novobanco

GROUP ACTIVITY AND RESULTS 1Q 2022

PRESS RELEASE

Lisbon, 3 May 2022
(unaudited financial information)

"novobanco presents positive results for the fifth consecutive quarter, creating value for all its shareholders, demonstrating the sustainable profitability of its business model, and continuous support to our customers and the Portuguese economy."

António Ramalho, CEO

HIGHLIGHTS

CONTINUING TO DELIVER IMPROVED PROFITABILITY

- **novobanco announces a further quarter of profitability with a net income of €142.7mn** (1Q21: €70.7mn).

  The business performance is in line with expectations, presenting the fifth consecutive quarter of profitability. The Bank has delivered further improvement despite the uncertain macro background characterized by inflationary pressures and consequent volatility of interest rates.
- **Net Interest Income was €133.5mn (-8.4% YoY), reflecting a stable yield on customer business** (companies and individuals), with YoY evolution explained by senior issuance done in 2021 and negative interest rates on money market placements. **The Net Interest Margin in the period was 1.31%** (vs 1Q21: 1.49%) with **Net customer loans at €24.0bn (+1.2% YTD)**, confirming trajectory of an expanding loan book in the market-leading corporate segment with stable mortgage and consumer portfolios.
- **Fees and commissions of €68.8mn (+9.6% YoY),** reflect a strong performance and improved quarterly trend.
- As a result, **Commercial banking income in the period was €202.3mn (-3% YoY)** and **Banking Income was strong at €310.4mn (+13.5% YoY)**, with Capital Markets Results of €91.4mn (vs €52.8mn in 1Q21).
- **The bank's core operating income** (commercial banking income minus operating costs) **was €98.7mn (-€7mn YoY)**, driven by stabilization of commercial banking income and flat operating costs.
- **Cost to Income ratio was 51%** (vs 49% in 1Q21; excluding markets and other operating results), reflecting a stable cost level (€103.6mn; +€0.9mn YoY), supported by the implementation of efficiency measures and continuous investment in the business model. On a recurring basis, operating costs reduced by 1.9% (-€2.0mn).
- **Cost of risk was 23bps,** given the successful ongoing de-risking strategy (1Q21: 88bps or 53bps ex-Covid related provisions) and reflecting a decrease in **Credit impairments to €14.3mn** (-74.0%; -€40.6mn vs 1Q21).
- All in all, **novobanco achieved a RoTE[1] of 10.2%** (pre-tax; Return on Tangible Equity), with underlying net income (pre-tax) at €59.5mn.

SOLID BUSINESS MODEL WITH STRONG CUSTOMER OUTCOMES

- Total customer funds increased by +0.4% YTD, **with customer deposits increasing by 0.9% (+€247mn),** reflecting growth of the business;
- **novobanco was distinguished by D-Rating**, a digital performance rating agency, **as #1 among the Portuguese** banks and its new online life insurance underwriting **won the Outstanding Digital CX - Bancassurance** category at the 2022 edition of the Digital CX Awards.
- **The awards reflect the continuous investment in digitalisation**, providing a unique omnichannel customer experience based on the novel distribution model and digital transformation led to: i) +6% YoY in active digital customers to 55.1% of total customer, and; ii) the increased YoY importance of **digital in sales in Consumer loans** (+354%), **Life and non-life insurance** (+101%) and **Credit Cards** (+110%).
- **Non-performing loans (NPL) ratio at 5.7% (Dec/21: 5.7%; Dec/20: 8.9%), with 70.8% coverage ratio**, demonstrating the de-risking of the balance sheet and progress towards achieving an NPL ratio in line with European average.

CAPITAL AND LIQUIDITY RATIOS

The Bank's positive quarterly net income and continued focus on RWA discipline demonstrate a capital accretive business model, with CET 1 evolution being driven by the movement in treasury portfolio fair value reserves due to increasing interest rates and phase-in of prudential deductions, resulting in **CET 1 ratio of 10.8%** (vs 11.1% in 2021) and **Total capital ratio of 12.9%** (vs 13.1% in 2021). The liquidity ratio (LCR) improved further to 184% (vs Dec-21: 182%) and NSFR totalled 115% (vs Dec-21: 117%).

[1] Post pro rata allocation of special tax on banks and contributions to resolution funds, and net of capital markets results

GROUP RESULTS

In the first quarter 2022, **novobanco** reported a profit of €142.7mn (+€72.0mn YoY). The change in profit is driven by the improvement in the banking income (+€36.9mn) and the lower level of impairments and provisions (-64.7%; -€40.0mn).

The underlying net income (pre-tax) would be €59.5mn, equivalent to a RoTE (Return on Tangible Equity; pre-tax) of 10.2%. The underlying net income (pre-tax) is net of special tax on Banks and excludes market results.

mn€

INCOME STATEMENT	31-Mar-21	31-Mar-22	Change	
			absolute	%
Net Interest Income	145.7	133.5	- 12.2	-8.4%
+ Fees and Commissions	62.8	68.8	6.0	9.6%
= **Commercial Banking Income**	**208.5**	**202.3**	**- 6.2**	**-3.0%**
+ Capital Markets Results	52.8	91.4	38.6	73.0%
+ Other Operating Results	12.2	16.7	4.5	37.1%
= **Banking Income**	**273.5**	**310.4**	**36.9**	**13.5%**
- Operating Costs	102.7	103.6	0.9	0.8%
= **Net Operating Income**	**170.8**	**206.8**	**36.0**	**21.1%**
+ Restructuring funds - independent valuation	0.0	0.0	0.0	...
- **Net Impairments and Provisions**	**61.8**	**21.8**	**- 40.0**	**-64.7%**
Credit	54.9	14.3	- 40.6	-74.0%
Securities	0.9	11.1	10.2	...
Other Assets and Contingencies	6.0	- 3.6	- 9.6	...
= **Income before Taxes**	**109.0**	**185.0**	**76.0**	**69.8%**
- Corporate Income Tax	4.2	7.4	3.1	74.6%
- Special Tax on Banks	32.8	34.1	1.4	4.2%
= **Income after Taxes**	**72.0**	**143.5**	**71.5**	**99.3%**
- Non-Controlling Interests	1.3	0.9	- 0.4	-34.0%
= **Net Income for the period**	**70.7**	**142.7**	**72.0**	**...**

The **novobanco** Group presents the fifth consecutive quarter of profitability. If compared to the first quarter of 2021, there is a positive evolution even when adjusted for extraordinary effects.

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INCOME STATEMENT	1Q21	2Q21	3Q21	4Q21	1Q22	change vs 4Q21	
						absolute	%
Net Interest Income	145.7	143.5	140.9	143.2	133.5	-9.7	-6.8%
+ Fees and Commissions	62.8	72.8	72.3	74.6	68.8	-5.9	-7.9%
= Commercial Banking Income	**208.5**	**216.3**	**213.2**	**217.9**	**202.3**	**-15.6**	**-7.1%**
+ Market Results	52.8	40.5	-59.7	42.2	91.4	49.2	...
+ Other Operating Results	12.2	-41.3	30.3	39.2	16.7	-22.5	-57.4%
= Banking Income	**273.5**	**215.5**	**183.9**	**299.3**	**310.4**	**11.1**	**3.7%**
- Operating Costs	102.7	101.4	101.6	102.6	103.6	1.0	0.9%
= Net Operating Income	**170.8**	**114.1**	**82.3**	**196.6**	**206.8**	**10.2**	**5.2%**
+ Restructuring funds - independent valuation	0.0	0.0	0.0	0.0	0.0	0.0	...
- Net Impairments and Provisions	**61.8**	**27.4**	**70.4**	**193.1**	**21.8**	**-171.3**	**-88.7%**
Credit	54.9	29.8	30.3	34.4	14.3	-20.1	-58.5%
Securities	0.9	15.1	1.4	30.4	11.1	-19.3	-63.5%
Other Assets and Contingencies	6.0	-17.5	38.7	128.4	-3.6	-131.9	...
= Income before Taxes	**109.0**	**86.7**	**11.9**	**3.5**	**185.0**	**181.5**	**...**
- Taxes	4.2	16.9	-8.1	-28.2	7.4	35.6	...
- Special Tax on Banks	32.8	1.5	0.0	-0.1	34.1	34.2	...
= Income after Taxes	**72.0**	**68.4**	**20.0**	**31.8**	**143.5**	**111.7**	**...**
- Non-controlling Interests	1.3	1.4	3.6	1.4	0.9	-0.5	-38.3%
= Net Income	**70.7**	**67.0**	**16.4**	**30.4**	**142.7**	**112.2**	**...**

Resultado antes de Impostos	***109.0***	***86.7***	***11.9***	***3.5***	***185.0***
Special Tax on Banks	*-32.8*	*-1.5*	*0.0*	*0.1*	*-34.1*
Market Results	*-52.5*	*-35.4*	*-11.1*	*-39.2*	*-91.4*
LME One-Off	*0.0*	*0.0*	*73.5*	*0.0*	*0.0*
Pension Fund	*0.0*	*0.0*	*0.0*	*-37.2*	*0.0*
Covid 19 impairment	*21.8*	*13.4*	*5.0*	*31.6*	*0.0*
Other extraordinary provisions	*10.0*	*0.0*	*0.0*	*125.9*	*0.0*
Net income (before taxes) adjusted	***55.5***	***63.3***	***79.3***	***84.8***	***59.5***

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

- Commercial banking income amounted to €202.3mn, driven by an improvement in fees and commissions (+9,6%; +€6.0mn YoY) and a reduction of the net interest income a result the senior debt issuance in 2021 and the increase in the volume money market placements (effect of negative interest rates), while yield on customer business remained stable.
- Capital markets results of +€91.4mn mostly due to gains from the hedging of interest rate risk as a result of the market volatility of public debt in the period;
- Operating costs (€103.6mn) in line with previous 2021 quarters, which reflects the continued investment in the business and digital transformation, the focus on cost optimization and the implementation of improvements in terms of simplifying and optimizing processes. On a recurring basis, operating costs presented a reduction of 1.9% (-€2.0mn);
- Net impairments and provisions amounted to €21.8mn reflecting the normalization of the balance sheet (1Q21: €61.8mn of which €21.8mn for Covid-19 related risks).

Net Interest Income

Net Interest Income was €133.5mn (-8.4% YoY), reflecting stable yield on customer business (companies and retail; average customer loans rate 1Q22: 2.00% vs 4Q21: 2.01%), with YoY decrease due to senior debt issuance in 2021 and negative interest rates on money market placements.

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

The average asset rate reduced by 11bp YTD, from 1.60% in December 2021 to 1.49% in March 2022, with the average liability rate increasing by 1pp.

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NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Mar-21			31-Dec-21			31-Mar-22		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	39 149	1.68%	164	39 838	1.60%	645	40 724	1.49%	152
Customer Loans	25 092	2.05%	129	24 995	2.01%	509	25 013	2.00%	125
Mortgage Loans	*9 963*	*1.10%*	*27*	*9 905*	*1.04%*	*104*	*9 774*	*1.03%*	*25*
Consumer Loans and Others	*1 340*	*5.86%*	*20*	*1 380*	*5.86%*	*82*	*1 423*	*5.88%*	*21*
Corporate Lending	*13 789*	*2.37%*	*82*	*13 710*	*2.33%*	*323*	*13 816*	*2.28%*	*79*
Money Market Placements	3 467	0.24%	2	4 602	0.07%	3	5 927	-0.32%	- 5
Securities and Other Assets	10 589	1.25%	33	10 241	1.28%	133	9 784	1.28%	31
INTEREST EARNING ASSETS AND OTHER	**39 149**	**1.68%**	**164**	**39 838**	**1.60%**	**645**	**40 724**	**1.49%**	**152**
INTEREST BEARING LIABILITIES	37 585	0.19%	18	38 148	0.18%	68	39 597	0.18%	18
Customer Deposits	26 302	0.20%	13	26 580	0.19%	51	27 379	0.15%	10
Money Market Funding	10 335	-0.48%	- 12	10 497	-0.51%	- 54	10 779	-0.57%	- 15
Other Liabilities	947	7.01%	17	1 070	6.53%	71	1 439	6.40%	23
OTHER NON-INTEREST BEARING LIABILITIES	1 564	-	-	1 690	-	-	1 126	-	-
INTEREST BEARING LIABILITIES AND OTHER	**39 149**	**0.18%**	**18**	**39 838**	**0.17%**	**68**	**40 724**	**0.18%**	**18**
NIM / NII (without stage 3 impairment adjustment)		**1.50%**	**146**		**1.43%**	**577**		**1.31%**	**133**
Stage 3 impairment			**- 1**			**- 4**			**0**
NIM / NII		**1.49%**	**146**		**1.42%**	**573**		**1.31%**	**134**

The average rate on customer loans was 2.00%, in line with 2021. The increase of the average balance of money market placements penalised the evolution of the assets average rate.

The average balance of deposits was €27.4bn, with an average interest rate of 0.15% (-4bps YTD), and Money Market Funding was €10.8bn, with -0.57% average interest rate, benefiting from the conditions of the ECB long-term refinancing operations.

The spread between the rate on interest earning assets (1.49%; 2021: 1.60%) and the cost of liabilities (0.18%; 2021: 0.17%) with a negative impact on overall net interest margin (1.31%; 2021: 1.42%).

Fees and Commissions

Fees and commissions amounted to €68.8mn in the quarter, representing a 9.6% YoY increase (+€6.0mn).

This positive development is driven mainly by (i) a strong performance in Payments Management (+15.3%; +€3.9mn YoY) due to higher volume of transactions and pricing, and (ii) volume increase in the Asset Management & Bancassurance (+14.2%; +€2.1mn), reflecting more robust commercial activity and increased customer appetite.

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FEES AND COMMISSIONS	31-Mar-21	31-Mar-22	Change	
			absolute	%
Payments Management	25.3	29.1	3.9	15.3%
Commissions on Loans, Guarantees and Similar	19.5	20.3	0.9	4.4%
Asset Management and Bancassurance	15.1	17.2	2.1	14.2%
Advising, Servicing and Other	3.0	2.1	-0.8	-28.0%
TOTAL	**62.8**	**68.8**	**6.0**	**9.6%**

Capital Markets and Other Operating Results

The results of financial operations were positive by €91.4mn mostly due to gains from the hedging of interest rate risk, reflecting the volatility of sovereign debt in the market. The fair value reserves decreased by €243.4mn in the period.

Other operating results amounted +€16.7mn, including gains related to associated companies (+€9.0mn) and credit recovery (+€5.9mn).

Operating Costs

Operating costs stood stable YoY (+€0.9mn), reflecting on the one hand the continued optimisation and simplification of the organisation and its processes, along with the reduction of staff costs given the lower number of employees, and on the other the investment done in the new distribution model.

Operating costs presented a reduction of 1.9% (-€2.0mn), when adjusted by non-recurrent costs in general and administrative costs.

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OPERATING COSTS	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Mar-22	Change	
								absolute	%
Staff Costs	81.4	71.8	65.9	66.2	65.4	58.7	55.7	- 3.0	-5.1%
General and Administrative Costs	58.7	52.4	50.2	45.6	41.8	35.9	38.2	2.3	6.3%
Depreciation	15.1	11.0	5.8	8.5	8.6	8.1	9.8	1.6	19.8%
TOTAL	**155.2**	**135.2**	**121.9**	**120.3**	**115.8**	**102.7**	**103.6**	**0.9**	**0.8%**

Staff costs totalled €55.7mn (-5.1% YoY), maintaining the downward trend of recent years, and as a result of increased efficiency. As of 31 March 2022, **novobanco** Group had 4,182 employees (Mar/21: 4,557; -375 YoY).

General administrative costs and Depreciation increased by 6.3% (-1.6% on a recurring basis) and 19.8% YoY respectively, to €38.2mn and €9.8mn, with the implementation of efficiency measures related to reorganisation, rationalisation of processes and business model.

The total number of branches as of 31 March 2022 was 311 (Mar/21: 357; -46 branches YoY).

Net Impairments and Provisions

In the first quarter of 2022, **novobanco** Group recorded net impairments and provisions amounting to €21.8mn, a reduction compared to 1Q21 (-64.7%; -€40.0mn).

Benefiting from the execution of the de-risking strategy implemented during the restructuring process, the cost of risk decreased to 23bps (vs 1Q21: 88bps or 53bps ex-Covid related provisions).

NET IMPAIRMENTS AND PROVISIONS	31-Mar-21	31-Mar-22	Change absolute	Change %
				mn€
Customer Loans	54.9	14.3	-40.6	-74.0%
Securities	0.9	11.1	10.2	...
Other Assets and Contingencies	6.0	- 3.6	- 9.6	...
TOTAL	**61.8**	**21.8**	**- 40.0**	**-64.7%**

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

CUSTOMER LOANS

novobanco's strategy is one of supporting 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.

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CUSTOMER LOANS	31-Mar-21	31-Dec-21	31-Mar-22	YTD Change absolute	YTD Change %
Loans to corporate customers	**13 657**	**13 714**	**14 034**	**320**	**2.3%**
Loans to Individuals	**11 295**	**11 218**	**11 181**	**- 37**	**-0.3%**
Residential Mortgage	9 959	9 812	9 766	- 46	-0.5%
Other Loans	1 335	1 406	1 416	9	0.6%
Customer Loans (gross)	**24 952**	**24 932**	**25 215**	**282**	**1.1%**
Provisions	1 492	1 248	1 236	- 12	-1.0%
Customer Loans (net)	**23 460**	**23 685**	**23 979**	**294**	**1.2%**

Loans to customers (gross) totalled €25,215mn, increasing 1.1% YTD driven by a 2.3% growth in loans to corporate customers.

The risk indicators of 1Q22, and comparison with previous year, are presented below:

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ASSET QUALITY AND COVERAGE RATIOS	31-Mar-21	31-Dec-21	31-Mar-22	YtD Change absolute	YtD Change %
Overdue Loans > 90 days	609	290	318	28	9.7%
Non-Performing Loans (NPL)[1]	2 279	1 749	1 746	- 3	-0.1%
Overdue Loans > 90 days / Customer Loans (gross)	2.4%	1.2%	1.3%	0.1 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	**8.0%**	**5.7%**	**5.7%**	**0.0 p.p.**	
Credit Provisions / Customer Loans	6.0%	5.0%	4.9%	-0.1 p.p.	
Coverage of Overdue Loans > 90 days	244.8%	430.2%	388.4%	-41.8 p.p.	
Coverage of Non-Performing Loans [1]	**77.0%**	**71.4%**	**70.8%**	**-0.6 p.p.**	

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

The reduction in loans overdue by more than 90 days and non-performing loans (including deposits with Banks and loans and advances to Banks), led to an improvement in the respective asset quality ratios to 1.3% and 5.7%, respectively (Mar/21: 2.4% and 8.9%).

As of 31 March 2022, the provision coverage of NPL by impairments (including deposits with Banks and loans and advances to Banks) was 70.8%.

SECURITIES

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €10.5bn on 31 March 2022, representing 23.6% of assets.

net of impairment mn€

Securities portfolio	31-Mar-21	31-Dec-21	31-Mar-22	YTD Change	
				absolute	relative
Portuguese sovereign debt	3 392	3 056	2 897	- 159	-5.2%
Other sovereign debt	3 483	3 197	3 241	44	1.4%
Bonds	3 505	3 413	3 699	286	8.4%
Other	863	805	663	- 142	-17.7%
Total	**11 244**	**10 471**	**10 500**	**30**	**0.3%**

FUNDING

Total customer funds amounted to €29.4bn as of March 2022, showing an increase of 1.1% YTD, driven by an increase in deposits (+0.9% YTD), which represent 81.3% of total customer funds.

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TOTAL FUNDS	31-Mar-21	31-Dec-21	31-Mar-22	YTD change	
				absolute	%
Deposits	26 234	27 315	27 562	247	0.9%
Other Customer Funds (1)	279	267	329	62	23.2%
Debt Securities (2)	552	1 054	1 055	0	0.0%
Subordinated Debt	424	415	424	8	2.0%
Sub -Total	**27 489**	**29 052**	**29 369**	**317**	**1.1%**
Off-Balance Sheet Funds	4 539	4 711	4 518	- 192	-4.1%
Total Funds	**32 028**	**33 762**	**33 888**	**125**	**0.4%**

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

(2) Includes funds associated to consolidated securitisation operations.

LIQUIDITY

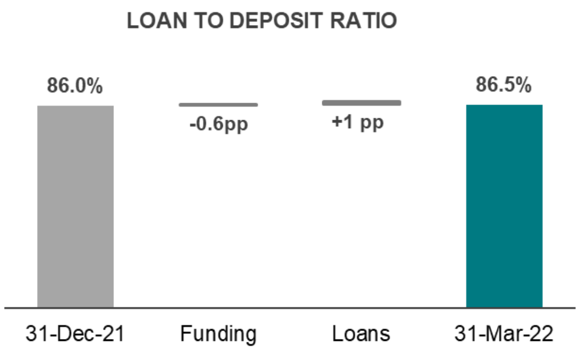
novobanco maintained in the first quarter of 2022 a comfortable liquidity position as shown by a Liquidity Coverage Ratio (LCR) of 184% and a Net Stable Funding Ratio of 115%, both well above the regulatory requirement.

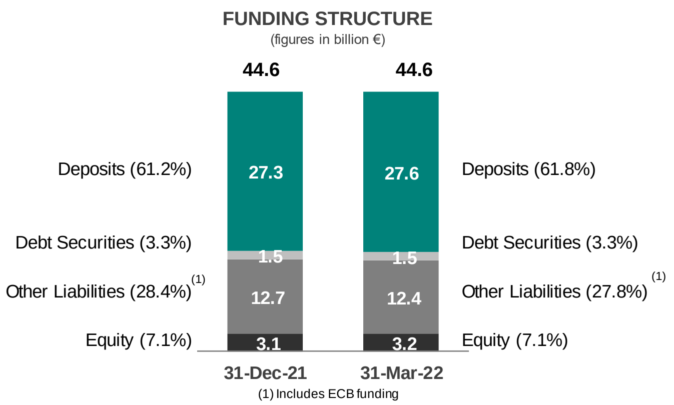
In the first quarter of 2022 customer deposits increased €0.3bn YTD, to €27.6bn, mainly explained by the performance of the retail segment, and remained the main source of balance sheet funding (66.5% of total liabilities and 61.8% of total assets).

In terms of asset evolution, the loan portfolio increased €0.3bn to €24.0bn in the period, driven by the corporate loans' growth.

At the end of the first quarter, the amount of cash and deposits in the central banks remained considerably high at ca. €5.1bn (vs €5.3bn in Dec-21). On the other hand, the net financing from the ECB (European Central Bank; financing taken from the ECB less applications with this institution) totalled €2.8bn (vs €2.7bn in Dec-21).

On 31 March 2022, the portfolio of assets eligible for rediscount with the central bank remained stable versus 31 December 2021, totalling €16.5bn (net of haircut). In addition, including HQLA assets non-eligible for ECB rediscount purposes, as well as deposits in the ECB, total liquidity buffer remained stable, above €12.5bn mostly composed of highly liquid assets (90%).





CAPITAL

As of 31 March 2022, the CET1 ratio was 10.8% and total capital ratio was 12.9% (preliminary values).

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

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

(1) Updated values

(2) Preliminary data, the inclusion of positive results depends on an authorization from the ECB

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

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

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

COMMERCIAL ACTIVITY

Corporate Banking

novobanco holds a leadership position within the Portuguese corporate sector, with market shares of 14.4% in loans to non-financial companies and 12.7% in deposits in this segment[2]. To serve its corporate clients **novobanco** has a segmented network:

- The Large Corporates segment, serving around 2,000 clients with financial involvement of €8.2bn, has two hubs that ensure proximity to the clients (Oporto and Lisbon);
- The Medium-Sized Companies segment, serving around 12,000 clients with financial involvement of €10.1bn, has 20 Corporate Centres distributed around the country, with dedicated teams in each region.

In the first quarter of 2022, **novobanco**'s corporate loans grew by more than 2% YTD, with strong growth in corporate treasury products, new investment loans, guarantees and documentary credits.

novobanco maintains a strong foothold in the exporting sector, with around 60% of the medium and large exporting companies as clients, equivalent to approximately 2,800 clients. In Trade Finance, **novobanco** provides a wide range of products and specialised advice in support of international trade. The Bank's know-how in this segment is valued and recognised, resulting in a market share of around 20.2%[3] (+ 0.9pp YoY).

Within the scope of programmes to support the development of the economy by stimulating innovation, digital transformation and energy transition, such as the RRP and Portugal 2030, **novobanco** continued to develop and enhance its activity as a leading financial partner for Portuguese companies.

The multidisciplinary team set up for this purpose continued to focus on the already identified areas: i) provision of permanently updated information on these programmes to facilitate clients' access to the available support; ii) partnership with consultants specialised in the preparation of such applications; iii) information and clarification sessions to clients, associations and other relevant entities; and iv) a specific offer of financial products to cover investment needs, including advances on funds, equity and working capital financing and issuance of guarantees.

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

Regarding the assessment made by the corporate clients, the NPS (Net Promoter Score) rose by 2.1 pp YTD, with the Quality of Service standing out and the weight of Very Satisfied Customers reaching 90.0%.

[2] December 2021

[3] December 2021, as measured by the number of Swift messages.

Retail Banking

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

The omnichannel operation maintains the key support of the branch network. **novobanco** continues to revamp the branch network, redesigning the face-to-face service experience, with greater focus on customised service and space for relaxed and meaningful engagement with the clients. There are currently 138 branches with the new format (107 of which were converted in 2021), and the process for the remaining branches is underway.

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

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

Reflecting the strategy implemented by **novobanco**, in the first quarter of 2022 customer acquisition in the Retail segment increased by +45% YoY, with approximately 20% of the new clients being under 25 years (which compares with a 10% stock of clients in this age group) - consolidating a relevant trend of rejuvenation of the Bank's customer base. The following stand out in the effort to attract and reactivate Clients:

i) The cross-segment programme, which gives employees of companies (with which the Bank has relationships) access to more favourable conditions in several of the Bank's products and services;

ii) The customer-loyalty programme: an ongoing programme based on advanced micro-segmentation that seeks to recover the relationship with active clients that do not show signs of going deeper into this relationship. The results are visible in the use of basic customer equipment: service accounts, credit card and salary solution;

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

Mortgage loan origination reached €283.5 million, maintaining in 2022 the growth trend initiated in the second quarter of 2021 and continuing to pursue the goal of increasing the market share. The following contributed to this growth:

i) **novobanco**'s partnerships strategy, with credit intermediaries increasing by 58% and standing as the Bank's largest loan origination channel;

ii) The global and diversified offer, capable of responding to the most complex needs of the credit process with quality and speed, based on proximity and the vast experience of the commercial network, and supported by price competitiveness and decentralisation of decision-making processes, as reflected, among others in the increasing capture of clients in the 360º segment.

Consumer loans grew by 9.6% YoY in the quarter, confirming the steady growth in the segment and supporting an increase of more than 50% in annual terms. Of particular note was the increase in production through the Digital Channels (+5x YoY) and the Non-Financial Offer, with a differentiating positioning, as well as the contribution of the external channels (weight of >15% in the quarter's production).

As regards the investment offer, **novobanco** continues to pay particular attention to the new investment trends. Sustainability featured prominently in this offer, through mutual funds and the relaunch of the offer of Positive Impact (PIF) Structured Notes, in accordance with Société Générale's Sustainable and Positive Impact Bond Framework. Moreover, in the current market framework of higher volatility, the offer of funds was reinforced with multi-strategy funds that allow the decoupling of the investment advisory portfolios proposed according to the client's profile and initial portfolio.

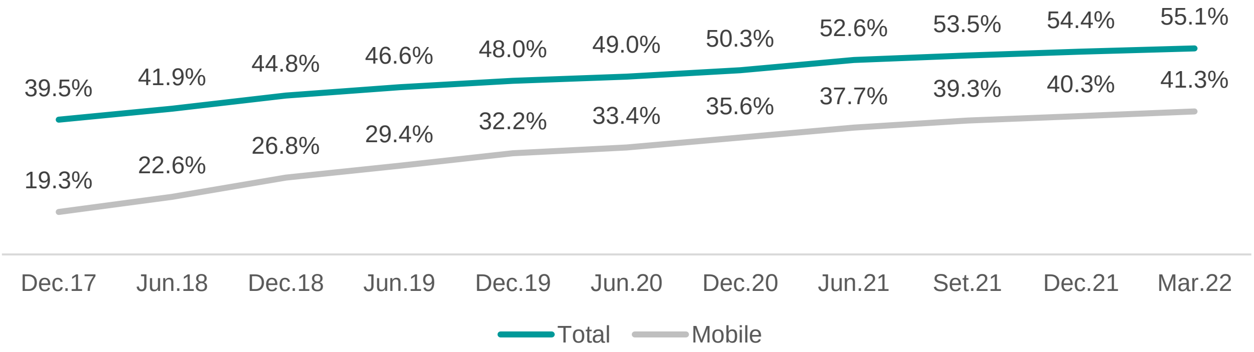
In terms of security and protection products, **novobanco** maintained its commitment to providing a diversified, innovative, digital and competitive offer of life and non-life risk insurance, leading to a 21% YoY increase in the production of new policies.

In the Small Businesses segment, know-how and proximity have permitted the ongoing assessment of the macro environment's individual impacts, as well as to support each client with the right solutions for continued business development. The customer base grew by 4.2% in the quarter (16.6% annualised) with an impact on the placement of equipment, such as TPAs (with the stock increasing by 2.3%), and on loans, with the small businesses' loan portfolio growing by 2.6%. The segment's stock of customer funds grew by 3.0%, indicating some propensity to save in a period of volatility.

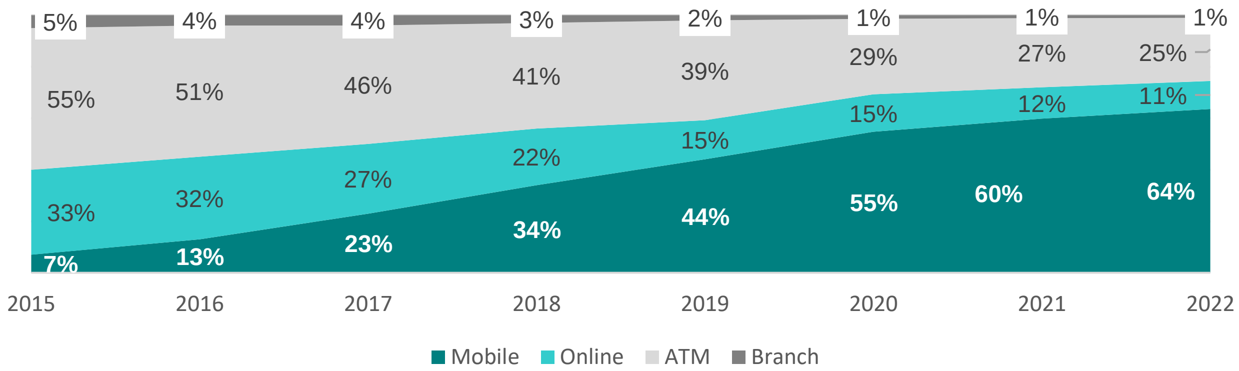
In both the Corporate and the Retail segments, the purpose of digital transformation involves i) accelerating front-to-back digitisation, improving experience and efficiency by addressing the customer journeys and transforming the operating model, and ii) transforming the digital channels to ensure a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

This strategy drove an increase in the number of active digital clients, to 55.1% of the total in March 2022 (the number of digital clients increased by 6% YoY) as well as an 11% annual rise in the number of active mobile clients (41% of clients are mobile). In turn, this underpinned an increase in the weight of digital sales of: Personal Loans (+354%; 10% of segment sales vs 3% in 1Q21), Life and Non-Life Insurance (+101%; 3% of segment sales vs 2% in 1Q21), and Credit Cards (+110%; 3% of sales vs 2% in 1Q21).

Active digital clients penetration rate



Customer Touchpoints (Retail)



In the first quarter of 2022, 74% of individual clients' contacts with **novobanco** were made through the digital channels (+1 pp YoY). Reflecting a reinforced focus on a "mobile digital first" strategy, mobile continues to be the main means of contact of individual clients, with interactions (as measured by the number of logins) growing by 18% YoY.

Awards and Recognition

- **novobanco** was awarded by D-Rating, the digital performance rating agency, as #1 among the Portuguese banks analysed. In its survey, D-Rating distinguishes features on **novobanco**'s website and Mobile App, remote account opening, appointment scheduling and specialised customer support, with remote account opening receiving the best score at European level.
- **novobanco** omnichannel journey - new online life insurance underwriting won the Outstanding Digital CX - Bancassurance category at the 2022 edition of the Digital CX Awards.

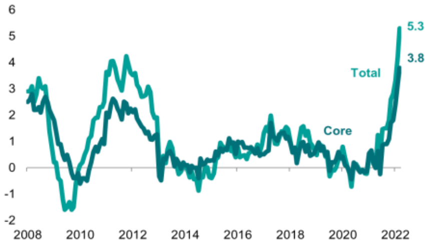
ECONOMIC ENVIRONMENT

The first quarter of 2022 was marked by the outbreak of war in Ukraine, in February, which led to the imposition of economic sanctions on Russia and to new disruptions in global supply chains, accentuating the difficulties caused by the Covid-19 pandemic. In particular, the world economy suffered the effects of a significant rise in the prices of food commodities, and, even more so, of energy commodities, leading to supply disruptions in the first case and to an increase in the risk premium in the second case. The price of oil (Brent) rose by 38% in the quarter and by close to 70% year-on-year. In Europe, the price of natural gas climbed by 79% in the quarter and by 563% year-on-year, hitting €125.9 MWh. Inflation became more sweeping and persistent in the main economies, reaching 8.5% in the US and 7.5% in the Eurozone, year-on-year, in March.

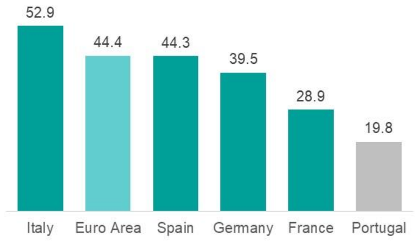
Recognising the risks associated with higher inflationary pressures, the main Central Banks signalled the need for a faster withdrawal of monetary stimuli. In the US, the Federal Reserve initiated a cycle of reference interest rate hikes (lifting the fed funds target rate by 25 bps, to 0.25%-0.5%) and announced a quicker reduction of the balance sheet in 2022. In the Eurozone, the ECB maintained the deposit facility rate at -0.5%, but in March ended the net asset purchases under the pandemic emergency programme (PEPP) and accelerated the tapering of asset purchases under the Asset Purchase Programme (APP). In this context, the first 3 months of 2022 were marked by a rising trend in market interest rates. The 3-month Euribor rose by 11 bps, to -0.458%, with market expectations factoring in significant increases in the coming years (to an annual average of 1% in 2023 and 1.4% in 2024). The 10-year Bund yield rose from -0.177% to 0.548% (the yield on the US Treasuries increased from 1.51% to 2.338%). The euro lost 2.7% against the dollar, to EUR/USD 1.107, reflecting expectations of hawkish interest rate hikes in the US and the increased exposure of the European economy to the impacts of the war in Ukraine. Increased uncertainty and fears of tighter financial conditions penalised risk assets. In the US, the S&P 500 and Nasdaq stock market indices fell by 4.95% and 9.1%, respectively. In Europe, the Euro Stoxx and DAX retreated by 6.55% and 9.25%. In contrast, the Portuguese PSI-20 rose by 8.4%.

GDP growth
(%; 2022E)

Headline and core inflation rate
(CPI, % YoY)



Energy Inflation Rate, selected economies (CPI, % YoY)



In the first quarter of 2022 the US and Eurozone economies prolonged the recent growth trend, though decelerating from the end of 2021. The Portuguese economy trended in the same direction, with GDP itching up by around by

0.4% in the first three months of the year, after growing by 1.6% in the 4th quarter of 2021 (in year-on-year terms there was a strong expansion, of around 9%, benefiting from favourable base effects, given the fall in GDP at the beginning of 2021). In the 1st quarter of 2022, the easing of pandemic-related constraints supported economic activity, however its strength was reined in by disruptions in supply chains and the sharp rise in energy prices, with negative impacts on businesses and consumers. Year-on-year inflation rose to 5.3% in consumption and to 20.7% in industrial production, with the respective energy components surging by 19.8% and 60.9%. In February, the monthly rate of unemployment remained stable, at 5.8% of the working population, the same as in December 2021. The yield on the Portuguese 10-year TB rose from 0.465% to 1.352%, with the spread vs. the Bund widening by 16 bps, to a relatively contained level of 80 bps.

MAIN HIGHLIGHTS	31-Mar-21	31-Dec-21	31-Mar-22
ACTIVITY (mn€)			
Net Assets	44 854	44 619	44 627
Customer Loans (gross)	24 952	24 932	25 215
Customer Deposits	26 234	27 315	27 562
Equity	3 205	3 149	3 167
SOLVENCY (3)			
Common EquityTier I / Risk Weighted Assets (3)	11.3%	11.1% (4)	10.8%
Tier I / Risk Weighted Assets (3)	11.3%	11.1% (4)	10.8%
Total Capital / Risk Weighted Assets (3)	13.3%	13.1% (4)	12.9%
Leverage Ratio	6.4%	6.0% (4)	5.5%
LIQUIDITY (mn€)			
European Central Bank Funding (2)	4 175	2 742	2 803
Eligible Assets for Repo Operations (ECB and others), net of haircut	17 283	16 476	16 485
(Total Credit - Credit Provision) / Customer Deposits (1)	89%	86%	86%
Liquidity Coverage Ratio (LCR)	140%	182% (4)	184%
Net Stable Funding Ratio (NSFR)	111%	117% (4)	115%
ASSET QUALITY			
Overdue Loans > 90 days / Customer Loans (gross)	2.4%	1.2%	1.3%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	8.0%	5.7%	5.7%
Credit Provision / Overdue Loans > 90 days	244.8%	430.2%	388.4%
Credit Provision / Customer Loans (gross)	6.0%	5.0%	4.9%
Cost of Risk	0.88%	0.60%	0.23%
PROFITABILITY			
Net Income for the Period (mn€)	70.7	184.5	142.7
Income before Taxes and Non-controlling interests / Average Net Assets (1)	0.7%	0.5%	0.5%
Banking Income / Average Net Assets (1)	2.5%	2.9%	0.9%
Income before Taxes and Non-controlling interests / Average Equity (1)	9.0%	7.1%	7.1%
EFFICIENCY			
Operating Costs / Banking Income (1)	37.6%	42.0%	33.4%
Operating Costs / Commercial Banking Income	49.3%	47.7%	51.2%
Staff Costs / Banking Income (1)	21.5%	24.0%	17.9%
EMPLOYEES (No.)			
Total	4 557	4 193	4 182
- Domestic	4 535	4 165	4 157
- International	22	28	25
BRANCH NETWORK (No.)			
Total	357	311	311
- Domestic	356	310	310
- International	1	1	1

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

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 MARCH 2022 AND 2021

thousands of Euros

	31.03.2022	31.03.2021
Interest Income	180 225	186 337
Interest Expenses	(46 692)	(40 592)
Net Interest Income	**133 533**	**145 745**
Dividend income	102	303
Fees and commissions income	79 375	73 984
Fees and commissions expenses	(11 218)	(12 479)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(18 085)	12 869
Gains or losses on financial assets and liabilities held for trading	125 553	35 268
Gains or losses on financial assets mandatorily at fair value through profit or loss	(9 401)	(353)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	30	-
Gains or losses from hedge accounting	(1 960)	6 576
Exchange differences	(2 072)	(4 647)
Gains or losses on derecognition of non-financial assets	558	935
Other operating income	31 731	22 493
Other operating expenses	(51 989)	(42 189)
Operating Income	**276 157**	**238 505**
Administrative expenses	(93 865)	(94 610)
Staff expenses	*(55 710)*	*(58 710)*
Other administrative expenses	*(38 155)*	*(35 900)*
Cash contributions to resolution funds and deposit guarantee schemes	*(299)*	-
Depreciation	*(9 750)*	*(8 138)*
Provisions or reversal of provisions	*3 588*	*3 927*
Commitments and guarantees given	*3 688*	*1 177*
Other provisions	*(100)*	*2 750*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	*(25 412)*	*(55 930)*
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	*(361)*	*(336)*
Impairment or reversal of impairment on non-financial assets	*405*	*(9 448)*
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	427	829
Profit or loss before tax from continuing operations	**150 890**	**74 799**
Tax expense or income related to profit or loss from continuing operations	(7 351)	(4 211)
Current tax	(1 636)	(1 655)
Deferred tax	*(5 715)*	*(2 556)*
Profit or loss after tax from continuing operations	**143 539**	**70 588**
Profit or loss from discontinued operations	-	1 445
Profit or loss for the period	**143 539**	**72 033**
Attributable to Shareholders of the parent	**142 678**	**70 730**
Attributable to non-controlling interests	861	1 303
	143 539	**72 033**

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2022 AND 31 DECEMBER 2021

thousands of Euros

	31.03.2022	31.12.2021
ASSETS		
Cash, cash balances at central banks and other demand deposits	5 548 223	5 871 538
Financial assets held for trading	336 893	377 664
Financial assets mandatorily at fair value through profit or loss	614 948	799 592
Financial assets at fair value through other comprehensive income	5 192 655	7 220 996
Financial assets at amortised cost	28 653 355	26 039 902
Securities	4 584 599	2 338 697
Loans and advances to banks	58 420	50 466
Loans and advances to customers	24 010 340	23 650 739
Derivatives – Hedge accounting	161 374	19 639
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(43 346)	30 661
Investments in subsidiaries, joint ventures and associates	102 473	94 590
Tangible assets	867 402	864 132
Tangible fixed assets	249 399	238 945
Investment properties	618 003	625 187
Intangible assets	67 546	67 986
Tax assets	851 526	779 892
Current Tax Assets	36 131	35 653
Deferred Tax Assets	815 395	744 239
Other assets	2 261 806	2 442 550
Non-current assets and disposal groups classified as held for sale	11 877	9 373
TOTAL ASSETS	**44 626 732**	**44 618 515**
LIABILITIES		
Financial liabilities held for trading	209 756	306 054
Financial liabilities measured at amortised cost	40 360 208	40 215 994
Deposits from central banks and other banks	10 530 564	10 745 155
Due to customers	27 890 706	27 582 093
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 522 916	1 514 153
Other financial liabilities	416 022	374 593
Derivatives – Hedge accounting	21 859	44 460
Provisions	434 814	442 834
Tax liabilities	15 551	15 297
Current Tax liabilities	12 516	12 262
Deferred Tax liabilities	3 035	3 035
Other liabilities	415 686	443 437
Liabilities included in disposal groups classified as held for sale	1 725	968
TOTAL LIABILITIES	**41 459 599**	**41 469 044**
EQUITY		
Capital	6 054 907	6 054 907
Accumulated other comprehensive income	(1 210 774)	(1 045 489)
Retained earnings	(8 351 166)	(8 576 860)
Other reserves	6 513 003	6 501 374
Profit or loss attributable to Shareholders of the parent	142 678	184 504
Minority interests (Non-controlling interests)	18 485	31 035
TOTAL EQUITY	**3 167 133**	**3 149 471**
TOTAL LIABILITIES AND EQUITY	**44 626 732**	**44 618 515**

GLOSSARY

Income Statement

Fees and commissions	Fees and commissions income less fee and commission expense
Commercial banking income	Net interest income and fees and commissions
Capital markets results	Dividend income, gains or losses on 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 mandatorily at fair value through profit or loss, gains or losses on financial assets and liabilities designated at fair value through profit and loss, gains or losses from hedge accounting and exchange differences
Other operating results	Gains or losses on derecognition of non-financial assets, other operating income, other operating expenses, share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method
Banking income	Net interest income, fees and commissions, capital markets results and other results
Operating costs	Staff costs, general and administrative expenses and depreciation and amortisation
Net operating income	Banking income - operating costs
Provisions and impairments	Provisions or reversal of provisions, impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates and impairment or reversal of impairment on non-financial assets

Balance Sheet / Liquidity

Assets eligible as collateral for rediscount operations with the ECB	The Eurosystem only grants credit against adequate collateral. This collateral consists of tradable financial securities and other types of assets such as nontradable assets and cash. The expression "eligible assets" is used for assets that are accepted as collateral by the Eurosystem.
Securities portfolio	Securities (bonds, shares and other variable-income securities) booked in the trading portfolios , at fair value through profit or loss, mandatory at fair value through profit or loss, at fair value through orther comprehensive income and at amortised cost.
Due to customers Banco de Portugal Instruction n. 16/2004	Amounts booked under the following balance sheet accouting headings: [#400 - #34120 + #52020 + #53100].
Net ECB funding	Difference between the funding obtained from the European Central Bank (ECB) and the placements with the ECB.
Total Customer Funds	Deposits, other customer funds, debt securities placed with clients and off- balance sheet customer funds.
Off-Balance Sheet Funds	Off-balance sheet funds managed by Group companies, including mutual funds, real estate investment funds, pension funds, bancassurance, portfolio management and discretionary management.
Loan to deposit ratio Banco de Portugal Instruction n. 16/2004	Ratio of [gross loans - (accumulated provisions / impairment for credit)] to customer deposits.

Asset Quality and Coverage Ratios

Overdue loans ratio	Ratio of overdue loans to total credit.
Overdue loans > 90 days ratio	Ratio of overdue loans > 90 days to total credit.
Overdue loans coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans.
Overdue loans > 90 days coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans > 90 days.
Coverage ratio of customer loans	Ratio of impairment on customer loans (on balance sheet) to gross customer loans.
Cost of risk	Ratio of credit risk impairment charges accounted in the period to gross customer loans.
Non-performing loans	Total balance of the contracts identified as: (i) in default (internal definition in line with article 178 of Capital Requirement Regulation, i.e., contracts with material overdue above 90 days and contracts identified as unlikely to pay, in accordance with qualitative criteria); and (ii) with specific impairment.
Non-performing loans ratio	Ratio of non-performing loans to the sum of total credit, deposits with banks and Loans and advances to banks
Non-performing loans coverage ratio	Ratio of impairment on customer loans and loans and advances to banks (on balance sheet) to non-performing loans.

GLOSSARY

Efficiency and Profitability Ratios

Efficiency (Staff costs / Banking income) Banco de Portugal Instruction n. 16/2004	Ratio of staff costs to banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses).
Efficiency (Operating costs / Banking income) Banco de Portugal Instruction n. 16/2004	Ratio of operating costs (staff costs, general and administrative expenses and depreciation and amortisation) to banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses).
Profitability Banco de Portugal Instruction n. 16/2004	Ratio of banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses) to average net assets.
Return on average net assets Banco de Portugal Instruction n. 16/2004	Ratio of income before tax and non-controlling interests to average net assets.
Return on average equity Banco de Portugal Instruction n. 16/2004	Ratio of income before tax and non-controlling interests to average equity.
Return on tangible equity (RoTE)	Ratio of return for the period and tangible equity. The return corresponds to the annualized result before tax, less the contribution on the banking sector and contributions to resolution funds, being adjusted for events considered extraordinary. Tangible equity calculated as risk weighted assets x 12%.

€mn: million euros

€bn: billion euros

pp: percentage points

bps: basis points

QoQ: quarter-on-quarter

YoY: year-on-year

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