**394 058**
Amortization for the period	4 929	-	4 929
Foreign exchange differences and other	1	-	1
Balance as at 30 June 2023	**398 988**	**-**	**398 988**
Net balance at 30 June 2023	**45 147**	**26 985**	**72 132**
Net balance at 31 December 2022	**37 759**	**31 881**	**69 640**
Net balance at 30 June 2022	**49 352**	**19 942**	**69 294**

NOTE 27 – INCOME TAXES

Tax assets and liabilities recognised in the balance sheet as at 30 June 2023 and 31 December 2022 can be analysed as follows:

(in thousands of Euros)

	30.06.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Current tax	**34 626**	**4 449**	**30 298**	**4 505**
Corporate Tax recoverable / (payable)	9 626	4 044		4 174
Other	25 000	405	30 298	331
Deferred tax	**954 847**		**917 202**	
	989 473	**4 449**	**947 500**	**4 505**

The deferred tax assets and liabilities recognised in the balance sheet as at 30 June 2023 and 31 December 2022 are as follows:

(in thousand of Euros)

	Assets		Liabilities		Net	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022	30.06.2023	31.12.2022
Financial instruments	121 165	91 249	(13 481)	(13 369)	107 684	77 880
Impairment losses on loans (not covered)	307 008	330 072	-	-	307 008	330 072
Impairment losses on loans (covered)	295 119	295 119	-	-	295 119	295 119
Other tangible assets	-	-	(76)	(76)	(76)	(76)
Provisions	96 155	100 583	-	-	96 155	100 583
Pensions	48 457	50 624	-	-	48 457	50 624
Tax losses carried forward	100 500	63 000	-	-	100 500	63 000
Deferred tax asset / (liability)	**968 404**	**930 647**	**(13 557)**	**(13 445)**	**954 847**	**917 202**
Asset / liability set-off for deferred tax purposes	(13 557)	(13 445)	13 557	13 445	-	-
Net Deferred tax asset / (liability)	**954 847**	**917 202**	**-**	**-**	**954 847**	**917 202**

As at 30 June 2023 the deferred tax related to temporary differences was determined based on an aggregate rate of 31% (31 December 2022: 31%), resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4 September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1 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 1 January 2019, to continue to apply the tax regime in force before the publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Therefore, on 30 June 2023, the Bank continued to apply Regulatory Decree no. 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework that derives from Notice no. 3/95 of the Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years, except where any deduction or use of tax credit has been made, where the limitation period is that of the exercise of that right. Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, the Bank Management believes that there will be no additional charges of significant value.

As at 30 June 2023 and 31 December 2022, the Bank recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As at 30 June 2023, the amounts held by the Bank referring to these realities amount to approximately Euro 41 million (31 December 2022: Euro 57 million).

Deferred tax assets recoverability analysis

Deferred tax assets are recognised to the extent they are expected to be recovered with future taxable income, against deductible temporary differences that can be used. As at 31 December 2022, 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. As at 31 December 2022, this exercise was made based on the average of the draft medium-term plan (“MTP”) for the period of 2023-2025 and a stress scenario exercise.

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 the reference interest rate, 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 the reference interest rate 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)

	30.06.2023	31.12.2022
No expiry period	953 858	933 178
With expiry period	478 489	478 489
2025	91 728	91 728
2026	135 452	135 452
2029	170 236	170 236
2033	81 073	81 073
	1 432 347	1 411 667

Additionally, regarding the adjustments resulting from the application of the fair value model to the participation units of real estate investment funds and venture capital funds, which do not contribute to the formation of taxable profit for the tax period in which they are recognised in accounting, having only tax relevance at the time of their realisation, namely in the onerous transfer of the participation units or liquidation of the funds. The overall amount of deferred tax assets relating to these temporary differences, not recognised in the balance sheet, as at 30 June 2023 amounts to Euro 239 million (31 December 2022: Euro 229 million).

Special Regime applicable to Deferred Tax Assets

During 2014, novobanco adhered to the Special Regime applicable to deferred tax assets, after a 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 19 August, limited the temporal application of the above-mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 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 exercise 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
Tax Credit	124 721

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 28 – OTHER ASSETS

As at 30 June 2023 and 31 December 2022, the caption Other assets is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Demand deposits	197 207	251 225
Derivative products	*92 648*	*133 864*
Collateral CLEARNET and VISA	*38 942*	*41 423*
Collateral deposits relating to reinsurance operations	*61 067*	*71 387*
Other collateral deposits	*4 550*	*4 551*
Debtors for mortgage credit interest subsidies	20 690	18 304
Public sector	216 794	481 198
Contingent Capital Agreement	198 180	198 180
Other debtors	441 794	440 912
Income receivable	43 054	131 814
Deferred costs	13 893	13 184
Retirement pensions and health benefits (see Note 15)	105 000	52 021
Precious metals, numismatics, medal collection and other liquid assets	10 469	10 395
Real estate properties [a)]	196 558	221 097
Equipment [a)]	3 054	3 013
Stock exchange transactions pending settlement	12 058	4 465
Other assets	86 625	119 949
	1 545 376	**1 945 756**
Impairment losses		
Real estate properties [a)]	(97 087)	(112 855)
Equipment [a)]	(2 206)	(2 195)
Other debtors - Shareholder loans, supplementary capital contributions	(77 929)	(74 164)
Other	(38 387)	(43 426)
	(215 609)	**(232 640)**
	1 329 767	**1 713 116**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA). The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

The decrease during the first half of 2023 in the caption Public Administrative Sector includes about Euro 249.8 million related to the conversion into capital of the rights resulting from the Special Regime Applicable to Deferred Tax Assets, as detailed in Note 33 (31 December 2022: Euro 272.9 million).

As at 30 June 2023, the caption Other debtors includes, amongst others:

- 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 2022: Euro 61.9 million, fully provisioned);
- Euro 1.8 million of receivables related to the sale operation of non-performing loans (NATA II Project) (31 December 2022: Euro 1.8 million);
- Euro 0.6 million of receivables related to the real estate property sale carried out in 2019 (called "Sertorius Project") (31 December 2022: Euro 0.7 million);
- Euro 0.4 million of receivables related to the sale operation of non-performing loans in 2020 (the "Carter Project") (31 December 2022: Euro 0.4 million) (see Note 24); and
- Euro 20.9 million of receivables related to the sale of the restructuring funds (31 December 2022: Euro 20.9 million).

Securities transactions pending settlement reflect the transactions with securities, recorded on the trade date, in accordance with the accounting policy described in Note 6.10 of the explanatory notes at 31 December 2022, 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 Bank has the objective of immediate sale.

The Bank implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Bank regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the period the Bank must hold foreclosed assets.

During the first half of 2023, an impairment charge of Euro 6.9 million was recorded for the properties in the portfolio (31 December 2022: Euro 12.9 million).

As described in accounting policy 6.25 of the explanatory notes at 31 December 2022, 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)

	Six month period ended on		
	30.06.2023	31.12.2022	30.06.2022
Balance at the beginning of the period	**232 640**	**352 729**	**360 425**
Dotation for the period	3 500	10 783	5 287
Utilisation during the period	(8 922)	(111 908)	(2 576)
Write-back for the period	(11 608)	(18 639)	(9 193)
Foreign exchange differences and other	(1)	(325)	(1 214)
Balance at the end of the period	**215 609**	**232 640**	**352 729**

The changes of the Real Estate Properties were as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Balance at the beginning of the period	**221 097**	**357 644**
Additions	5 870	15 510
Disposals	(30 319)	(151 092)
Other changes	(90)	(965)
Balance at the end of the period	**196 558**	**221 097**

NOTE 29 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

This caption as at 30 June 2023 and 31 December 2022 is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Assets/Liabilities non-current held for sale		
Banco Well Link (former NB Ásia)	-	2 175
Compagris	18 437	17 437
Barrosinha	7 473	7 473
Solago	12 876	12 875
Ijar Leasing Algerie	13 077	13 146
Others	50	50
	51 913	**53 156**
Impairment losses		
Ijar Leasing Algerie	(8 035)	(8 035)
Others	(50)	(50)
	(8 085)	**(8 085)**
	43 828	**45 071**

In March 2023, the position held in Well Link Bank was disposed of as the put options on the Bank's remaining position in this financial institution were exercised.

The non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

The impairment change for non-current Assets and Liabilities for disposal classified as held for sale is as follows:

(in thousands of Euros)

	Six month period ended on		
	30.06.2023	31.12.2022	30.06.2022
Balance at the beginning of the period	**8 085**	**8 085**	**8 085**
Charges / (Write-backs)	-	(623)	-
Utilisations	-	(3 837)	-
Transfers	-	4 460	-
Balance at the end of the period	**8 085**	**8 085**	**8 085**

Compagris, Barrosinha and Solago

In December 2022, as a result of the conclusion of the sale process of the Restructuring Funds, novobanco acquired 100% of the share capital of Compagris and Barrosinha and 84.16% of the share capital of Solago. As the Bank intends to sell these assets, they were classified as discontinued operations.

NOTE 30 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 30 June 2023 and 31 December 2022 is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Deposits from banks	7 058 730	10 506 509
Due to customers	28 965 370	28 425 223
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 863 132	1 601 454
Other financial liabilities	427 734	371 511
	38 314 966	**40 904 697**

Deposits from Banks

The balance of Deposits from banks is composed, as to its nature, as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	134 734	198
Other funds	1 600 000	6 327 000
	1 734 734	**6 327 198**
Deposits from credit institutions		
Domestic		
Deposits	1 014 992	1 071 278
Other funds	11 699	39 187
	1 026 691	**1 110 465**
Foreign		
Deposits	449 419	430 487
Loans	413 159	479 880
Operations with repurchase agreements	3 423 696	2 150 824
Other resources	11 031	7 655
	4 297 305	**3 068 846**
	5 323 996	**4 179 311**
	7 058 730	**10 506 509**

As at 30 June 2023, the balance of the European Resources System of Central Banks caption includes Euro 1,600 million (31 December 2022: Euro 6,327 million) collateralised by the Bank'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 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.

Repurchase agreements operations corresponds to the sale of securities with a repurchase agreement (repos), recorded in accordance with the accounting policy mentioned in Note 6.21 of the explanatory notes at 31 December 2022.

Due to customers

The balance of Deposits due to customers is composed, as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Repayable on demand		
Demand deposits		
Companies and other entities	6 660 484	7 190 941
Individuals	5 263 707	5 453 281
	11 924 191	**12 644 222**
Time deposits		
Time deposits		
Companies and other entities	3 751 036	2 964 295
Individuals	6 547 784	6 229 606
Other	203	187
	10 299 023	**9 194 088**
Savings accounts		
Retirement saving accounts	158 467	215 643
Other	5 060 143	5 516 120
Companies and other entities	2 044 412	1 864 335
Individuals	3 015 731	3 416 573
	5 218 610	**5 731 763**
Other funds		
Transactions with repurchase agreement	1 069 887	450 906
Other	453 659	404 244
	1 523 546	**855 150**
	28 965 370	**28 425 223**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	30.06.2023	31.12.2022
Debt securities issued		
Euro Medium Term Notes (EMTN)	566 288	561 565
Bonds	585 723	579 866
	1 152 011	**1 141 431**
Subordinated debt		
Euro Medium Term Notes (EMTN)	501 772	-
Bonds	209 349	415 572
	711 121	**415 572**
Financial liabilities associated to transferred assets		
Asset lending operations	-	44 451
	1 863 132	**1 601 454**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias*"), which has a maximum amount of Euro 10 000 million, the Bank issued covered bonds which amount to Euro 5,500 million (31 December 2022: Euro 5,500 million), being these covered bonds totally repurchased by the Bank.

The main characteristics of the outstanding issues as at 30 June 2023 and 31 December 2022 are as follows:

(in thousands of Euros)

30.06.2023

Designation	Nominal value	Carrying book value	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2028	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2029	Trimestral	Euribor 3 Meses + 0,25%	XMSM	Aa2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Trimestral	Euribor 3 Meses + 0,25%	XMSM	Aa2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2022

Designation	Nominal value	Carrying book value	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa3	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa3	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa3	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa3	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Trimestral	Euribor 3 Meses + 0,25%	XDUB	Aa3	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Trimestral	Euribor 3 Meses + 0,25%	XMSM	Aa3	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Trimestral	Euribor 3 Meses + 0,25%	XMSM	Aa3	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in 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 of 2006 and Instruction nº 13/2006 of Bank of Portugal. As at 30 June 2023, the assets that collateralise these covered debt securities amount to Euro 7,448.9 million (31 December 2022: Euro 6,078.4 million) (see Note 22).

The changes in the first half of 2023 and in the financial exercise of 2022 in debt securities issued, subordinated debt and financial liabilities associated to transferred assets were as follows:

(in thousand of Euros)

	Balance as at 31.12.2022	Issues	Redemptions	Net purchases	Other movements [a]	Balance as at 30.06.2023
Debt securities issued						
Euro Medium Term Notes (EMTN)	561 565	-	-	(258)	4 981	566 288
Bonds	579 866	-	-	-	5 857	585 723
	1 141 431	-	-	(258)	10 838	1 152 011
Subordinated debt						
Euro Medium Term Notes (EMTN)	-	500 000	-	-	1 772	501 772
Bonds	415 572	-	(206 000)	-	(223)	209 349
	415 572	500 000	(206 000)	-	1 549	711 121
Financial liabilities associated to transferred assets						
Asset lending operations	44 451	-	-	-	(44 451)	-
	1 601 454	**500 000**	**(206 000)**	**(258)**	**(32 064)**	**1 863 132**

[a] Other changes include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

(in thousand of Euros)

	Balance as at 31.12.2021	Issues	Redemptions	Net purchases	Other movements [a]	Balance as at 31.12.2022
Debt securities issued						
Euro Medium Term Notes (EMTN)	445 633	100 000	-	(500)	16 432	561 565
Bonds	573 588	-	-	-	6 278	579 866
	1 019 221	100 000	-	(500)	22 710	1 141 431
Subordinated debt						
Bond	415 394	-	-	-	178	415 572
Financial liabilities associated to transferred assets						
Asset lending operations	44 451	-	-	-	-	44 451
	44 451	**100 000**	**-**	**(500)**	**22 888**	**1 601 454**

[a] Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

In terms of medium-term funding, in June 2023, the Bank issued a new Euro 500 million Tier 2 bond, maturing on 1 December 2033 with a 6-month call option from 1 June 2028, aiming to replace the existing Tier 2 bond with a spread lower by 150bps. Through the tender offer, the Bank was able to repurchase Euro 206 million of the existing Tier 2. The remaining amount was repaid on the call date, which did not occur until 6 July 2023.

The main characteristics of these liabilities, as at 30 June 2023 and 31 December 2022, are as follows:

(in thousands of Euros)

Entity	ISIN	Description	30.06.2023						
			Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
novobanco	PTNOBIOM0014	NB 3,5% 23/07/23	EUR	2021	100,00	309 565	2023 b)	Taxa Fixa 3,5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23	EUR	2021	100,00	276 158	2023	Euribor 3M + 4,25%	XDUB
Euro Medium Term Notes									
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24	EUR	2022	100,00	102 717	2024	Taxa fixa 5,5%	XDUB
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1,00	42 529	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1,00	97 278	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1,00	63 507	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1,00	46 718	2043	Taxa fixa 3,5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1,00	36 793	2048	Cupão Zero	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1,00	45 134	2049	Cupão Zero	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1,00	12 550	2049	Cupão Zero	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1,00	17 233	2051	Cupão Zero	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1,00	12 123	2051	Cupão Zero	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1,00	41 590	2048	Cupão Zero	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1,00	40 135	2052	Cupão Zero	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1,00	7 981	2046	Cupão Zero	XLUX
Subordinated debt									
novobanco	PTNOBFOM0017	NB 06/07/2023	EUR	2018	100,00	209 349	2023 b)	8,50%	XDUB
novobanco	PTNOBLOM0001	NB 9.875% 01/12/33	EUR	2023	100,00	501 772	2023 a)	9,875%	XDUB
						1 863 132			

a) Date of the next call option

b) In 2023, novobanco will exercise the call option, so the effective maturity date became the call option

(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	EUR	2021	100,00	303 992	2023 a)	Taxa Fixa 3,5%	XDUB
novobanco	PTNOBJOM0005	NB 4,25% 09/23	EUR	2021	100,00	275 874	2023	Euribor 3M + 4,25%	XDUB
Euro Medium Term Notes									
novobanco	PTNOBKOM0002	NB 5.5% 30/12/24	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
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

The Bank did not present capital or interest defaults on its debt issued in the first half of 2023 and in the financial exercise of 2022.

NOTE 31 – PROVISIONS

As at 30 June 2023 and 31 December 2022, 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 2021	**46 686**	**91 775**	**994**	**338 715**	**478 170**
Charge / (Write-back)	-	(4 713)	-	(51 692)	(56 405)
Utilization	(4 999)	-	(355)	(18 612)	(23 966)
Foreign exchange differences and other	-	275	-	1	276
Balance as at 30 June 2022	**41 687**	**87 337**	**639**	**268 412**	**398 075**
Charge / (Write-back)	1 332	2 158	(123)	63 932	67 299
Utilization	(23 871)	-	(516)	(18 134)	(42 521)
Foreign exchange differences and other	-	(37)	-	374	337
Balance as at 31 December 2022	**19 148**	**89 458**	**-**	**314 584**	**423 190**
Charge / (Write-back)	-	760	-	(1 410)	(650)
Utilization	(6 885)	-	-	(5 021)	(11 906)
Foreign exchange differences and other	3	(5 209)	-	5 250	44
Balance as at 30 June 2023	**12 266**	**85 009**	**-**	**313 403**	**410 678**

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 2021	**1 445**	**6 830**	**71 064**	**79 339**
Increases due to changes in credit risk	246	775	5 598	6 619
Decreases due to changes in credit risk	(349)	(1 113)	(6 960)	(8 422)
Other movements	54	(233)	454	275
Balance as at 30 June 2022	**1 396**	**6 259**	**70 156**	**77 811**
Increases due to changes in credit risk	100	1 185	15 904	17 189
Decreases due to changes in credit risk	(678)	(1 247)	(10 646)	(12 571)
Other movements	126	(1 010)	847	(37)
Balance as at 31 December 2021	**944**	**5 187**	**76 261**	**82 392**
Increases due to changes in credit risk	366	1 692	3 862	5 920
Decreases due to changes in credit risk	(1 202)	(1 425)	(3 290)	(5 917)
Other movements	707	(320)	(5 595)	(5 208)
Balance as at 30 June 2023	**815**	**5 134**	**71 238**	**77 187**

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 2021	**6 355**	**4 129**	**1 952**	**12 436**
Increases due to changes in credit risk	1 312	78	19	1 409
Decreases due to changes in credit risk	(1 642)	(760)	(1 917)	(4 319)
Other changes	435	(438)	3	-
Balance as at 30 June 2022	**6 460**	**3 009**	**57**	**9 526**
Increases due to changes in credit risk	323	429	768	1 520
Decreases due to changes in credit risk	(2 196)	(959)	(825)	(3 980)
Other changes	459	(459)	-	-
Balance as at 31 December 2022	**5 046**	**2 020**	**-**	**7 066**
Increases due to changes in credit risk	1 239	1 131	-	2 370
Decreases due to changes in credit risk	(1 079)	(534)	-	(1 613)
Other changes	185	(186)	-	(1)
Balance as at 30 June 2023	**5 391**	**2 431**	**-**	**7 822**

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 313.4 million (31 December 2022: Euro 314.6 million), are intended to cover certain identified contingencies related to the Bank's activities, the most relevant being:

- Contingencies associated with ongoing tax processes, for which the Bank maintains provisions of Euro 19.7 million (31 December 2022: Euro 24.2 million);
- Contingencies associated with legal proceedings amounting to Euro 3.0 million (31 December 2022: Euro 4.0 million);
- Contingencies associated with sales processes in the amount of Euro 7.1 million (31 December 2022: Euro 7.1 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million, transferred from the liability captions net of the value of the assets of the Pension Fund (31 December 2022: Euro 19.2 million) (see Note 15);
- The remaining amount, of Euro 264.4 million (31 December 2022: Euro 260.1 million), is intended to cover losses arising from the Bank's activity, such as fraud, theft and robbery and ongoing lawsuits for contingencies related to asset sale processes, among others.

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. Given the information available on the shareholder and control structure of novobanco, as well as the knowledge of the position of the Tax Authority obtained in the response to the Binding Information Request, the calculation of the application of aggravated IMI rates to all properties directly and indirectly owned by novobanco amounts to approximately Euro 172.1 million as at 30 June 2023 (31 December 2022: Euro 172.1 million), and a provision has been set up in that amount included in Other provisions.

NOTE 32 – OTHER LIABILITIES

As at 30 June 2023 and 31 December 2022, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Public sector	67 637	32 830
Creditors for supply of goods	88 342	105 063
Creditors for insurance operations	485 139	478 750
Other creditors	112 201	113 244
Career bonuses (see Note 15)	5 732	5 506
Other accrued expenses	79 026	81 501
Deferred income	1 103	1 111
Other operations to be settled	45 948	26 774
	885 128	**844 779**

NOTE 33 – SHARE CAPITAL

Ordinary shares

As at 30 June 2023, the Bank's share capital of Euro 6,567,843,862.91 is represented by 11,130,841,957 registered shares with no par value and is fully subscribed and paid up by the following shareholders (31 December 2022: share capital of Euro 6,304,660,637.69 represented by 10,391,043,938 registered shares):

	% Share Capital	
	30.06.2023	**31.12.2022**
Nani Holdings, SGPS, SA	75.00%	75.00%
Fundo de Resolução [(1)]	13.04%	19.31%
Direcção-Geral do Tesouro e Finanças	11.96%	5.96%
	100.00%	**100.00%**

[(1)] Under the commitments made between the Portuguese State and the European Commission, the Resolution Fund is inhibited from exercising its voting rights.

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 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 an additional 4.13% stake in novobanco, and which resulted in the issuance of 436,136,627 new ordinary shares (see Note 34).

In April 2023, a capital increase amounting to Euro 263,183 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) relating to the 2018 and 2019 financial years, which gave an additional 6.27% stake to the State in novobanco, and which resulted in the issuance of 739,798,019 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 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.

NOTE 34 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS AND OTHER RESERVES

As at 30 June 2023 and 31 December 2022, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	30.06.2023	31.12.2022
Other accumulated comprehensive income	**(1 062 233)**	**(1 155 271)**
Retained earnings	**(8 577 074)**	**(8 577 074)**
Other reserves	**6 231 450**	**6 040 802**
Originating reserve	1 885 693	1 885 693
Special reserve	137 193	400 377
Legal reserve	81 977	36 594
Other reserves and Retained earnings	4 126 587	3 718 138
	(3 407 857)	**(3 691 543)**

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 2021	**3 668**	**9 214**	**(34 306)**	**(166 319)**	**-**	**(781 244)**	**(968 987)**
Actuarial deviations	-	-	-	-	-	49 952	49 952
Fair value changes, net of taxes	-	-	-	(183 269)	-	-	(183 269)
Impairment reserves of securities at fair value through other comprehensive income	(2 213)	-	-	-	-	-	(2 213)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(1 079)	-	-	-	(1 079)
Balance as at 30 June 2022	**1 455**	**9 214**	**(35 385)**	**(349 588)**		**(731 292)**	**(1 105 596)**
Actuarial deviations	-	-	-	-	-	46 533	46 533
Fair value changes, net of taxes	-	-	-	4 859	-	-	4 859
Impairment reserves of securities at fair value through other comprehensive income	(866)	-	-	-	-	-	(866)
Reserves of sales of securities at fair value through other comprehensive income	-	-	217	-	-	-	217
Cash flow hedges	-	-	-	-	(100 418)	-	(100 418)
Balance as at 31 December 2022	**589**	**9 214**	**(35 168)**	**(344 729)**	**(100 418)**	**(684 759)**	**(1 155 271)**
Actuarial deviations	-	-	-	-	-	57 168	57 168
Fair value changes, net of taxes	-	-	-	311 910	-	-	311 910
Impairment reserves of securities at fair value through other comprehensive income	(380)	-	-	-	-	-	(380)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(261 783)	-	-	-	(261 783)
Cash flow hedges	-	-	-	-	(13 877)	-	(13 877)
Balance as at 30 June 2023	**209**	**9 214**	**(296 951)**	**(32 819)**	**(114 295)**	**(627 591)**	**(1 062 233)**

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)

	30.06.2023			31.12.2022		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the period	**(381 014)**	**36 285**	**(344 729)**	**(123 313)**	**(43 006)**	**(166 319)**
Changes in fair value	(3 188)	-	(3 188)	(325 981)	-	(325 981)
Foreign exchange differences	(5 210)	-	(5 210)	2 006	-	2 006
Disposals in the period	290 499	-	290 499	66 274	-	66 274
Impairment in the period	-	-	-	-	-	-
Deferred taxes recognised in the period in reserves	-	29 809	29 809	-	79 291	79 291
Balance at the end of the period	**(98 913)**	**66 094**	**(32 819)**	**(381 014)**	**36 285**	**(344 729)**

The fair value reserves are analysed as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Amortised cost of financial assets at fair value through other comprehensive income	2 299 834	2 576 036
Market value of financial assets at fair value through other comprehensive income	2 190 565	2 183 034
Unrealised gains / (losses)	(109 269)	(393 002)
Fair value reserve transferred to Results [1]	(10 356)	(11 988)
Unrealised gains / (losses) recognised in fair value reserve	(98 913)	(381 014)
Deferred Taxes	66 094	36 285
Reserva de justo valor atribuível aos acionistas do Banco	**(32 819)**	**(344 729)**

[1] As part of fair value hedge operations (see Note 23)

The changes in cash flow hedging reserves are presented as follows:

(in thousands of Euros)

	30.06.2023	31.12.2022
Balance at the beginning of the period	**(100 418)**	**-**
Change in fair value of the hedged item recognised in other comprehensive income	(13 636)	(101 299)
Reclassification from other comprehensive income to profit or loss	(241)	881
Balance at the end of the period	**(114 295)**	**(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 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)

	30.06.2023	31.12.2022
2019 (net loss of 2018)	-	146 367
2020 (net loss of 2019)	-	116 817
2021 (net loss of 2020)	137 193	137 193
	137 193	**400 377**

Legal reserve

The legal reserve can only be used to cover accumulated losses or to increase capital. The Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, of 31 December) requires that the legal reserve be credited annually with at least 10% of the annual net profit, up to a limit equal to the value of the share capital or the sum of the free reserves constituted and retained earnings, if higher. In addition, an amount of Euro 14,004 thousand was incorporated into the legal reserve related to the conversion of tax credits into capital as mentioned in the previous point.

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 35 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 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 31 December 2020, 2019, 2018 and 2017, the conditions 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, were met.

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 2022 and 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 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 2022 and 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 their receipt.

NOTE 35 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 30 June 2023 and 31 December 2022 were the following:

(in thousands of Euros)

	30.06.2023	31.12.2022
Contingent liabilities		
Guarantees and standby letters	2 280 936	2 262 092
Financial assets pledged as collateral	10 001 169	12 036 520
Open documentary credits	154 603	169 410
Others	100 315	80 373
	12 537 023	**14 548 395**
Commitments		
Revocable commitments	5 346 663	5 397 330
Irrevocable commitments	447 543	557 766
	5 794 206	**5 955 096**

Guarantees and standby letters provided are banking operations that do not imply any mobilisation of funds for the Bank.

As at 30 June 2023, 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 9.2 billion (31 December 2022: Euro 11.2 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 8.8 million (31 December 2022: Euro 6,8 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 66.8 million (31 December 2022: Euro 64.6 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 563.3 million (31 December 2022: Euro 578.3 million);
- Securities pledged as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 101.0 million (31 December 2022: Euro 101 million);
- Deposits pledged as collateral to secure the liabilities assumed through the guarantee issuance amounting to Euro 18.1 million (31 December 2022: Euro 29.7 million).

The above-mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank's balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Bank (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Bank requires the collateralisation of these transactions. Since it is expected that 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)

	30.06.2023	31.12.2022
Deposit and custody of securities and other items	34 026 701	31 031 260
Amounts received for subsequent collection	196 553	207 006
Securitised loans under management (servicing)	48 545	1 697 076
Other responsibilities related with banking services	2 620 197	723 197
	36 891 996	**33 658 539**

Pursuant to the resolution measure applied to BES by resolution of Bank of Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Bank of Portugal of 11 August 2014, the “excluded liabilities” of transfer to novobanco include “any obligations, guarantees, liabilities or contingencies assumed in the commercialisation, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (…) ”.

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include “any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions”.

On 29 December 2015, Bank of Portugal adopted a new 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 3 August 2014.

In the preparation of its consolidated and individual financial statements as at 30 June 2023 (as well as in the previous financial statements), novobanco incorporated the determinations resulting from the resolution measure, as amended, with regard to the perimeter of transfer of assets, liabilities, off-balance sheet captions and assets under BES management, as well as the decisions of Bank of Portugal of 29 December 2015, in particular, regarding the clarification of the non-transmission to novobanco of contingent and unknown liabilities and clarifications relating to the liabilities contained in paragraph (ii) above, including the lawsuits listed in that resolution.

Additionally, also by resolution of Bank of Portugal of 29 December 2015, it was decided that the Resolution Fund is responsible for neutralising, at the level of novobanco, the effects of decisions that are legally binding, outside the will of novobanco and for which it has not contributed and that, simultaneously, translate into the materialisation of responsibilities and contingencies that, according novobanco’s transfer perimeter, 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 commercialisation 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 30 June 2023 (as well as in the previous financial statements), the Executive Board of Directors reflected the Resolution Measure and related decisions taken by Bank of Portugal, in particular the decisions of 29 December 2015. In this context, these financial statements, namely regarding provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet captions and assets under BES management and liabilities transferred to novobanco, as determined by Bank of Portugal and with reference to the current legal bases and the information available at the present date.

Additionally, within the scope of the novobanco sale operation, concluded on 18 October 2017, the respective contractual documents contain specific provisions that produce effects equivalent to the resolution of the Board of Directors of Bank of Portugal, of 29 December 2015, regarding the neutralisation, 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, in which only Massa Insolvente by ESF (Portugal) appears as the plaintiff, following the withdrawal of the others;

(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 capitalisation obligation assumed by the Resolution Fund within the scope of the Contingent Capitalisation 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 Capitalisation 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.

Like most financial institutions operating in Portugal, the Bank is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal based essentially on the amount of its liabilities. As at 30 June 2023, the Bank’s periodic contribution amounted to Euro 6,947 thousand (31 December 2022: Euro 16,017 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on 3 August 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 capitalisation being ensured by the Resolution Fund.

For the realisation 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 to the Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to be charged special contributions or any other type of extraordinary contribution to the banks participating in the Resolution Fund.

According to the statement of the Resolution Fund of 21 March 2017, issued following an earlier statement of 28 September 2016 and the statement of the Ministry of Finance issued on the same date, the 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, the 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 novobanco's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalisation 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 capitalisation 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.

Despite 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 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 capitalisation 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 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).

The Bank balances with related parties as at 30 June 2023 and 31 December 2022, as well as the respective profit and losses, can be summarised as follows:

(in thousands of Euros)

	30.06.2023					31.12.2022				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	148	-	321	-	-	152	-	389	-
FUNDO DE RESOLUÇÃO	198 180	53 105	-	-	6 947	198 180	54 101	-	-	16 017
Subsidiary companies										
GNB CONCESSÕES	83 473	39 172	-	-	-	83 473	39 189	-	-	-
GNB GA	1 783	6 913	4 025	1 670	-	3 552	14 752	4 025	6 303	-
ES TECH VENTURES	46 732	74 415	-	-	-	46 732	74 426	-	-	-
BEST	3 337	641 574	37	4 611	7 773	2 610	647 221	37	7 878	5 900
novobanco AÇORES	117 727	197 619	1 295	1 048	2 592	124 017	216 280	1 295	1 369	2 898
SPE-LM6	234 774	1 089	-	154	-	243 371	1 915	-	338	-
SPE-LM7	604 193	1 730	-	429	-	628 541	3 000	-	932	-
FCR NB CAPITAL GROWTH	-	-	-	-	-	15 015	3 547	-	-	-
NB ÁFRICA	-	8 670	-	-	-	-	7 166	-	-	-
FUNGEPI	-	58 844	2 449	24	447	-	40 180	2 414	44	446
FUNGEPI II	-	-	-	11	-	-	23 742	35	2 692	513
FUNGERE	-	-	-	-	-	-	-	-	13	1
IMOINVESTIMENTO	-	4 699	-	10	-	-	5 561	-	20	-
PREDILOC	-	2 680	-	-	4	-	3 938	-	-	-
IMOGESTÃO	-	452	-	1	-	-	478	-	28	1
ARRABIDA	-	-	-	-	-	-	-	-	-	1
INVESFUNDO VII	-	907	-	2	2	-	980	-	4	-
NB LOGÍSTICA	-	-	-	-	-	-	-	-	-	1
NB PATRIMÓNIO	-	83 958	387	-	1 093	-	46 022	387	-	4 199
FUNDES	-	-	-	-	-	-	-	-	-	1
AMOREIRAS	-	30 619	-	-	-	-	30 671	-	-	-
FIMES ORIENTE	15	13 380	-	-	30	16	13 551	-	-	10
NB ARRENDAMENTO	-	705	-	-	-	-	897	-	-	-
NB FINANCE	-	7 115	2 022	-	77	-	7 067	1 952	-	145
FEBAGRI	-	12 581	71	-	-	-	1 150	71	-	-
GREENWOODS	-	7 467	-	-	-	-	7 483	-	-	-
HERDADE DA BOINA	-	5	-	-	-	-	-	-	-	-
BENAGIL	-	1	-	-	-	-	21	-	-	-
PROMOFUNDO	-	440	-	-	-	-	65	-	-	-
GREENDRAIVE	6 445	5	106	-	-	6 445	20	106	-	-
FIVE STARS	-	13 295	-	-	2 206	-	17 986	-	-	1 885
AROLERI	4 262	-	-	-	-	4 262	-	-	-	-
IMALGARVE	-	10 900	-	-	-	-	10 887	-	-	-
RIGHTHOUR	15 015	-	-	-	-	-	-	-	-	-
	1 315 936	**1 272 488**	**10 392**	**8 281**	**21 171**	**1 356 214**	**1 272 448**	**10 322**	**20 010**	**32 018**
Associated companies										
LINEAS	-	3 016	-	-	-	-	3 176	-	-	-
LOCARENT	136 049	4 619	-	43	4 918	139 286	3 218	-	1 727	3 161
UNICRE	38 515	26	-	744	-	38 365	76	-	919	-
MULTIPESSOAL	2 009	30	273	-	-	2 023	35	273	-	-
OUTRAS	3	88 731	-	1 321	215	2	88 601	-	1 968	29
	176 576	**96 422**	**273**	**2 108**	**5 133**	**179 676**	**95 106**	**273**	**4 614**	**3 190**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	1 370	-	-	-	-	4 638
NACIONAL CONTA LDA	267	1	-	-	-	324	5	-	-	-
Other	**267**	**1**	**-**	**-**	**1 370**	**324**	**5**	**-**	**-**	**4 638**

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capitalisation Mechanism regarding the financial year 2021, net of the amount to be delivered to the Resolution Fund arising from an addendum made in May 2021 to the Contingent Capitalisation Mechanism agreement.

In June 2018 an agreement 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 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 Bank in the scope of its activity. All assets placed with related parties earn interest between 0% and 11.94% (the rates correspond to the rates applied according to the original currency of the asset).

As at 30 June 2023 and 31 December 2022, the amount of credit granted and deposits from Key Management Personnel of novobanco was as follows:

<u>Credit Granted</u>
(i) to members of the Executive Board of Directors and their immediate relatives was Euro 201 thousand (31 December 2022: Euro 351 thousand); and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted (31 December 2022: no exposure);

<u>Deposits</u>
(i) members of the Executive Board of Directors and their immediate relatives was Euro 3,005 thousand; (31 December 2022: Euro 1,138 thousand) and (ii) the members of the General and Supervisory Board and their immediate relatives was Euro 914 thousand (31 December 2022: Euro 1,544 thousand).

NOTE 37 – SECURITISATION OF ASSETS

As at 30 June 2023 and 31 December 2022, the outstanding securisation transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount of credit		Securitized Asset
			30.06.2023	31.12.2022	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	196 961	214 061	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	306 733	330 075	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	298 782	317 612	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	774 087	817 287	Mortgage loans (general scheme)

The main characteristics of these operations, as at 30 June 2023 and 31 December 2022, can be analysed as follows:

(in thousands of Euros)

30.06.2023

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Classe A	1 134 000	150 257	-	-	Dezembro de 2048	AAA	Aaa	AAA	-	AA-	Aa2	AA+	-
	Classe B	22 800	9 946	-	-	Dezembro de 2048	AA	Aa2	AA	-	A-	A2	AA+	-
	Classe C	19 200	8 376	-	-	Dezembro de 2048	A+	A1	A+	-	BB+	Baa3	AA	-
	Classe D	24 000	10 470	-	-	Dezembro de 2048	BBB+	Baa1	BBB-	-	B+	B3	BB+	-
	Classe E	10 200	5 100	-	-	Dezembro de 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Classe A	1 323 000	227 970	-	-	Dezembro de 2059	AAA	Aaa	AAA	-	AA+	Aa2	AA+	-
	Classe B	26 600	18 660	-	-	Dezembro de 2059	AA	Aa2	AA	-	A+	A3	AA+	-
	Classe C	22 400	15 713	-	-	Dezembro de 2059	A	A1	A	-	BBB+	Ba1	BBB	-
	Classe D	28 000	19 642	-	-	Dezembro de 2059	BBB+	Baa2	BBB	-	CCC	Caa2	B	-
	Classe E	11 900	5 950	-	-	Dezembro de 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Classe A	943 250	133 233	112 231	108 874	Março de 2060	AAA	Aaa	AAA	-	AA+	Aa2	A	-
	Classe B	65 450	65 450	63 950	56 587	Março de 2060	AA	Aa3	AA	-	AA+	Aa2	A	-
	Classe C	41 800	41 800	41 800	33 695	Março de 2060	A	A3	A	-	BBB	A1	A	-
	Classe D	17 600	17 600	17 600	13 389	Março de 2060	BBB	Baa3	BBB	-	CCC	Ba3	BB	-
	Classe E	31 900	31 900	31 900	22 009	Março de 2060	BB	-	BB	-	CC	-	D	-
	Classe F	22 000	22 000	-	-	Março de 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Classe A	1 425 000	300 417	300 417	283 974	Outubro de 2064	-	-	AAA	AAA	-	-	AA+	AAA
	Classe B	294 500	294 500	294 500	254 250	Outubro de 2064	-	-	BBB-	-	-	-	AA+	-
	Classe C	180 500	180 500	180 500	63 981	Outubro de 2064	-	-	-	-	-	-	-	-
	Classe D	57 000	57 000	-	-	Outubro de 2064	-	-	-	-	-	-	-	-

(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	-	-	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	-	-	Outubro de 2064	-	-	-	-	-	-	-	-

In December 2022, novobanco contracted an operation to transfer part of the credit risk of a corporate loan portfolio of around Euro 1 billion, through a synthetic securitisation, with a maturity date of February 2031 (and the possibility of a call option in September 2025). Given the nature of this operation, there was no derecognition of credits on the balance sheet, 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 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.

The fair value calculated with reference to 30 June 2023 was influenced by the current economic context, as described in Note 22.

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 valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper and loans and advances to customers: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

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.

In the specific case of the Restructuring Funds (“Assessed Assets”), their assessment was carried out during the exercise of 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 of 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 in Development			Real Estate			Commercial Centres			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%	8.9%	12.3%	16.0%	4.5%	6.4%	10.0%	10.0%	10.3%	10.8%	n.a.	n.a.	n.a.
Valuation Methodology		Market Income			Market Income			Market Income			Market Income			Market Income	

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, further 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 observed on the market
Real Estate and Tourism	16.6%
Real Estate and Tourism/Other	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 Bank 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.

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 Bank is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
30 June 2023				
Financial assets held for trading	**376 383**	**121 589**	**-**	**497 972**
Securities held for trading	376 383	-	-	376 383
Bonds issued by public entities	*376 383*	-	-	*376 383*
Derivatives held for trading	-	121 589	-	121 589
Exchange rate contracts	-	*19 607*	-	*19 607*
Interest rate contracts	-	*97 777*	-	*97 777*
Credit default contract default contract	-	*34*	-	*34*
Others	-	*4 171*	-	*4 171*
Financial assets mandatorily at fair value through profit or loss	**16 415**	**21 111**	**1 499 681**	**1 537 207**
Bonds	*16 415*	21 111	1 499 544	1 537 070
Bonds issued by other entities	*11 035*	*50*	*446 289*	*457 374*
Shares	*5 380*	-	*135 656*	*141 036*
Other variable income securities	-	*21 061*	*917 599*	*938 660*
Credit default contract default contract	-	-	*137*	*137*
Financial assets at fair value through profit or loss	**-**	**-**	**391**	**391**
Bonds issued by other entities	-	-	*391*	391
Financial assets at fair value through other comprehensive income	**2 101 205**	**27 139**	**62 221**	**2 190 565**
Bonds issued by public entities	*1 661 156*	-	-	*1 661 156*
Bonds issued by other entities	*438 702*	*20 493*	-	*459 195*
Shares	*1 347*	*6 646*	*62 221*	*70 214*
Derivatives - Hedge Accounting	**-**	**626 066**	**-**	**626 066**
Interest rate contracts	-	*626 066*	-	*626 066*
Assets at fair value	**2 494 003**	**795 905**	**1 562 293**	**4 852 201**
Financial liabilities held for trading	**-**	**94 904**	**2 118**	**97 022**
Trading derivatives	-	94 904	2 118	97 022
Exchange rate contracts	-	*17 240*	-	*17 240*
Interest rate contracts	-	*72 922*	*2 118*	*75 040*
Credit default contract default contract	-	*765*	-	*765*
Others	-	*3 977*	-	*3 977*
Derivatives - Hedge Accounting	**-**	**173 515**	**-**	**173 515**
Interest rate contracts	-	*173 515*	-	173 515
Liabilities at fair value	**-**	**268 419**	**2 118**	**270 537**

(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**	**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*
Others	-	*8 545*	-	*8 545*
Financial assets mandatorily at fair value through profit or loss	**15 832**	**21 409**	**1 500 429**	**1 537 670**
Bonds	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*
Credit default contract	-	-	*18*	*18*
Financial assets at fair value through profit or loss	**-**	**-**	**13**	**13**
Bonds issued by other entities	-	-	*13*	13
Financial assets at fair value through other comprehensive income	**2 094 365**	**27 124**	**61 545**	**2 183 034**
Bonds issued by public entities	*1 629 639*	-	-	*1 629 639*
Bonds issued by other entities	*458 913*	*20 493*	-	*479 406*
Shares	*5 813*	*6 631*	*61 545*	*73 989*
Derivatives - Hedge Accounting	**-**	**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**
Trading derivatives	-	96 711	2 606	99 317
Exchange rate contracts	-	*22 024*	-	*22 024*
Interest rate contracts	-	*71 807*	*2 606*	*74 413*
Others	-	*2 880*	-	*2 880*
Derivatives - Hedge Accounting	**-**	**120 612**	**-**	**120 612**
Interest rate contracts	-	*120 612*	-	120 612
Credit default contract	-	-	-	-
Others	-	-	-	-
Liabilities at fair value	**-**	**217 323**	**2 606**	**219 929**

The changes occurred in financial assets and financial liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the first half of 2023 and the financial exercise of 2022 can be analysed as follows:

(in thousands of Euros)

	30.06.2023						
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total assets	Financial liabilities held for trading	Total liabilities
	Securities	Credit				Derivatives held for trading	
Balance as at 31 December 2022	**1 500 411**	**18**	**13**	**61 545**	**1 561 987**	**2 606**	**2 606**
Acquisitions	91 841	-	-	1 018	92 859	-	-
Attainment of maturity	(99 935)	-	-	-	(99 935)	-	-
Settlements	(21 798)	-	-	(552)	(22 350)	-	-
Changes in value	29 025	119	378	210	29 732	(488)	(488)
Balance as at 30 June 2023	**1 499 544**	**137**	**391**	**62 221**	**1 562 293**	**2 118**	**2 118**

(in thousands of Euros)

	31.12.2022						
	Financial assets mandatorily at fair value through profit or loss		Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total assets	Financial liabilities held for trading	Total liabilities
	Securities	Credit				Derivatives held for trading	
Balance as at 31 December 2021	**2 036 378**	**-**	**-**	**35 725**	**2 072 103**	**1 950**	**1 950**
Acquisitions	236 516	-	-	3 477	239 993	-	-
Attainment of maturity	(533 151)	-	-	-	(533 151)	-	-
Settlements	(131 465)	-	-	(707)	(132 172)	-	-
Changes in value	(107 867)	18	13	23 050	(84 786)	656	656
Balance as at 31 December 2022	**1 500 411**	**18**	**13**	**61 545**	**1 561 987**	**2 606**	**2 606**

In the first half of 2023 and financial exercise of 2022 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment properties classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective accounting policy. The amounts calculated at 30 June 2023, 31 December 2022 and 30 June 2022 were as follows:

(in thousands of Euros)

	30.06.2023			31.12.2022			30.06.2022		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	488	488	-	(746)	(746)	-	91	91
Financial assets mandatorily at fair value through profit or loss	-	24 172	24 172	-	(112 933)	(112 933)	-	(4 095)	(4 095)
Financial assets at fair value through other comprehensive income	212	-	212	936	-	936	22 414	-	22 414
	212	**24 660**	**24 872**	**936**	**(113 679)**	**(112 743)**	**22 414**	**(4 004)**	**18 410**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	30.06.2023						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets at fair value through profit or loss			**0.4**				
Obligations of other issuers	*Other*	(a)	0.0				
Financial assets mandatorily at fair value through profit or loss			**1499.68**		**(39.5)**		**36.5**
Obligations of other issuers			446.3		*(39.5)*		*36.5*
	Discounted cash flow model	Specific Impairment	*2.4*	*-50%*	*(2.4)*	*+50%*	*10.8*
	Discounted cash flow model	*Discount rate*	*443.9*	*(-) 100 bps*	*(37.1)*	*(+) 100 bps*	*25.7*
Shares			135.7		-		-
	Valuing adjusted management compan	(b)	135.7		-		-
Other variable income securities			917.6		-		-
	Valuing adjusted management compan	*(b)*	*95.9*		-		-
	Valuing adjusted management compan	*(c)*	*821.7*		-		-
Credit			0.1				
Financial assets at fair value through other comprehensive income			**62.2**		**(1.7)**		**0.1**
Shares			62.2		*(1.7)*		*0.1*
	Discounted cash flows	*Renewable energy Rates*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*52.6*		-		-
Total			**1562.3**		**(41.3)**		**36.6**

(milhões de euros)

Assets classified under level 3	31.12.2022						
	Modelo de valorização	Variável analisada	Valor de balanço	Cenário Desfavorável		Cenário Favorável	
				Variação	Impacto	Variação	Impacto
Financial assets mandatorily at fair value through profit or loss			**1500.4**		**(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		-		-
	Valuing adjusted management compan	(b)	137.7		-		-
Other variable income securities			*942.2*		-		-
	Valuing adjusted management compan	*(b)*	*117.6*		-		-
	Valuing adjusted management compan	*(c)*	*824.6*				
Financial assets at fair value through other comprehensive income			**61.5**		**(1.7)**		**0.1**
Shares			61.5		*(1.7)*		*0.1*
	Discounted cash flows	*Renewable energy Rates*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*51.9*		-		-
Total			**1562.0**		**(45.0)**		**54.6**

The main parameters used, at 30 June 2023 and 31 December 2022, in the valuation models were as follows:

Interest rate curves
The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	30.06.2023			31.12.2022		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	3.5068	5.0800	5.1450	1.9501	4.3650	3.5750
1 month	3.3990	5.2850	5.0800	1.8840	4.4200	3.6500
3 month	3.5770	5.5150	5.4950	2.1320	4.7700	3.8000
6 month	3.9000	5.8150	6.0550	2.6930	5.1500	4.3350
9 month	4.0170	5.8750	6.3000	2.9920	5.2350	4.5250
1 year	4.1340	5.6306	6.2430	3.2910	5.1130	4.6768
3 years	3.6130	4.6374	5.9256	3.3005	4.3010	4.6088
5 years	3.2550	4.1916	5.3030	3.2390	4.0110	4.3280
7 years	3.0960	3.9740	4.9631	3.2020	3.8780	4.1350
10 years	3.0045	3.8300	4.6352	3.2020	3.8220	3.9920
15 years	2.9465	3.7605	4.4195	3.1410	3.7970	3.9377
20 years	2.8105	3.6960	4.2885	2.9310	3.7260	3.8647
25 years	2.6615	3.5770	4.1867	2.7150	3.6170	3.7967
30 years	2.5325	3.4600	4.0932	2.5320	3.4720	3.7257

Credit Spreads
The credit spreads used by the Bank in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(base points)

Index	Series	1 year	3 years	5 years	7 years	10 years
30 June 2023						
CDX USD Main	**40**	-	43,14	66,22	-	106,59
iTraxx Eur Main	**39**	21,27	47,98	73,72	93,03	111,24
iTraxx Eur Senior Financial	**39**	-	-	85,31	-	109,18
31 December 2022						
CDX USD Main	**39**	-	56,87	82,02	101,74	117,73
iTraxx Eur Main	**38**	35,05	66,40	90,60	106,87	122,66
iTraxx Eur Senior Financial	**38**	-	-	99,29	-	-

Interest rate volatility
The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	30.06.2023			31.12.2022		
	EUR	USD	GBP	EUR	USD	GBP
1 year	87.26	20.50	41.64	99.28	23.33	55.24
3 years	121.98	-	38.20	124.23	38.10	49.59
5 years	119,00	-	38.27	124.77	40.72	47,00
7 years	113.14	38.62	37.87	121.6	39.38	45.73
10 years	105.61	33.1	36.34	115.66	35.95	42.81
15 years	96.27	-	-	107.02	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

Foreign exchange rate	30.06.2023	31.12.2022	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1.0866	1.0666	6.63	6.61	6.65	6.69	6.77
EUR/GBP	0.8583	0.88693	5.88	6.08	6.36	6.58	6.71
EUR/CHF	0.9788	0.9847	4.39	4.68	4.89	5.09	5.24
EUR/NOK	11.7040	10.5138	10.57	10.49	10.21	10.10	10.03
EUR/PLN	4.4388	4.6808	6.75	6.81	6.91	6.97	7.05
EUR/RUB	117.2010	117.2010	31.92	34.03	35.58	36.67	36.45
USD/BRL [a)]	4.8581	5.2865	13.04	13.42	13.77	14.16	14.54
USD/TRY [b)]	26.0623	18.7183	26.03	27.63	30.21	32.30	32.49

[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 30.06.2023	31.12.2022	% Change	Historical volatility 1 month	3 months	Implied Volatility
DJ Euro Stoxx 50	4 399	3 794	15.96%	13.65	15.89	11.00
PSI 20	5 920	5 726	3.39%	12.29	13.99	-
IBEX 35	9 593	8 229	16.57%	12.13	17.15	-
FTSE 100	7 532	7 452	1.07%	10.97	13.37	9.28
DAX	16 148	13 924	15.98%	12.94	15.16	11.03
S&P 500	4 450	3 840	15.91%	11.61	13.75	10.93
BOVESPA	118 087	109 735	7.61%	15.90	18.48	19.74

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
30 June 2023					
Cash, cash balances at central bank and other demand deposits	3 255 364	-	3 255 364	-	3 255 364
Financial assets at amortised cost					
Debt securities	9 108 114	6 628 544	255 953	1 716 545	8 601 042
Loans and advances to banks	154 730	-	154 730	-	154 730
Loans and advances to customers	23 256 232	-	-	23 926 928	23 926 928
Financial assets	**35 774 440**	**6 628 544**	**3 666 047**	**25 643 473**	**35 938 064**
Financial liabilities measured at amortised cost					
Deposits from banks	7 058 730	-	7 059 032	-	7 059 032
Due to customers	28 965 370	-	-	28 965 370	28 965 370
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 863 132	2 004 167	-	-	2 004 167
Other financial liabilities	427 734	-	-	427 734	427 734
Financial liabilities	**38 314 966**	**2 004 167**	**7 059 032**	**29 393 104**	**38 456 303**

(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	6 387 295	-	6 387 295	-	6 387 295
Financial assets at amortised cost					
Debt securities	8 400 233	6 296 968	281 254	1 662 275	8 240 497
Loans and advances to banks	145 464	-	145 464	-	145 464
Loans and advances to customers	22 955 247	-	-	23 450 103	23 450 103
Financial assets	**37 888 239**	**6 296 968**	**6 814 013**	**25 112 378**	**38 223 359**
Financial liabilities measured at amortised cost					
Deposits from banks	10 506 509	-	10 497 606	-	10 497 606
Due to customers	28 425 223	-	-	28 425 223	28 425 223
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 601 454	1 693 216	-	44 451	1 737 667
Other financial liabilities	371 511	-	-	371 511	371 511
Financial liabilities	**40 904 697**	**1 693 216**	**10 497 606**	**28 841 185**	**41 032 007**

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 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 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 – PROVISION OF INSURANCE OR REINSURANCE MEDIATION SERVICE

As at 30 June 2023 and 2022, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	30.06.2023	30.06.2022
Life Insurance		
Unit Link and other life commissions	908	903
Credit protection insurance (life)	424	414
Traditional products	8 043	8 791
	9 375	**10 108**
Non-Life Insurance		
Personal lines insurance	5 620	3 629
Corporate insurance	88	88
Credit protection insurance (non-life)	671	685
	6 379	**4 402**
	15 754	**14 510**

Note: the income presented is net of accruals

The Bank does not collect insurance premiums on behest insurers, nor does it move funds related to insurance contracts. Thus, there is no other asset, liability, income or charge to be reported, related to the insurance mediation activity carried out by the Bank, other than those already disclosed.

NOTE 40 – SUBSEQUENT EVENTS

- On 23 July 2023, novobanco carried out the early repayment of the issue of Euro 300 million 3.500% Fixed/Floating Rate Callable Senior Preferred Notes maturing in 2024 (ISIN: PTNOBIOM0014).

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in case of any doubt or misinterpretation the Portuguese version will prevail)

Report on Limited Review of Interim Condensed Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements of Novo Banco, S.A. ("The Group"), which comprise the interim condensed consolidated balance sheet as at June 30, 2023 (which shows a total of 43,900,202 thousand euros and total equity of 3,980,564 thousand euros, including a net profit of 373,171 thousand euros), the interim condensed consolidated income statement, the interim condensed consolidated statement of comprehensive income, the interim condensed statement of changes in consolidated equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and accompanying notes thereto, including a summary of significant accounting policies.

Responsibilities of management

Management is responsible for the preparation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes, and designing and maintaining an appropriate internal control system to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objective is to express a conclusion on these interim condensed consolidated financial statements. We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and further technical and ethical guidelines from *Ordem dos Revisores Oficiais* de Contas (the Portuguese Institute of Statutory Auditors). These Standards require that our work be conducted for the purpose of expressing a conclusion whether anything has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of Novo Banco, S.A., as of June 30, 2023 have not been prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

Lisbon, 27th July 2023

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás – ROC nº 1661
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Report on Limited Review of Interim Condensed Separate Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed separate financial statements of Novo Banco, S.A. ("The Bank"), which comprise the interim condensed separate balance sheet as at June 30, 2023 (which shows a total of 43,441,619 thousand euros and total shareholder equity of 3,555,861 thousand euros, including a net profit of 395,874 thousand euros), the interim condensed separate income statement, the interim condensed separate statement of comprehensive income, the interim condensed separate statement of changes in equity and the interim condensed separate statement of cash flows for the six-month period then ended, and accompanying notes thereto, including a summary of significant accounting policies.

Responsibilities of management

Management is responsible for the preparation of these interim condensed separate financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes, and designing and maintaining an appropriate internal control system to enable the preparation of interim condensed separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objective is to express a conclusion on these interim condensed separate financial statements. We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and further technical and ethical guidelines from *Ordem dos Revisores Oficiais de Contas* (the Portuguese Institute of Statutory Auditors). These Standards require that our work be conducted for the purpose of expressing a conclusion whether anything has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed separate financial statements of Novo Banco, S.A., as of June 30, 2023 have not been prepared, in all material respects, in accordance with International Financial Reporting Standards as endorsed by the European Union, for interim Financial Reporting (IAS 34) purposes.

Lisbon, 27th July 2023

Ernst & Young Audit & Associados – SROC, S.A.
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