



GROUP ACTIVITY AND RESULTS

2022 FINANCIAL YEAR

PRESS RELEASE

Lisbon, 9 March 2023

“2022 was the year of a sustained growth of novobanco banking business in Portugal, of the completion of its restructuring process and of increased generation of income and capital. 2022 financial performance allows novobanco to continue to compete as a strong and independent bank, supporting Portuguese corporates and households.”

Mark Bourke, CEO

HIGHLIGHTS

CONSISTENT STRATEGY DELIVERING INCREASED PROFITABILITY

- **Successful strategy execution leading to a net income of €560.8mn** (2021: €184.5mn; 4Q22: €132.5mn). Strong strategic focus delivering a sustainable growth of business with increased revenues and capital generation despite the uncertain macro background. Strong underlying pre-tax profitability of €406.7mn¹, equivalent to a **RoTE (before tax) of 14.4%** (2021: 8.8%).
- **Solid Net Interest Income growth (+9.1% YoY) to €625.5mn (4Q22: €219.5mn; +59% QoQ)**, reflecting improvement of average assets yield, which more than offsets the cost of senior debt issued during the year and the change of TLTRO III interest rates. In 2022, **Net Interest Margin increased to 1.47% (2021: 1.42%; 4Q22: 1.99%)** and **Net customer loans grew by €0.9bn (+3.8% YTD)**, reflecting an expanding loan book.
- **Fees and commissions increased to €293.3mn (+3.8% YoY; +8.9% QoQ)**, backed by customer activity in accounts and payments fees, as a result of a pick-up in business activity across retail and commercial.
- **Commercial Banking Income grew to €918.8mn (+7.3% YoY; +42% QoQ). Banking Income was also strong at €1,126.3mn (+15.9% YoY)**, including the positive contribution of Other operating results of €183.6mn, driven by an accelerated deleverage of the real estate portfolio, which also includes the gain on the sale of novobanco' headquarters.
- **Cost control and continued strategic investment resulted in a Commercial Cost to Income ratio of 48.8%** (2021: 47.7%), equivalent to **44.1% excluding extraordinary items**. Operating costs totalled €448.4mn (+9.8% YoY), equivalent to YoY increase of 2.4% when adjusted for extraordinary items.
- **Demonstrating resilient asset quality, Cost of risk was 45bps** (2021: 70bps; considering loan impairments and corporate bonds; 2022: €133.3mn)

SOLID BUSINESS MODEL WITH STRONG CUSTOMER OUTCOMES

- **Net Customers loans increased to €24.6bn (+3.8% YTD; +€0.9bn), confirming trajectory of an expanding loan book** in both retail and corporate segments in a more favourable rates environment. Total customer funds improved 3.1% YTD, with **customer deposits increasing 4.0% (+€1.1bn YTD)**.
- **Further reduction of the Non-performing loans (NPL) ratio to 4.3% (Dec/21: 5.7%), with coverage ratio increasing to 77.5% (Dec/21: 71.4%)**, reflecting the execution of the de-risking strategy and progress towards an NPL ratio in line with the European average.

STRONG CAPITAL GENERATIVE BUSINESS WITH SOLID LIQUIDITY RATIOS

- **Accelerating capital generation with CET 1 increasing 300bps in the year to 13.1% (fully loaded basis; 13.7% on a phased-in basis) and Total capital ratio reached 15.5%** (+330bps YTD; 16.0% on a phased-in basis), reflecting the capital accretive business model, which is set to produce strong capital generation, and RWA discipline, which combined with specific management actions, ensured a buffer above the target.

Maintaining high liquidity levels, with the liquidity ratio (LCR) improving further to 210%² (Dec/21: 182%) and NSFR of 113% (Dec/21: 117%).

¹ Calculated as pre-tax net income adjusted by extraordinary items

² Preliminary

GROUP RESULTS

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

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

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

With positive results every quarter, in the 4Q22 stands-out the improvement in net interest income (+59.2% QoQ) along with fees and commissions (+8.9% QoQ) performance and cost control being consistent with previous quarters (operating costs excluding exceptional item: +2.4% QoQ; +€9.7mn), mitigating the impact of inflationary pressures.

The bottom-line performance of the quarter includes the provision for the taxation of real estate introduced by the 2021 State Budget Law, similarly to the last quarter of 2021 (2021: €116mn; 2022: €57mn).

Income Statement (mn€)	1Q22	2Q22	3Q22	4Q22	QoQ change	
					absolute	%
Net Interest Income	133.5	134.5	137.9	219.5	81.6	59.2%
+ Fees and Commissions	68.8	75.6	71.3	77.6	6.3	8.9%
= Commercial Banking Income	202.3	210.1	209.2	297.2	87.9	42.0%
+ Market Results	91.4	-5.6	-17.6	-44.2	-26.6	...
+ Other Operating Results	16.7	56.5	88.0	22.3	-65.7	-74.6%
= Banking Income	310.4	261.0	279.6	275.3	-4.3	-1.5%
- Operating Costs	103.6	105.1	105.5	134.1	28.6	27.1%
= Net Operating Income	206.8	155.9	174.1	141.1	-32.9	-18.9%
- Net Impairments and Provisions	21.8	-2.0	2.7	88.7	86.0	...
= Income before Taxes	185.0	157.9	171.4	52.4	-118.9	-69.4%
- Taxes	7.4	11.6	8.9	-81.1	-90.0	...
- Special Tax on Banks	34.1	0.0	0.0	0.0	0.0	...
= Income after Taxes	143.5	146.4	162.5	133.6	-28.9	-17.8%
- Non-controlling Interests	0.9	22.3	0.9	1.1	0.2	20.1%
= Net Income	142.7	124.0	161.6	132.5	-29.1	-18.0%

Key features of activity during 4Q22 are:

- Commercial banking income amounted to €297.2mn, driven by increased interest rates and consequent strong performance of net interest income (+59.2%; +€81.6mn), along with increased fees and commissions (+8.9%; +€6.3mn);
- Other operating results of +€22.3mn, including a gain of €16.4mn from credit recovery;
- Operating costs of €134.1mn, with a QoQ increase of €28.6mn, includes €43mn of exceptional items (+2.3%; +€2.4mn QoQ on a normalized basis);
- Net impairments and provisions amounted to €88.7mn, including €57mn provision for the taxation of real estate introduced by the 2021 State Budget Law.

Net Interest Income

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

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

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

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

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

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

Fees and Commissions

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

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

Capital Markets and Other Operating Results

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

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

Operating Costs

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

Excluding exceptional items, Operating costs would have been €405.6mn (+2.4% YoY). Exceptional costs totaled €43mn, including €18mn of Intangible write-offs, €13mn of headquarters move and strategic advisory, €5mn of legal and regulatory nature (eg: DG Comp and CCA), €4mn from closure of the Spanish branch and €3mn of Other (eg: extraordinary measures to support employees).

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

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

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

Net Impairments and Provisions

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

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

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

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

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

Customer Loans

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

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

Loans to customers (gross) totalled €25,617mn (+2.9% YTD), of which corporate customers represented 56% (+1pp vs Dec/21), mortgage loans to households 39% (in line with Dec/21) and other loans to households 5%. Origination in the year totalled €3.9bn (4Q22: €1.0bn), of which 58% corporate, 32% mortgage and 10% consumer and others.

The 3.9% annual growth in loans to corporate customers reflects novobanco commitment to Portuguese companies, increasing its offer and enhancing products dedicated to support clients' funding needs while also promoting credit lines with financial guarantee by *Banco Português de Fomento*, financing lines with EIF/EIB guarantee to support companies' liquidity needs.

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

Asset Quality and Coverage Ratios (mn€)	31-Dec-21	31-Dec-22	YtD Change	
			absolute	%
Overdue Loans > 90 days	290	317	27	9.4%
Non-Performing Loans (NPL) ¹	1 749	1 376	- 372	-21.3%
Overdue Loans > 90 days / Customer Loans (gross)	1.2%	1.2%	0.1 p.p.	
Non-Performing Loans (NPL)¹ / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	5.7%	4.3%	-1.4 p.p.	
Credit Provisions / Customer Loans	5.0%	4.2%	-0.8 p.p.	
Coverage of Overdue Loans > 90 days	430.2%	336.0%	-94.2 p.p.	
Coverage of Non-Performing Loans¹	71.4%	77.5%	6.1 p.p.	

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

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

Securities

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

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

Funding

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

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

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

(2) Includes funds associated to consolidated securitisation operations.

Liquidity

novobanco improved its liquidity position in the quarter, reflected in the level of the regulatory liquidity ratios: i) Liquidity Coverage Ratio (LCR) at 210% (Dec/21: 182%) and Net Stable Funding Ratio (NSFR) 113% (Dec/21: 117%) both above regulatory requirements.

In December 2022 total customer deposits totalled €28.4bn, an annual increase of €1.1bn (+4.0%), with a strong contribution from the retail segment.

The loan portfolio (gross) increased by €0.7bn (+2.9%) to €25.6bn as of December 2022 (Dec/21: €24.9bn) driven by corporate segments and mortgage loans.

The securities portfolio, of which 72% were High-Quality Liquid Assets (HQLA), was to €10.9bn on 31 December 2022.

As the financial markets experienced a major disruption in 2022, which translated into significant credit spread widening, the Bank adjusted its market funding plans and complied with all regulatory requirements, without access to the financial markets. As such, the Bank did not exercise the call option on its €275mn senior preferred bond. In terms of medium-term funding, the Bank executed several collateralised funding transactions, which at the end of 2022 amounted to €2.5bn.

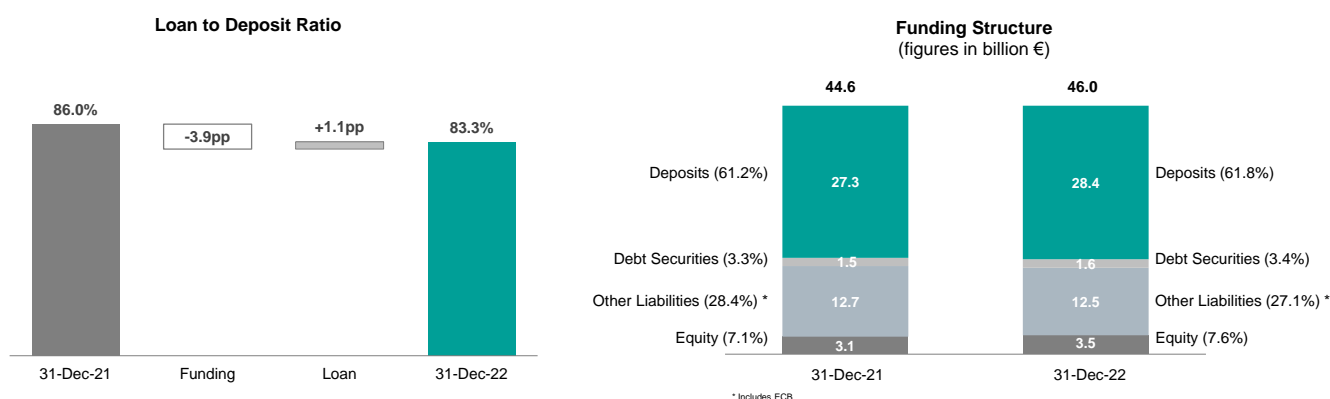
Additionally, the Bank also concluded the sale of several non-core assets throughout 2022 which had a positive impact on liquidity and capital/MREL ratios.

On 31 December 2022, gross funding from the ECB amounted to €6.3bn (TLTRO III) and representing an annual decrease of €1.6bn, as a result of as a result of a prepayment done in December 2022. Throughout 2023 an additional amount of €5.4bn of the TLTRO III will mature, and the remaining €0.95bn are set to mature in December 2024. Given the maturity of these lines, novobanco adopted an exit strategy from TLTRO III based on the reduction of the size of the balance sheet and the increase of other stable financing instruments, mainly collateralised interbank funding and customer deposits.

In 2022 deposits at ECB remained above €5.0bn being €5.9bn at the end of the year (Dec/21: €5.3bn). As a result, net funding from the ECB (funding taken from the ECB minus deposits with the European Central Bank) was €0.4bn as of December 2022 (Dec/21: €2.7bn; -€2.3bn YoY).

On 31 December 2022, the eligible assets portfolio available for use as collateral with the European Central Bank increased by €0.4bn versus 31 December 2021, totalling €16.9bn.

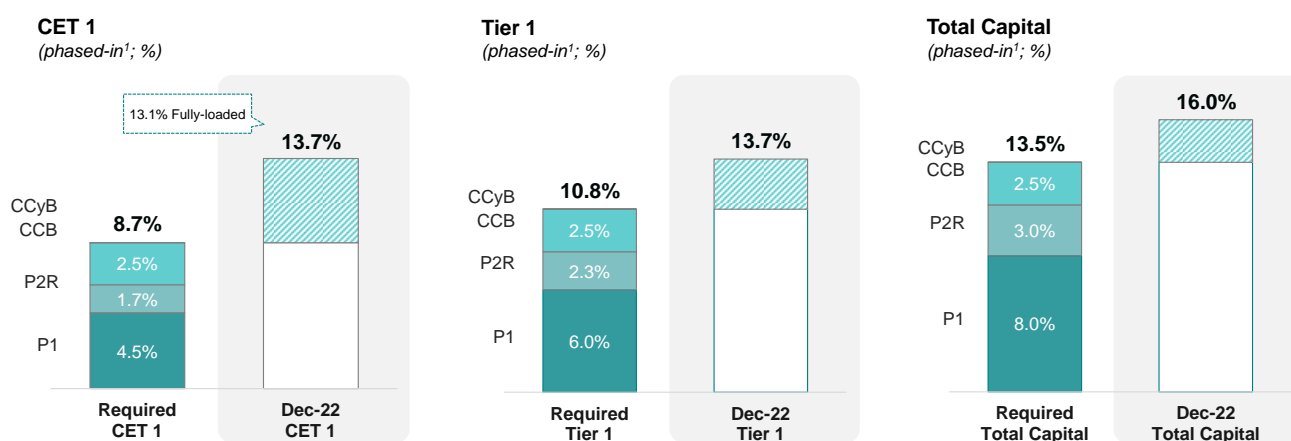
In 2022, novobanco improved its liquidity buffer. The available assets for rediscount with the ECB totalled €7.0bn (net of haircuts), €0.8bn increase YoY. In addition to the abovementioned assets, novobanco has HQLA assets non-eligible with the ECB and deposits at ECB, resulting in a total liquidity buffer of €13.8bn of high-quality liquid assets as of 31 December 2022 (+€1.3 billion YoY).



Capital

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

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



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;

The following disputes are outstanding between novobanco and the Resolution Fund with respect to the compensation requested from the Resolution Fund under the Contingent Capital Agreement:

- Unpaid portion of the CCA Call with reference to 2020 financial statements of €165mn, concerning (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units
- Unpaid CCA Call with reference to 2021 financial statements of €209mn
- Difference regarding the application by novobanco of the IFRS 9 transitional arrangements.

The above amounts have not been recognised as CET1 capital as of 31 December 2021 and 31 December 2022.

COMMERCIAL ACTIVITY

Corporate Banking

We continue to support Companies.

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

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

The bank thus occupies a leading position in terms of support provided to the Portuguese companies, with market shares of 14.5% in loans to and 12.2% of deposits from Non-financial Companies³, reflecting companies' confidence in novobanco.

We support the day-to-day business of Companies

novobanco maintains a strong presence in the exports sector, with more than 65% of national exports made by novobanco clients. In Trade Finance, novobanco provides a wide range of products and specialised advice for international trade. Know-how in this segment is valued and recognised, as reflected in a market share of 18.6%⁴ and by being, for the 5th consecutive year, elected the best Trade Finance Bank in Portugal by Global Finance.

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

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

We are Partners when it comes to investing

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

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

³ novobanco analysis with Bank of Portugal, APS and APFIPP data as of December 2022

⁴ novobanco analysis with Bank of Portugal, APS and APFIPP data as of December 2022

Boosted by the investment made in digitisation and customer experience, novobanco's online corporate banking service has a 78% penetration rate. With a deep redesign of the user experience, the new version of the online corporate banking service was launched at the end of 2021. Throughout 2022 new components were added to novobanco online for companies, to simplify the lives of entrepreneurs through a straightforward and distinctive customer experience. These included: i) new areas of Factoring, Confirming and Leasing; ii) a new document upload functionality and improvements in the installation of digital certificates and iii) a focus on improving accessibility and ease in generating and sending evidence of transactions, and introduction of new widgets and components to facilitate the use of the service. We thus continued to add new components to the new version of this service, launched in the last quarter of 2021 to improve user experience.

Retail Banking

During 2021 and 2022, novobanco's Retail segment carried out a strong adjustment of its customer service structure, reshaping its geographic presence and deeply changing the service experience, in a move to deepen long-term relationships with clients. The diversity of consumer behaviours, underscored by the evolution of ways of contact, led novobanco to develop an articulated relationship between the convenience of the digital channels and the importance of face-to-face service to clients - omnicanality.

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

Omnichannel Approach

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

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

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

Credit

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

Saving and Investment

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

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

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

Small businesses

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

Digital Transformation

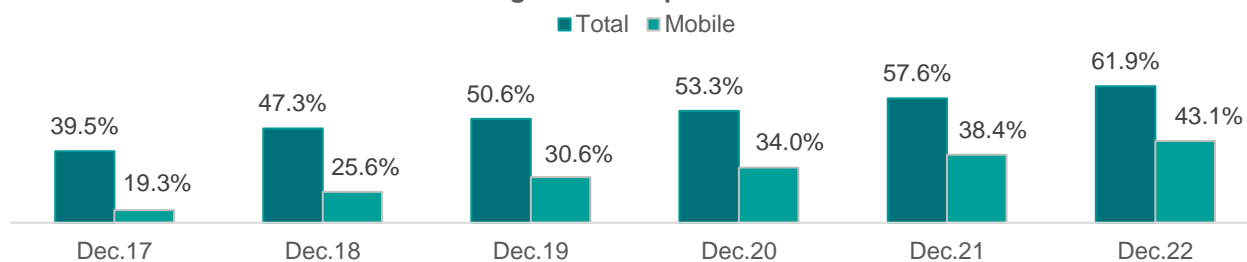
As a customer-centric Bank, novobanco pursues the following goals through digital transformation, in both the Corporate and Retail segments:

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

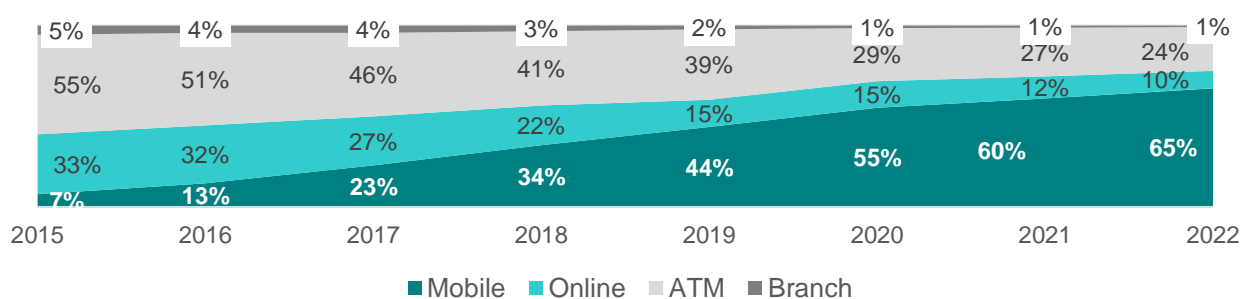
This strategy drove an increase in active digital customers, to 61.9% by December 2022 (Dec/21: 57.6%; the number of digital customers increased by 11% YoY) and annual growth of 16% in the number of active mobile customers (48% of customers are mobile).

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

Active digital clients penetration rate



Customer Touchpoints (Individual Clients)



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

ECONOMIC ENVIRONMENT

In 2022 the world economy was strongly conditioned by the impacts of the war in Ukraine, which fed into an increase in energy and food prices. In average annual terms, the price of oil (Brent) rose by 42%, to USD 99.9/barrel, having spiked above USD 120/barrel in the first half of the year. Despite a sharp drop at the end of the year, the annual average price of natural gas in Europe increased by 179% YoY, to EUR 133/MWh, peaking at around EUR 340/MWh in August. Year-on-year inflation in the Euro Zone rose from 5% to 9.2%. A gradual normalisation of global supply chains and the decline of energy prices in the second half of the year allowed inflation to abate towards the end of the year.

To tackle the risk of more persistent inflationary pressures, central banks brought forward and accelerated the withdrawal of monetary stimuli. The ECB raised its policy interest rates by a cumulative 250 basis points, leaving the rate on the main refinancing operations at 2.5% and the deposit facility rate at 2%. Moreover, the Eurozone monetary authority put an end to its net asset purchases under the PEPP and APP programmes. The 3-month Euribor rose by 270 basis points to 2.132% and the 10-year Bund *yield* increased from -0.177% to 2.571%. Expectations of tighter monetary and financial conditions and fears of recession penalised the equity and credit markets. In the US, the S&P 500 and Nasdaq stock market indices fell by 19.4% and 33.1%, respectively. In Europe, the Euro Stoxx and DAX retreated by 12.9% and 12.3%. The euro lost 5.9% against the dollar to EUR/USD 1.0711, trading below parity with the US currency between the end of August and the beginning of November. The Eurozone GDP growth fell back from 5.2% to 3.5% in 2022, penalised by the sharp increase in energy costs. Economic activity was supported by the removal of Covid-19 restrictions and by the strong performance of services. The slowdown in private consumption was mitigated by the drop in the unemployment rate, from 7% to 6.6% of the labour force.

In Portugal, GDP growth rose from 5.5% to 6.7% in 2022. Private consumption was underpinned by (i) the end of the pandemic restrictions at the beginning of the year, allowing to catch up on postponed expenses; (ii) family income support measures; (iii) the use of savings accumulated during the pandemic; and (iv) the decrease in the unemployment rate, from 6.6% to 6% of the labour force. Consumption, however, slowed down over the year, as rising inflation and interest rates eroded families' real disposable income and confidence. Annual average inflation measured by the CPI rose from 1.3% to 7.8%. Exports benefited from the strong contribution of tourism services which, having surged by close to 80%, outperformed pre-Covid levels in the second half of the year. In a context of high uncertainty, tighter financial conditions and shortages of productive resources, investment growth fell from 10.1% to 1.3%. Activity in the real estate sector remained buoyant in 2022. House prices grew at an average annual rate of 12.7% in the 3rd quarter, accelerating from 9.4% in 2021. This price escalation was supported by strong external demand, in a context of scarce supply. The Non-Performing Loans ratio trended downwards throughout the year, across all segments, having shrank from 3.7% to 3.2%. The Portuguese sovereign rating was revised upwards from BBB to BBB+ by S&P and Fitch, and from BBB (high) to A (low) by DBRS. The spread of the Portuguese 10-year Government Bond versus the German benchmark widened in the first half of the year, from 64 bps to 108 bps, reflecting higher risk aversion bred by the beginning of the war in Ukraine, but reversed this trend as from the 3rd quarter and closed the year at 102 bps.

SUBSEQUENT EVENTS

- 1 February 2023 - Novo Banco, S.A. informed that the General and Supervisory Board (“GSB”) approved, subject to Fit & Proper, Benjamin Dickgiesser as a new member of the Executive Board of Directors (“EBD”) for the current mandate term until 2025, becoming the next Chief Financial Officer (“CFO”). Following this announcement, on 24 February 2023, Benjamin Dickgiesser resigned as member of the General and Supervisory Board.
- 13 February 2023 – Novo Banco, S.A. announces the notification by Directorate-General for Competition of the successful completion of novobanco’s Restructuring Period.

MAIN INDICATORS

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

(1) Includes credit and corporate bonds

(2) According to Banco de Portugal Instruction n. 16/2004, in its version in force

(3) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending

FINANCIAL STATEMENTS

NOVO BANCO, S.A.		
CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2022 AND 2021		
	thousands of Euros	
	31.12.2022	31.12.2021
Interest Income	834 679	740 459
Interest Expenses	(209 204)	(167 065)
Net Interest Income	625 475	573 394
Dividend income	5 035	11 096
Fees and commissions income	337 335	325 511
Fees and commissions expenses	(47 155)	(47 357)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(88 255)	(5 123)
Gains or losses on financial assets and liabilities held for trading	149 212	50 896
Gains or losses on financial assets mandatorily at fair value through profit or loss	(40 493)	46 697
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	116	21
Gains or losses from hedge accounting	(1 713)	14 195
Exchange differences	6 789	10 805
Gains or losses on derecognition of non-financial assets	83 289	7 551
Other operating income	214 005	163 875
Other operating expenses	(118 357)	(181 604)
Operating Income	1 125 283	969 957
Administrative expenses	(395 870)	(374 359)
Staff expenses	(233 707)	(233 261)
Other administrative expenses	(162 163)	(141 098)
Cash contributions to resolution funds and deposit guarantee schemes	(41 155)	(40 535)
Depreciation	(52 493)	(34 004)
Provisions or reversal of provisions	(39 245)	(127 835)
Commitments and guarantees given	2 685	9 840
Other provisions	(41 930)	(137 675)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(101 882)	(198 903)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	21 546	315
Impairment or reversal of impairment on non-financial assets	8 375	(26 314)
Profit or loss before tax from continuing operations	532 913	172 116
Tax expense or income related to profit or loss from continuing operations	53 301	15 186
Current tax	(10 048)	(12 737)
Deferred tax	63 349	27 923
Profit or loss after tax from continuing operations	586 214	187 302
Profit or loss from discontinued operations	(270)	4 887
Profit or loss for the period	585 944	192 189
Attributable to Shareholders of the parent	560 842	184 504
Attributable to non-controlling interests	25 102	7 685
	585 944	192 189

NOVO BANCO, S.A.
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2022 AND 2021

thousands of Euros

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

GLOSSARY

INCOME STATEMENT	
Fees and Commissions	Fee and commission income less fee and commission expenses
Commercial banking income	Net interest income and fees and commissions
Capital markets results	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	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
Banking Income	The sum of Net interest income, Fees and commissions, Capital markets results and Other operating 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 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	
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 non-tradable 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 other comprehensive income and at amortised cost.
Due to customers Banco de Portugal Instruction n. 16/2004	Amounts booked under the following balance sheet accounting 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 initial fair value, impairment charges accounted in the period for credit risk and corporate bonds with gross customer loans and corporate bonds portfolio.
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.
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%.

ABREVIATIONS	
€mn	million euros
€bn	billion euros
pp	percentage points
bps	basis points
QoQ	quarter-on-quarter
YoY	year-on-year
OCR	Overall Capital Requirements
P2G	Pillar 2 Guidance



CONFERENCE CALL: 2022 FINANCIAL YEAR RESULTS

Date: **Thursday, 9 March 2023**

Time: **13:00 Lisbon/London**

Link: https://channel.royalcast.com/landingpage/novobancoen/20230309_1/

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