Lisbon, 26 March 2021

NOVO BANCO GROUP ACTIVITY AND RESULTS OF FINANCIAL YEAR 2020

HIGHLIGHTS

- **NOVO BANCO delivered €189.0mn of adjusted[1] recurrent income before taxes,** generated from a recurrent commercial banking income of €787.8mn (+1.7% YoY) and operating costs of €418.6mn (-0.6% YoY).
- **Completion of balance sheet clean-up**, with a YoY **reduction of legacy assets of 31.2% or -€1.400mn**, of which loans to customers (net) (-26.3%; -€359mn), real estate (-28.8%; -€235mn) and other assets (-35.1%; -€806mn); A 79% reduction in total legacy assets has been achieved in the 3 years since Dec.17.
- **Reduction of non-performing loans (NPL) ratio to 8.9%,** being 3.2 pp lower YoY and leading to a NPL coverage ratio of 74.1% (Dec.19: 56.5%).
- **Contingent Capital Agreement (CCA)**
  - As a result of the losses in the CCA assets and regulatory capital requirements, NOVO BANCO will request €598.3mn under the Contingent Capital Agreement;
  - The total amount of the requested payments from 2017 to 2019, and to be called in 2020, is €3.57bn. The maximum amount of compensation established in the CCA is €3.89bn.

CONTINUED IMPROVEMENT IN RECURRENT PROFITABILITY

- **NOVO BANCO increased its recurrent core operating income** (commercial banking income – operating costs) **to €369.1mn (+4.5% YoY)**, as a result of:
  - Higher recurrent commercial banking income (2020: €787.7mn; +1.7% YoY), supported by an improvement in net interest income (+€52.3mn; +11.3% YoY);
  - Lower operating costs (-0.6% YoY), benefiting from the implementation of cost optimization measures along with efficient and automatized processes.
- **The YoY growth of €177.6mn in recurrent impairments and provisions** (Dec.20: €386.0mn, Dec.19: €208.4mn) reflects the impact of the Covid-19 pandemic (€250.7mn). Without this effect, impairments and provisions would total €135.3mn, well below 2019 values;

[1] After adjusting for Covid-19 provisions (€250.7mn) and losses from the *Liability Management Exercise* (LME; -€24.8mn)

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- **Recurrent loan volumes increased by +2.2% YoY (+€492mn)** building on the momentum of the previous year (2019: +5.6%; +€1,303mn);
- **Total Customer funds remained unchanged YoY.** Deposits were stable at €26.1bn (+0.5% YoY; +€127mn) reflecting NB customers' continued confidence in NOVO BANCO;
- **NPL ratio of the recurrent activity was 3.2%** (Dec.19: 3.5%), with a coverage ratio of 88.0% (Dec.20: 69.5%).

COMPLETION OF THE RESTRUCTURING PROCESS

NOVO BANCO Group's results and activity for the financial year of 2020 reflect the deleveraging of legacy assets, discontinuation of the Spanish business, additional imairment of non-performing loans and the impact of the Covid-19 pandemic, resulting in a consolidated net income at -€1,329.3mn (of which legacy accounted for -€1,198.9mn).

In Dec.20, NOVO BANCO legacy assets totalled €3.1bn, representing a substantial YoY reduction of 31.2% or -€1,400mn. The lower exposure of NOVO BANCO to legacy assets is a result of:

- A reduction in non-performing loans (NPL) stock of -€814mn YoY to €2,498mn, leading to a NPL ratio of 8.9% (Dec.19: 12.0%);
- A reduction in the stock of real estate assets of -€235mn YoY to €582mn, thus reducing its exposure as % of total assets to 2.0% (vs Dec.19: 2.5%);
- An independent valuation assessment of the restructuring funds, including appraisals of underlying assets, which resulted in a €300.2mn loss.

In light of the execution of the deleveraging plan and reflecting the slowdown of economic activity and market volatility due to the Covid-19 pandemic, the Bank recorded increased credit impairments of €736.1mn in the period. The additional impairments for credit, guarantees and securities risk specifically arising from the Covid-19 pandemic totalled €268.8mn.

NOVO BANCO continues to **deliver** on its plan, targets and **commitments assumed by the Portuguese Government with respect to DGComp**.

The Bank has strong liquidity, which leaves it well positioned to continue supporting its retail and corporate customers.

As in 2019, NOVO BANCO discloses its full year 2020 results presenting separately the financial results of NOVO BANCO Recurrent, which include all the core banking activity, and those of NOVO BANCO Legacy. NOVO BANCO considers that differentiating between NOVO BANCO Recurrent and NOVO BANCO Legacy will allow customers and other stakeholders to better understand the progress of the Bank's restructuring.

Disclaimer:

During 2020, NOVO BANCO transferred the Spanish Branch to discontinued operations, in line with the strategy to discontinue the Spanish business. Thus, for comparison purposes, 2019 is presented pro-forma.

NOVO BANCO RECURRENT

RESULTS

In 2020, NOVO BANCO Recurrent achieved an income before taxes of €189.0mn, adjusted by credit and securities impairments arising from the Covid-19 pandemic (€250.7mn) and results of the *Liability Management Exercise* (LME; -€24.8mn) performed in 4Q20.

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Income Statement	Recurrent 31-Dec-19	Recurrent 31-Dec-19 Pro-forma* (exc. Spain)	Recurrent 31-Dec-20	Change absolute	Change %
Net Interest Income	491.2	464.7	517.0	52.3	11.3%
+ Fees and Commissions	320.7	309.5	270.6	- 38.9	-12.6%
= Commercial Banking Income	**811.9**	**774.3**	**787.7**	**13.4**	**1.7%**
+ Capital Markets Results	72.2	71.9	- 23.1	- 95.0	...
+ Other Operating Results	- 45.5	- 41.5	- 46.4	- 4.9	-11.8%
= Banking Income	**838.6**	**804.7**	**718.2**	**-86.5**	**-10.8%**
- Operating Costs	460.8	421.0	418.6	-2.4	-0.6%
= Net Operating Income	**377.8**	**383.7**	**299.6**	**-84.1**	-21.9%
- Net Impairments and Provisions	**202.5**	**208.4**	**386.0**	**177.6**	**85.2%**
Credit	222.4	199.1	311.6	112.6	56.5%
Securities	3.5	3.6	41.7	38.2	...
Other Assets and Contingencies	- 23.4	5.7	32.6	26.9	...
= Income before Taxes	**175.3**	**175.3**	**-86.4**	**- 261.7**	**...**
Corporate Income Tax and Special Tax on Banks	-10.6	-10.6	48.3	58.9	...
= Income after Taxes	**185.8**	**185.8**	**-134.7**	**- 320.6**	**...**
- Non-Controlling Interests	8.2	8.2	-4.4	- 12.6	...
= Net Income for the period	**177.6**	**177.6**	**-130.4**	**- 308.0**	**...**

Income before taxes	**-86.4**
- Covid Impairment	-250.7
- LME	-24.8
Normalized Income Before Taxes	**189.0**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

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NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-19 Average Balance	31-Dec-19 Avg. Rate	31-Dec-19 Income / Costs	31-Dec-20 Average Balance	31-Dec-20 Avg. Rate	31-Dec-20 Income / Costs
INTEREST EARNING ASSETS	35 237	1.86%	666	35 252	1.79%	640
Customer Loans	23 902	2.24%	543	22 593	2.20%	505
Money Market Placements	1 056	0.01%	0	2 689	-0.07%	- 2
Securities and Other Assets	10 279	1.18%	123	9 970	1.35%	137
INTEREST EARNING ASSETS AND OTHER	**35 237**	**1.86%**	**666**	**35 252**	**1.79%**	**640**
INTEREST BEARING LIABILITIES AND OTHER	**35 237**	**0.48%**	**172**	**35 252**	**0.33%**	**117**
NIM /NII (without stage 3 impairment adjustment)		**1.38%**	**494**		**1.46%**	**523**
Stage 3 impairment			**- 3**			**- 6**
NIM / NII		**1.37%**	**491**		**1.44%**	**517**

Net interest income increased by €52.3mn compared to Dec.19, to €517.0mn (+11.3%), reflecting an improved cost of funding, the expansion of loan volumes and a continued focus on pricing policy.

Compared with the previous financial year, there was an increase in the average volumes of loans (excluding the effect of the transfer of the Spanish Branch to discontinued operations). The competitive market conditions, origination of guaranteed credit lines, and the consequent pressure on interest rates on loans to companies resulted in a marginal decrease in average interest rates to 2.20%.

Continued liability management led to a reduction of the average cost of funding from 0.48% to 0.33%. The net interest margin was 1.44%, above the margin achieved in 2019 (1.37%).

Fees and commissions on banking services contributed +€270.6mn, which compares with +€309.5mn in the previous year (-12.6%). The decrease occurred across all products lines, reflecting the impact of Covid-19 on the economy, and client activity.

The **Capital markets results** were negative at -€23.1mn, of which -€24.8mn was from the Liability Management Exercise performed in 4Q20. Total Group securities portfolio amounts to circa €11.4bn, of which about €6.5bn relates to sovereign debt which is marked to market with changes in fair value booked in reserves. At the end of 2020 the fair value reserve on this portfolio was €364mn, being higher YoY (Dec.19: €331mn).

Other Operating Results of -€46.4mn, including €35mn of contributions to the resolution funds.

Operating costs totalled €418.6mn, a slight decrease of -0.6% YoY, which, notwithstanding the investment in the core business and in digital transformation, reflects continued focus on cost optimization.

Core operating income (commercial banking income net of operating costs) reached €369.1mn, +4.5% compared with previous year.

The **cost of risk** reached 134bps, an increase comparing to 2019, due to the impact of the Covid-19 pandemic which resulted in credit impairments of €200.7mn. Without this effect, the cost of risk was 48bps.

ACTIVITY

Throughout 2020, net assets increased by €500mn (+1.2%), with net customer loans growing by 1.7% (+€374mn) compared to Dec.19. The growth in corporate loans reflects the continued support of domestic companies, across all economic sectors, with a focus on small and medium-sized enterprises (SMEs) and the establishment of Covid-19 related credit lines to corporate customers.

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	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	%
Customer loans (net)	23 735	22 234	22 608	374	1.7%
Real estate	307	306	299	- 7	-2.2%
Other assets	16 772	18 274	18 406	132	0.7%
Total Net Assets	**40 814**	**40 814**	**41 314**	**500**	**1.2%**
Total Liabilities and Equity	**40 814**	**40 814**	**41 314**	**500**	**1.2%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Comparing to 2019, the recurrent asset quality indicators showed an improvement as the NPL ratio reduced to 3.2% and the coverage ratio increased +18.6pp to 88.0%.

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CUSTOMER LOANS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	%
Customer Loans (gross)	**24 380**	**22 835**	**23 327**	**492**	**2.2%**
Corporate	12 925	11 727	12 311	585	5.0%
Residential Mortgage	10 100	9 909	9 857	- 52	-0.5%
Consumer finance and other	1 355	1 199	1 158	- 41	-3.4%
Non-Performing Loans (NPL)[1]	**946**	**866**	**817**	**- 49**	**-5.6%**
Impairment	**645**	**601**	**718**	**118**	**19.6%**
NPL Ratio[1]	**3.6%**	**3.5%**	**3.2%**	**-0.4 p.p.**	**…**
NPL coverage[1]	**68.3%**	**69.5%**	**88.0%**	**18.6 p.p.**	**…**
Cost of Risk (bps)	**91**	**87**	**134**	**46**	**…**

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

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOVO BANCO LEGACY

NOVO BANCO Legacy reported a loss of -€1,198.9mn in the financial year 2020. This result includes the following significant items:

- independent assessment of the Bank's investment in restructuring funds based on a third party valuation, including appraisals of underlying assets, with a negative impact of -€300.2mn;
- net impairments and provisions of -€805.5mn, including the discontinuation of Spanish activities (-€166.0mn), the provision for restructuring (-€123.9mn), and higher credit costs (loans to customers, guarantees and financial institutions).

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Income Statement		Legacy				
		31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change absolute	Change %
	Net Interest Income	49.4	47.7	38.1	- 9.6	-20.1%
+	Fees and Commissions	2.7	2.7	1.3	- 1.5	-54.5%
=	**Commercial Banking Income**	**52.2**	**50.5**	**39.4**	**- 11.1**	**-22.0%**
+	Capital Markets Results	- 269.0	- 269.6	- 49.5	220.2	81.7%
+	Other Operating Results	- 201.5	- 285.2	- 90.1	195.1	68.4%
=	**Banking Income**	**-418.3**	**-504.4**	**-100.2**	**404.2**	**80.1%**
-	Operating Costs	17.7	17.7	13.2	-4.4	-25.1%
=	**Net Operating Income**	**-436.0**	**-522.1**	**-113.5**	**408.6**	78.3%
+	Restructuring funds - independent valuation	0.0	0.0	- 300.2	-300.2	...
-	**Net Impairments and Provisions**	**732.9**	**646.8**	**805.5**	**158.7**	**24.5%**
	Credit	405.1	341.5	212.8	- 128.7	-37.7%
	Securities	- 3.7	- 3.7	- 0.7	2.9	79.8%
	Other Assets and Contingencies	331.5	308.9	593.4	284.5	92.1%
=	**Income before Taxes**	**-1,168.9**	**-1,168.9**	**-1,219.1**	**- 50.3**	**-4.3%**
	Corporate Income Tax and Special Tax on Banks	83.4	83.4	-14.5	- 97.9	...
=	**Income after Taxes**	**-1,252.3**	**-1,252.3**	**-1,204.6**	**47.7**	**3.8%**
-	Non-Controlling Interests	-15.9	-15.9	-5.7	10.2	64.0%
=	**Net Income for the period**	**-1,236.4**	**-1,236.4**	**-1,198.9**	**37.5**	**3.0%**

* Values restated to consider the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

There are no liabilities directly allocated to the legacy activity. Funding costs for legacy assets are calculated based on the Group's average balance sheet funding rate (0.34%).

NOVO BANCO Legacy assets decreased by €1,400mn (-31.2%) compared to Dec.19, underpinned by a reduction of the net loan book of €359mn (-26.3%), real estate assets €235mn (-28.8%), and other assets, which includes restructuring funds, €806mn (-35.1%).

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	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	%
Customer loans (net)	1 467	1 368	1 009	- 359	-26.3%
Real estate	829	818	582	- 235	-28.8%
Other assets	2 186	2 297	1 491	- 806	-35.1%
Total Net Assets	**4 482**	**4 482**	**3 082**	**-1 400**	**-31.2%**
Total Liabilities and Equity	**4 482**	**4 482**	**3 082**	**-1 400**	**-31.2%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

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CUSTOMER LOANS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	%
Customer Loans (gross)	**2 675**	**2 562**	**1 890**	**- 672**	**-26.2%**
Corporate	2 307	2 194	1 562	- 632	-28.8%
Residential Mortgage	165	165	153	- 11	-6.9%
Consumer finance and other	203	203	175	- 28	-13.9%
Non-Performing Loans (NPL)[1]	**2 485**	**2 446**	**1 681**	**- 765**	**-31.3%**
Impairment	**1 208**	**1 194**	**881**	**- 312**	**-26.2%**
NPL Ratio[1]	**81.3%**	**83.1%**	**76.2%**	**-6.9 p.p.**	**…**
NPL coverage[1]	**51.7%**	**51.9%**	**67.3%**	**15.3 p.p.**	**…**
Cost of Risk (bps)	**1 515**	**1 333**	**1 126**	**-207**	**…**

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

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOVO BANCO GROUP RESULTS

NOVO BANCO Group reported a net loss of -€1,329.3mn in financial year 2020, including the following:

- a negative impact of €300.2mn as a result of the independent valuation of restructuring funds;
- €1,191.5mn of impairments and provisions, resulting from the discontinuation of the business in Spain and higher credit risk (loans to customers, guarantees and financial institutions), including €268.8mn of additional impairment for credit risks arising from Covid-19; and
- €123.9mn increase in provisions for restructuring.

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INCOME STATEMENT	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Net Interest Income	540.6	512.4	555.1	42.7	8.3%
+ Fees and Commissions	323.5	312.3	271.9	- 40.4	-12.9%
= **Commercial Banking Income**	**864.1**	**824.7**	**827.0**	**2.3**	**0.3%**
+ Capital Markets Results	- 196.8	- 197.7	- 72.5	125.2	63.3%
+ Other Operating Results	- 247.0	- 326.8	- 136.6	190.2	58.2%
= **Banking Income**	**420.3**	**300.2**	**617.9**	**317.7**	**...**
- Operating Costs	478.5	438.7	431.8	- 6.8	-1.6%
= **Net Operating Income**	**- 58.2**	**- 138.4**	**186.1**	**324.5**	**...**
+ Restructuring funds - independent valuation	0.0	0.0	- 300.2	- 300.2	...
- **Net Impairments and Provisions**	**935.4**	**855.1**	**1 191.5**	**336.3**	**39.3%**
Credit	627.5	540.6	524.4	- 16.1	-3.0%
Securities	- 0.2	- 0.1	41.0	41.1	...
Other Assets and Contingencies	308.1	314.7	626.0	311.4	98.9%
= **Income before Taxes**	**- 993.6**	**- 993.6**	**-1 305.6**	**- 312.0**	**-31.4%**
- Corporate Income Tax	45.8	45.8	1.1	- 44.7	-97.6%
- Special Tax on Banks	27.1	27.1	32.8	5.7	20.9%
= **Income after Taxes**	**-1 066.5**	**-1 066.5**	**-1 339.4**	**- 272.9**	**-25.6%**
- Non-Controlling Interests	- 7.7	- 7.7	- 10.1	- 2.4	-31.6%
= **Net Income for the period**	**-1 058.8**	**-1 058.8**	**-1 329.3**	**- 270.5**	**-25.5%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The most relevant aspects of the combined activity during the year of 2020 include the following:

- Commercial banking income at €827.0mn, stable YoY with the increase in Net Interest Income (+8.3%), offsetting the decrease in Fees and commissions (-12.9%; given Covid-19 impact on the economy and client activity);
- Capital markets results at -€72.5mn, reflecting volatility in the financial and capital markets during 2020 and the results of the *Liability Management Exercise* (LME; -€27mn);
- The 2.4% YoY increase of Core operating income (commercial banking income – operating costs), backed by higher Net Interest Income (+8.3%) and lower Operating costs (-1.6%), reflecting the ongoing recalibration of the business model and optimisation of the corporate structure, leading to an improvement of Bank's efficiency ratios;
- The provision charge in the period, totalling €1,191.5mn, includes €268.8mn impact of the Covid-19 pandemic, €550.2mn from impairments and provisions, resulting mainly from higher impairment charges in Legacy assets, and the discontinuation of the business in Spain (€166.0mn).

Net Interest Income

The reduction in the average interest rate on assets of 5bps YoY (from 1.82% to 1.77%) was offset by the reduction of 14bps average interest rate on liabilities. That resulted in a net interest margin increase of 9bps YoY (from 1.32% to 1.41%).

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NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-19			31-Dec-20		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	40 344	1.82%	745	38 597	1.77%	694
Customer Loans	28 558	2.08%	601	24 939	2.13%	541
Corporate Lending	17 131	2.22%	385	13 624	2.42%	335
Mortgage Loans	9 860	1.27%	127	9 987	1.20%	122
Consumer Loans and Others	1 567	5.58%	89	1 328	6.24%	84
Money Market Placements	1 442	1.32%	19	2 993	0.54%	16
Securities and Other Assets	10 344	1.19%	125	10 665	1.26%	137
INTEREST EARNING ASSETS AND OTHER	**40 344**	**1.82%**	**745**	**38 597**	**1.77%**	**694**
INTEREST BEARING LIABILITIES	37 960	0.51%	196	36 782	0.35%	132
Customer Deposits	27 949	0.34%	97	25 787	0.27%	72
Money Market Funding	8 931	0.28%	25	9 913	-0.13%	- 13
Other Liabilities	1 080	6.68%	73	1 081	6.70%	74
OTHER NON-INTEREST BEARING LIABILITIES	2 383	-	-	1 815	-	-
INTEREST BEARING LIABILITIES AND OTHER	**40 344**	**0.48%**	**196**	**38 597**	**0.34%**	**132**
NIM / NII (without stage 3 impairment adjustment)		**1.34%**	**549**		**1.43%**	**562**
Stage 3 impairment			**- 9**			**- 6**
NIM / NII		**1.32%**	**541**		**1.41%**	**555**

The average rate on customer loans was 2.13%. The average balance of deposits was €25.8bn, with an average interest rate of 0.27%, and Money Market Funding was €9.9bn, with -0.13% average interest rate, benefiting in part from the conditions of the ECB long-term refinancing operations (TLTRO III).

The Group therefore continued to increase the spread between the rate on interest earning assets (1.77%; Dec.19: 1.82%) and the cost of liabilities (0.34%; Dec.19: 0.48%) with a positive impact on overall net interest margin (1.41%; Dec.2019: 1.32%).

Fees and Commissions

Fees and commissions on banking services contributed +€271.9mn which compares with +€312.3mn in 2019, -12.9% YoY given lower levels of transactions and banking activity in Portugal.

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FEES AND COMMISSIONS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Payments Management	117.2	115.6	108.5	-7.1	-6.1%
Commissions on Loans, Guarantees and Similar	107.8	102.6	86.3	-16.2	-15.8%
Asset Management and Bancassurance	71.5	65.4	61.5	-3.9	-6.0%
Advising, Servicing and Other	26.9	28.8	15.6	-13.2	-45.9%
TOTAL	**323.5**	**312.3**	**271.9**	**-40.4**	**-12.9%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Operating Costs

Operating costs reduced by -1.6% YoY, reflecting the continued optimisation and simplification of organisational structure and processes.

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OPERATING COSTS	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
							absolute	%
Staff Costs	303.5	275.7	266.1	265.4	246.4	245.6	- 0.8	-0.3%
General and Administrative Costs	231.4	215.4	199.0	179.5	161.9	153.2	- 8.8	-5.4%
Depreciation	56.1	58.1	22.1	33.7	30.3	33.1	2.7	9.0%
TOTAL	**590.9**	**549.2**	**487.3**	**478.5**	**438.7**	**431.8**	**- 6.8**	**-1.6%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

Staff costs totalled €245.6mn (-0.3% YoY). The significant reduction since Dec.16 (-19.1%) results from the continuous recalibration of the business model with the aim of increasing efficiency.

Compared to 2019, there was a headcount reduction of 287 employees (including the effect of the transfer of Spanish Branch to discontinued operations). As at 31 December 2020, NOVO BANCO Group had 4,582 employees (4,869 on 31 December 2019).

General and administrative costs decreased 5.4% YoY, to €153.2mn. This reduction also reflects the continued rationalisation and streamlining of the Bank's internal processes that allowed these costs to reduce by 33.8% in the last 5 years.

As at 31 December 2020 the branch network comprised 359 units (vs Dec.19: 387), of which 358 were in Portugal.

Impairments and Provisions

NOVO BANCO Group increased provisions by €1,191.5mn (+€336.3mn YoY), including a €268.8mn impact from Covid-19 (customer loans and securities; anticipating losses specifically related to the pandemic), €550.2mn from impairments and provisions resulting mainly from higher charges in Legacy assets, and the discontinuation of the business in Spain (€166.0mn).

The cost of risk was 208bps. Excluding the above-mentioned impairment related to the impact of Covid-19, the cost of risk in the period would have been 121bps.

mn€

NET IMPAIRMENTS AND PROVISIONS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	Change	
				absolute	%
Customer Loans	627.5	540.6	524.4	-16.1	-3.0%
Securities	-0.2	-0.1	41.0	41.1	...
Other Assets and Contingencies	308.1	314.7	626.0	311.4	98.9%
TOTAL	**935.4**	**855.1**	**1 191.5**	**336.3**	**39.3%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

CUSTOMER LOANS

NOVO BANCO's strategy is one of supporting the domestic business community combined with a robust 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.

mn€

CUSTOMER LOANS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	%
Loans to corporate customers	**15 232**	**13 921**	**13 873**	**- 47**	**-0.3%**
Loans to Individuals	**11 823**	**11 476**	**11 344**	**- 132**	**-1.2%**
Residential Mortgage	10 264	10 074	10 010	- 63	-0.6%
Other Loans	1 558	1 402	1 333	- 69	-4.9%
Customer Loans (gross)	**27 055**	**25 396**	**25 217**	**- 180**	**-0.7%**
Provisions	1 852	1 794	1 600	- 195	-10.8%
Customer Loans (net)	**25 202**	**23 602**	**23 617**	**15**	**0.1%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

NOVO BANCO’s commitment to support corporates and households resulted in the granting of €6.9bn of support moratoria, representing circa 27% of the gross loan book, along with €1.1bn of guaranteed credit lines granted to corporates, of which ~92% are already disbursed. The moratoria under the regulatory framework support more than 40,000 clients and represented ~33% of the corporate portfolio, ~20% of the mortgage book and ~16% of Other individual loans portfolio.

In December 2020, gross customer loans reached €25,217mn, showing a slight YoY decrease (-0.7%) entirely due to the evolution of the legacy loan book (-€672mn; -26.2% vs Dec.19). In the recurrent activity, loan volumes increased by 2.2%, propelled by the corporate portfolio of +5.0%.

The main credit risk indicators are shown below compared with December 2019:

mn€

ASSET QUALITY AND COVERAGE RATIOS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YtD Change	
				absolute	%
Overdue Loans > 90 days	1 083	1 005	610	- 395	-39.3%
Non-Performing Loans (NPL)[1]	3 430	3 312	2 498	- 814	-24.6%
Overdue Loans > 90 days / Customer Loans (gross)	4.0%	4.0%	2.4%	-1.5 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	11.8%	12.0%	8.9%	-3.2 p.p.	
Credit Provisions / Customer Loans	6.8%	7.1%	6.3%	-0.7 p.p.	
Coverage of Overdue Loans > 90 days	171.0%	178.6%	262.2%	83.6 p.p.	
Coverage of Non-Performing Loans [1]	56.2%	56.5%	74.1%	17.6 p.p.	

[1] Includes Deposits and Loans and advances to Banks and Customer Loans
* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

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 2.4% and 8.9%, respectively (versus 4.0% and 12.0% on Dec.19).

On 31 December 2020, the coverage of non-performing loans by impairments (including deposits with banks and loans and advances to banks) was 74.1% (+17.6 pp compared to Dec.19).

Provisions for credit amounted to €1.6bn, representing 6.3% of the total loan book.

SECURITIES

The securities portfolio, the main source of eligible assets for funding operations with the ECB, represented 25.6% of assets and totalled €11.4bn (-€0.6bn YoY). The YoY reduction is largely due to the de-risking strategy followed by the Bank as a result of the Covid-19 outbreak and the market disruption it caused at the time. The Bank's security portfolio remained mostly composed of high-quality liquid assets (HQLAs), and among these ~80% are public debt securities. As part of the de-risking strategy, in 2020, the Bank sold a portion of the longer dated sovereign bonds and partially replaced it with HQLA corporate bonds with a maturity up to 10 years.

net of impairment mn€

Securities portfolio	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD Change	
				absolute	relative
Portuguese sovereign debt	4 071	4 071	3 468	- 603	-14.8%
Other sovereign debt	3 750	3 716	3 710	- 7	-0.2%
Bonds	2 883	2 883	3 323	440	15.3%
Other	1 337	1 335	866	- 469	-35.2%
Total	**12 042**	**12 005**	**11 367**	**- 639**	**-5.3%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

LIQUIDITY & FUNDING

Total customer funds amounted to €31.7bn by 31 December 2020, showing a slight reduction of -0.3% comparing to 2019. However, deposits, which represent 82.4% of total funding, increased by 0.5% during the year.

mn€

TOTAL FUNDS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20	YTD change	
				absolute	%
Deposits	27 835	25 966	26 093	127	0.5%
Other Customer Funds (1)	566	566	229	- 336	-59.5%
Debt Securities (2)	708	708	558	- 149	-21.1%
Subordinated Debt	415	415	415	0	0.0%
Sub -Total	**29 523**	**27 654**	**27 296**	**- 359**	**-1.3%**
Off-Balance Sheet Funds	4 925	4 103	4 376	273	6.7%
Total Funds	**34 448**	**31 757**	**31 672**	**- 85**	**-0.3%**

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

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

(2) Includes funds associated to consolidated securitisation operations.

NOVO BANCO maintained a comfortable liquidity position in 2020 as shown by a Liquidity Coverage Ratio (LCR) of 144%, well above the regulatory requirement.

At the end of 2020, total customer deposits were about €26.1bn, remaining flat relative to the previous year. However, retail customer deposits increased by around €0.8bn, albeit in the context of falling interest rates. The Bank managed to maintain an unchanged share of customer deposits in its funding structure while achieving a relevant reduction in the associated cost.

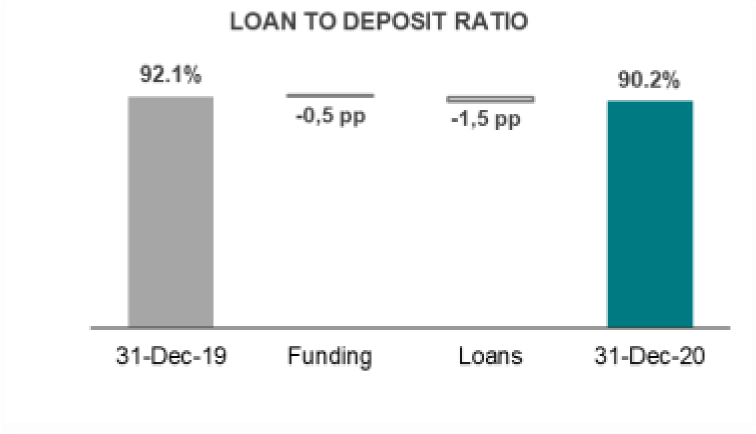
In terms of market funding, NOVO BANCO successfully concluded a tender offer launched in November for all the bonds issued by its subsidiary NB Finance, having acquired and repaid 97% of the total amount of these bonds. Besides its positive impact on net interest income in the coming years, this operation allowed the Bank to fulfil the commitment made to the European Commission.

Finally, two events with a very positive impact on liquidity should also be noted: (i) the measures adopted by the ECB as part of the fight against the crisis generated by the pandemic, namely the increase in the amount and maturity of medium-term financing under the TLTRO III line, and the reduction of its cost, and also the revision of haircuts and eligibility rules for assets eligible for rediscount with the ECB; and (ii) the Resolution's Fund €1.0bn capital injection in May, under the Contingent Capital Agreement. Both events allowed a significant reinforcement of the Bank's liquidity, as well as maintaining the stability of its funding structure.

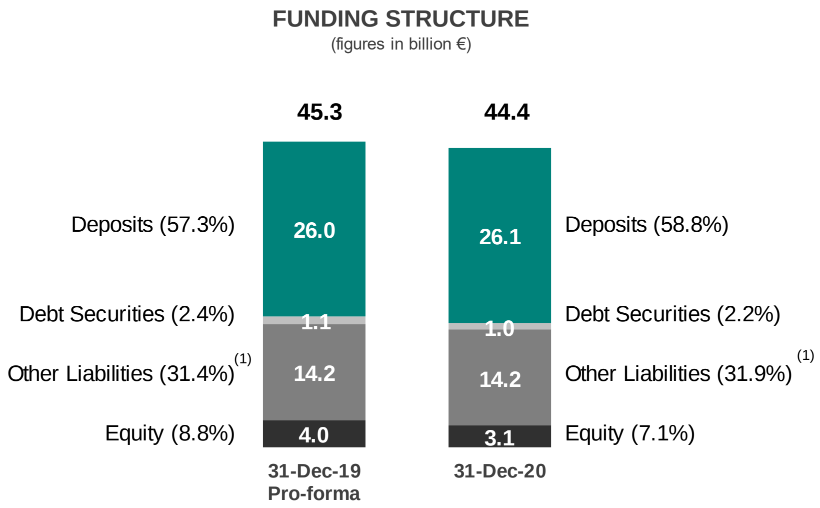
Therefore, as the deposits with the ECB exceeded NOVO BANCO's tiering, the Bank opted to reduce the very short-term collateralised interbank funding.

In terms of asset evolution, NOVO BANCO's securities portfolio was reduced by around €0.6bn compared to the end of 2019, essentially as a result of the de-risking strategy implemented upon the outbreak of the Covid-19 crisis. On the other hand, customer loans had a positive performance in 2020, driven in part by Covid-19 lines and moratoria, thus consuming part of the liquidity generated by the various measures described above.

Finally, the portfolio of eligible assets for rediscount with the ECB increased by €1.4bn, to €16.7bn (net of haircut) at the end of 2020, which compares with €15.3bn in 2019, to which add HQLAs non-eligible for ECB rediscount purposes. Hence at the end of the year the Bank maintained a liquidity buffer above €11.3bn, largely composed of highly liquid assets (83%).



Customer deposits remained the main source of balance sheet funding, accounting for 63.3% of total liabilities and 58.8% of total assets.



(1) Includes ECB funding

CAPITAL

NOVO BANCO's Common Equity Tier 1 (CET1) is protected at pre-established levels up to the amounts of losses already recorded on the assets protected by the Contingent Capital Agreement. The amount to be requested in 2020 (of €598.3mn), considers the losses incurred on the assets covered by the Contingent Capital Agreement, as well as the minimum capital condition applicable at the end of 2020 under the Contingent Capital Agreement.

As at 31 December 2020, the CET1 ratio was 11.3% and total solvency ratio was 13.3%, representing a decrease compared with 2019, due to the decrease in the minimum capital condition of the Contingent Capital Agreement.

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. Following these measures NOVO BANCO opted for the IFRS9 dynamic approach. 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 addition, the accounts contain an aggregate provision of €166mn in relation to the discontinuation of Spanish operations. As there is a potential for dispute between the parties and therefore potential barrier to immediate access of this amount, the Bank, as a matter of prudence, has deducted this amount from regulatory capital calculation.

mn€

CAPITAL RATIOS (CRD IV/CRR)		31-Dec-19 *(Phased-in)*	31-Dec-20 *(Phased-in)* [1]	31-Dec-20 *(fully loaded)* [1]
Risk Weighted Assets	(A)	29 579	26 719	26 411
Own Funds				
Common Equity Tier 1	(B)	3 996	3 029	2 638
Tier 1	(C)	3 998	3 030	2 638
Total Own Funds	(D)	4 475	3 541	3 150
Common Equity Tier 1 Ratio	(B/A)	13.5%	11.3%	10.0%
Tier 1 Ratio	(C/A)	13.5%	11.3%	10.0%
Solvency Ratio	(D/A)	15.1%	13.3%	11.9%
Leverage Ratio		8.4%	6.5%	5.7%

(1) Preliminary; Novo Banco and Fundo de Resolução have different positions regarding the implementation of IFRS9 from the phase-in to the fully-loaded regime, and so both parties have submitted the matter to arbitration, in accordance with the rules of the CCA, the impact of such implementation in the calculation of the amount due by Fundo de Resolução under the CCA for 2019 financial year.
It was further agreed that NB would not change the implementation of IFRS9 from the transitional arrangements to the full implementation, pending a settlement of the dispute.
In the event the arbitration decides in favor of NB, Fundo de Resolução shall pay an amount corresponding to the amount that would have been paid had NB implemented IFRS9 in full as of 31 December 2019, provided that the CCA cap is not exceeded. The arbitration proceeding is still pending, and the decision is expected in the 4Q2021.
Novo Banco requested the ECB's authorization to apply the transitional arrangements (IFRS 9 dynamic approach), subject to arbitration, in the context of Novo Banco and Fundo de Resolução having recognized another divergence regarding the application of such regime.

COMMERCIAL ACTIVITY

The global economy in 2020 was sharply affected by the Covid-19 pandemic which caused a deceleration of economic activity and in turn impacted the banking sector and slowed down its main business lines.

Portugal was not immune to Covid-19 pandemic. NOVO BANCO closely monitored Covid-19 impacts on its customer basis, particularly acute as from March 2020. Hence, through its swift and flexible response, the Bank put itself at the frontline and showed its availability to serve its clients in this challenging environment.

Corporate Banking

During 2020 NOVO BANCO maintained its role as a strategic partner of its corporate clients, at three key levels:

(i) providing financial support to small and medium-sized enterprises in the current Covid environment - by Dec-20 it had lent €1.1bn under Credit Lines with the Mutual Guarantee Societies, to more than 4,900 clients;

(ii) responding to requests for moratoria on loans which to date reach approximately 7,700 corporate clients and total €4.6bn;

(iii) maintaining its focus on the digital transformation of processes, investing in remote relationship and signature tools to continue to address the needs of its clients quickly but in compliance with the social distancing restrictions imposed by Covid.

NOVO BANCO continues to be a leading Bank in the corporate sector and to stay closed to the community.

Therefore, in 2020 NOVO BANCO continued to promote and/or participate in several initiatives, aiming at the joint search for solutions and the promotion of outstanding economic sectors, regions and companies that can be set as a reference for the remaining national business community. From this set of initiatives, the following stand out:

- Regional and Sector-specific Events "Portugal que Faz" (“Portugal that Does”), an initiative under a partnership with Global Media, aimed at giving voice to the Business Associations representing the Portuguese business fabric, by identifying companies’ needs across the board and discussing the necessary solutions to achieve a future of overcoming and resilience;
- PME Líder: Developed in partnership with Exame magazine, it aims to foster the role of SMEs in the Portuguese business fabric. In 2020 the newsletters and webinars focused, among others, on security inside and outside organisations, the acceleration of digital transformation and increasing competitiveness, the ability to adapt to new business models, the change of production processes, and financial aid;
- Exports and Internationalisation: *Portugal Exportador*, in partnership with the AIP Foundation and AICEP Portugal Global, is considered the biggest event for the promotion of exports and internationalisation.

Retail Banking

During 2020, NOVO BANCO remained open and available to serve its clients, and its response included, among others, the opening of branches and incentives and training on the use of remote and digital channels. The Bank also supported its clients by setting in motion and making available credit lines to assist companies affected by the crisis, and taking part in the banking sector's global solution to help families in difficulties due to the pandemic (Moratoria on Mortgage Loans and Personal Loans).

The following should thus be stressed in terms of the offer:

- The performance in the various lending components, which, after some months of slowdown, consolidated a recovery trajectory. Notwithstanding the economic downturn in the last quarter of 2020, Mortgage Loans production exceeded that of the third quarter, surpassing the established targets;

- Production in the Non-Financial Offer, through which the Bank regularly launches thematic products, was significantly higher than in the previous year;
- Investment Advisory Service for NB360º clients, which provides the most adequate investment propositions to fit the profile of each client;
- Process flexibility and digitisation to mitigate the impact of the pandemic on normal commercial activity, namely with regard to the remote subscription/ formalisation of contracts, proved to be an added value;
- Redefinition of the risk insurance offer, including the launch of Life Insurance for young adults, who require protection appropriate to their age and lifestyle, and Insurance for older adults, with a significant increase in coverage for disability, and an expansion of the array of protection for Serious Illnesses;
- Redefinition of the Service-account offer, reflecting sustainability concerns. In the new Service-account products, the Bank offsets the non-avoided CO2 emissions of all the users of these accounts, making them carbon neutral;
- Regular launch of ESG (Environmental, Social and Governance) Structured Deposits, which remuneration is linked to the share performance of companies that stand out for their capacity to lead social and governance changes and change in environmental criteria.

NB DIGITAL

NOVO BANCO's Digital Transformation emerges from a context of fast-expanding and increasingly intense digital disruption, with ever higher customer expectations. In 2020 the Bank set as a priority the need to address issues created by the Covid-19 pandemic. With the Covid related restrictions on mobility and economic impacts, new opportunities arose to better serve the clients, meet their needs and cement the commercial relationship.

The Bank thus started to provide a set of structural developments:

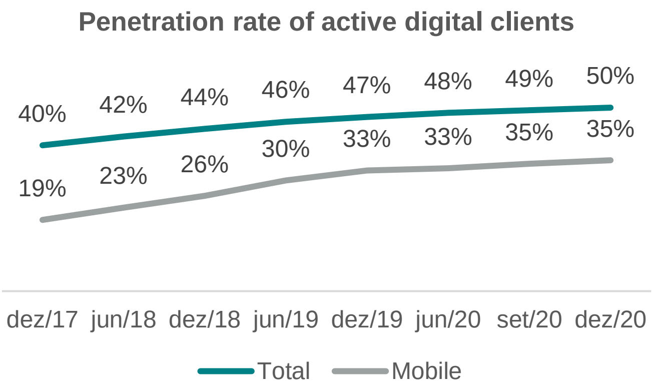
- Onboarding: Account opening remote solutions, using the Digital Mobile Key or by Video Call, offering a complete, fast, intelligent, more efficient, and entirely digital onboarding experience. This solution earned international recognition through an honourable mention in the Banking Tech Awards, on top of the accolades already received in 2019 (in Exame informática's Portugal Digital Awards);
- NB smarter: Launch of a new app for Individual Clients, with a completely renewed design and customer experience, adaptable and customisable, inclusive and predictive (based on *data science*) and offering a wide range of services and solutions, including the aggregation of accounts with other Banks;
- Homebuying: Reinvention of the home buying experience, from simulation to title deed. Now with a new branch platform that completes the omnichannel experience, it offers a simpler, faster and more transparent process;
- Phygital: Improving the customer experience through mobility and sharing, while enabling a remote but close relationship with the Bank. The aim is to streamline processes by means of digital signatures with a validation code and handwritten electronic signature, strengthening relationships of transparency and the adoption of digital processes that foster a paperless culture;
- NBnetwork+: Digital financial management solution for companies, pioneering in Portugal, that allows a combined view of all their Bank accounts, permits to initiate payments and whose functionalities improve companies' operating efficiency. This solution is also backed by a strong analytical and predictive component that brings value for the clients. Winner in the 'Best Banking Project' category of the 2020 edition of the Portugal Digital Awards;
- Small Business Finance: Digital solution for loans to small businesses: automated and integrated access to credit through the NBnetwork digital channel. Totally secure, with no need to deliver any documentation

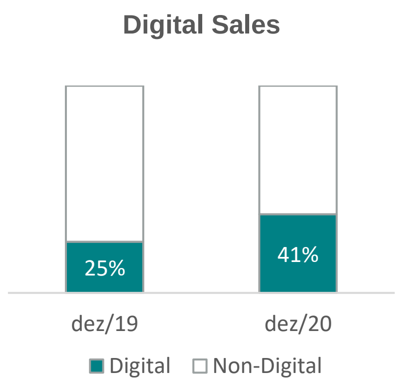
or go to the branch, and with funds made available in less than 48 hours. This solution received an honourable mention in the Banking Tech Awards 2020.

In 2020 the digital activity of NOVO BANCO's Clients maintained a steady growth pace, with the digital Clients' penetration rate reaching 48% in Individual Clients, 79% in Corporate Clients, and 69% in Small Business Clients. The penetration rate, which had been increasing since February, i.e., from the start of the pandemic, has maintained a rising trend, particularly in the Individual Clients segment, where mobile banking has been acting as a strong lever. Mobile banking penetration in the Individual Clients segment reached 35% (+3pp YoY).

The number of active digital Clients reached 600 thousand (+4% YoY), of whom 388 thousand were active on the NB smart app (+9% YoY).

The share of sales through the digital channels in total sales, measured by the number of products subscribed, therefore increased (+16 pp), highlighting the growing importance of this channel in the relationship with the clients.





The number of accesses to the Bank via the digital channels has continued to show a strong increase (+15% in logins volume), strongly underpinned by the number of accesses via the mobile channels (+22% in logins volume). At present, 55% of individual clients' contacts with Novo Banco are Mobile (+11 pp YoY). The digital channels, strongly driven by mobile, thus prove to be the point of relationship *par excellence* with the client, backing the adoption of a "mobile digital first" strategy.

ECONOMIC ENVIRONMENT

2020 was inexorably marked by the Covid-19 pandemic. Economic activity was severely affected by the containment and mitigation measures adopted in most countries - which included periods of mandatory lockdown and restrictions on production in several industry sectors -, as well as by fears of contagion and of unknown impacts on the economy (e.g. unemployment), postponing household consumption decisions. The high level of uncertainty in turn penalised companies' productive investment. In this context, international trade flows fell by 6.5% in 2020, with a 17.6% YoY downfall in May.

The world economy contracted by 3.5% in the year, with GDP falling by 4.9% in the advanced economies and by 2.4% in the emerging economies. In the Eurozone, where restrictions to activity were more prolonged and severe, the economy shrank by 6.6%. Unemployment rose from 7.4% to 8.3% of the labour force, being assuaged by the employment and income protection public policies implemented in the various countries. The number of hours worked, however, actually slumped by close to 15% YoY in 2Q20, with the first period of confinement.

In Portugal GDP fell by 7.6% in the year. This is broadly the cumulative contraction suffered by the Portuguese GDP between 2009 and 2013, during the sovereign debt crisis. Although Covid-19's reach was by nature widespread and global, its economic impacts across countries, industry sectors, and groups within each economy were asymmetrical, spawning increased inequality. In the Eurozone the peripheral economies were more affected than the core economies. This is because they were more exposed to the tourism and hospitality services industries, which were particularly penalised by the pandemic, and also due to their weaker budgetary capacity to allay the effects of the crisis.

The adverse effects of the pandemic were mitigated by several stabilisation measures, including, among others, employment and income protection schemes (such as simplified layoff and support for the gradual resumption of business activity), State guarantees for loans taken by companies of up to €13bn (or 6.8% of GDP), mainly operated by the banking sector, and the deferral of taxes and social contributions (for an estimated €7.9bn, or 3.7% of GDP). A moratoria scheme for loans to companies and individuals affected by the pandemic was approved, which reached 21.5% of total loans. And certain regulatory and macro-prudential requirements imposed on the banking sector were temporarily relaxed.

Together, these measures definitely limited the negative impacts of Covid-19 on the labour and housing markets. The average unemployment rate rose from 6.5% to 6.8% of the labour force, even if at some point the number of hours worked in industry and services fell by as low as 25% to 30% YoY. Home prices also proved resilient, decelerating from 10.3% to 7.1% YoY between 1Q20 and 3Q20. In this context, the banking sector's NPL ratio prolonged in 2020 the downward trend of recent years, falling from 6.2% to 5.3% between the end of 2019 and 3Q20. The budgetary support measures and the activity downturn pushed up the budget and public debt deficits to around 7.3% and 136% of GDP respectively.

In response to the deterioration of activity caused by the pandemic, the main Central Banks intensified the expansionary stance of monetary policy in 2020. In the Eurozone, the ECB maintained the key rates unchanged (refinancing rate at 0% and deposit facility rate at -0.5%), but significantly increased its purchases of debt securities, creating new programmes (PEPP, PELTRO), reinforcing those already in place (PSPP), and easing restrictions on the purchase of debt from the peripheral economies. The ECB balance sheet expanded from €4.7tn to close to €7tn in the year. The strong monetary stimuli averted liquidity constraints during the Covid-19 crisis by maintaining favourable financing conditions, particularly in the peripheral economies most affected by the pandemic.

This stance of the Central Banks was made possible by the persistence of low levels of inflation. In the Eurozone year-on-year inflation slid from 1.4% to -0.3% in 2020, entering negative ground as from August. In addition to falling economic activity and cuts to indirect taxes, the decline in oil prices (by an annual average of -32.5% for Brent) also pressured down inflation.

Fiscal policy also took on a strongly expansionary stance in the main economies. In the Eurozone, where fiscal support included employment protection measures, tax cuts or deferrals, subsidies to companies, and, at another level, State guarantees to loans, the combined public deficit surged from 0.6% to 10.1% of GDP. The EU approved a Recovery Fund (Next Generation EU) with an estimated allocation of €750bn, in part funded by common debt issues, including more than €312bn in outright grants.

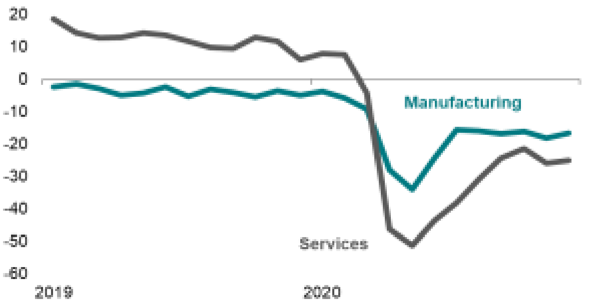
The retrenchment of inflation and inflationary expectations, combined with the ECB's expansionary stance, pushed the 3-month Euribor from an annual high of -0.16% in April down to -0.545% at the end of the year. Following a period of high volatility between March and June, the yield on the 10-year Bund went on a downward slide, to close the year at -0.569%. The spread on the 10-year PGB remained tight, closing the year at 60 bps (vs. 63 bps at the start of the year and 134 bps at the end of 1Q20). Portuguese debt benefited from a relatively favourable external perception of the Portuguese economy, from the ECB's purchase of Portuguese debt, and from the optimism generated around the announcement of the European Recovery Fund.

This context of ample liquidity, aggressive fiscal stimuli, and, in the context of a more digital economy, the attractiveness of the technology industry, drove a strong rally in the stock market, from its lows in March. The S&P 500 and Euro Stoxx 600 climbed by 67.9% and 42.7% respectively, after hitting those lows. In the full year, the S&P 500 gained 16.3%, while the Euro Stoxx 600 fell 4%. The Nasdaq went up by 87.9% since its low in March and by 43.6% in the full year. An environment of risk propensity in financial markets and the more accommodative posture of the Federal Reserve penalised the dollar, which retreated by 7% in real terms. Against the US currency, the euro advanced by 8.8%, to €/US$ 1.222.

Market Performance

Equity Market	YTD	
Dow Jones	7.3	
S&P 500	16.3	
Nasdaq	46.3	
Euro Stoxx 600	-4.0	
IBEX	-15.5	
PSI 20	-6.1	
Sovereign Bonds (Yield %)	**2 yrs**	**10 yrs**
Portugal	-0.73	0.03
Germany	-0.70	-0.57
United States	0.12	0.91
Sovereign Bonds (Performance bps)	**2 yrs**	**10 yrs**
Portugal	-18	-41
Germany	-10	-38
United States	-145	-101

Portugal - Confidence Indicator (s.r.e.)



SUBSEQUENT EVENTS AND MOST RELEVANT EVENTS

- On March 5 2021, NOVO BANCO informed that, following a competitive bid process, it had signed a Sale and Purchase Agreement with BURLINGTON LOAN MANAGEMENT DAC, a company affiliated with, and advised by, DAVIDSON KEMPNER EUROPEAN PARTNERS, LLP, for the sale of a portfolio of non-performing loans and related exposures (also known as Project Wilkinson) with an outstanding balance amount of €216.3mn (still being subject to perimeter adjustments usual in transactions of this nature). The portfolio sale price totalled €67.5mn, and the completion of the transaction on the agreed terms is expected to have a marginally positive impact on NOVO BANCO's capital and its 2021 income statement.

MAIN HIGHLIGHTS	31-Dec-19	31-Dec-19 Pro-forma* (exc. Spain)	31-Dec-20
ACTIVITY (mn€)			
Net Assets	45 296	45 296	44 396
Customer Loans (gross)	27 055	25 396	25 217
Customer Deposits	27 835	25 966	26 093
Equity	4 003	4 003	3 147
SOLVENCY			
Common EquityTier I / Risk Weighted Assets (3)	13.5%	13.5%	11.3%
Tier I / Risk Weighted Assets (3)	13.5%	13.5%	11.3%
Total Capital / Risk Weighted Assets (3)	15.1%	15.1%	13.3%
LIQUIDITY (mn€)			
European Central Bank Funding (2)	4 714	4 714	4 740
Eligible Assets for Repo Operations (ECB and others), net of haircut	15 253	15 253	16 684
(Total Credit - Credit Provision) / Customer Deposits (1)	92%	92%	90%
Liquidity Coverage Ratio (LCR)	143%	143%	144%
Net Stable Funding Ratio (NSFR)	101%	101%	113%
ASSET QUALITY			
Overdue Loans > 90 days / Customer Loans (gross)	4.0%	4.0%	2.4%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	11.8%	12.0%	8.9%
Credit Provision / Overdue Loans > 90 days	171.0%	178.6%	262.2%
Credit Provision / Customer Loans (gross)	6.8%	7.1%	6.3%
Cost of Risk	2.32%	2.13%	2.08%
PROFITABILITY			
Net Income for the Period (mn€)	-1058.8	-1058.8	-1329.3
Income before Taxes and Non-controlling interests / Average Net Assets (1)	-2.1%	-2.1%	-2.9%
Banking Income / Average Net Assets (1)	0.9%	0.6%	1.4%
Income before Taxes and Non-controlling interests / Average Equity (1)	-22.3%	-22.3%	-32.0%
EFFICIENCY			
Operating Costs / Banking Income (1)	113.8%	156.1%	69.9%
Staff Costs / Banking Income (1)	63.1%	87.7%	39.7%
EMPLOYEES (No.)			
Total	4 869	4 671	4 582
- Domestic	4 648	4 648	4 560
- International	221	23	22
BRANCH NETWORK (No.)			
Total	387	376	359
- Domestic	375	375	358
- International	12	1	1

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

(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

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2020 AND 2019

thousands of Euros

	31.12.2020	31.12.2019
Interest Income	743 707	753 087
Interest Expenses	(188 573)	(212 474)
Net Interest Income	**555 134**	**540 613**
Dividend income	16 478	9 909
Fee and comission income	313 823	367 400
Fee and comission expenses	(47 305)	(53 456)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	88 472	61 554
Gains or losses on financial assets and liabilities held for trading	(91 611)	(59 223)
Gains or losses on financial assets mandatorily at fair value through profit or loss	(364 000)	(253 720)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	-	4
Gains or losses from hedge accounting	(11 641)	(1 740)
Exchange differences	(2 414)	38 829
Gains or losses on derecognition of non-financial assets	(3 416)	3 954
Other operating income	120 732	139 802
Other operating expenses	(230 294)	(368 592)
Operating Income	**343 958**	**425 334**
Administrative expenses	(398 769)	(444 840)
Staff expenses	*(245 606)*	*(265 350)*
Other administrative expenses	*(153 163)*	*(179 490)*
Cash contributions to resolution funds and deposit guarantee schemes	*(35 048)*	*(34 707)*
Depreciation	*(33 072)*	*(33 664)*
Provisions or reversal of provisions	*(186 423)*	*(21 297)*
Commitments and guarantees given	*(22 116)*	*60 776*
Other provisions	*(164 307)*	*(82 073)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	*(755 070)*	*(627 294)*
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	*(4 192)*	*333*
Impairment or reversal of impairment on non-financial assets	*(245 778)*	*(287 159)*
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	9 430	1 470
Profit or loss before tax from continuing operations	**(1 304 964)**	**(1 021 824)**
Tax expense or income related to profit or loss from continuing operations	(1 082)	(45 769)
Current tax	8 639	(8 804)
Deferred tax	*(9 721)*	*(36 965)*
Profit or loss after tax from continuing operations	**(1 306 046)**	**(1 067 593)**
Profit or loss from discontinued operations	(33 345)	1 128
Profit or loss for the period	**(1 339 391)**	**(1 066 465)**
Attributable to Shareholders of the parent	**(1 329 317)**	**(1 058 812)**
Attributable to non-controlling interests	(10 074)	(7 653)
	(1 339 391)	**(1 066 465)**

The Certificated Accountant

Executive Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2020 AND 2019

thousands of Euros

	31.12.2020	31.12.2019
ASSETS		
Cash, cash balances at central banks and other demand deposits	2 695 459	1 854 081
Financial assets held for trading	655 273	748 732
Financial assets mandatorily at fair value through profit or loss	960 962	1 314 742
Financial assets at fair value through other comprehensive income	7 907 587	8 849 896
Financial assets at amortised cost	25 898 046	27 141 460
Securities	2 229 947	1 622 545
Loans and advances to banks	113 795	369 228
Loans and advances to customers	23 554 304	25 149 687
Derivatives – Hedge accounting	12 972	7 452
Fair value changes of the hedged items in portfolio hedge of interest rate risk	63 859	52 540
Investments in subsidiaries, joint ventures and associates	93 630	92 628
Tangible assets	779 657	889 152
Tangible fixed assets	187 052	188 408
Investment properties	592 605	700 744
Intangible assets	48 833	26 378
Tax assets	775 498	900 095
Current Tax Assets	610	1 628
Deferred Tax Assets	774 888	898 467
Other assets	2 944 292	3 378 492
Non-current assets and disposal groups classified as held for sale	1 559 518	40 255
TOTAL ASSETS	**44 395 586**	**45 295 903**
LIABILITIES		
Financial liabilities held for trading	554 791	544 825
Financial liabilities designated at fair value through profit or loss	-	102 012
Financial liabilities measured at amortised cost	37 808 767	39 673 649
Deposits from central banks and other banks	10 102 896	9 849 623
Due to customers	26 322 060	28 400 127
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 017 928	1 065 211
Other financial liabilities	365 883	358 688
Derivatives – Hedge accounting	72 543	58 855
Provisions	384 382	307 817
Tax liabilities	14 324	17 980
Current Tax liabilities	9 203	11 873
Deferred Tax liabilities	5 121	6 107
Other liabilities	417 762	586 066
Liabilities included in disposal groups classified as held for sale	1 996 382	1 942
TOTAL LIABILITIES	**41 248 951**	**41 293 146**
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(823 420)	(702 311)
Retained earnings	(7 202 828)	(6 115 245)
Other reserves	6 570 153	5 942 501
Profit or loss attributable to Shareholders of the parent	(1 329 317)	(1 058 812)
Minority interests (Non-controlling interests)	32 047	36 624
TOTAL EQUITY	**3 146 635**	**4 002 757**
TOTAL LIABILITIES AND EQUITY	**44 395 586**	**45 295 903**

The Certificated Accountant

Executive Board of Directors

GLOSSARY

Income Statement

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

Balance Sheet / Liquidity

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

Asset Quality and Coverage Ratios

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

GLOSSARY

Efficiency and Profitability Ratios

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

€mn: million euros

€bn: billion euros

pp: percentage points

bps: basis points

QoQ: quarter-on-quarter

YoY: year-on-year