Rating Report
Novo Banco, S.A.

DBRS Morningstar
19 April 2023

Contents

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Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	BB (low)	Upgraded Mar'23	Stable
Short-Term Issuer Rating	R-4	Confirmed Mar'23	Stable
Intrinsic Assessment	BB (low)	Upgraded Mar'23	

Rating Drivers

Factors with Positive Rating Implications

Positive rating pressure would require novobanco to demonstrate a further improvement in asset quality and capitalisation.

Factors with Negative Rating Implications

A downgrade could result from a material weakening of the Bank's capital levels and liquidity position, or a significant worsening in asset quality.

Rating Considerations

Franchise Strength (Moderate)

- Fourth largest banking franchise by total assets in Portugal with leading position in corporate banking and Small and Medium sized Enterprises (SMEs). In 2022, the Bank completed the restructuring plan agreed with the EU.

Earnings Power (Weak/Very Weak)

- Improving core profitability on the back of higher revenues and lower impairment charges. Past performance was affected by high impairments and provisions on legacy problem assets as well as restructuring charges.

Risk Profile (Moderate/Weak)

- Asset quality has improved significantly through the reduction of non-performing loans and other legacy problem assets, alongside a lower concentration risk in some corporate and SME sectors. However, the Bank's asset quality metrics are still weaker compared to the EU average.

Funding and Liquidity (Good/Moderate)

- The funding structure depends largely on deposits and ECB funding. Adequate liquidity position.

Capitalisation (Weak/Very Weak)

- The Bank's capital ratios have improved recently supported by organic capital generation and RWA management.

2022	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	G/M	M/W	M
Earnings	W/VW	W	W/VW
Risk	M/W	W	M/W
Funding & Liquidity	S/G	W	G/M
Capitalisation	W/VW	W/VW	W/VW

Overall Assessment	Intrinsic Assessment Range (IAR)	Assigned IA
M/W	[BB-BBBL]	BB (low)

Financial Information

	For the Year Ended December 31 (IFRS)				
(In EUR Millions unless otherwise stated)	**2022**	**2021**	**2020**	**2019**	**2018**
Total Assets	45,995	44,619	44,396	45,296	48,274
Gross Loans to Customers	25,530	24,822	25,199	26,986	28,632
Income Before Provisions and Taxes (IBPT)	501	322	(225)	(169)	(282)
Net Attributable Income	561	185	(1,329)	(1,059)	(1,412)
Net Interest Margin	1.5%	1.4%	1.3%	1.2%	1.0%
Cost / Income ratio	55.4%	67.4%	159.6%	132.1%	150.1%
LLP / IBPT	-1.8%	35.5%	-313.7%	-266.4%	-85.3%
Cost of Risk	-0.04%	0.49%	2.87%	1.81%	0.96%
CET1 Ratio	13.70%	11.10%	10.90%	13.50%	12.80%

Source: Morningstar Inc., Company Documents

Issuer Description

Novo Banco, S.A. (novobanco, or the Bank) was created following the application of resolution measures to Banco Espírito Santo (BES) in August 2014. novobanco is a corporate and retail banking group in Portugal with total assets of around EUR 46 billion at end-2022.

Rating Rationale

The ratings consider novobanco's progress in implementing its turnaround plan, including the improvement in the Bank's profitability, capital, and asset quality. In 2022, the Bank completed its restructuring plan started in 2017, throughout which novobanco has significantly reduced its stock of legacy assets. Whilst improving, however, novobanco's asset quality metrics continue to compare unfavourably to the EU average.

Net attributable income more than doubled compared to 2021 mainly on the back of higher revenues, lower provisions and impairments, as well as one-off gains from the sale of some real-estate assets. The Bank also saw an increase in its regulatory capital levels, supported by organic capital generation, and RWA reduction.

The Stable trend reflects our view that risks are broadly balanced. The improvements achieved to date put the Bank in a stronger position to cope with a more demanding operating environment due to rising interest rates and economic slowdown.

The Bank's IA is positioned below the Intrinsic Assessment Range (IAR). This reflects the presence of some one-off items, including profits from asset sales and some impairment reversals within the Bank's financial statements that are incorporated within the scorecard results, but we do not consider them to be part of the Bank's core earnings. The ratings also take into account our expectation of a more challenging economic environment for the Bank.

Franchise Strength

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good /Moderate	Moderate / Weak	Moderate

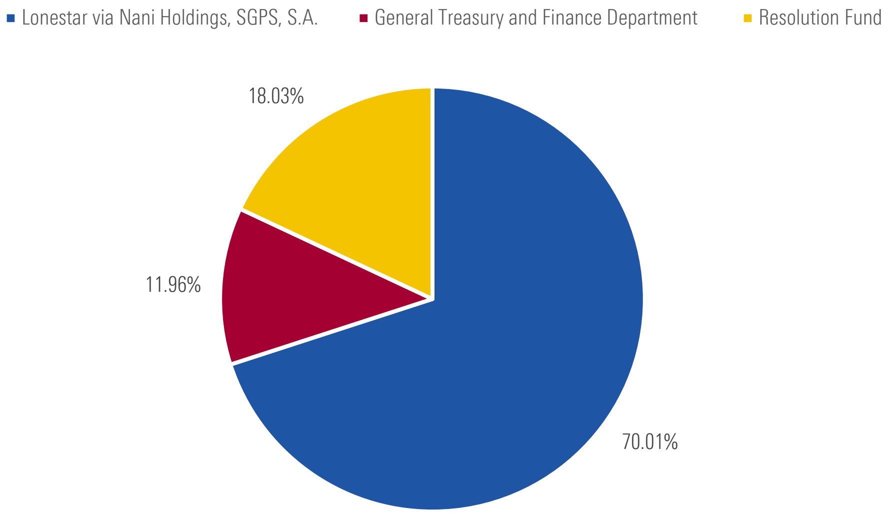
novobanco is Portugal's 4th largest bank by total assets. The Bank maintains a leading franchise in SME and Corporate banking in Portugal with a market share of around 14.5% for corporate loans at end-2022. The Bank made significant progress in de-risking its balance sheet, whist also streamlining its operating structure and improving profitability. In Q1 2023, novobanco received notification from the Directorate General for Competition (DG Comp) that the restructuring plan, started in 2017, is now considered concluded. This, in our view, represents an important milestone in the Bank's turnround process.

At end-2022, novobanco had 4,090 employees vs. 4,193 at end-2021 (-103 YOY) while the number of branches fell to 292, down by 19 YoY. At the same time, the Bank has continued to invest in digitalisation and branding and, as part of its strategic refocus on the core business in Portugal, novobanco completed the sale of its Spanish operations in H2 2021.

Shareholding and Contingent Capital Agreement (CCA)
In October 2017, investment funds managed by the American Lone Star Group completed the acquisition of a 75% stake in the Bank through Nani Holdings, SGPS, SA. The remaining 25% is held by the Portuguese Resolution Fund and the Portuguese General Treasury and Finance Department (Direcção-Geral do Tesouro e Finanças) (Exhibit 1). As part of the restructuring process, the Portuguese Resolution Fund agreed to compensate novobanco, through a Contingent Capital Agreement (CCA) (up to a limit of EUR 3.89 billion) for losses that may be recognised with respect to some of its problem assets, in the event that its capital ratios decrease below a predefined threshold. At FY 2022, the cumulative CCA compensation totalled EUR 3.4 billion. After these payments, the CCA amount that is potentially available for novobanco is approximately EUR 485 million. The mechanism is in place until Dec-25 (the "CCA Maturity Date"), although DBRS Morningstar notes that this date can be extended by one additional year, should certain conditions be met.

There have been some disputes between the Resolution Fund and novobanco. The payment received for 2020 was EUR 165 million lower than the amount requested by novobanco. This relates to provisions for the discontinued Spanish operations, as well as the valuation of participation units. These differences, as well as a disparity in the application of IFRS 9 transitional arrangements, are being assessed under arbitration. There was also a EUR 209 million unpaid call in 2021, for which the Bank started legal proceedings to attempt to receive these funds. The outcome of both proceedings remains unclear. None of these unpaid or disputed amounts have been included in CET1 capital as of end-2022.

Exhibit 1 novobanco Shareholders



Source: DBRS Morningstar, Company Documents, as of 22nd March 2023

Earnings Power

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Weak / Very Weak	Weak	Weak / Very Weak

In 2022 novobanco recorded a second consecutive year of profitability, driven by higher net interest income, alongside reduced provisions. We expect the Bank to remain profitable going forward, although risks remain as a result of persistent inflationary pressures, as well as higher macroeconomic uncertainty.

In FY 2022, novobanco reported a consolidated net profit of EUR 560.8 million, up EUR 376.3 million YOY against 2021. The results were also boosted by non-recurring income from assets sales.

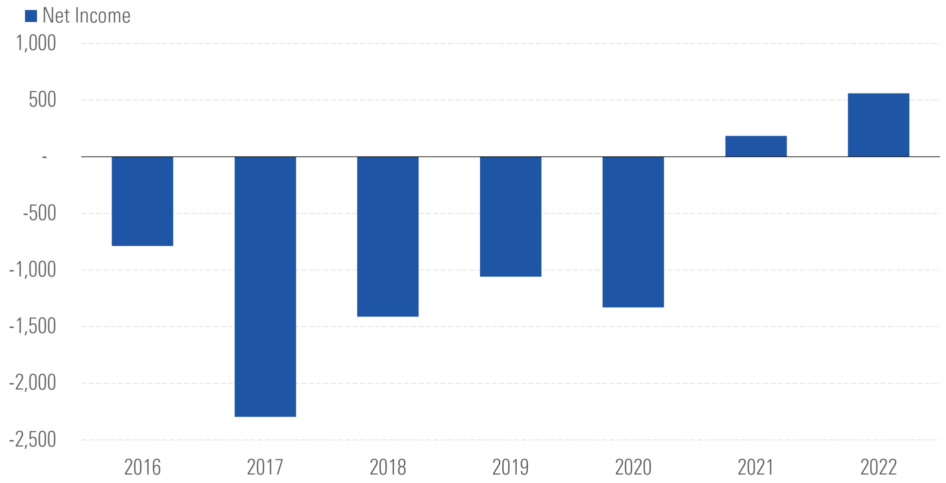
Commercial banking income increased by 7.3% YOY in 2022 to EUR 918.8 million. Net interest income grew 9.1% YOY to EUR 625.5 million, with the average yield on earnings assets increasing in FY 2022, from 1.60% to 1.79%, largely reflecting higher interest rates. This offset the cost of senior debt issuance made during the year, and the reduction in the benefit from TLTRO III. As the majority of novobanco's loan book is at variable rates, we expect the upward trend of net interest income to continue into 2023, as the loan book continues to reprice. The Bank's net interest margin grew to 1.47% from 1.42% in 2021 (1.99% in Q4 2022). For 2023, a NIM of over 2.20% is expected by the Bank. Fee and commission income increased by 3.8% YOY, due to strong performance in the Payment Management business (+11.3% YOY) reflecting higher transaction volumes.

The Bank's bottom line also benefitted from the sale of a real estate asset (EUR 77.1 million in Q2) , alongside a EUR 71.5 million gain in Q3 2022 due to the sale of the headquarters. Around EUR 40.4 million was also recognised in the year due to the recovery of overdue loans.

While the Bank is continuing with its corporate simplification plan, reducing both its branch network and employee base YOY, operating costs increased YOY (+9.8%). The increase was largely attributable to administrative expenses. Staff costs were reported at EUR 234 million, while depreciation expenses increased YOY, by EUR 18.5 million to EUR 52.5 million. Operating costs also included one-off expenses amounting to EUR 43 million. The Bank reported a commercial cost/income ratio[1] of 48.8%, or 44% excluding one-offs. The Bank targets a cost/income ratio below 40% for 2023.

In 2022, net impairments and provisions amounted to EUR 111.2 million, down EUR 241.5 million YOY. Credit provisions fell 77% YOY to EUR 34.5 million and reflected an improvement in the operating environment in 2022. Provisions for other assets and contingencies also reduced YOY (-94.2% to EUR 9 million). As a result, the Bank reported a cost of risk (including loan impairment and securities) of 45 bps, down from 70 bps in 2021, and below the Bank's medium-term target of under 50 bps set in October 2021. Nonetheless, credit risks may increase due to a more demanding environment with persistent and high inflation and rising interest rates.

Exhibit 2 novobanco Net Results (EUR Million)



Source: DBRS Morningstar, Company Documents

Risk Profile

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Moderate / Weak	Weak	Moderate / Weak

Credit Risk

novobanco's credit risk arises from its loan book which is primarily composed of lending to SME and Corporate clients. The bulk of the lending book is at variable rates. SMEs represent circa 57% of the Bank's originations, with small businesses representing around 21%. Stage 3 loans remain elevated within the corporate loan book, at 8% of corporate loans at end-2022, although this has reduced significantly from 2020.

[1] Commercial Banking Income (NII+Fees)/Operating Costs

Exhibit 3 Gross Loans Portfolio – 2022 (excl. securitised loans)

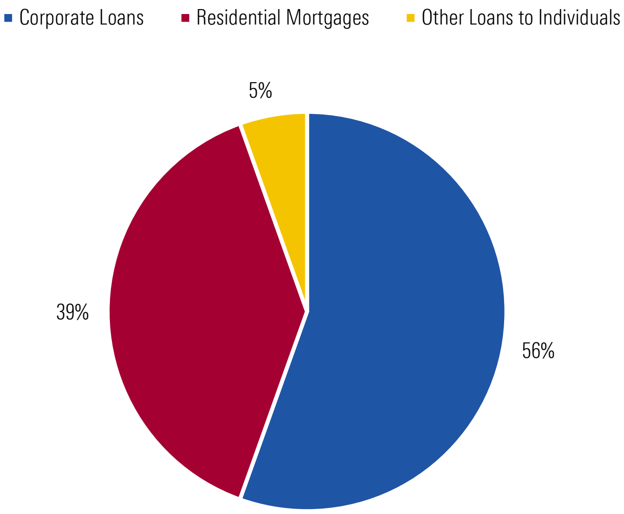
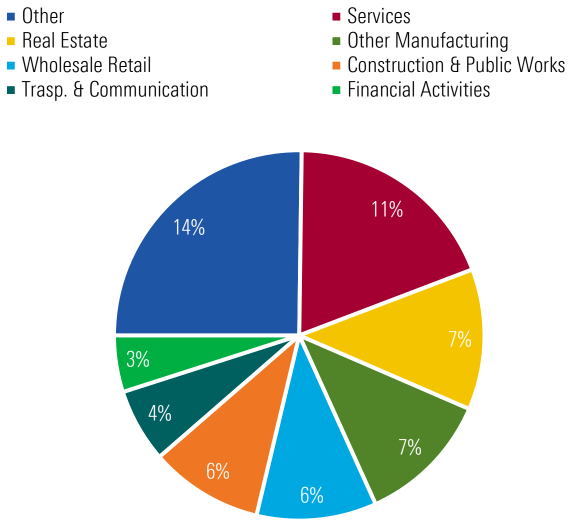


Exhibit 4 Corporate Loans Breakdown – 2022 (excl. securitised loans)



Source: DBRS Morningstar, Company Documents

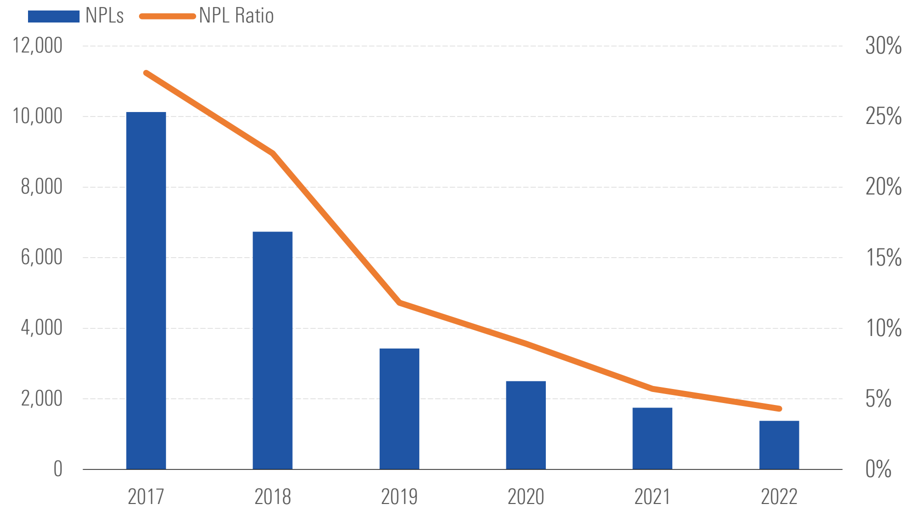
Since 2017, novobanco has made significant progress in de-risking its balance sheet, with the provision of capital support through the Contingent Capital Agreement (CCA) from the Portuguese Resolution Fund playing a key role in this process.

The gross NPL stock fell by 21% to EUR 1.4 billion at FY 2022, from EUR 1.75 billion at FY 2021. This was mainly supported by cures & recoveries, which reduced NPLs by EUR 370 million, alongside write-offs, which reduced NPLs by EUR 200 million. New entries have also been reducing YOY, with EUR 232 million of new entries in 2022, compared to new entries of EUR 332 million in 2021, and EUR 365 million in 2020, reflecting the improved economic environment in Portugal. The Bank's gross NPL ratio fell to 4.3% from 5.7% at FY 2021 (Exhibit 5). Despite making progress, this ratio remains higher than the European average.

Asset quality risks from both the pandemic and market stress due to the conflict Russia/Ukraine have been manged, and thus far a significant asset quality deterioration has not been noted. At YE 2020, novobanco had EUR 6.9 billion of loans under moratoria which represented around 27% of the gross loan book, although the bulk of these had expired by September 2021. The withdrawal of the moratoria has not resulted in a meaningful increase in NPLs. On these loans, however, there has been an increase in the proportion of Stage 2 loans where credit risk has increased significantly since initial recognition.

In the medium term, we expect potential asset quality deterioration to arise from the increase in interest rates. As the Bank's loan book gradually reprices to reflect increased rates, some debt stress might emerge as debt affordability reduces.

Exhibit 5 novobanco NPL Evolution (EUR Million)



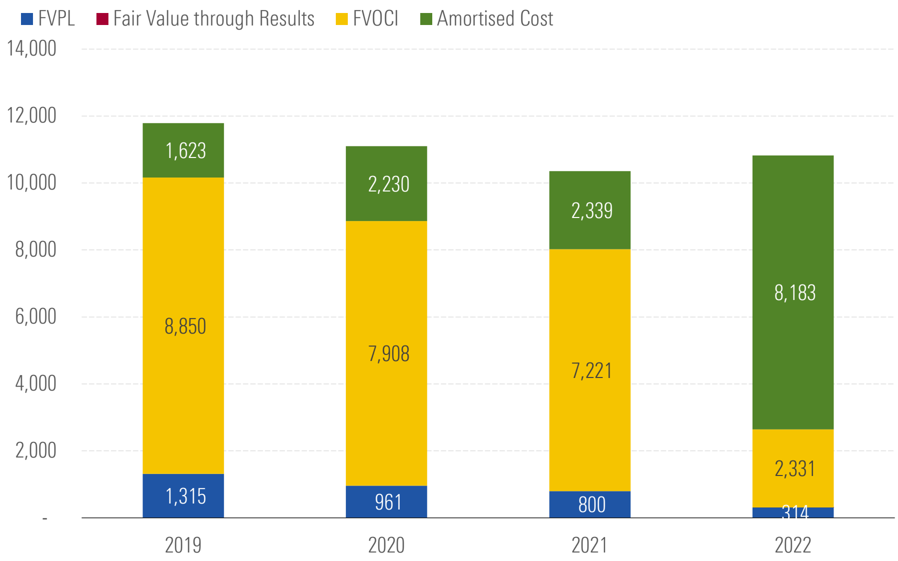
Source: DBRS Morningstar, Company Documents, Based on Company Disclosure

Security Portfolio

The Bank's securities portfolio stands at EUR 10.8 billion, and is largely comprised of sovereign debt, at 59%. Total exposure to sovereign debt is high, representing over 2 times the Bank's shareholders equity. The majority of the securities portfolio is held at amortised cost, at 76%, with most of the remaining portion held at Fair Value through Other Comprehensive Income (FVOCI) (22%). This represents a significant change from 2021 where 70% of this portfolio was at FVOCI, whist 23% was held at amortised cost. novobanco have also continued to reduce their securities held at Fair Value through Profit and Loss (FVPL), with this declining from 8% in 2021, to 3% in 2022. (Exhibit 6).

Around 40% of the amortised cost book is hedged, resulting in limited mark-to-market losses. novobanco's EUR 493 million unrealised loss on this book is compensated by EUR 199 million of Fair Value hedging derivatives, resulting in a EUR 201 million impact on novobanco's P&L in the unlikely event of a forced sale of this portfolio. This would result in a 24 basis point impact on CET1 ratios, as of 13th of March 2023.

Exhibit 6 novobanco Securities Portfolio Accounting Designation Breakdown (EUR Million)



Source: DBRS Morningstar, Company Documents, Figures are pre-fair value changes

Funding and Liquidity

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong / Good	Weak	Good /Moderate

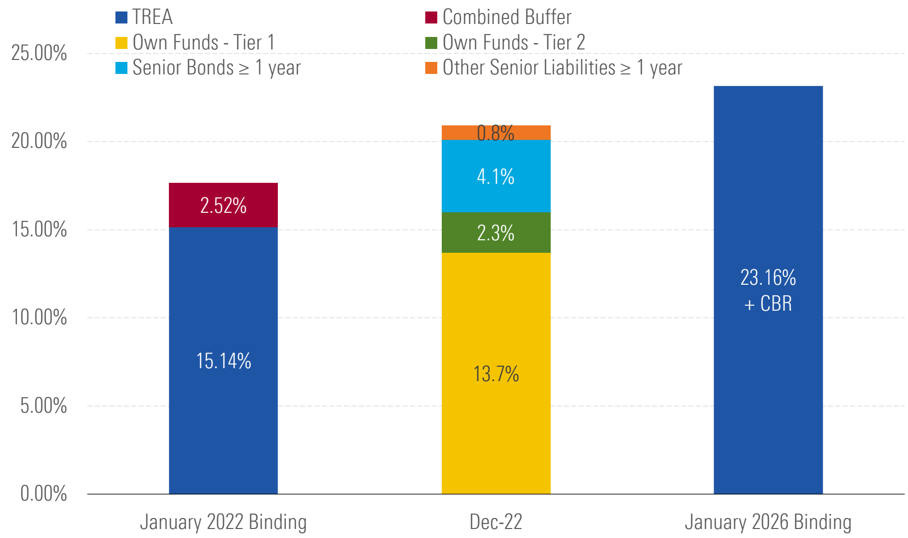
The Bank's funding structure largely depends on deposits and ECB funding. Total deposits amounted to EUR 28.4 billion, representing 61% of total assets at end-2022. Deposits increased 4% YOY largely due to inflows from retail customers. The increase in rates is yet to flow through to novobanco's customer deposits, which saw their average rate decrease marginally YOY to 17 bps in 2022 from 19 bps in 2021, although this was up from 15 basis points at end-June 2022. Going forward, the Bank expects a deposit beta in the range of 20-30 basis points.

At end-2022, deposits were largely comprised of demand deposits (67%) with term deposits accounting for the remaining 33%. The bulk of the deposit base is provided by retail customers (73% of total deposits). The Bank also has exposure to the ECB, with EUR 6.3 billion in total funds at end-2022. This has reduced significantly YOY, however, following the phase out of TLTRO and a prepayment made in December 2022. This corresponds to net ECB funding of EUR 0.4 billion as of end-2022. The Bank's upcoming TLTRO maturities are EUR 5.4 billion in 2023, and EUR1 billion in 2024.

At FY 2022, the Bank reported a Total MREL ratio of 20.8%, above the 2022 requirement of 17.66%, of which 15.14% was attributable to the Total Risk Exposure Amount, and 2.52% was the combined buffer. In term of leverage exposure, this requirement stood at 5.91%. 13.7% of the Bank's MREL was composed of Tier 1 own funds, 2.3% was Tier 2, 4.1% were Senior Bonds over 1 year, and 0.8% were Other Senior Liabilities over 1 year. By 2026 the Bank must comply with an MREL requirement of 23.16%, in addition to a combined buffer requirement. (Exhibit 7)

The Bank has a liquidity buffer of around EUR 13.7 billion, corresponding to around 48% of its deposit base, and a significant portion is cash held at the ECB. The Bank's regulatory liquidity ratios remain adequate, with the liquidity coverage ratio (LCR) reported at 210% at end-2022, up from 182% in 2021, whilst the net stable funding ratio (NSFR) declined slightly to 113% from 117%, and is lower than peers. The decline in the NSFR in part relates to the roll-off of TLTRO funds.

Exhibit 7 novobanco MREL vs. Requirements



Source: DBRS Morningstar, Company Documents, TREA = Total Risk Exposure Amount

Capitalisation

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Weak / Very Weak	Weak / Very Weak	Weak / Very Weak

At end-2022 the Bank reported phased-in CET1 and total capital ratios of 13.7% and 16.0%, respectively. This represents a significant improvement compared to the levels reported at end-2021 (11.1% and 13.1%). Capital ratios benefitted from improving organic capital generation, alongside a reduction in RWAs in 2022. Profitability contributed 157 bps YOY, of which the Bank's underlying Q4 profitability contributed 61 bps.

Previously, the Bank had been operating below its 13.5% total capital required under SREP, on the back of the extraordinary measures granted by the ECB to counter the COVID-19 emergency. novobanco's minimum capital requirements under SREP currently stand at 8.7% for CET1 and 13.5% for total capital. These requirements include an 8% Pillar 1 Requirement, a 3% Pillar 2 Requirement (P2R), and a capital conservation buffer of 2.5%. As such, the Bank's buffer over capital requirements stand at 250 bps for total capital, and 400bps for CET1 capital. The Bank's capital requirements are unchanged from 2022. novobanco also have a Pillar 2 Guidance (P2G) of 1.5% from 2023, which is unchanged from last year. When including this, novobanco retain a buffer of 100bps in total capital, and 250 bps in CET1.

The Bank's CET1 ratio is protected up to a predetermined threshold for the amounts of losses verified in a perimeter of assets as outlined by the Contingent Capital Agreement. The amount that is potentially available for novobanco is approximately EUR 485 million. The mechanism is in place until December 2025 (the "CCA Maturity Date"), although DBRS Morningstar notes that this date can be extended by one additional year, should certain conditions be met.

Up until 2020, the support from the CCA had been timely and aligned to novobanco's requests. However, the capital paid to novobanco in 2021 was lower than the amount initially requested. This led to an arbitration process with the Resolution Fund, and the outcome of this still remains unclear. None of these unpaid or disputed amounts have been included in CET1 capital as of end-2022. No CCA request was made for 2022.

Exhibit 8 Capital Ratios and RWAs

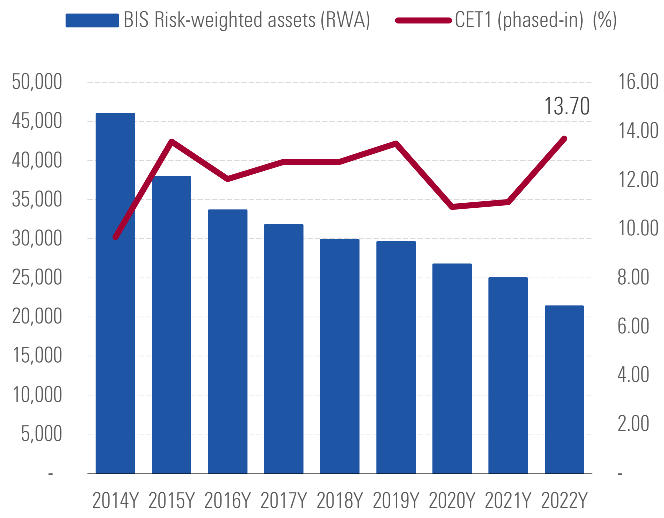
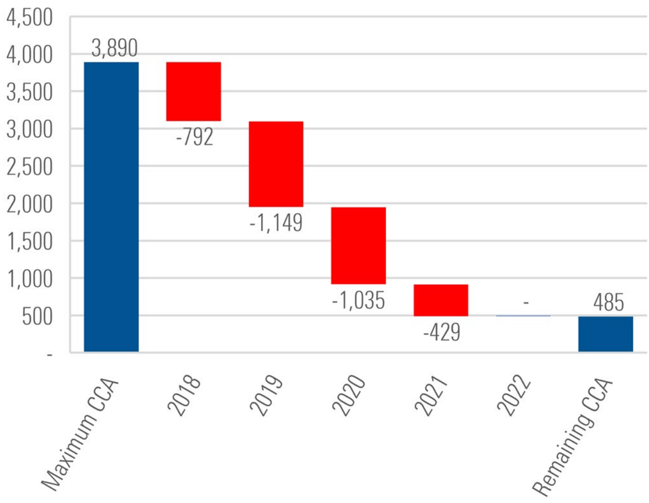


Exhibit 9 novobanco CCA Summary



Source: DBRS Morningstar, Company Documents,

Novo Banco, S.A.

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	N	N
	Emissions,Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	N	N
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
		In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2°C rise in temperature?	N	N
		Climate and Weather Risks	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		**Overall:**	N	N
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
	Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N
		Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N
		Human Capital and Human Rights	N	N
	Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
	Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
	Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
	Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		**Overall:**	Y	R
	Bribery, Corruption, and Political Risks	Are there any political risks that could impact the issuer's financial position or its reputation?	Y	R
		Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
		Bribery, Corruption, and Political Risks	Y	R
	Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
	Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N
		Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
		Does the board and/or management have a formal framework to assess climate-related financial risks to the issuer?	N	N
		Corporate / Transaction Governance	N	N
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	Y	R

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environmental

The environmental factor does not affect the ratings or trends assigned to novobanco.

novobanco was part of the ECB climate risk stress-test results which were published on July 8, 2022. While they did not provide detailed indications on the geographies potentially affected under the selected scenarios, participating European banks were told they need to enhance their climate risk stress testing framework.

Social

The social factor does not affect the ratings or trends assigned to novobanco. The Bank is making efforts to improve its social standing through the implementation of internal bank policies on social factors such as gender diversity and work/life balance.

Although, we have no knowledge of any notable data breaches, we note that the Bank's ratings could be negatively impacted by a loss of private data that significantly impacts the Bank's franchise or its financial performance.

Governance

The Corporate Governance subfactor is no longer considered as relevant to the ratings and trends of novobanco, as reputational issues related to past management and the failure of its predecessor bank Banco Espirito Santo (BES) are now considered legacy issues. Political risk is considered as relevant, reflecting the disputes between the Bank and the resolution fund regarding the capital payment under the CCA. This is accounted for under the Bank's Risk building block.

In relation to Russia/Ukraine, EU banks need to ensure that they are blocking and identifying any potential illicit payments from sanctioned individuals and/or businesses, and any non-compliance with the sanctions imposed could lead to fines and reputational consequences over time.

Six of the Bank's ten General and Supervisory Board members are independent. The Bank have a three-member Financial Affairs (Audit) Committee which has delegated powers of the General and Supervisory Board regarding accounting policies, the approval of the annual budget, among other functions.

Novo Banco, S.A.

2022	Scorecard Indicator (1)	Scorecard Indicator Data (1)	Scorecard Indicator Assessment (2)	Scorecard Building Block (BB) Assessment (3)	Grids BB Assessment (4)	Combined BB Assessment (5)
Franchise	Adjusted Assets	37	M	G/M	M/W	M
	Sovereign Rating	14	G/M			
Earnings	Return on Equity	-1.95%	W/VW	W/VW	W	W/VW
	Return on Assets	-0.21%	W/VW			
	IBPT/Avg.Assets	0.51%	M			
Risk	Net NPLs/Net Loans	2.55%	M	M/W	W	M/W
	Provisions/IBPT	68.64%	M/W			
Funding & Liquidity	Sovereign-Adjusted Funding Ratio	114.8%	S/G	S/G	W	G/M
Capitalisation	Sovereign-Adjusted Capital Ratio	8.24%	M/W	W/VW	W/VW	W/VW
	NPL/(Equity + Loan Loss Reserves)	41.34%	G/M			
	5-Year Accumulated Net Income/Total Assets	-6.68%	VW			

Overall Assessment (6)	Intrinsic Assessment Range (IAR) (7)			Assigned IA (8)
M/W	BBB (low)	BB (high)	BB	BB (low)

Notes: (1) based on financial data as of FY 2022. (2) For more information see Global Methodology for Rating Banks and Banking Organizations published on 23 June 2022. (3) IAR and IA refer to bank level rating.

Annual Financial Information

	For the Year Ended December 31 (IFRS)				
	2022	**2021**	**2020**	**2019**	**2018**
Balance Sheet (EUR Millions)					
Cash & Cash Equivalents*	6,643	5,922	2,809	2,223	1,391
Investments in Financial Assets	11,299	10,882	11,924	12,689	11,615
Gross Loans to Customers	25,530	24,822	25,199	26,986	28,632
Loan Loss Reserves	(1,228)	(1,563)	(1,945)	(2,203)	(4,325)
Net Lending to Customers	24,302	23,259	23,253	24,783	24,306
Total Assets	45,995	44,619	44,396	45,296	48,274
Deposits from Customers	28,863	27,582	26,322	28,400	28,695
Debt & Capital Lease Obligations	1,584	1,470	973	1,123	1,104
Total Liabilities	42,483	41,469	41,249	41,293	44,352
Total Equity	3,512	3,149	3,147	4,003	3,922
Income Statement (EUR Millions)					
Net Interest Income	626	573	555	512	454
Non Interest Income	488	410	(187)	(51)	103
Equity Method Results	8	4	9	1	6
Total Operating Income	1,122	987	378	463	563
Total Operating Expenses	621	666	603	612	845
Income Before Provisions and Taxes (IBPT)	501	322	(225)	(169)	(282)
Loan Loss Provisions	(9)	114	706	449	240
Net Attributable Income	561	185	(1,329)	(1,059)	(1,412)
Growth (%) - YoY Change					
Net Interest Income	9.1%	3.3%	8.3%	12.8%	12.6%
Total Operating Income	13.6%	161.4%	-18.5%	-17.7%	-29.1%
Total Operating Expenses	-6.7%	10.5%	-1.5%	-27.6%	-1.7%
IBPT	55.8%	NM	NM	NM	NM
Net Attributable Income	204.0%	NM	NM	NM	NM
Gross Loans & Advances	2.3%	-1.5%	-6.6%	-5.7%	-8.9%
Deposits from Customers	4.6%	4.8%	-7.3%	-1.0%	-4.6%
Earnings (%)					
Net Interest Margin	1.5%	1.4%	1.3%	1.2%	1.0%
Non-Interest Income / Total Revenue	43.5%	41.5%	NM	NM	NM
Cost / Income ratio	55.4%	67.4%	159.6%	132.1%	150.1%
LLP / IBPT	-1.8%	35.5%	NM	NM	NM
Return on Avg Assets (ROAA)	1.3%	0.4%	NM	NM	NM
Return on Avg Equity (ROAE)	17.1%	5.9%	NM	NM	NM
IBPT over Avg RWAs	2.2%	1.2%	-0.8%	-0.6%	-0.9%
Risk Profile (%)					
Cost of Risk	0.0%	0.5%	2.9%	1.8%	1.0%
Gross NPLs over Gross Loans	5.4%	7.0%	9.8%	12.7%	23.5%
NPL Coverage Ratio	89.2%	89.4%	77.9%	63.9%	63.9%
Net NPLs over Net Loans	1.3%	2.1%	2.8%	6.1%	11.2%
NPLs to Equity and Loan Loss Reserves Ratio	29.2%	37.4%	49.4%	NM	82.5%
Funding & Liquidity (%)					
Net Loan to Deposit Ratio	84.5%	85.1%	89.2%	88.1%	85.5%
Liquidity Coverage Ratio	210%	182%	140%	143%	125%
Net Stable Funding Ratio	113%	117%	112%	101%	106%
Capitalization (%)					
CET1 Ratio	13.7%	11.1%	10.9%	13.5%	12.8%
Tier1 Ratio	13.7%	11.1%	10.9%	13.5%	12.8%
Total Capital Ratio	16.0%	13.1%	12.8%	15.1%	14.5%
Leverage Ratio	6.1%	6.0%	6.5%	8.4%	8.2%

Source: Morningstar Inc., Company Documents

*Includes Loans to Banks

Rating Methodology

The applicable methodologies are the *Global Methodology for Rating Banks and Banking Organisations* (23 June 2022), *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (17 May 2022) and *DBRS Morningstar Criteria: Guarantees and Other Forms of Support* (4 April 2022) which can be found on our website under Methodologies.

Ratings

Issuer	Debt	Rating Action	Rating	Trend
Novo Banco, S.A.	Long-Term Issuer Rating	Upgraded	BB (low)	Stable
Novo Banco, S.A.	Long-Term Senior Debt	Upgraded	BB (low)	Stable
Novo Banco, S.A.	Subordinated Debt	Upgraded	B	Stable
Novo Banco, S.A.	Long Term Critical Obligations Rating	Confirmed	BB (high)	Stable
Novo Banco, S.A.	Long-Term Deposits	Upgraded	BB	Stable
Novo Banco, S.A.	Short Term Critical Obligations Rating	Confirmed	R-3	Stable
Novo Banco, S.A.	Short-Term Debt	Confirmed	R-4	Stable
Novo Banco, S.A.	Short-Term Deposits	Confirmed	R-4	Stable
Novo Banco, S.A.	Short-Term Issuer Rating	Confirmed	R-4	Stable
Novo Banco, S.A.	Long-Term Senior Debt - EUR 5 billion EMTN Programme	Upgraded	BB (low)	Stable
Novo Banco, S.A.	Senior Non-Preferred Debt - EUR 5 billion EMTN Program	Upgraded	B (high)	Stable
Novo Banco, S.A.	Subordinated Debt - EUR 5 billion EMTN Programme	Upgraded	B	Stable
Novo Banco Luxembourg Branch	Long-Term Senior Debt	Upgraded	BB (low)	Stable
Novo Banco Luxembourg Branch	Long-Term Deposits	Upgraded	BB	Stable
Novo Banco Luxembourg Branch	Short-Term Debt	Confirmed	R-4	Stable
Novo Banco Luxembourg Branch	Short-Term Deposits	Confirmed	R-4	Stable
NB Finance Ltd.	Senior Notes Guaranteed by NB	Upgraded	BB (low)	Stable

Ratings History

Issuer	Debt	Current	2022	2021	2020
Novo Banco, S.A.	Long-Term Issuer Rating	BB (low)	B (high)	B (high)	B (high)
Novo Banco, S.A.	Long-Term Senior Debt	BB (low)	B (high)	B (high)	B (high)
Novo Banco, S.A.	Subordinated Debt	B	B (low)	B (low)	B (low)
Novo Banco, S.A.	Long Term Critical Obligations Rating	BB (high)	BB (high)	BB (high)	BB (high)
Novo Banco, S.A.	Long-Term Deposits	BB	BB (low)	BB (low)	BB (low)
Novo Banco, S.A.	Short Term Critical Obligations Rating	R-3	R-3	R-3	R-3
Novo Banco, S.A.	Short-Term Debt	R-4	R-4	R-4	R-4
Novo Banco, S.A.	Short-Term Deposits	R-4	R-4	R-4	R-4
Novo Banco, S.A.	Short-Term Issuer Rating	R-4	R-4	R-4	R-4
Novo Banco, S.A.	Long-Term Senior Debt - EUR 5 billion EMTN Programme	BB (low)	B (high)	-	-
Novo Banco, S.A.	Senior Non-Preferred Debt - EUR 5 billion EMTN Program	B (high)	B	-	-
Novo Banco, S.A.	Subordinated Debt - EUR 5 billion EMTN Programme	B	B (low)	-	-
Novo Banco Luxembourg Branch	Long-Term Senior Debt	BB (low)	B (high)	B (high)	B (high)
Novo Banco Luxembourg Branch	Long-Term Deposits	BB	BB (low)	BB (low)	BB (low)
Novo Banco Luxembourg Branch	Short-Term Debt	R-4	R-4	R-4	R-4
Novo Banco Luxembourg Branch	Short-Term Deposits	R-4	R-4	R-4	R-4
NB Finance Ltd.	Senior Notes Guaranteed by NB	BB (low)	B (high)	B (high)	B (high)

Previous Actions

- DBRS Morningstar Upgrades Novo Banco's LT Issuer Rating to BB (low), Stable Trend, March 29, 2023
- DBRS Morningstar Confirms Novo Banco's LT Issuer Rating at B (high), Trend now Stable, April 14, 2022
- DBRS Morningstar Confirms Novo Banco's Long-Term Issuer Rating at B (high), Trend Remains Negative, April 16, 2021
- DBRS Morningstar Confirms Novo Banco's Long-Term Issuer Rating at B (high), Trend Now Negative, April 9, 2020
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- EU Banking Sector: Risks from Unrealised Losses Appear Manageable, but Challenges Remain, March 17, 2023
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- ESG Risk Factors for European Banks: Review of 2022, January 31, 2023
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- Novo Banco, S.A.: Rating Report, July 4, 2022
- Novo Banco, S.A.: Rating Report, June 23, 2021
- Novo Banco, S.A.: Rating Report, June 17, 2020
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- Novo Banco, S.A.: Rating Report, May 11, 2018

European Bank Ratios & Definitions

- Bank Ratio Definitions, March 14, 2022

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