

GROUP ACTIVITY AND RESULTS FIRST NINE MONTHS 2021 PRESS RELEASE

Lisbon, 28 October 2021

(unaudited financial information)

"It is the third consecutive quarter of positive results. We are on course for profitability, growth and prepared to support companies and the Portuguese economy. This turnaround is also based on a new brand image. The positive results demonstrate a sustainable business growth with commercial banking income up 6.8%, while operating costs are down 3.9%."

António Ramalho, CEO

HIGHLIGHTS

THIRD QUARTER OF POSITIVE PROFITABILITY

- **novobanco announces third consecutive profitable quarter with net profit of €154.1mn in the 9M21** (vs -€853.1mn in 9M20; 1Q21: €70.7mn; 2Q21: €67.0mn; 3Q21: €16.4mn). This performance includes one-off negative effect of -€73.5mn (in 3Q21) from the liability management exercise ("LME"), which will generate future savings;
- **Net interest income and fees and commissions of €213.2mn in 3Q21 increased by 7.3% and 5.8% YoY, respectively**, which contributed to the 6.8% YoY improvement in commercial banking income (1Q21: €208.5mn; 2Q21: €216.3mn; 3Q21: €213.2mn). The improvement in net interest income reflects the reduction in average deposit rates, the lower cost of long-term financing and the maintenance of the pricing discipline;
- **The Bank's core operating income** (commercial banking income - operating costs) **increased to €332.3mn (+18.9%; +€52.9mn YoY)**, driven both by improved commercial banking income and lower operating costs (-3.9%; -€12.4mn YoY);
- **Further improvement of Cost to Income**, excluding markets and other operating results, reaching **47.9%** in the period (9M20: 53.2%; FY20: 52.2%; 1H21: 48.1%);
- **Impairments for credit totalled €115.0mn**, including €40.2mn impairments for Covid-19 related risks, a YoY reduction of -70.0% or -€268.3mn. **The cost of risk year to date was 61bp**, or 40 bps excluding the impairments related with Covid-19.

SOLID BUSINESS MODEL WITH RESILIENT LENDING AND DEPOSITS GROWTH

- **Net customer loans at €23.5bn**, broadly stable across corporate (adjusted for NPL disposal), mortgage and consumer loan portfolio;
- Total customer funds increased by +3.2% YTD, **with customer deposits increasing by 1.6% (+€415mn)**, reflecting the continued confidence of **novobanco** clients;
- Continuous investment in the business, to provide a unique omnichannel customer experience, with the implementation of a **new distribution model** and the execution of **digital transformation initiatives**. Growth in the digital segment with **53.5% of active digital customers (+6.5% YoY)**;
- **Continued reduction of the non-performing loans (NPL) ratio to 7.3% (Dec/20: 8.9%)**, while **increasing the coverage ratio to 81.5%** (Dec/20: 74.1%), demonstrating the continued de-risking of the balance sheet reflecting progress towards European average NPL ratio in the medium-term.

STABLE CAPITAL RATIOS AND LIQUIDITY RATIO

The Bank is well positioned to continue to support households and corporate customers, with CET 1 ratio at 10.9% (total solvency ratio at 12.8%), liquidity ratio (LCR) of 151% and NSFR of 114%.

GROUP RESULTS

At the end of the third quarter of 2021, **novobanco** reported a profit of €154.1mn (+€1,007.2mn YoY), with evolution driven by (i) the improvement in the Bank's operating income (+32.8%; +€166.1mn), (ii) the reduction in operating costs (-3.9%; -€12.4mn), (iii) the lower level of impairments and provisions (-80.8%; -€673.7mn) and (iv) the recognition in September 2020 of the loss of €260.6m in the revaluation of the Restructuring Funds.

INCOME STATEMENT			Change	
	30-Sep-20	30-Sep-21	absolute	%
	mn€			
Net Interest Income	401.0	430.2	29.1	7.3%
+ Fees and Commissions	196.5	207.9	11.3	5.8%
= Commercial Banking Income	597.6	638.0	40.5	6.8%
+ Capital Markets Results	- 20.3	33.7	54.0	...
+ Other Operating Results	- 70.4	1.2	71.6	...
= Banking Income	506.8	672.9	166.1	32.8%
- Operating Costs	318.1	305.7	- 12.4	-3.9%
= Net Operating Income	188.7	367.2	178.5	94.6%
+ Restructuring funds - independent valuation	- 260.6	0.0	260.6	100.0%
- Net Impairments and Provisions	833.3	159.6	- 673.7	-80.8%
Credit	383.3	115.0	- 268.3	-70.0%
Securities	17.5	17.4	- 0.1	-0.7%
Other Assets and Contingencies	432.5	27.2	- 405.3	-93.7%
= Income before Taxes	- 905.2	207.6	1 112.7	...
- Corporate Income Tax	- 77.7	13.0	90.7	...
- Special Tax on Banks	32.8	34.2	1.5	4.4%
= Income after Taxes	- 860.2	160.4	1 020.6	...
- Non-Controlling Interests	- 7.1	6.3	13.4	...
= Net Income for the period	- 853.1	154.1	1 007.2	...

Despite the negative impact of the LME (-€73.5mn), the net income in the third quarter reached +€16.4mn (3Q20 -€297.8mn).

INCOME STATEMENT	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	QoQ change	
								absolute	%
Net Interest Income	130.2	125.5	145.3	154.1	145.7	143.5	140.9	-2.6	-1.8%
+ Fees and Commissions	67.9	63.6	65.1	75.4	62.8	72.8	72.3	-0.5	-0.6%
= Commercial Banking Income	198.0	189.1	210.4	229.5	208.5	216.3	213.2	-3.0	-1.4%
+ Market Results	-94.1	58.3	15.4	-52.2	52.8	40.5	-59.7	-100.2	...
+ Other Operating Results	2.5	-60.4	-12.5	-66.2	12.2	-41.3	30.3	71.6	...
= Banking Income	106.5	187.0	213.3	111.1	273.5	215.5	183.9	-31.6	-14.7%
- Operating Costs	108.3	105.8	104.0	113.7	102.7	101.4	101.6	0.2	0.2%
= Net Operating Income	-1.7	81.2	109.3	-2.7	170.8	114.1	82.3	-31.8	-27.9%
+ Restructuring funds - independent valuation	0.0	-260.6	0.0	-39.6	0.0	0.0	0.0	0.0	...
- Net Impairments and Provisions	149.1	194.5	489.7	358.1	61.8	27.4	70.4	43.0	...
Credit	138.8	142.2	102.3	141.1	54.9	29.8	30.3	0.5	1.6%
Securities	2.1	-0.9	16.3	23.5	0.9	15.1	1.4	-13.7	-90.8%
Other Assets and Contingencies	8.2	53.2	371.1	193.5	6.0	-17.5	38.7	56.3	...
= Income before Taxes	-150.9	-373.9	-380.4	-400.4	109.0	86.7	11.9	-74.8	-86.3%
- Taxes	0.6	4.0	-82.3	78.8	4.2	16.9	-8.1	-25.0	...
- Special Tax on Banks	27.5	-0.1	5.3	0.0	32.8	1.5	0.0	-1.5	-99.9%
= Income after Taxes	-179.0	-377.8	-303.4	-479.2	72.0	68.4	20.0	-48.4	-70.8%
- Non-controlling Interests	0.1	-1.6	-5.6	-3.0	1.3	1.4	3.6	2.2	...
= Net Income	-179.1	-376.2	-297.8	-476.2	70.7	67.0	16.4	-50.6	-75.6%

The most relevant features of the activity in the period include the following:

- Increase in commercial banking income, which amounted to €638.0mn (+6.8%; +€40.5mn YoY), driven by higher net interest income (+7.3%; +€29.1mn YoY), and an improvement in fees and commissions (+5.8%; +€11.3mn YoY);
- Capital markets results of +€33.7mn mostly due to the increase in market interest rates in the first nine months of 2021 and despite the LME negative impact of €73.5mn;
- Operating costs are lower YoY (-3.9%; -€12.4mn), standing at €305.7mn (1Q21: €102.7mn; 2Q21: €101.4mn; 3Q21: €101.6mn), which reflects on the one hand the focus on cost efficiency achieved with processes simplification and optimisation, and on the other hand the investment in the business and in digital transformation, with both effects contributing to an improvement of the Bank's efficiency ratios;
- In the first nine months of 2021 the amount allocated to impairment and provisions totalled €159.6mn (including €40.2mn additional impairment within the scope of Covid-19), representing a YoY reduction of -€673.7mn (-80.8%).

Net Interest Income

Net interest income shows a YoY increase of 8 bp (from 1.35% to 1.43%), benefitting from 21 bp reduction of the average liability rate, which offset the decrease in the average asset rate as a result of the lower mortgage rates.

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	30-Sep-20			2020			30-Sep-21		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
	mn€								
INTEREST EARNING ASSETS	38 932	1.75%	519	38 597	1.77%	694	39 686	1.61%	484
Customer Loans	25 316	2.09%	403	24 939	2.13%	541	25 001	2.02%	383
Mortgage Loans	10 033	1.20%	92	9 987	1.20%	122	9 928	1.04%	78
Consumer Loans and Others	1 362	6.16%	64	1 328	6.24%	84	1 366	5.90%	61
Corporate Lending	13 921	2.33%	247	13 624	2.42%	335	13 707	2.34%	244
Money Market Placements	2 928	0.59%	13	2 993	0.54%	16	4 361	0.04%	1
Securities and Other Assets	10 687	1.27%	103	10 665	1.26%	137	10 325	1.28%	100
INTEREST EARNING ASSETS AND OTHER	38 932	1.75%	519	38 597	1.77%	694	39 686	1.61%	484
INTEREST BEARING LIABILITIES	37 234	0.40%	113	36 782	0.35%	132	37 981	0.18%	51
Customer Deposits	26 311	0.29%	57	25 787	0.27%	72	26 512	0.20%	40
Money Market Funding	9 831	0.00%	0	9 913	-0.13%	- 13	10 455	-0.37%	- 40
Other Liabilities	1 092	6.64%	55	1 081	6.70%	74	1 014	6.70%	52
OTHER NON-INTEREST BEARING LIABILITIES	1 698	-	-	1 815	-	-	1 705	-	-
INTEREST BEARING LIABILITIES AND OTHER	38 932	0.38%	113	38 597	0.34%	132	39 686	0.17%	51
NIM / NII <small>(without stage 3 impairment adjustment)</small>		1.37%	407		1.43%	562		1.44%	433
Stage 3 impairment			- 6			- 6			- 3
NIM / NII		1.35%	401		1.41%	555		1.43%	430

The average rate on customer loans was 2.02%, lower YoY (-7bps) given the different weight of each segment (portfolio effect; -3bps) and the competitive environment (rate effect; -4bps). The lower YoY average balance reflects the sale of the Carter and Wilkinson portfolio, with the loan portfolio broadly stable on an adjusted basis.

The average balance of deposits was €26.5bn, with an average interest rate of 0.20% (-9bps YoY), and Money Market Funding was €10.5bn, with -0.37% average interest rate, benefiting in part from the conditions of the ECB long-term refinancing operations.

The Group therefore continued to increase the spread between the rate on interest earning assets (1.61%; 9M20: 1.75%) and the cost of liabilities (0.17%; 9M20: 0.38%) with a positive impact on overall net interest margin (1.43%; 9M20: 1.35%).

Fees and Commissions

Fees and commissions contributed with €207.9mn of results in the period, representing an increase of 5.8% YoY (+€11.3mn) and a growth of 11.1% vs 3Q20 (+€7.2mn).

This performance results from the increase in Payments Management (+€4.1mn; +5.1% YoY) based on a higher volume of transactions/price and volume increase in the Asset Management & Bancassurance (+€8.5mn; +20.5%), reflecting a greater commercial activity and increased customer appetite for this segment.

FEES AND COMMISSIONS	30-Sep-20	30-Sep-21	Change	
			absolute	%
Payments Management	80.2	84.3	4.1	5.1%
Commissions on Loans, Guarantees and Similar	62.2	62.5	0.3	0.5%
Asset Management and Bancassurance	41.5	50.0	8.5	20.5%
Advising, Servicing and Other	12.6	11.1	-1.5	-12.3%
TOTAL	196.5	207.9	11.3	5.8%

Capital Markets and Other Operating Results

The results of financial operations were positive by €33.7mn mostly due to an increase in market interest rates in the first nine months of 2021 which more than offset the negative impact of LME concluded in the quarter (-€73.5mn). The LME consisted in the buy-back of expensive senior zero-coupon bonds (~7% yield) with long maturity and will generate future savings of ~€475mn (until maturity).

Other operating results totalled +€1.2mn, including gains from credit recovery (+€20.9mn), the costs related with contributions to the Single Resolution Fund (-€25.3mn) and to the Portuguese Resolution Fund (-€15.2mn).

Operating Costs

Operating costs decreased 3.9% YoY, reflecting the continued optimisation and simplification of the organisation and its processes, alongside investment in the future of the business.

OPERATING COSTS	30-Sep-16	30-Sep-17	30-Sep-18	30-Sep-19	30-Sep-20	30-Sep-21	Change	
							absolute	%
							Staff Costs	230.2
General and Administrative Costs	176.8	152.7	147.9	134.3	111.2	105.3	- 5.9	-5.3%
Depreciation	42.9	31.2	16.2	26.9	24.1	25.0	0.9	3.7%
TOTAL	449.9	394.2	363.5	361.8	318.1	305.7	- 12.4	-3.9%

Staff costs totalled €175.5mn (-4.0% YoY), maintaining the downward trend accounted in recent years, and as a result of increased efficiency. As of 30 September 2021, **novobanco** Group had 4,362 employees (Dec/20: 4,582; -220 YTD).

General administrative costs decreased 5.3% YoY, to €105.3mn, due a widespread effort to reduce operating costs, alongside investment in the future of the business.

The total number of branches as of 30 September 2021 was 334 (Dec/20: 359; -25 branches YTD).

Impairments and Provisions

In the first nine months of 2021, **novobanco** Group recorded an increase in provisions in the amount of €159.6mn (including €40.2mn additional impairment within the scope of Covid-19), a reduction compared to the same period of the previous year (-80.8%).

The cost of risk reached 61bps (or 40bps without the impact of Covid-19 additional impairment).

NET IMPAIRMENTS AND PROVISIONS	30-Sep-20	30-Sep-21	Change	
			absolute	%
			Customer Loans	383.3
Securities	17.5	17.4	-0.1	-0.7%
Other Assets and Contingencies	432.5	27.2	- 405.3	-93.7%
TOTAL	833.3	159.6	- 673.7	-80.8%

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

CUSTOMER LOANS

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

CUSTOMER LOANS	30-Sep-20	31-Dec-20	30-Sep-21	YTD Change	
				absolute	%
Loans to corporate customers	14 525	13 873	13 678	- 195	-1.4%
Loans to Individuals	11 402	11 344	11 280	- 64	-0.6%
Residential Mortgage	10 046	10 010	9 882	- 129	-1.3%
Other Loans	1 356	1 333	1 398	64	4.8%
Customer Loans (gross)	25 927	25 217	24 957	- 259	-1.0%
Provisions	1 815	1 600	1 495	- 105	-6.5%
Customer Loans (net)	24 113	23 617	23 462	- 155	-0.7%

novobanco's commitment to support corporates and households resulted in the granting that as of September 2021 totalled €5.4bn (Dec/20: €6.9mM), representing circa 22% of the gross loan book, along with €1.3bn of guaranteed credit lines granted to corporates, of which ~97% are already disbursed. The moratoria under the regulatory framework support more than 20,000 clients and represented ~29% of the corporate portfolio, ~14% of the mortgage book and ~2% of other individual loans portfolio.

Loans to customers (gross) totalled €24,957mn (in line with June 2021), with the YTD evolution (-1.0%) influenced by the execution of the strategy to reduce the stock of NPL. **novobanco** sold a portfolio of non-performing loans and related assets in 2021 with a gross value of €210.4mn.

The principal risk indicators are set out below:

ASSET QUALITY AND COVERAGE RATIOS	30-Sep-20	31-Dec-20	30-Sep-21	YtD Change	
				absolute	%
Overdue Loans > 90 days	872	610	565	- 45	-7.4%
Non-Performing Loans (NPL) ¹	2 807	2 498	2 195	- 302	-12.1%
Overdue Loans > 90 days / Customer Loans (gross)	3.4%	2.4%	2.3%	-0.2 p.p.	
Non-Performing Loans (NPL)¹ / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	9.7%	8.9%	7.3%	-1.6 p.p.	
Credit Provisions / Customer Loans	7.0%	6.3%	6.0%	-0.4 p.p.	
Coverage of Overdue Loans > 90 days	208.0%	262.2%	264.7%	2.5 p.p.	
Coverage of Non-Performing Loans¹	76.3%	74.1%	81.5%	7.5 p.p.	

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

The reduction in loans overdue by more than 90 days and in non-performing loans (including deposits with Banks and loans and advances to Banks), led to an improvement in the respective asset quality ratios to 2.3% and 7.3%, respectively (Dec/20: 2.4% and 8.9%; Sep/20: 3.4% and 9.7%).

On 30 September 2021, the coverage of NPL by impairments (including deposits with Banks and loans and advances to Banks) was 81.5% (+7.5 pp YTD).

Provisions for credit amounted to €1.5bn, representing 6.0% of the total loan book.

SECURITIES

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €10.7bn on 30 September 2021, representing 23.6% of assets.

net of impairment				mn€	
Securities portfolio	30-Sep-20	31-Dec-20	30-Sep-21	YTD Change	
				absolute	relative
Portuguese sovereign debt	3 397	3 468	3 207	- 261	-7.5%
Other sovereign debt	3 711	3 710	3 216	- 493	-13.3%
Bonds	3 289	3 323	3 417	93	2.8%
Other	973	866	861	- 4	-0.5%
Total	11 370	11 367	10 701	- 665	-5.9%

FUNDING

Total customer funds amounted to €32.7bn at the end of the third quarter of 2021, showing an increase of 3.2% YTD. The deposits, which represent 81.1% of total customer funds, increased +1.6% YTD.

				mn€	
TOTAL FUNDS	30-Sep-20	31-Dec-20	30-Sep-21	YTD change	
				absolute	%
Deposits	26 324	26 093	26 508	415	1.6%
Other Customer Funds ⁽¹⁾	421	229	295	66	28.6%
Debt Securities ⁽²⁾	705	558	778	219	39.3%
Subordinated Debt	407	415	407	- 8	-2.0%
Sub -Total	27 857	27 296	27 987	692	2.5%
Off-Balance Sheet Funds	4 175	4 376	4 710	334	7.6%
Total Funds	32 031	31 672	32 697	1 026	3.2%

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

(2) Includes funds associated to consolidated securitisation operations.

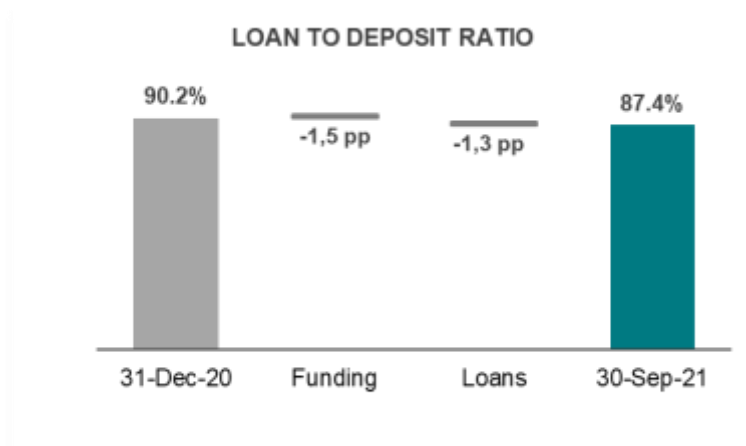
LIQUIDITY

In the third quarter of 2021, **novobanco** maintained a comfortable liquidity position, reflected in the level of the regulatory liquidity ratios Liquidity Coverage Ratio (LCR) of 151% and Net Stable Funding Ratio (NSFR) of 114%, both above the regulatory requirements.

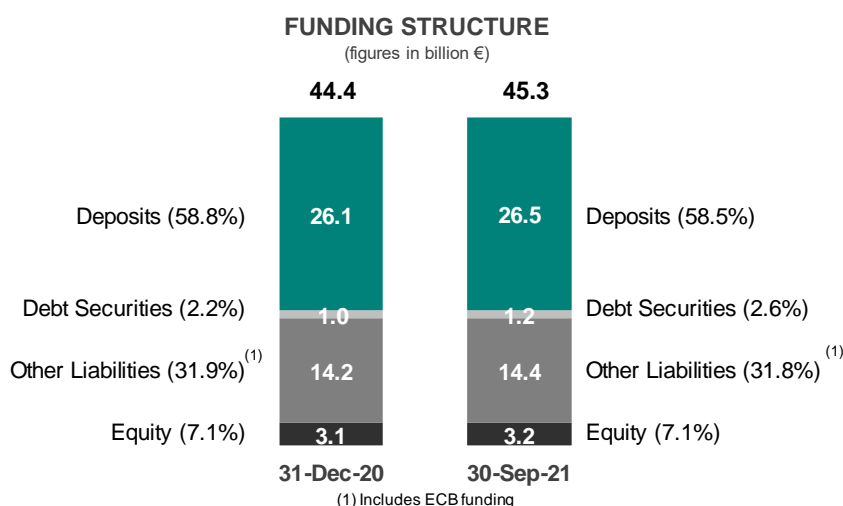
The new senior preferred bond issue, which took place in early July, was a milestone for **novobanco** with its return to the capital markets and marked the beginning of the execution of the funding plan to build the base of MREL-eligible liabilities. The execution of the funding plan will allow the Bank to comply with MREL regulatory requirements. The new €300mn bond issue, maturing in 2024 with an early redemption option in 2023, was executed together with a long-term senior bond repurchase transaction in which the Bank acquired approximately 32% of the zero coupon bonds for €161mn, corresponding to approximately €88mn of book value.

Thus, at the end of the third quarter, cash and balances at Central Banks remained high at about €4.4bn and, consequently, net funding from the ECB (ECB borrowings minus ECB investments) in the third quarter was €2.6bn, unchanged from the previous quarter.

The portfolio of assets eligible for rediscount with the European Central Bank, as at 30 September 2021, totalled €16.7bn (net of haircut), reflecting a reduction of €0.3bn in the portfolio of HQLA securities eligible with the ECB, in comparison to June 2021, to which must be added non-eligible HQLA assets at the ECB. The Bank's liquidity buffer at the end of the third quarter was therefore more than €12.4bn, most of which was made up of highly liquid assets (around 84%). In comparison to the second quarter of the year, the liquidity buffer decreased by around €0.4bn, reflecting the reduction of deposits from institutional customers.



Customer deposits remained the main source of balance sheet funding, accounting for 62.9% of total liabilities and 58.5% of total assets.



CAPITAL

As at 30 September 2021, the CET1 ratio was 10.9% and total solvency ratio was 12.8% (preliminary values).

In this context, it is important to highlight the fact that the European Central Bank (ECB) disclosed during March 2020 several measures that allow Banks to operate temporarily below the required capital level. These measures aim to prevent Banks from suspending financing to the economy in an adverse economic environment. In addition, changes were introduced to the regulatory framework on the calculation of capital ratios, in force since June 2020, aimed at mitigating the impacts of the Covid-19 pandemic, both at the level of related impairment reinforcement and at the level of risk-weighted assets. In these circumstances, **novobanco** adhered to the dynamic option of the transitional regime of IFRS 9, in the context of **novobanco** and the Resolution Fund having recognized a divergence in relation to the application of the above mentioned option.

CAPITAL RATIOS (CRD IV/CRR)		mn€			
		31-Dec-20 ⁽¹⁾ (Phased-in)	31-Dec-20 ⁽¹⁾ (Fully loaded)	30-Sep-21 ⁽²⁾ (Phased-in)	30-Sep-21 ⁽²⁾ (Fully loaded)
Risk Weighted Assets	(A)	26 689	26 392	27 077	26 786
Own Funds					
Common Equity Tier 1	(B)	2 902	2 511	2 948	2 581
Tier 1	(C)	2 903	2 512	2 950	2 583
Total Own Funds	(D)	3 415	3 023	3 461	3 094
Common Equity Tier 1 Ratio	(B/A)	10.9%	9.5%	10.9%	9.6%
Tier 1 Ratio	(C/A)	10.9%	9.5%	10.9%	9.6%
Solvency Ratio	(D/A)	12.8%	11.5%	12.8%	11.6%
Leverage Ratio		6.2%	5.4%	6.2%	5.4%

(1) Updated values

(2) Preliminary

Regarding the amount of €598mm requested to the Resolution Fund, for the year 2020, only a payment of €317mm was received. The difference results from divergences between **novobanco** and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain, (ii) the valuation of participation units and (iii) the interest rate hedging policy (€112mn retained by the Resolution Fund and subject to validation). Given the inability to immediately access to these amounts and the fact that are subject to a favorable arbitration decision, the Bank deducted, as of 30 September 2021, the amount of €277.4mn from the calculation of regulatory capital, despite being recorded as receivable. **novobanco** considers the amount of €277.4mn as due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure the amount is received.

Additionally, **novobanco** and the Resolution Fund have the following differences subject to arbitration:

- Transition from the transitional regime of IFRS9, in its static option, to the full application of that standard, with the submission of a dispute to arbitration before the International Chamber of Commerce, in accordance with the CCA rules, due to the impact of that change on the calculation of the amount due by the Resolution Fund under the CCA in financial year 2019. Within this scope, it was agreed that **novobanco** would not proceed with the full application of IFRS9, remaining under the transitional regime until the conclusion of the arbitration proceedings. The arbitration proceedings are ongoing and a decision by the arbitral court is expected by 4Q21;
- The application by the Bank, at the end of 2020, of the dynamic option of the transitional regime of IFRS 9 and those relating to amounts that **novobanco** considers to be due and that should have been paid by the Resolution Fund for the 2020 financial year.

COMMERCIAL ACTIVITY

Corporate Banking

novobanco has an important presence in the Portuguese corporate sector and continues to act as a partner, providing financial support and helping companies to adjust their strategies to new realities, aware that it is more important than ever to share experiences, to have a deeper knowledge of the supply chains, specialised consultancy information and access to international markets.

This strong presence in the Portuguese business community is reflected in market shares of 14.4% in loans to non-financial companies and 12.7% in deposits in this segment.

In 2021, **novobanco** continues to support its corporate customer, given the impacts of Covid-19 on their activities, through three fundamental pillars:

- (i) financial support to small and medium-sized companies having granted in the 9M21 a total of €196mn of Credit Lines with the Mutual Guarantee Companies;
- (ii) monitoring the developments of moratoria that currently cover 11% of **novobanco**'s corporate customers, for an overall amount of €4.0bn;
- (iii) maintaining the focus on the digital transformation, investing in remote relationship and signature tools, to quickly respond to customer needs and provide a unique customer experience.

In the third quarter, already in the context of the end of restrictions caused by the Covid-19 pandemic, the Bank continued to promote and participate in various initiatives within the scope of the corporate segment, of which we highlight:

- conclusion of the initiative "Portugal que Faz", a partnership with Global Media, that focused on Business Associations representing the Portuguese corporate sector, which was fundamental to understand the solutions that best fit the challenges faced by companies, at regional and sectorial level;
- presence at Agroglobal, recognised as the largest exhibition on the Iberian Peninsula dedicated to professionals in the agricultural sector, where the Bank presented "Soluções **novobanco** Agricultura".

novobanco was awarded for the 16th time "Best Sub-custodian Bank 2021" in Portugal by the magazine Global Finance, in nineteen years of this distinction. This nomination represents the international recognition of **novobanco**'s know-how and performance in this segment.

In the period, medium and long-term credit originated in the medium and large corporate segment and small businesses totalled about €1,150mn, of which ~20% related to Covid Credit Lines under guaranteed schemes.

novobanco maintains a strong relevance in the exporting sector with around 58% of medium and large exporting companies as customers.

In Trade Finance, **novobanco** provides a wide range of products and specialised advice in support of international trade. The Bank's know-how in this segment is recognized by its clients, resulting in a market share of around 20.2% (+0.9pp YTD).

With regard to the evaluation made by the company's customers, the NPS (Net Promoter Score) rose to 32.1, an increase of 3.9% compared to the previous year. The main reason for promoters to recommend **novobanco** is related to the Quality of Service. In this sense, the weight of Very Satisfied Customers (PCMS) with the Customer Service reached 90%, an increase of 1.2% compared to the previous year.

Retail Banking

novobanco is redesigning the face-to-face service experience, more focused on personalisation and space for engagement with clients. This experience has required a total redesign of the branches, which in addition to the layout and architectural elements, are open to its eco-system, with more transparency, and with available areas

for the community at master branches. In the first nine months of 2021, 58 branches (+38 vs Jun/21) were redesigned with the aim of covering the entire branch network.

In 2021, **novobanco** link, a remote manager service with follow-up capabilities for high value customers who prefer remote contact, was strengthened. This service has demonstrated higher efficiency levels than the traditional customer portfolio management model.

Clients

The attraction of clients has evolved positively in comparison with the same period of the previous year (+6% YoY), continuing to attract about 25% of clients under 25 years old, which compares with a stock of 10% of clients in this age group, thus contributing to the rejuvenation of the client base.

The customer loyalty programme was also carried out, which seeks to recover the relationship with active customers that don't have signs of deepening the relationship. The programme, based on advanced micro-segmentation, achieved a contact coverage rate of 73% and success in increasing the relationship in 16% of cases.

Offer

Day-to-day needs

- **novobanco** provides a set of products aimed at meeting the day-to-day needs of our Customers, including service accounts, credit cards and *Solução Ordenado*, which continue to be extremely competitive versus peers.

Safety

- Reformulation of the Health Insurance offer and the widening of the Life Insurance offer, more complete and adjusted to the different target markets, benefiting from a new form of subscription (ie: digital platforms, guaranteeing a totally online, simple, convenient, fast and secure subscription process).

Lending

- After the slowdown felt at the beginning of the year, the positive evolution that had been registered since the 2Q21 was confirmed, particularly in terms of mortgages production, which increased by ~8% QoQ. Partnerships maintained their role in this performance, with credit intermediaries capturing, c.+24% YoY;
- In consumer loans the pace of production remained stable in the quarter, which was already growing strongly in relation to the 1Q21 (+35%). The focus on the Non-Financial Offer, with the continued launch of new products and the promotion of various events aimed at employees and customers, together with our partners, has proven to be adequate, with growth of +47% YoY.

Business Solutions

The segment has demonstrated the capacity to closely monitor its clients, recurrently evaluating the individual impacts that the pandemic had on business, as well as the clients' suitability for exiting the credit moratoria. As a Bank of relationship and proximity, in the evolution of the business segment we highlight the following:

- Delivery of diplomas to PME Líder and PME Excelência companies and presence in various events, such as the *Feira da Agricultura*;
- Expansion of the customer base, with a growth of 6.3% YTD;
- Growth in the segment's resources of 8.9%, indicating some propensity to save at a time of some uncertainty;
- Improvement in the business loan portfolio of 4.9% during the year, with the balance of overdue loans in the total loan portfolio weighing only 0.2%.

Digital Banking

The main digitalisation initiatives and developments in the period are highlighted below:

Innovation Highlights

Customer Journeys

- Availability for individual clients of the possibility to consult and change personal data in digital channels;
- Credit card applications for company representatives on digital channels.

Digital Channels: smarter/smart app

- New functionalities in the digital wallet: inclusion of Photoscan Payments (photographing and uploading invoices);
- Simplified approval of operations initiated in **novobanco** Online via notifications.

Digital Channels: Website

- Launch of the new content platform for **novobanco**'s website (www.novobanco.pt), now in Full SaaS, with personalisation integration via Data Science. Fully integrated with authenticated channels, allowing a more efficient content management and contribution to digital activation and digital sales;
- Launch of the Non-Financial Offer online shop on the Bank's public website.

Talent and Innovation Lab

- An internal entrepreneurship programme for employees was launched in July, with the aim of nurturing innovation within **novobanco**, thus opening up an opportunity for all employees to contribute to disruptive innovation.

Awards and Recognition

- **novobanco** was a finalist in the prestigious Finovate Awards 2021 with the Unique Signature Number solution of the Phygital initiative that enables the remote formalisation of contracts.

Digital Activation

- 53.5% active digital customers as of Sep/21 (number of digital customers increased by 6.3% YoY);
- Number of active mobile customers grew 9.2% YoY (39.3% of customers are mobile).

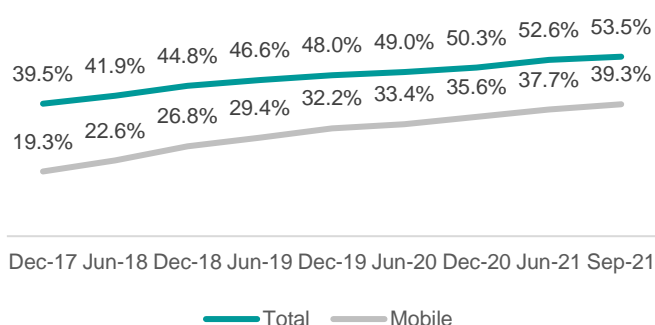
Digital Sales

- More than 200% increase YoY in the number of units sold in the digital product channels (excluding deposits, which are already traditionally high).

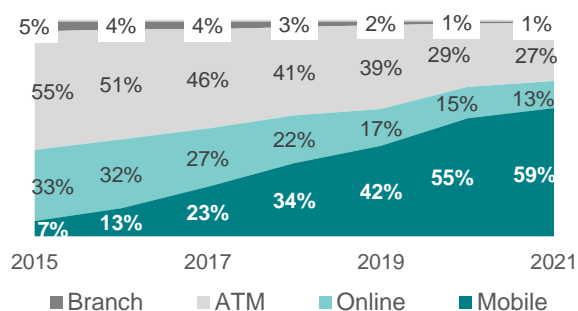
Customer Touchpoints

- Mobile continues to be the main mean of contact for retail customers, with interactions via mobile (# logins) increasing 21% YoY;
- 72% of the contacts of retail customers were made through digital channels (+5 p.p. YoY);
- Digital channels, and in particular mobile, are therefore the point of contact by excellence with the customers, strengthening the adoption of a “mobile digital first” strategy.

Penetration Rate of Active Digital Clients



Customer Touchpoints



ECONOMIC ENVIRONMENT

The 9M2021 was marked by a recovery in global economic activity. The pandemic continued to stifle consumer and business behaviour, but progress on vaccination, the gradual reopening of the economies and monetary and fiscal policy stimuli supported growth, albeit unevenly across the different economies and with some signs of deceleration in 3Q21. In the Euro Zone, after a 0.3% YoY contraction in 1Q21, GDP grew by 2.2% in 2Q21 and 2.1% in 3Q21, and is expected to grow by close to 5% in the full year. The Portuguese economy suffered the effects of a new lock-down in 1Q21, with GDP contracting by 0.3%. GDP's growth rate then picked up in 2Q21 and 3Q21, to 4.9% and 1.7%, respectively (15.5% and 3% YoY). In the full year GDP growth should be around 4.6%.

Several constraints on global productive activity led to an increase in inflationary pressures, driven by several factors: (i) the strong increase in demand as savings were released, and the need to rebuild stocks; (ii) forced production stoppages and under-investment in production capacity; (iii) logistical disruptions due to delays in the transport of goods; (iv) labour, raw materials and intermediate consumptions shortages; and (v) and a sharp increase in energy costs.

Supply chain disruption forced up YoY inflation, from 1.4% to 5.4% in the US, 0.9% to 3.4% in the Eurozone and 0.3% to 1.5% in Portugal. The main Central Banks perceived these developments as an essentially transitory phenomenon but recognised the risk of persistence. Accordingly, some institutions signalled an easing of monetary stimuli. In the Eurozone, the ECB maintained its benchmark interest rate (deposit facility rate at -0.5%) but in September recalibrated downwards the monthly pace of bond purchases under the PEPP pandemic emergency purchase programme. Although with some intra-annual oscillations, the 3-month Euribor closed at almost the same level as per the beginning of the year, at -0.545%. In the 9M21, the euro lost 5.5% against the dollar, to EUR/USD 1.158.

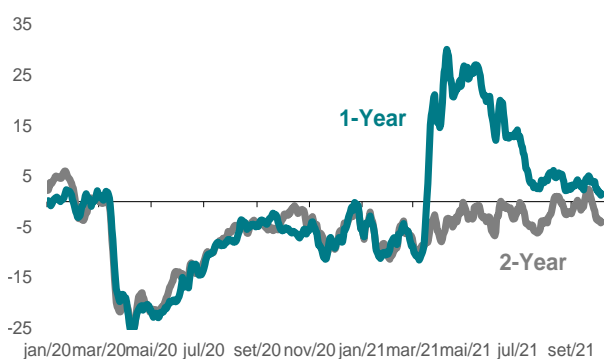
The rebound in activity and the environment of ample liquidity provided by expansionary monetary policies supported a value increase in risk assets. On the equity market, the main indices retreated in September as inflation and market interest rates rose. Even so, they registered significant increases in the 9M21. In the US, the S&P 500 and the Nasdaq advanced by 14.7% and 12.1%. In Europe, the Euro Stoxx and the DAX gained 14% and 11.2%. In Portugal, the PSI-20 was up by 11.5%. During the period, the yields on the 10-year *Bund* and Portuguese Treasury Bonds rose from -0.57% to -0.2% and from 0.03% to 0.36%, respectively, with the TB vs. *Bund* spread dropping from 60 to 56 bps.

In Portugal, the recovery was visible in the industrial, services and retail sectors, but in all three cases activity remained below pre-pandemic levels. In tourism, domestic demand reached a new all-time monthly high in August. However, the recovery of the non-resident segment lagged behind, with the number of overnight stays remaining significantly below 2019 levels. Housing prices accelerated in 2Q21, with YoY growth rising from 5.2% to 6.6%. The unemployment rate retreated from 6.9% to 6.4% of the labour force. Temporary support measures to businesses and the labour market, including loan moratoria (which ended in September), a simplified layoff scheme and gradual support to the recovery of activity, mitigated the economic impacts of the pandemic.

Market Performance

Equity Market	YTD	
Dow Jones	10.6	
S&P 500	14.7	
Nasdaq	12.1	
Euro Stoxx 600	14.0	
IBEX	9.0	
PSI 20	11.5	
Sovereign Bonds (Yield %)	2 yrs	5 yrs
Portugal	-0.69%	-0.39%
Germany	-0.69%	-0.56%
United States	0.28%	0.96%
Sovereign Bonds (Performance bps)	2 yrs	5 yrs
Portugal	3.8	-4.2
Germany	1.1	18.2
United States	-15.5	60.4

Portugal - Daily Indicator of Economic Activity (▲ %)



MAIN HIGHLIGHTS

30-Sep-20

31-Dec-20

30-Sep-21

ACTIVITY (mn€)

Net Assets	45 225	44 396	45 342
Customer Loans (gross)	25 927	25 217	24 957
Customer Deposits	26 324	26 093	26 508
Equity	3 353	3 147	3 212

SOLVENCY ⁽³⁾

Common Equity Tier I / Risk Weighted Assets ⁽³⁾	12.0%	10.9% ⁽⁴⁾	10.9%
Tier I / Risk Weighted Assets ⁽³⁾	12.0%	10.9% ⁽⁴⁾	10.9%
Total Capital / Risk Weighted Assets ⁽³⁾	13.9%	12.8% ⁽⁴⁾	12.8%
Leverage Ratio	6.9%	6.2% ⁽⁴⁾	6.2%

LIQUIDITY (mn€)

European Central Bank Funding ⁽²⁾	4 667	4 740	2 733
Eligible Assets for Repo Operations (ECB and others), net of haircut	16 376	16 684	16 726
(Total Credit - Credit Provision) / Customer Deposits ⁽¹⁾	91%	90%	87%
Liquidity Coverage Ratio (LCR)	140%	140% ⁽⁴⁾	151%
Net Stable Funding Ratio (NSFR)	113%	112% ⁽⁴⁾	114%

ASSET QUALITY

Overdue Loans > 90 days / Customer Loans (gross)	3.4%	2.4%	2.3%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	9.7%	8.9%	7.3%
Credit Provision / Overdue Loans > 90 days	208.0%	262.2%	264.7%
Credit Provision / Customer Loans (gross)	7.0%	6.3%	6.0%
Cost of Risk	1.97%	2.08%	0.61%

PROFITABILITY

Net Income for the Period (mn€)	-853.1	-1329.3	154.1
Income before Taxes and Non-controlling interests / Average Net Assets ⁽¹⁾	-2.7%	-2.9%	0.6%
Banking Income / Average Net Assets ⁽¹⁾	1.5%	1.4%	2.0%
Income before Taxes and Non-controlling interests / Average Equity ⁽¹⁾	-30.2%	-32.0%	8.7%

EFFICIENCY

Operating Costs / Banking Income ⁽¹⁾	62.8%	69.9%	45.4%
Operating Costs / Commercial Banking Income	53.2%	52.2%	47.9%
Staff Costs / Banking Income ⁽¹⁾	36.1%	52.2%	26.1%

EMPLOYEES (No.)

Total	4 668	4 582	4 362
- Domestic	4 646	4 560	4 343
- International	22	22	19

BRANCH NETWORK (No.)

Total	376	359	334
- Domestic	375	358	333
- International	1	1	1

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

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

(3) Preliminary

(4) Updated values

NOVO BANCO, S.A.
CONSOLIDATED INCOME STATEMENT AS AT 30 SEPTEMBER 2021 AND 2020

thousands of Euros

	30.09.2021	30.09.2020
Interest Income	554 244	546 281
Interest Expenses	(124 071)	(145 248)
Net Interest Income	430 173	401 033
Dividend income	8 058	9 776
Fees and commissions income	238 985	228 107
Fees and commissions expenses	(34 951)	(35 393)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10 224	82 772
Gains or losses on financial assets and liabilities held for trading	29 282	(72 620)
Gains or losses on financial assets mandatorily at fair value through profit or loss	34 551	(285 985)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	42	-
Gains or losses from hedge accounting	11 057	(6 858)
Exchange differences	6 848	(12 443)
Gains or losses on derecognition of non-financial assets	3 249	994
Other operating income	81 450	64 835
Other operating expenses	(143 414)	(127 579)
Operating Income	675 554	246 639
Administrative expenses	(280 766)	(294 037)
<i>Staff expenses</i>	(175 489)	(182 833)
<i>Other administrative expenses</i>	(105 277)	(111 204)
Cash contributions to resolution funds and deposit guarantee schemes	(40 535)	(35 048)
Depreciation	(24 955)	(24 057)
Provisions or reversal of provisions	10 939	(38 995)
<i>Commitments and guarantees given</i>	21 780	8 941
<i>Other provisions</i>	(10 841)	(47 936)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(162 255)	(654 197)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	871	(1 625)
Impairment or reversal of impairment on non-financial assets	(9 174)	(138 528)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	2 060	2 371
Profit or loss before tax from continuing operations	171 739	(937 477)
Tax expense or income related to profit or loss from continuing operations	(13 016)	77 723
<i>Current tax</i>	(9 745)	10 766
<i>Deferred tax</i>	(3 271)	66 957
Profit or loss after tax from continuing operations	158 723	(859 754)
Profit or loss from discontinued operations	1 635	(439)
Profit or loss for the period	160 358	(860 193)
Attributable to Shareholders of the parent	154 068	(853 115)
Attributable to non-controlling interests	6 290	(7 078)
	160 358	(860 193)

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2021 AND 31 DECEMBER 2020

thousands of Euros

	30.09.2021	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	4 938 561	2 695 459
Financial assets held for trading	400 507	655 273
Financial assets mandatorily at fair value through profit or loss	888 005	960 962
Financial assets at fair value through other comprehensive income	7 438 939	7 907 587
Financial assets at amortised cost	25 758 837	25 898 046
Securities	2 275 874	2 229 947
Loans and advances to banks	59 602	113 795
Loans and advances to customers	23 423 361	23 554 304
Derivatives – Hedge accounting	16 242	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	37 421	63 859
Investments in subsidiaries, joint ventures and associates	86 840	93 630
Tangible assets	798 037	779 657
Tangible fixed assets	212 966	187 052
Investment properties	585 071	592 605
Intangible assets	58 265	48 833
Tax assets	684 782	775 498
Current Tax Assets	480	610
Deferred Tax Assets	684 302	774 888
Other assets	2 864 637	2 944 292
Non-current assets and disposal groups classified as held for sale	1 371 205	1 559 518
TOTAL ASSETS	45 342 278	44 395 586
LIABILITIES		
Financial liabilities held for trading	403 363	554 791
Financial liabilities measured at amortised cost	39 065 448	37 808 767
Deposits from central banks and other banks	10 582 007	10 102 896
Due to customers	26 802 663	26 322 060
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 228 834	1 017 928
Other financial liabilities	451 944	365 883
Derivatives – Hedge accounting	47 805	72 543
Provisions	315 614	384 382
Tax liabilities	14 694	14 324
Current Tax liabilities	10 268	9 203
Deferred Tax liabilities	4 426	5 121
Other liabilities	465 077	417 762
Liabilities included in disposal groups classified as held for sale	1 818 514	1 996 382
TOTAL LIABILITIES	42 130 515	41 248 951
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(975 211)	(823 420)
Retained earnings	(8 577 074)	(7 202 828)
Other reserves	6 679 036	6 570 153
Profit or loss attributable to Shareholders of the parent	154 068	(1 329 317)
Minority interests (Non-controlling interests)	30 944	32 047
TOTAL EQUITY	3 211 763	3 146 635
TOTAL LIABILITIES AND EQUITY	45 342 278	44 395 586

GLOSSARY

Income Statement

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

Balance Sheet / Liquidity

Assets eligible as collateral for rediscount operations with the ECB	The Eurosystem only grants credit against adequate collateral. This collateral consists of tradable financial securities and other types of assets such as nontradable assets and cash. The expression "eligible assets" is used for assets that are accepted as collateral by the Eurosystem.
Securities portfolio	Securities (bonds, shares and other variable-income securities) booked in the trading portfolios, at fair value through profit or loss, mandatory at fair value through profit or loss, at fair value through 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 credit risk impairment charges accounted in the period to gross customer loans.
Non-performing loans	Total balance of the contracts identified as: (i) in default (internal definition in line with article 178 of Capital Requirement Regulation, i.e., contracts with material overdue above 90 days and contracts identified as unlikely to pay, in accordance with qualitative criteria); and (ii) with specific impairment.
Non-performing loans ratio	Ratio of non-performing loans to the sum of total credit, deposits with banks and Loans and advances to banks
Non-performing loans coverage ratio	Ratio of impairment on customer loans and loans and advances to banks (on balance sheet) to non-performing loans.

GLOSSARY

Efficiency and Profitability Ratios

Efficiency (Staff costs / Banking income) Banco de Portugal Instruction n. 16/2004	Ratio of staff costs to banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses).
Efficiency (Operating costs / Banking income) Banco de Portugal Instruction n. 16/2004	Ratio of operating costs (staff costs, general and administrative expenses and depreciation and amortisation) to banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses).
Profitability Banco de Portugal Instruction n. 16/2004	Ratio of banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses) to average net assets.
Return on average net assets Banco de Portugal Instruction n. 16/2004	Ratio of income before tax and non-controlling interests to average net assets.
Return on average equity Banco de Portugal Instruction n. 16/2004	Ratio of income before tax and non-controlling interests to average equity.

€mn: million euros

€bn: billion euros

pp: percentage points

bps: basis points

QoQ: quarter-on-quarter

YoY: year-on-year



Conference Call details:

When: Friday, October 29th 2021 at 9:00 am Lisbon/London

Where: <https://novobanco.webliveconnect.com/>