novobanco

GROUP ACTIVITY AND RESULTS
1Q 2023

PRESS RELEASE

Lisbon, 28 April 2023

"Our first quarter results show the Bank delivering consistent growth, increasing profitability and exceeding expectations. We remain committed to serve the needs of our Customers, be they companies, businesses, individuals or families. We are constantly strengthening our offering, supporting our Customers and building an independent, strong and successful Portuguese Bank.
In hard numbers progress is evident from our rate of capital accretion (100 bps in the quarter) clearly acknowledged by a 5 notch upgrade from our rating agency in the past 12 months.
Today novobanco is very well positioned to compete, to win and to serve our Customers."

Mark Bourke, CEO

HIGHLIGHTS

CONSISTENT STRATEGY DELIVERING INCREASED PROFITABILITY

- Novobanco announces **Net income of €148.4mn** (1Q22: €142.7mn; +4% YoY), with the continued execution of its strategy delivering sustainable growth of the business, increased revenues and capital generation.
- **NII was €246.3mn (1Q22: €133.5mn; 4Q22: €219.5mn),** reflecting improvement of average assets yield, which more than offset the increase in the cost of financing. **Net Interest Margin in the period was 2.34%** (1Q22: 1.31%; 4Q22: 1.99%), above 2023 guidance of 2.2%, and **Net customer loans stood stable YTD at €24.6bn**.
- **Fees and commissions totalled €68.9mn**, in line YoY.
- **Commercial Banking Income was €315.3mn (1Q22: €202.3mn; 4Q22: €297.2mn), with total Banking Income of €323.5mn (+4.2% YoY),** with net interest income performance more than offsetting the effects from gains in 1Q22 from interest rate hedges.
- **Commercial Cost to Income ratio at 35.5%** (1Q22: 51.2%; 4Q22: 45.0%), **Operating costs totalled €111.9mn, increasing 8.0% YoY or 5.9% YoY excluding exceptional items**, reflecting both inflation and the continued investment in optimization and simplification of the Bank's operations.
- **Cost of risk was 41bps** (1Q22: 34bps), including impairment of credit and corporate securities, being consistent with 2023 guidance.

STRONG ORGANIC CAPITAL GENERATION

- In the period **both CET1 and Total Capital fully-loaded ratios increased by 100bps to 14.1% and 16.5% respectively** (vs Dec/22: 13.1% and 15.5%). The organic capital generation reflects the capital accretive business model with solid top-line performance and disciplined capital allocation.

A RESILIENT BUSINESS MODEL WITH SOUND LIQUIDITY AND FUNDING RATIOS

- **Gross Customers loans remain stable at €25.7bn (+0.2% YTD**), with QoQ origination at €0.9bn offset by increased amortization and supported by positive performance of new client acquisition (>25% YoY).
- New Non-performing loan (NPL) formation remains low at €30.5mn (c.0.1% of the performing loan book), contributing to a net NPL reduction of €87mn in the quarter. **NPL ratio stood at 4.4%** (Dec/22: 4.3%) with **coverage ratio increasing to 81.3% (Dec/22: 77.5%)**
- **Total customer funds of €34.2bn (-1.6% YTD),** reflecting the outflows of deposits in the Portuguese market towards government saving products (-2.7% as of Feb/23). Despite the lower YTD deposits volume, novobanco' deposit market share increased from 9.3% in Dec/22 to 9.4% in Feb/23, and with most recent Apr/23 month-on-month figures showing positive performance. Loan to Deposits ratio remained at healthy levels of 85.1%.
- **Strong liquidity position** with liquidity ratio (LCR) of 180% (Dec/22: 210%) and NSFR of 111% (Dec/22: 113%), as well as cash at Central Banks and ECB eligible collateral (liquidity buffer of €13.2bn as of Mar/23).
- **Moody's upgraded novobanco's senior debt by 3 notches (to Ba3)** with baseline credit assessment (BCA) rating increasing by 2 notches to ba3, with unchanged positive outlook, **resulting in 5 notches upgrade in the senior debt in less than 12 months.** This reflects significant improvement on novobanco profitability and expectations that this trend will continue.

GROUP RESULTS

In the first quarter 2023, novobanco Group reported a profit of €148.4mn (+€5.7mn YoY).

Income Statement (€mn)	1Q22	2Q22	3Q22	4Q22	1Q23	QoQ change		YoY change	
						absolute	%	absolute	%
Net Interest Income	133.5	134.5	137.9	219.5	246.3	26.8	12.2%	112.8	84.5%
+ Fees and Commissions	68.8	75.6	71.3	77.6	68.9	-8.7	-11.2%	0.2	0.2%
= Commercial Banking Income	**202.3**	**210.1**	**209.2**	**297.2**	**315.3**	**18.1**	**6.1%**	**113.0**	**55.8%**
+ Market Results	91.4	-5.6	-17.6	-44.2	5.8	50.0	...	-85.6	-93.7%
+ Other Operating Results	16.7	56.5	88.0	22.3	2.4	-19.9	-89.2%	-14.3	-85.5%
= Banking Income	**310.4**	**261.0**	**279.6**	**275.3**	**323.5**	**48.2**	**17.5%**	**13.1**	**4.2%**
- Operating Costs	103.6	105.1	105.5	134.1	111.9	-22.2	-16.6%	8.3	8.0%
= Net Operating Income	**206.8**	**155.9**	**174.1**	**141.1**	**211.6**	**70.4**	**49.9%**	**4.8**	**2.3%**
- Net Impairments and Provisions	**21.8**	**-2.0**	**2.7**	**88.7**	**27.7**	**-61.0**	**-68.8%**	**5.9**	**27.1%**
Credit	14.3	5.0	20.2	-5.0	26.0	31.0	...	11.7	82.2%
Securities	11.1	30.6	2.4	23.6	3.9	-19.7	-83.5%	-7.2	-64.8%
Other Assets and Contingencies	-3.6	-37.6	-19.9	70.1	-2.2	-72.3	...	1.4	38.3%
= Income before Taxes	**185.0**	**157.9**	**171.4**	**52.4**	**183.9**	**131.5**	**...**	**-1.1**	**-0.6%**
- Taxes	7.4	11.6	8.9	-81.1	0.7	81.9	...	-6.6	-89.9%
- Special Tax on Banks	34.1	0.0	0.0	0.0	34.1	34.1	...	0.0	0.0%
= Income after Taxes	**143.5**	**146.4**	**162.5**	**133.6**	**149.0**	**15.5**	**11.6%**	**5.5**	**3.8%**
- Non-controlling Interests	0.9	22.3	0.9	1.1	0.7	-0.4	-35.8%	-0.2	-21.5%
= Net Income	**142.7**	**124.0**	**161.6**	**132.5**	**148.4**	**15.9**	**12.0%**	**5.7**	**4.0%**

Key features of the activity during 1Q23 include:

- Commercial banking income of €315.3mn, with net interest income being driven by a predominantly floating rating loan book and a positive interest rate environment;
- Operating costs of €111.9mn, or €104.9mn (excluding exceptional costs) with 5.9% YoY increase reflecting the effects of inflation;
- Net impairments and provisions amounted to €27.7mn (of which, €26.0mn for Credit) reflecting balance sheet strength.

Net Interest Income

Net Interest Income was €246.3mn (+€112.8mn YoY; +€26.8mn QoQ), reflecting improvement of average assets yield, and a smaller increase in the cost of financing.

Net Interest Income (NII) and Net Interest Margin (NIM) (€mn)	31-Mar-22			31-Dec-22			31-Mar-23		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
Interest Earning Assets	40 724	1.49%	151.6	41,914	1.79%	761.3	42,161	3.42%	360.6
Customer Loans	25 007	2.00%	124.9	25,424	2.31%	595.4	25,554	3.83%	244.7
Mortgage Loans	9 769	1.03%	25.1	9,836	1.36%	135.9	9,937	2.85%	70.8
Consumer Loans and Others	1 423	5.88%	20.9	1,430	5.96%	86.4	1,421	6.86%	24.4
Corporate Lending	13 815	2.28%	78.9	14,158	2.60%	373.2	14,196	4.21%	149.6
Money Market Placements	5 927	-0.32%	-4.7	6,308	0.20%	12.7	5,485	2.40%	33.0
Securities and Other Assets	9 791	1.28%	31.4	10,181	1.48%	153.3	11,122	2.98%	82.9
Interest Earning Assets And Other	**40 724**	**1.49%**	**151.6**	**41,914**	**1.79%**	**761.3**	**42,161**	**3.42%**	**360.6**
Interest Bearing Liabilities	39 597	0.18%	18.1	40,230	0.32%	131.2	39,342	1.15%	112.8
Customer Deposits	27 379	0.15%	10.5	28,322	0.17%	48.5	28,515	0.39%	27.7
Money Market Funding	10 779	-0.57%	-15.4	10,455	-0.09%	-10.0	9,274	2.60%	60.3
Other Liabilities	1 439	6.40%	23.0	1,452	6.30%	92.7	1,553	6.41%	24.9
Interest Bearing Liabilities And Other	**40 724**	**0.18%**	**18.1**	**41,914**	**0.31%**	**131.2**	**42,161**	**1.07%**	**112.8**
NIM / NII (without stage 3 impairment adjustment)		**1.31%**	**133.5**		**1.48%**	**630.1**		**2.35%**	**247.8**
Stage 3 impairment			0.1			-4.7			-1.4
NIM / NII		**1.31%**	**133.5**		**1.47%**	**625.5**		**2.34%**	**246.3**

The average yield on assets increased by 163bps, from 1.79% in December 2022 to 3.42% in the period, with the average yield on customer loans increasing by 152bp compared to 2022, to 3.83%. The average balance of financial assets remained stable at €42.2bn (vs €41.9bn as of Dec/22).

The average balance of deposits was €28.5bn, with an average interest rate of 0.39% (+17bps YTD), and Money Market Funding was €9.3bn, with an average interest rate of 2.60% (-0.09% in 2022).

The yield expansion on interest earning assets (3.42%; 2022: 1.79%), more than compensated the increase of the cost of liabilities (1.07%; 2022: 0.31%) with a positive impact on overall net interest margin (2.34%; 2022: 1.47%).

Fees and Commissions

Fees and commissions were €68.9mn, with a stable performance YoY, given increased contribution of Accounts and Payments (+11.7%; +€3.4mn YoY) backed by higher volume of transactions.

Fees and Commissions (€mn)	31-Mar-22	31-Mar-23	Change	
			absolute	%
Payments Management	29.1	32.5	3.4	11.7%
Commissions on Loans, Guarantees and Similar	20.3	18.4	-1.9	-9.3%
Asset Management and Bancassurance	17.2	16.4	-0.8	-4.8%
Advising, Servicing and Other	2.1	1.6	-0.5	-25.4%
Fees and Commissions Total	**68.8**	**68.9**	**0.2**	**0.2%**

Capital Markets and Other Operating Results

In the period, the results of financial operations were positive by €5.8mn, with the fair value reserves of securities portfolio increasing by €11.0mn YTD, and with the YoY change of -€85.6mn explained by the gains accounted in 1Q22 from hedging of interest rate risk.

Other operating results which include gains on the recovery of overdue loans, the results of the sale of a credit portfolio, real estate results and indirect taxes totalled +€2.4mn.

Operating Costs

Operating costs increased +8.0% YoY (+€8,3mn). Staff costs amounted to €58.3mn (+€2.6mn vs 1Q22), general and administrative costs totalled €43.8mn (+€5.7mn vs 1Q22) and depreciation was €9.8mn, in line with 1Q22.

Excluding exceptional items, costs would have been €104.9mn, with a YoY increase of 5.9%.

Commercial Cost to Income ratio was 35.5% (1Q22: 51.2%).

Operating Costs (mn€)	31-Mar-22	31-Mar-23	Change	
			absolute	%
Staff Costs	55.7	58.3	2.6	4.6%
General and Administrative Costs	38.2	43.8	5.7	14.9%
Depreciation	9.8	9.8	0.0	0.1%
Operating Costs Total	**103.6**	**111.9**	**8.3**	**8.0%**

As of 31 March 2023, novobanco Group had 4,105 employees (Dec/22: 4,090; +15 YTD) and the number of branches remained unchanged at 292 as of 31 December 2022, of which more than 252 already aligned with the new distribution model and more than 229 equipped with VTM (Virtual Teller Machine).

Net Impairments and Provisions

In the first quarter 2023, novobanco Group recorded net impairments and provisions amounting to €27.7mn, showing marginal increase compared to 1Q22 (+€5.9mn). A significant part of loans impairments reflects a more conservative assumptions in our collective impairment models.

The cost of risk was 41bps (including loans impairments and corporate securities) which compares with 34bp in 1Q22 and with 45bp in 2022.

Net Impairments and Provisions (€mn)	31-Mar-22	31-Mar-23	Change	
			absolute	%
Customer Loans	14.3	26.0	11.7	82.2%
Securities	11.1	3.9	-7.2	-64.8%
Other Assets and Contingencies	- 3.6	- 2.2	1.4	38.3%
Net Impairments and Provisions Total	**21.8**	**27.7**	**5.9**	**27.1%**

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

Customer Loans

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

Customer Loans (€mn)	31-Mar-22	31-Dec-22	31-Mar-23	YTD Change	
				absolute	%
Loans to corporate customers	**14 036**	**14 244**	**14 252**	**7**	**0.1%**
Loans to Individuals	**11 210**	**11 373**	**11 404**	**32**	**0.3%**
Residential Mortgage	9 794	9 978	9 984	6	0.1%
Other Loans	1 416	1 395	1 421	26	1.8%
Customer Loans (gross)	**25 246**	**25 617**	**25 656**	**39**	**0.2%**
Provisions	1 236	1 066	1 048	- 19	-1.7%
Customer Loans (net)	**24 010**	**24 551**	**24 608**	**57**	**0.2%**

Loans to customers (gross) totalled €25,656mn (+0.2% YTD), of which corporate customers represented 56% (+1pp vs Dec/22), mortgage loans to households 39% (in line with Dec/22) and other loans to households 5%. Confirming the positive trend of novobanco commercial activity, origination in the 1Q23 totalled €0.9bn (4Q22: €1.0bn), of which 51% corporate, 37% mortgage and 11% consumer and others.

The asset quality indicators of March 2023, and comparison with previous year, are presented below:

Asset Quality and Coverage Ratios (mn€)	31-Mar-22	31-Dec-22	31-Mar-23	YtD Change	
				absolute	%
Overdue Loans > 90 days	318	317	308	- 10	-3.0%
Non-Performing Loans (NPL)[1]	1 746	1 376	1 289	- 87	-6.4%
Overdue Loans > 90 days / Customer Loans (gross)	1.3%	1.2%	1.2%	0.0 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	**5.7%**	**4.3%**	**4.4%**	**0.1 p.p.**	
Credit Provisions / Customer Loans	4.9%	4.2%	4.1%	-0.1 p.p.	
Coverage of Overdue Loans > 90 days	388.4%	336.0%	340.4%	4.4 p.p.	
Coverage of Non-Performing Loans [1]	**70.8%**	**77.5%**	**81.3%**	**3.8 p.p.**	

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

In the period, the new entries of non-performing loans remained at a low level, which together with the improvement in commercial activity led to a decrease of the non-performing loans and an NPL ratio of 4.4% (Dec/22: 4.3%). As of March 2023, NPL coverage by impairments increased to 81.3% (+3.8pp vs Dec/22).

Securities

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €11.6bn on 31 March 2023, representing 26.5% of assets.

From the €11.6bn of securities portfolio, as of March 2023, 74% was accounted at amortised cost with unrealised marked to market losses of €214mn (net of statutory tax and hedges).

Securities portfolio (€mn)	31-Mar-22	31-Dec-22	31-Mar-23	YTD Change	
				absolute	%
Portuguese sovereign debt	2 897	995	1 142	148	14.9%
Other sovereign debt	3 241	5 415	5 667	252	4.7%
Bonds	3 699	4 067	4 406	339	8.3%
Other	663	387	381	- 6	-1.6%
Securities portfolio Total (net of impairment)	**10 500**	**10 864**	**11 597**	**733**	**6.7%**

Funding

As of March 2023, total customer funds amounted to €34.2bn (-€560mn; -1.6% YTD), driven by the decrease of customer deposits (-€886mn), which represent 80.4% of total customer funds.

Total Funds (€mn)	31-Mar-22	31-Dec-22	31-Mar-23	YTD change	
				absolute	%
Deposits	27 562	28 412	27 526	- 886	-3.1%
Other Customer Funds [1]	329	866	1 132	266	30.7%
Debt Securities [2]	1 055	1 169	1 166	- 3	-0.2%
Subordinated Debt	424	416	424	8	2.0%
Sub -Total	**29 369**	**30 862**	**30 248**	**- 614**	**-2.0%**
Off-Balance Sheet Funds	4 518	3 933	3 987	54	1.4%
Total Funds	**33 888**	**34 795**	**34 235**	**- 560**	**-1.6%**

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

(2) Includes funds associated to consolidated securitisation operations.

According with Bank of Portugal data available as of February 2023, the deposits outflows to February of novobanco (-2.1%) compares favourably with the 2.7% decrease observed in the Portuguese market, with novobanco increasing its market share to 9.4% (Dec/22: 9.3%) and with the vast majority of outflows in the market being transferred to *Certificados de Aforro*, a government savings product. Most recent April 2023 month-to-date deposit figures show an increase in customer deposits driven by an increase in SME deposits and lower retail deposit outflows.

Liquidity

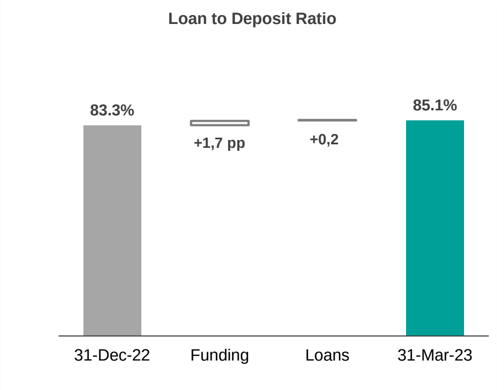
As of 31 March 23, novobanco's Liquidity Coverage Ratio (LCR) was 180% (vs. 210% in the Dec/22) and Net Stable Funding Ratio was 111% (vs. 113% in Dec/22), both with comfortable buffers above the regulatory requirement.

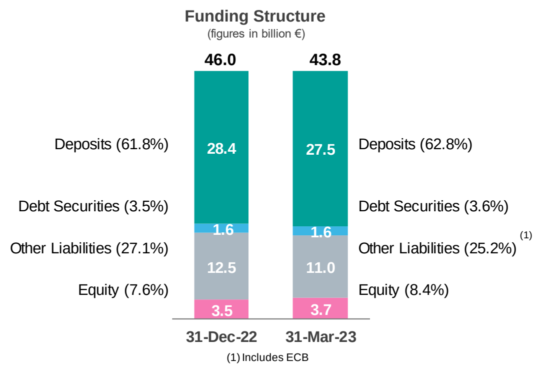
In terms of asset evolution, the loan book stood at €25.7bn in the first quarter of 2023 and the securities portfolio increased by €0.7bn, mainly from the increase of HQLA's (*High-Quality Liquid Assets*) securities.

On 31 March 2023, gross funding from the ECB amounted to €4.7bn fully composed by TLTRO III, a decrease of €1.6bn since 31 December 2022. In 2023, a total amount to €3.8bn from the TLTRO III will be reimbursed, of which €3.1bn in the second quarter and €0.7bn in the third quarter.

In the first quarter 2023, deposits at ECB reduced by €2.6bn (from €5.9bn in Dec/22 to €3.3bn in Mar/23), with net funding from the ECB (funding taken from the ECB minus deposits with the European Central Bank) amounting to €1.4bn in March 2023 (vs €0.4bn in Dec/22).

On 31 March 2023, the eligible assets portfolio (net of haircut) available for use as collateral with the European Central Bank increased by €0.5bn YTD, totalling €17.4bn. Considering the increase on the HQLA eligible ECB securities portfolio and the release of collateral due to the reimbursement of the TLTRO, the available amount of assets for rediscount with the ECB increased significantly during the quarter, totalling €8.0bn (net of haircuts), a €1.8bn increase YTD. In addition to the abovementioned assets, novobanco has HQLA assets non-eligible with the ECB and deposits at ECB (which reduced €2.6 billion in the 1st quarter). As such, as of 31 March 2023, novobanco's liquidity buffer, made up mostly of high-quality liquid assets, amounted to €13.2bn.





Capital

In the period both CET 1 and Total Capital fully-loaded ratios increased by 100bps to 14.1% and 16.5% respectively (vs Dec/22: 13.1% and 15.5%), equivalent to 14.3% and 16.6% on a phased-in basis (vs Dec/22:13.7% and 16.0%). The organic capital generation reflects the capital accretive business model with solid top-line performance, along with RWA discipline.

Capital Ratios (CRD IV/CRR) (€mn)		31-Dec-22 (Phased-in)	31-Dec-22 (fully loaded)	31-Mar-23 (Phased-in)	31-Mar-23 (fully loaded)
Risk Weighted Assets	(A)	21 355	21 233	21 241	21 205
Own Funds					
Common Equity Tier 1	(B)	2 927	2 787	3 038	2 996
Tier 1	(C)	2 928	2 789	3 039	2 998
Total Own Funds	(D)	3 418	3 279	3 530	3 489
Common Equity Tier 1 Ratio	(B/A)	13.7%	13.1%	14.3%	14.1%
Tier 1 Ratio	(C/A)	13.7%	13.1%	14.3%	14.1%
Solvency Ratio	(D/A)	16.0%	15.5%	16.6%	16.5%
Leverage Ratio		**6.1%**	**5.8%**	**6.5%**	**6.4%**

None of the amounts not paid by the Resolution Fund under the Contingent Capital Agreement were considered in the calculation of regulatory capital. Novobanco considers the unpaid amounts in respect of financial year 2020 and 2021 as due under the Contingent Capital Agreement and has triggered the legal and contractual mechanisms at its disposal to ensure its receipt.

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

COMMERCIAL ACTIVITY

Corporate Banking

We continue to support Companies.

In 2023, novobanco continued to support companies with the proximity, partnership, professionalism and experience that are part of our 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.

Novobanco continued 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 €488mn in medium-long term loans, of which 59% 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 14.6% in loans (+0.1pp YTD) and 12.8% (+0.6pp YTD) of deposits from Non-financial Companies, 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 19.7% (+1.1pp YTD) and by being, for the 5th consecutive year, elected the best Trade Finance Bank in Portugal by Global Finance.

In the quarter, support to companies' treasury was reinforced with Factoring and Confirming solutions, driving annual increases of 8% in cumulative invoicing undertaken 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 15.1%. 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

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 in the sustainability segment was allocated €250mn ceiling and preferential conditions to support the treasury of companies operating in sustainable sectors as well as climate- and energy transition-related investments.

We continue to innovate and simplify

Availability of new functionalities in the new online corporate Bank, which aim to simplify the lives of Corporate Customers, with a simple and distinctive Customer experience, including: i) new area of Factoring in online corporate Bank; ii) new area of Confirming in online corporate Bank; iii) improvements in the installation of digital certificates; iv) new functionalities in Trade Finance; v) financial aggregator of all Bank accounts.

High penetration in the digitalization of Corporate Customers, with more than 78% of Corporate Customers active in digital channels (new online corporate Bank).

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.

New clients acquisition has been evolving positively, growing more than 25% YoY, thanks to (i) wage domiciliation (+4% YoY), and (ii) through the client loyalty program aimed at strengthening and deepening the commercial relationship, and (iii) the Cross Segment program, through which employees of companies with a protocol with novobanco have access to preferential conditions in several of the Bank's products and services, covering around 300,000 employees in more than 25 000 companies.

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 252 branches operate under the new distribution model and more than 229 have a VTM (Virtual Teller Machine; +29 vs Dec/22), 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.

Credit

In the quarter, novobanco granted more than €0.3bn in mortgage loans, as a result of the creation of supply conditions aimed at improving competitiveness and the pursuit of the strategy of partnerships with Credit Intermediaries, which represent the Bank's largest channel of attraction in this product, and in the representativeness of 360º customers (the majority segment with 52% of the credit granted).

Saving and Investment

Novobanco maintains its primacy in providing solutions that are adequate to the demands of the context. The Investment Advisory Service is the vehicle of excellence to analyse the customer's characteristics and obtain a customized investment proposal, based on financial models of asset allocation that combine, also including the customer's sustainability preferences in the recommended portfolios.

As for the financial life insurance offer, novobanco makes available a competitive range of capitalization insurance with diversified solutions adjusted to several profiles. GNB Obrigações 2026 fund was also launched, with annual distribution and a fixed duration of 3 years and 3 months, investing in bonds issued by companies, governments, government agencies and supranational entities, based on a Buy & Hold strategy.

Small businesses

Novobanco remained close to its small businesses customers, translating into a 4.1% growth of the customer base (16.5% annualized) with an impact on the placement of equipment, such as POS which grew by 2.2% in the quarter, and in lending, with the business loan portfolio growing 1.6% (in the first 3 months of 2023). The segment's funds showed a 2.8% growth, indicating a trend to save in a period of some uncertainty.

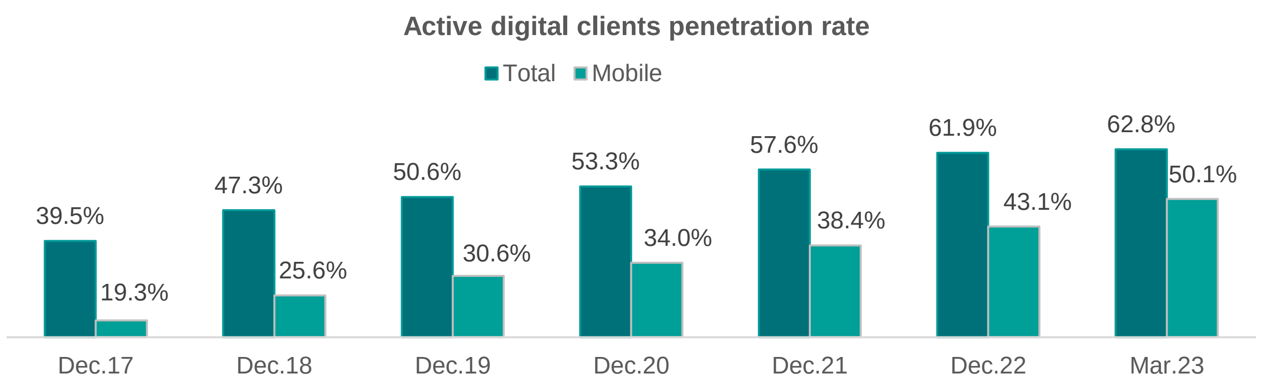
Digital Transformation

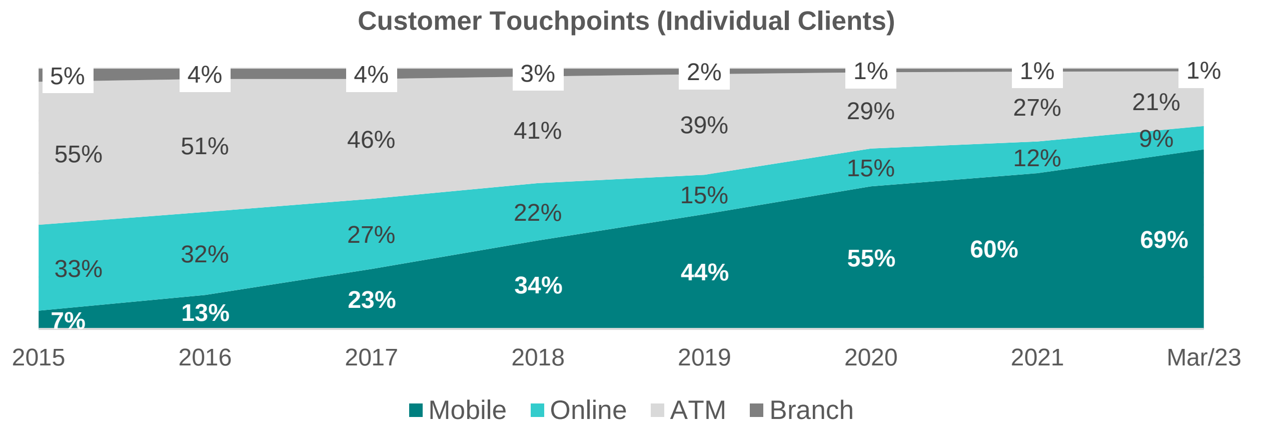
As a customer-centric Bank, novobanco pursues the following goals through digital transformation, in both the Corporate and Retail segments:

- 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 62.8% by March 2023 (Dec/22: 61.9%; the number of digital customers increased by 13% YoY) and annual growth of 19% in the number of active mobile customers (50% of customers are mobile vs 48% in Dec/22).

In the quarter, more than 70% of the operations in the individual client's segment were carried out in self-service mode, this figure increased to 84% and 94% in the small businesses and medium-large companies' segments, respectively. In turn, this underpinned an increase in the share of digital sales of Life and Non-Life Insurance (+101%; 7% of segment sales; +5pp YoY), Personal Loans (+76%; 18% of segment sales; +11pp YoY), and Credit Cards (+45%; 3% of sales).





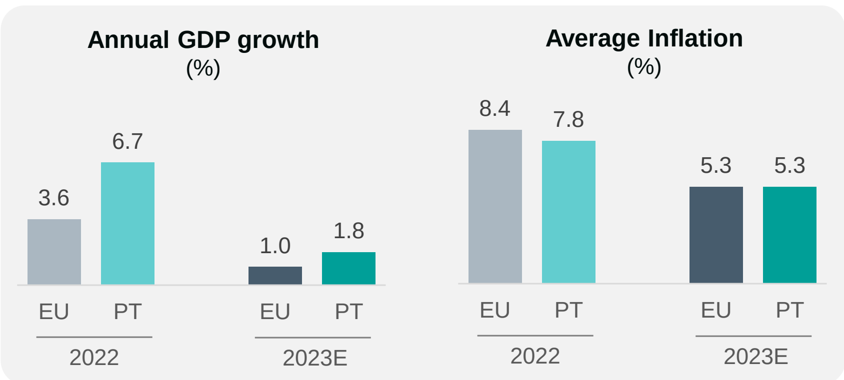
In the period, 78% of individual clients' contacts with novobanco were made through the digital channels (+4 pp YoY). Reflecting a reinforced focus on a "mobile digital first" strategy, mobile continues to be the main means of contact of individual clients, with annual interactions (as measured by the number of *logins*) growing by 27%.

ECONOMIC ENVIRONMENT

The performance of global economic activity in the 1st quarter of 2023 was better than expected, warranting a slight upward revision of the growth outlook for the full year. Several factors contributed to this improvement, including the sharp fall in energy prices, the removal of most Covid-19 restrictions in China and the resilience of private consumption in the main economic areas, in this case benefiting from persistently low unemployment rates. The price of oil (Brent) fell by 7.1% in the quarter and 26.1% year-on-year, to USD 79.8/barrel. In Europe, the price of natural gas retreated 37.3% in the quarter and 62% year-on-year, to €47.8 MWh. In this context, year-on-year inflation fell in the first three months of the year - from 6.5% to 5% in the US and from 9.2% to 6.9% in the Eurozone -, underpinned by falling energy prices. Core inflation proved more persistent, rising from 5.2% to 5.7% YoY in the Eurozone and only marginally retreating in the US, from 5.7% to 5.6% YoY.

The persistence of core inflation led major central Banks to reaffirm the need to raise benchmark interest rates to levels deemed "sufficiently restrictive". The US Federal Reserve raised the fed funds target rate by two 25 bps moves, to 4.75%-5%. The ECB raised benchmark interest rates by a cumulative 100 basis points (2x50 bps), leaving the main refinancing rate at 3.5% and the deposit facility rate at 3%. Expectations of further key rate hikes put upward pressure on short-term interest rates, with the 3-month Euribor rising by 91 basis points to 3.038%. The end of the quarter was marked by the collapse of Silicon Valley Bank in the US, mainly as a result of overexposure to interest rate risk. Fears of contagion momentarily penalised depositor confidence in the Banks seen as most vulnerable. In Europe, this context forced the absorption of Credit Suisse by UBS. The interventions of the American and European authorities, through deposit guarantees and liquidity injections, were successful in stabilising sentiment. However, the tightening of monetary and financial conditions earlier than expected fuelled fears of a slowdown in activity, leading to a downward revision of market expectations for interest rates. The yields on the 10-year Treasuries and Bunds retreated by 41 and 28 bps, respectively, to 3.468% and 2.292%. The equity market benefited from the resilience of economic activity, the decline in inflation, and the anticipation of the end of the cycle of rising interest rates. In the US, the S&P 500 and Nasdaq gained 7% and 16.8%, respectively. In Europe, the Euro Stoxx and DAX were up by 7.8% and 12.2%. The euro rose 1.5% against the dollar, to EUR/USD 1.0869.

In Portugal, GDP is estimated to have grown by around 0.5% QoQ or 1.4% YoY in the 1st quarter of 2023. CPI inflation retreated from 9.6% to 7.4% YoY, with energy prices falling by 4.4% YoY in March. The unemployment rate rose from 6.7% to 6.8% of the labour force between December and February. The economy continued to benefit from strong buoyancy in tourism activity, with the number of overnight stays increasing in the first two months of the year by 27% YoY in the resident segment and 71% YoY in the non-resident segment. Private consumption showed signs of some slowdown, with high inflation and rising interest rates penalising real household disposable income. Like in other parts of Europe, the pursuit of higher returns amid a climate of escalating interest rates led to a decrease in Bank deposits in Portugal, as investors favoured alternative saving instruments, particularly saving certificates (*Certificados de Aforro*). The spread between the 10-year PGB and German benchmark yields narrowed in the first quarter, from 102 to 83 bps, with the Portuguese bond yield closing the period at 3.12%.



SUBSEQUENT EVENTS

- On 3 April 2023, following the General Shareholders Meeting held on 22 March 2023, the increase in the share capital of novobanco due to the conversion of the conversion rights relating to fiscal years 2018 and 2019 was carried out, issued under the special regime applicable to deferred tax assets approved by Law no. 61/2014. This capital increase was carried out in the form of incorporation of reserves and in the amount of 146,366,604.25 euros for the fiscal year ended on 31 December 2018 and the amount of 116,816,620.97 euros for the fiscal year ended on 31 December 2019, through the issuance of 739,798,019 new ordinary shares representing 6.27% of its share capital, which are attributed to the Portuguese State under the said regime, which now holds 11.96% of novobanco share capital. Novobanco share capital thus amounts to 6,567,843,862.91 euros. With this capital increase, and as a result of the agreements entered into between the Resolution Fund and the shareholder Lone Star in the context of the sale of 75% of the share capital of novobanco, only the Resolution Fund will see its shareholding diluted.
- On 19 April 2023, Moody's upgraded novobanco’s Baseline Credit Assessment (BCA) rating by 2 notches from b2 to ba3, and senior unsecured debt and senior unsecured medium-term note (MTN) programme by 3 notches from B3 to Ba3. The outlook on the long-term deposit and senior unsecured debt ratings remains positive.

MAIN INDICATORS

Main Highlights	31-Mar-22	31-Dec-22	31-Mar-23
Activity (€mn)			
Net Assets	44 627	45 995	43 843
Customer Loans (gross)	25 246	25 617	25 656
Customer Deposits	27 562	28 412	27 526
Equity	3 167	3 512	3 697
Solvency			
Common EquityTier I / Risk Weighted Assets	10.8%	13.7%	14.3%
Tier I / Risk Weighted Assets	10.8%	13.7%	14.3%
Total Capital / Risk Weighted Assets	12.9%	16.0%	16.6%
Leverage Ratio	5.5%	6.1%	6.5%
Liquidity (€mn)			
European Central Bank Funding (3)	2 803	385	1 365
Eligible Assets for Repo Operations (ECB and others), net of haircut	16 485	16 917	17 356
(Total Credit - Credit Provision) / Customer Deposits (2)	86%	83%	85%
Liquidity Coverage Ratio (LCR)	184%	210%	180%
Net Stable Funding Ratio (NSFR)	115%	113%	111%
Asset Quality			
Overdue Loans > 90 days / Customer Loans (gross)	1.3%	1.2%	1.2%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	5.7%	4.3%	4.4%
Credit Provision / Overdue Loans > 90 days	388.4%	336.0%	340.4%
Credit Provision / Customer Loans (gross)	4.9%	4.2%	4.1%
Cost of Risk (1)	0.34%	0.45%	0.41%
Profitability			
Net Income for the Period (mn€)	142.7	560.8	148.4
Income before Taxes and Non-controlling interests / Average Net Assets (2)	0.5%	1.2%	1.3%
Banking Income / Average Net Assets (2)	0.9%	2.5%	2.9%
Income before Taxes and Non-controlling interests / Average Equity (2)	7.1%	17.8%	20.3%
Efficiency			
Operating Costs / Banking Income (2)	33.4%	39.8%	34.6%
Operating Costs / Commercial Banking Income	51.2%	48.8%	35.5%
Staff Costs / Banking Income (2)	17.9%	20.7%	18.0%
Employees (No.)			
Total	4 182	4 090	4 105
Branch Network (No.)			
Total	311	292	292

(1) Includes credit, securities and initial fair value
(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 MARCH 2023 AND 2022

thousands of Euros

	31.03.2023	31.03.2022
Interest Income	388 400	180 225
Interest Expenses	(142 051)	(46 692)
Net Interest Income	**246 349**	**133 533**
Dividend income	-	102
Fees and commissions income	81 222	79 375
Fees and commissions expenses	(12 727)	(11 218)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9 979	(18 085)
Gains or losses on financial assets and liabilities held for trading	(766)	125 553
Gains or losses on financial assets mandatorily at fair value through profit or loss	564	(9 401)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	-	30
Gains or losses from hedge accounting	(101)	(1 960)
Exchange differences	8 893	(2 072)
Gains or losses on derecognition of non-financial assets	(1 372)	558
Other operating income	17 748	31 731
Other operating expenses	(60 248)	(51 989)
Operating Income	**289 541**	**276 157**
Administrative expenses	(102 134)	(93 865)
Staff expenses	(58 288)	(55 710)
Other administrative expenses	(43 846)	(38 155)
Cash contributions to resolution funds and deposit guarantee schemes	(256)	(299)
Depreciation	(9 757)	(9 750)
Provisions or reversal of provisions	(1 252)	3 588
Commitments and guarantees given	1 118	3 688
Other provisions	(2 370)	(100)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(29 787)	(25 412)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	-	(361)
Impairment or reversal of impairment on non-financial assets	3 350	405
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	167	427
Profit or loss before tax from continuing operations	**149 872**	**150 890**
Tax expense or income related to profit or loss from continuing operations	(744)	(7 351)
Current tax	(3 772)	(1 636)
Deferred tax	3 028	(5 715)
Profit or loss after tax from continuing operations	**149 128**	**143 539**
Profit or loss from discontinued operations	(97)	-
Profit or loss for the period	**149 031**	**143 539**
Attributable to Shareholders of the parent	**148 355**	**142 678**
Attributable to non-controlling interests	676	861
	149 031	**143 539**

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2023 AND 31 DECEMBER 2022

thousands of Euros

	31.03.2023	31.12.2022
ASSETS		
Cash, cash balances at central banks and other demand deposits	3 766 085	6 599 078
Financial assets held for trading	418 412	171 810
Financial assets mandatorily at fair value through profit or loss	309 690	313 702
Financial assets designated at fair value through profit or loss	201	13
Financial assets at fair value through other comprehensive income	2 391 451	2 331 099
Financial assets at amortised cost	33 286 194	32 777 693
Securities	8 604 122	8 183 209
Loans and advances to banks	73 799	43 548
Loans and advances to customers	24 608 273	24 550 936
Derivatives – Hedge accounting	579 548	562 845
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(340 380)	(383 689)
Investments in subsidiaries, joint ventures and associates	118 725	119 744
Tangible assets	800 859	798 831
Tangible fixed assets	308 597	299 264
Investment properties	492 262	499 567
Intangible assets	70 050	69 832
Tax assets	955 331	956 000
Current Tax Assets	32 432	32 570
Deferred Tax Assets	922 899	923 430
Other assets	1 428 421	1 618 484
Non-current assets and disposal groups classified as held for sale	58 522	59 587
Total Assets	**43 843 109**	**45 995 029**
LIABILITIES		
Financial liabilities held for trading	104 088	99 386
Financial liabilities measured at amortised cost	38 649 645	40 987 177
Deposits from central banks and other banks	8 004 138	9 705 154
(of which: repos)	2 206 755	2 150 824
Due to customers	28 658 023	29 277 858
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 590 210	1 628 897
Other financial liabilities	397 274	375 268
Derivatives – Hedge accounting	108 289	119 578
Provisions	407 605	413 432
Tax liabilities	13 364	8 427
Current Tax liabilities	12 519	7 582
Deferred Tax liabilities	845	845
Other liabilities	848 035	839 919
Liabilities included in disposal groups classified as held for sale	14 777	15 492
Total Liabilities	**40 145 803**	**42 483 411**
EQUITY		
Capital	6 304 661	6 304 661
Accumulated other comprehensive income	(1 197 101)	(1 234 573)
Retained earnings	(8 123 244)	(8 577 074)
Other reserves	6 545 268	6 439 418
Profit or loss attributable to Shareholders of the parent	148 355	560 842
Minority interests (Non-controlling interests)	19 367	18 344
Total Equity	**3 697 306**	**3 511 618**
Total Liabilities And Equity	**43 843 109**	**45 995 029**

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 securities with gross customer loans and securities 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: 1Q 2023 FINANCIAL RESULTS

Date: **Friday, 28 April 2023**
Time: **13:00 Lisbon/London**
Link: https://channel.royalcast.com/landingpage/novobancoen/20230428_1/
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Password: Novo Banco

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