GROUP ACTIVITY AND RESULTS
FIRST QUARTER 2021
PRESS RELEASE

Lisbon, 31 May 2021

(unaudited financial information)

HIGHLIGHTS

FIRST QUARTER OF POSITIVE PROFITABILITY

- **NOVO BANCO announces net profit of €70.7mn** in the first quarter of 2021 (vs -€179.1mn in 1Q20) with the conclusion of the restructuring plan in 2020 leading to a turn-around in profitability, despite the current pandemic;
- **Net interest income increased 12.0% YoY,** contributing to an improvement in commercial banking income (1Q21: €208.5mn; +5.3% vs 1Q20), as a result of the measures to reduce average deposit rates, lower cost of long-term financing and maintaining pricing discipline;
- **The Bank's core operating income** (commercial banking income - operating costs) **increased to €105.8mn** (+17.8%; +€16.0mn YoY), driven by improved commercial banking income and lower operating costs (-5.1%; -€5.5mn YoY);
- **Cost to Income**, excluding markets and other operating results, maintained its trajectory of improvement reaching **49.3%** in the period (FY20: 52.2%; 1Q20: 54.7%);
- **Impairments for credit totalled €54.9mn**, including €21.8mn impairments for Covid-19 related risks, a YoY reduction of -60.5% or -€84.0mn;
- **The cost of risk**, excluding the impairments related with Covid-19 accounted in the quarter, **was 53bp.**

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 books;
- Total customer funds increased by €356mn (+1.1% YTD), **with customer deposits increasing by 0.5% (€141mn),** reflecting the continued confidence of clients in NOVO BANCO;
- Growth in the digital segment with **51% of active digital customers (+5% YoY)** and a significant increase in product units sold in digital, reaching 9% share of digital sales (excluding deposits);
- **Continued reduction of the non-performing loans (NPL) ratio to 8.0% (Dec/20: 8.9%),** as a result of Project Wilkinson signed in 1Q21, while **increasing a coverage ratio of 77.0%** (Dec/20: 74.1%), demonstrating the continued de-risking of the balance sheet and efforts to match the European average ratio in the medium-term.

STABLE CAPITAL RATIOS AND LIQUIDITY RATIO

- The Bank is well positioned to support retail and corporate customers, with CET 1 ratio at 11.3% (total solvency ratio at 13.3%), liquidity ratio (LCR) of 140% and NSFR of 111%.

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, 1Q20 is presented pro-forma.*
- *With the completion of the restructuring process in 2020, the 1Q21 results are disclosed only in a consolidated format.*

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NOVO BANCO GROUP RESULTS

In the first quarter of 2021, NOVO BANCO reached a positive net income of €70.7mn, representing a turn-around of profitability driven by the conclusion of the restructuring process in 2020. The bottom-line performance was supported by an increase in net interest income of +12.0% (+€15.6mn YoY; offsetting the lower commissioning), positive capital markets results (€52.8mn), the reduction in operating costs (-5.1% or -€5.5mn YoY) and lower credit impairments (-€84.0mn YoY).

Excluding the capital markets results (€52.8mn) and the additional impairments (€21.8mn) accounted in the quarter related to Covid-19, the net profit of the period was +€39.6mn.

mn€

	INCOME STATEMENT	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Mar-21	Change	
					absolute	%
	Net Interest Income	137.4	130.2	145.7	15.6	12.0%
+	Fees and Commissions	70.5	67.9	62.8	- 5.1	-7.5%
=	**Commercial Banking Income**	**207.9**	**198.0**	**208.5**	**10.5**	**5.3%**
+	Capital Markets Results	- 93.6	- 94.1	52.8	146.9	...
+	Other Operating Results	2.1	2.5	12.2	9.7	...
=	**Banking Income**	**116.4**	**106.5**	**273.5**	**167.0**	**...**
-	Operating Costs	115.8	108.3	102.7	- 5.5	-5.1%
=	**Net Operating Income**	**0.6**	**- 1.7**	**170.8**	**172.5**	**...**
-	**Net Impairments and Provisions**	**151.5**	**149.1**	**61.8**	**- 87.3**	**-58.6%**
	Credit	141.7	138.8	54.9	- 84.0	-60.5%
	Securities	2.1	2.1	0.9	- 1.2	-58.3%
	Other Assets and Contingencies	7.7	8.2	6.0	- 2.2	-26.2%
=	**Income before Taxes**	**- 150.9**	**- 150.9**	**109.0**	**259.9**	**...**
-	Corporate Income Tax	0.5	0.6	4.2	3.6	...
-	Special Tax on Banks	27.5	27.5	32.8	5.2	19.0%
=	**Income after Taxes**	**- 179.0**	**- 179.0**	**72.0**	**251.0**	**...**
-	Non-Controlling Interests	0.1	0.1	1.3	1.2	...
=	**Net Income for the period**	**- 179.1**	**- 179.1**	**70.7**	**249.8**	**...**

* 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 activity in the period include the following:

- Positive evolution of commercial banking income, which amounted to €208.5mn (+5.3%; +€10.5mn YoY), driven by net interest income increase of +€15.6mn (or +12.0%), despite the decrease in fees and commissions (-7.5% or -€5.1mn), as a result of the pandemic impact on the economic activity;
- Capital markets results were positive by €52.8mn. The Bank actively manages its public and corporate HQLA debt securities using hedging instruments. The fair value reserves were €317mn as at 31 March 2021. The hedging gains of €27.4mn partially offset the reduction in fair value reserves in the period;
- Operating costs are lower YoY (-5.1%; -€5.5mn), standing at €102.7mn, 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 resulting in an improvement of the Bank's efficiency ratios;
- In the first quarter of 2021 the amount allocated to provisions totalled €61.8mn (including €21.8mn additional impairment within the scope of Covid-19), representing a YoY reduction of -€87.3mn (or -58.6%).

Net Interest Income

Net interest income shows a YoY increase of 15 bp (from 1.34% to 1.49%), benefitting from 26 bp reduction of the average liability rate, with a stable asset pricing.

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NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Mar-20			2020			31-Mar-21		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	40 620	1.80%	185	38 597	1.77%	694	39 149	1.68%	164
Customer Loans	26 956	2.13%	145	24 939	2.13%	541	25 092	2.05%	129
Mortgage Loans	*10 252*	*1.22%*	*32*	*9 987*	*1.20%*	*122*	*9 963*	*1.10%*	*27*
Consumer Loans and Others	*1 559*	*5.80%*	*23*	*1 328*	*6.24%*	*84*	*1 340*	*5.86%*	*20*
Corporate Lending	*15 144*	*2.36%*	*90*	*13 624*	*2.42%*	*335*	*13 789*	*2.37%*	*82*
Money Market Placements	2 792	0.69%	5	2 993	0.54%	16	3 467	0.24%	2
Securities and Other Assets	10 872	1.27%	35	10 665	1.26%	137	10 589	1.25%	33
INTEREST EARNING ASSETS AND OTHER	**40 620**	**1.80%**	**185**	**38 597**	**1.77%**	**694**	**39 149**	**1.68%**	**164**
INTEREST BEARING LIABILITIES	39 739	0.45%	45	36 782	0.35%	132	37 585	0.19%	18
Customer Deposits	28 495	0.28%	20	25 787	0.27%	72	26 302	0.20%	13
Money Market Funding	10 151	0.24%	6	9 913	-0.13%	- 13	10 335	-0.12%	- 12
Other Liabilities	1 093	6.62%	18	1 081	6.70%	74	947	7.01%	17
OTHER NON-INTEREST BEARING LIABILITIES	881	-	-	1 815	-	-	1 564	-	-
INTEREST BEARING LIABILITIES AND OTHER	**40 620**	**0.44%**	**45**	**38 597**	**0.34%**	**132**	**39 149**	**0.18%**	**18**
NIM / NII (without stage 3 impairment adjustment)		**1.36%**	**140**		**1.43%**	**562**		**1.50%**	**146**
Stage 3 impairment			**- 2**			**- 6**			**- 1**
NIM / NII		**1.34%**	**137**		**1.41%**	**555**		**1.49%**	**146**

The average rate on customer loans was 2.05%, lower YoY (-7bps) given, in equal parts, the different weight of each segment (portfolio effect) and the competitive environment (rate effect). The lower YoY average balance reflects mainly the discontinuation of Spanish operations and the sale of the Wilkinson portfolio, with the loan portfolio broadly stable on an adjusted basis.

The average balance of deposits was €26.3bn, with an average interest rate of 0.20%, and Money Market Funding was €10.3bn, with -0.12% average interest rate, benefiting in part from the conditions of the ECB long-term refinancing operations (TLTRO III of €7.0bn).

The Group therefore continued to increase the spread between the rate on interest earning assets (1.68%; 1Q20: 1.80%) and the cost of liabilities (0.18%; 1Q20: 0.44%) with a positive impact on overall net interest margin (1.49%; 1Q20: 1.34%).

Fees and Commissions

Fees and commissions on banking services totalled €62.8mn, which compares with €67.9mn in 1Q20 (-7.5% YoY).

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FEES AND COMMISSIONS	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Mar-21	Change	
				absolute	%
Payments Management	27.5	27.1	25.3	-1.9	-6.8%
Commissions on Loans, Guarantees and Similar	23.3	22.1	19.5	-2.6	-11.8%
Asset Management and Bancassurance	17.0	15.7	15.1	-0.6	-3.8%
Advising, Servicing and Other	2.5	3.0	3.0	0.0	-1.4%
TOTAL	**70.5**	**67.9**	**62.8**	**-5.1**	**-7.5%**

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

In this period, fees and commissions decreased, reflecting the lower number of transactions and lower banking economic activity in Portugal, as a consequence of the current pandemic situation.

Capital Markets and Other Operating Results

The results of financial operations were positive by €52.8mn.

The Bank actively manages its public and corporate HQLA debt securities using hedging instruments. The fair value reserves were €317mn as at 31 March 2021. The hedging gains of €27.4mn partially offset the reduction in fair value reserves in the period.

Operating Costs

Operating costs decreased -5.1% YoY, reflecting the continued optimisation and simplification of organisational structure and processes, alongside investment in the future of the business.

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OPERATING COSTS	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Mar-21	YTD Change	
								absolute	%
Staff Costs	81,4	71,8	65,9	66,2	65,4	61,4	58,7	- 2,7	-4,4%
General and Administrative Costs	58,7	52,4	50,2	45,6	41,8	38,9	35,9	- 3,0	-7,8%
Depreciation	15,1	11,0	5,8	8,5	8,6	7,9	8,1	0,2	3,0%
TOTAL	**155,2**	**135,2**	**121,9**	**120,3**	**115,8**	**108,3**	**102,7**	**- 5,5**	**-5,1%**

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

Staff costs totalled €58.7mn (-4.4% YoY), maintaining the downward trend accounted in recent years, and as a result of the continuous recalibration of the business model towards increased efficiency. As of 31 March 2021, NOVO BANCO Group had 4,557 employees (4,582 on 31 December 2020; -25 YTD).

In the period, general administrative costs decreased 7.8% YoY, to €35.9mn, due a widespread effort to reduce operating costs, alongside investment in the future of the business.

The number of branches as of 31 March 2021 was 357 (Dec/20: 359).

Impairments and Provisions

In the first quarter of 2021, NOVO BANCO Group recorded an increase in provisions in the amount of €61.8mn (including €21.8mn additional impairment within the scope of Covid-19), a reduction compared to the same period of the previous year (-58.6%).

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NET IMPAIRMENTS AND PROVISIONS	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Mar-21	Change	
				absolute	%
Customer Loans	141.7	138.8	54.9	-84.0	-60.5%
Securities	2.1	2.1	0.9	-1.2	-58.3%
Other Assets and Contingencies	7.7	8.2	6.0	- 2.2	-26.2%
TOTAL	**151.5**	**149.1**	**61.8**	**- 87.3**	**-58.6%**

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

The cost of risk reached 88bps, due to the impact of the Covid-19 pandemic which resulted in additional credit impairments of €21.8mn. Without this effect, the cost of risk was 53bps.

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.

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CUSTOMER LOANS	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Dec-20	31-Mar-21	YTD Change	
					absolute	%
Loans to corporate customers	**15 169**	**13 743**	**13 873**	**13 657**	**- 216**	**-1.6%**
Loans to Individuals	**11 754**	**11 431**	**11 344**	**11 295**	**- 49**	**-0.4%**
Residential Mortgage	10 256	10 071	10 010	9 959	- 51	-0.5%
Other Loans	1 498	1 360	1 333	1 335	2	0.1%
Customer Loans (gross)	**26 923**	**25 175**	**25 217**	**24 952**	**- 265**	**-1.1%**
Provisions	1 850	1 795	1 600	1 492	- 108	-6.7%
Customer Loans (net)	**25 073**	**23 380**	**23 617**	**23 460**	**- 157**	**-0.7%**

* 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 €6.6bn of support moratoria, representing circa 27% of the gross loan book, along with €1.1bn of guaranteed credit lines granted to corporates, of which ~93% are already disbursed. The moratoria under the regulatory framework support more than 39,000 clients and represented ~32% of the corporate portfolio, ~20% of the mortgage book and ~15% of Other individual loans portfolio.

Loans to customers (gross) totalled €24,952mn, with the YTD evolution (-1.1%) influenced by the execution of the strategy to reduce the stock of non-performing loans (NPLs). In the period, NOVO BANCO sold a portfolio of non-performing loans and related assets (Project Wilkinson) with a gross value of €210.4mn.

The main credit risk indicators presented the following evolution from December 2020:

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ASSET QUALITY AND COVERAGE RATIOS	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Dec-20	31-Mar-21	YtD Change	
					absolute	%
Overdue Loans > 90 days	1 042	967	610	609	- 1	-0.1%
Non-Performing Loans (NPL)[1]	3 268	3 162	2 498	2 279	- 219	-8.8%
Overdue Loans > 90 days / Customer Loans (gross)	3.9%	3.8%	2.4%	2.4%	0.0 p.p.	
Non-Performing Loans (NPL) [1] / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	11.1%	11.4%	8.9%	8.0%	-0.9 p.p.	
Credit Provisions / Customer Loans	6.9%	7.1%	6.3%	6.0%	-0.4 p.p.	
Coverage of Overdue Loans > 90 days	177.5%	171.0%	262.2%	244.8%	-17.4 p.p.	
Coverage of Non-Performing Loans [1]	59.0%	59.3%	74.1%	77.0%	2.9 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 8.0%, respectively (Dec/20: 2.4% and 8.9%; Mar/20: 3.8% and 11.4%).

On 31 March 2021, the coverage of non-performing loans by impairments (including deposits with banks and loans and advances to banks) was 77.0% (+2.9 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 €11.2bn on 31 March 2021, representing 25.1% of assets.

net of impairment — mn€

Securities portfolio	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Dec-20	31-Mar-21	YTD Change	
					absolute	relative
Portuguese sovereign debt	3 718	3 718	3 468	3 392	- 76	-2.2%
Other sovereign debt	3 712	3 679	3 710	3 483	- 227	-6.1%
Bonds	3 103	3 103	3 323	3 505	182	5.5%
Other	1 282	1 279	866	863	- 2	-0.3%
Total	**11 816**	**11 779**	**11 367**	**11 244**	**- 123**	**-1.1%**

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

FUNDING

Total customer funds amounted to €32.0bn at the end of the first quarter of 2021, showing an increase of 1.1% YTD. The deposits, which represent 81.9% of total customer funds, increase +0,5% YTD.

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TOTAL FUNDS	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Dec-20	31-Mar-21	YTD change	
					absolute	%
Deposits	28 494	26 385	26 093	26 234	141	0.5%
Other Customer Funds (1)	348	348	229	279	50	21.8%
Debt Securities (2)	691	691	558	552	- 6	-1.1%
Subordinated Debt	424	424	415	424	8	2.0%
Sub -Total	**29 957**	**27 848**	**27 296**	**27 489**	**193**	**0.7%**
Off-Balance Sheet Funds	4 547	3 845	4 376	4 539	163	3.7%
Total Funds	**34 504**	**31 693**	**31 672**	**32 028**	**356**	**1.1%**

* 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.

LIQUIDITY

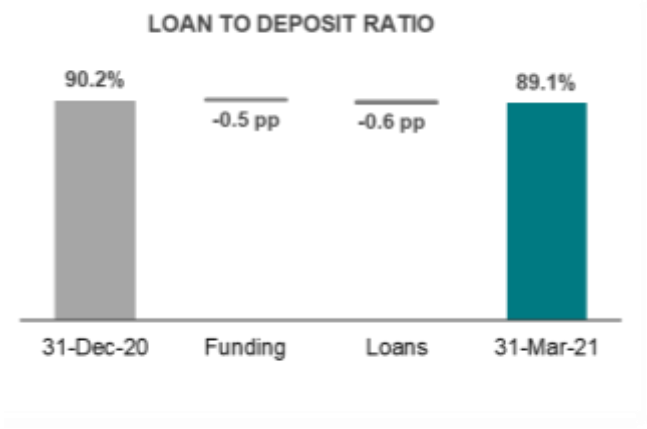
In the quarter, NOVO BANCO maintained a comfortable liquidity position as shown by a Liquidity Coverage Ratio (LCR) of 140%, well above the regulatory requirement.

In March 2021, total customer deposits were about €26.2bn, higher YTD, given the positive evolution in the retail segment.

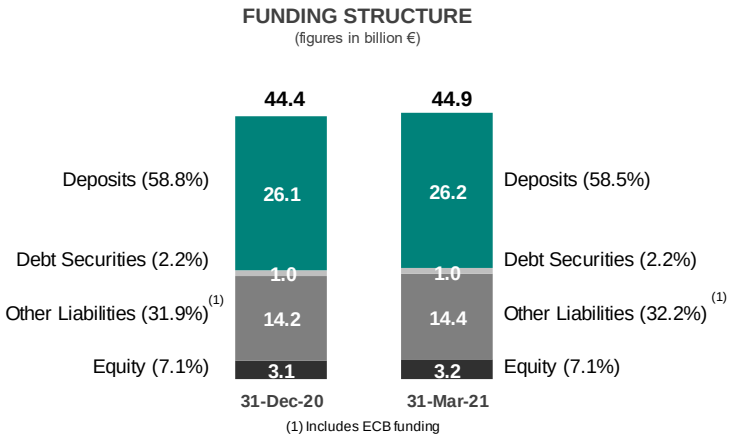
In terms of asset evolution, compared to December 2020, there was a reduction in the credit portfolio (€0.3bn, mainly due to the sale of NPL). On the other hand, NOVO BANCO increased short-term collateralized interbank financing by circa €0.3bn compared to the end of 2020.

Therefore, at the end of the period, the amount of cash and deposits with central banks increased by circa €0.7bn and, consequently, the net financing from the ECB (European Central Bank; taken from the ECB less applications with this institution) in the first quarter decreased to €4.0bn (vs €4.7bn in Dec/20).

Finally, the portfolio of assets eligible for rediscount with the ECB, on 31 March 2021, totalled €17.3bn (net of haircut), to which are added HQLA assets not-eligible for ECB rediscount purposes. Hence at the end of the quarter the Bank maintained a liquidity buffer above €11bn, mostly composed of highly liquid assets (around 80%).



Customer deposits remained the main source of balance sheet funding, accounting for 63.0% of total liabilities and 58.5% of total assets.



CAPITAL

As at 31 March 2021, the CET1 ratio was 11.3% and total solvency ratio was 13.3% (preliminary values), being similar to those presented at the end of 2020, due to the maintenance of the level of protection of the Contingent Capital Agreement in 2021.

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 (with the Bank adhering to the dynamic option of the transitional regime of IFRS 9) and at the level of risk-weighted assets.

In addition, following 2020 disclosure, the accounts contain an aggregate provision of €166mn related with the discontinuation of Spanish operations. As there is a divergence between the parties and therefore a barrier to immediate access of this amount, the Bank, in 31 March 2021, has also deducted this amount from regulatory capital calculation.

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CAPITAL RATIOS (CRD IV/CRR)		**31-Dec-20** *(Phased-in)* [1]	**31-Dec-20** *(Fully loaded)* [1]	**31-Mar-21 *** *(Phased-in)* [1]	**31-Mar-21 *** *(Fully loaded)* [1]
Risk Weighted Assets	(A)	26 719	26 411	26 660	26 384
Own Funds					
Common Equity Tier 1	(B)	3 029	2 638	3 022	2 668
Tier 1	(C)	3 030	2 638	3 023	2 670
Total Own Funds	(D)	3 541	3 150	3 536	3 183
Common Equity Tier 1 Ratio	(B/A)	11.3%	10.0%	11.3%	10.1%
Tier 1 Ratio	(C/A)	11.3%	10.0%	11.3%	10.1%
Solvency Ratio	(D/A)	13.3%	11.9%	13.3%	12.1%
Leverage Ratio		6.5%	5.7%	6.4%	5.7%

* preliminary

The divergence between NOVO BANCO and the Resolution Fund regarding the passage of the IFRS9 transitional regime, in its static option, to the full application of that standard, led to the submission of a dispute to arbitration before the International Chamber of Commerce, in accordance with CCA rules regarding the impact of this change on the calculation of the amount due by the Resolution Fund under the CCA in the 2019 financial year. In this context, it was also agreed that NOVO BANCO would not proceed with the full application of IFRS9, remaining in the transitional regime until the conclusion of the arbitration proceedings. If the decision of the arbitration court is in favor of NOVO BANCO, the Resolution Fund must pay the amount corresponding to the amount that would have been paid under the CCA if NOVO BANCO had fully implemented IFRS 9 on 31 December 2019, since that the maximum amount of the CCA is not exceeded. The arbitration proceeding is ongoing and a decision by the arbitral tribunal is expected in 4Q21.

NOVO BANCO additionally applied, at the end of 2020, the dynamic option of the transitional regime of IFRS 9, also subject to arbitration, in the context of NOVO BANCO and the Resolution Fund having recognized another divergence regarding the application of the mentioned option.

COMMERCIAL ACTIVITY

Corporate Banking

NOVO BANCO has an important presence in the Portuguese corporate sector, with market share of 15.2% in loans to non-financial companies and 13.3% in corporate deposits[1].

In 2021, NOVO BANCO will continue to monitor its corporate customer base, given the impacts of the pandemic on its activity, through three fundamental pillars:

(i) financial support to small and medium-sized companies having granted in the 1Q21 a total of €132mn of Credit Lines with the Mutual Guarantee Companies, covering more than 400 customers;

(ii) monitoring the developments of moratoria that currently cover some 3,300 corporate segment customers, for an overall amount of €4.3bn;

(iii) maintaining the focus on the digital transformation, investing in remote relationship and signature tools, to continue to quickly respond to customer needs.

In the quarter, in the medium and large enterprise segment, medium and long-term credit originated totalled €274mn, of which 48% related to Credit Lines under guaranteed schemes.

Highlights:

- In Trade Finance, NOVO BANCO provides a wide range of products and specialised advice in support of international trade. The Bank's know-how in this segment is acknowledged by companies, resulting in a market share of around 19.7%[2].
  For the third consecutive year, NOVO BANCO was awarded the prize for Best Trade Finance Bank in Portugal by the international magazine Global Finance;
- During the quarter, NB launched new developments in the NBnetwork, namely at the level of making Factoring and Confirming documentation available through this platform. There are currently around 15,000 active customers in the corporate segment of NBnetwork, equivalent to a penetration rate of 79%.

NOVO BANCO pursue its ambition to be a preferred Bank for the business community, seeking, as always, in addition to financial support, to help companies adjust their strategies to new realities, aware that it is more important than ever to share experiences, to have a deeper knowledge of the distribution chains, to receive specialised consultancy information or new opportunities, to access international markets, among others. In this sense, the percentage of Very Satisfied Customers (PCMS) with Customer Service reached 90%, an increase of 1.3 pp compared to the previous year[3].

[1] January 2021
[2] January 2021, measured by the number of Swift messages
[3] Source: Customer Experience Report - Medium Sized Enterprises; March 2021

Retail Banking

- Mortgage & Consumer Lending: mortgage loan production has been on an upward trajectory, with February and March exceeding the 4Q20 average. In consumer loans the scenario is identical and, although the start of the year was lower compared with the end of 2020, in March production was in line with the target;
- Non-Financial Offer: increasingly its importance as a business line, making a significant contribution to results;
- Service-Accounts: the Bank has been working to provide its customers with the best offer for their daily needs. The new Service-Accounts, launched in the 3Q20, and with a strong social responsibility component, have been well received, maintaining the recovery trend of this business line (1Q21 was in line with the objective).

Other products:

- "Solução Ordenado": which is a facility that allows customers to pre-finance the value of their salary, which registered a growing adhesion in 1Q21;
- Risk Insurance: continued focus on a comprehensive offer, namely Health Insurance or Salary Protection and Credit Protection Insurance, in order to provide a complete and adjusted response to the different concerns and needs of its customers, both for individuals and also for businesses. Alongside the recent reformulation of the Health Insurance offer (with reinforcement of cover for specific illnesses and a more specific formula for the Senior segment) and the launch of new products in the area of Life Insurance, through a more complete and higher value offer, the focus is on the development of new forms of subscription and formalisation, leading to greater convenience for customers, with total safety;
- Savings and investment solutions: NOVO BANCO offers its NB360º clients an Investment Consulting Service, which, according to their profile, presents the most appropriate investment proposals. Regarding the offer of Investment Funds, NOVO BANCO provides its clients with a selection of the best Investment Funds in the market, based on a proprietary evaluation model. The redesign of the entire offer of investment funds in the digital channels reinforced the bet made on this product line with an acceleration of off-balance sheet resources;
- "Banca Seguros Financeira": the growth trend in Unit Linked capitalisation products continued in the 1Q21, reflecting the value that customers place on these medium-long term products.

Finally, it is worth highlighting the regular launch of Structured Deposits with the ESG (Environmental, Social and Governance) seal, seeking to index the product's remuneration to the performance of the shares of companies that stand out in their capacity to lead changes in social, governance and environmental criteria. Due to the growing demands in terms of sustainability, NOVO BANCO has reinforced its criteria for selection of the companies that can be part of this type of products, having developed an evaluation model of compliance with ESG components. The Best Distributor Portugal award, from Structured Retail Products (SRP) of the Euromoney Group, confirms the strategy defined.

NB DIGITAL

The main digitization initiatives and developments in 1Q21:

Homebuying

- Number of deeds with processes originated online +24% vs 1Q20, and volume +66%;
- 50% of the proposals submitted online are new customers;
- The platform had an impact on the reduction of 35,000 liters of water with the elimination of paper (about 7,000 sheets).

Remote Account Opening

- 55% increase vs. 1Q20 in the number of accounts opened remotely;
- Reduction of the average time to open an account up to 80%;
- Reduction of 26,000 litres of water with elimination of paper (savings of around 25kg on sheets of paper).

Online Credit for Business

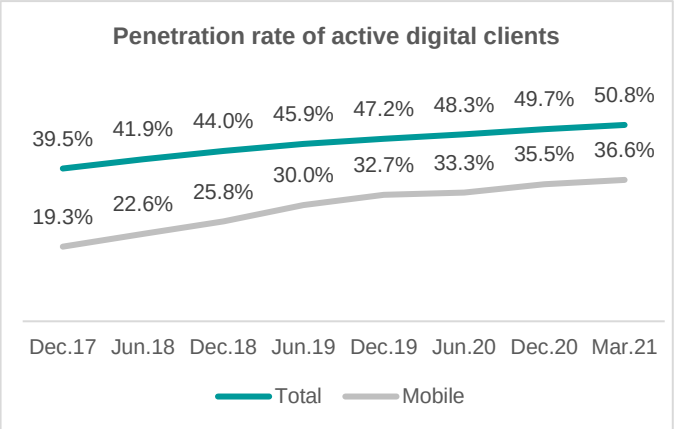
- Reducing the time needed to make funds available to customers to less than 48 hours;
- Greater efficiency: between 80% to 100% reduction in process times and 100% paperless in the core offer;
- Number of operations performed in self-service represents 40% of the equivalent total.

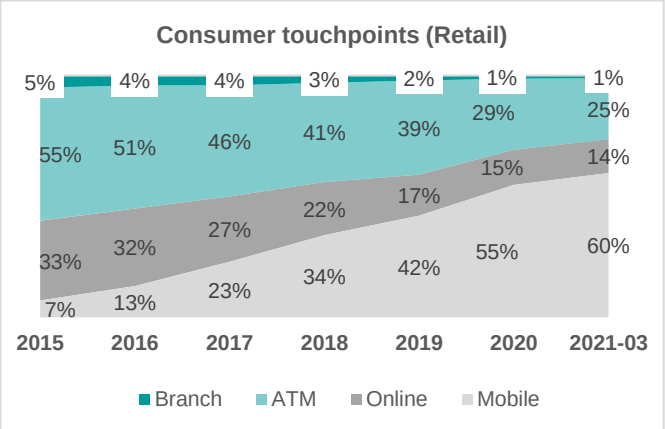
Investment Funds on digital channels

- Possibility to subscribe third party funds on digital channels, and detailed information available through the Morning Star platform, significantly increased the weight of online operations (around 50% of third party fund operations subscribed through digital channels).

Usage of digital channels

- 50.8% active digital customers as at Mar/21 (number of digital customers: +5% vs Mar/20);
- Number of active mobile customers increased by 10% vs. Mar/20 (currently 36.6% of customers are mobile);
- Strong annual increase (>130%) in the number of product units sold on digital (excluding deposits). Weight of digital sales (excluding deposits) circa 9%.





ECONOMIC ENVIRONMENT

1Q21 saw signs of recovery and reflation in the global economy, although with divergences between sectors and economies. In the US, quick progress in the vaccination and a decline in the number of new daily cases of Covid-19 allowed for a more visible normalisation of economic activity. Domestic demand in the US economy was also supported by aggressive fiscal policy stimuli, with two initiatives announced in Dec/20 and Mar/21, in the total amount of USD 2.8 trillion. US GDP is expected to have expanded 1.7% QoQ in the 1Q (or circa 7% QoQ annualised).

In the main economies of the Euro Area, the number of new daily cases of Covid-19 increased significantly in Feb/21 and Mar/21, forcing the intensification and extension of restrictions to mobility and activity. Euro Area GDP is expected to have contracted circa 1% QoQ in the 1Q21, mainly through the decline in services activity. This contraction was mitigated by the favourable performance of manufacturing, as a response to the recovery in global demand.

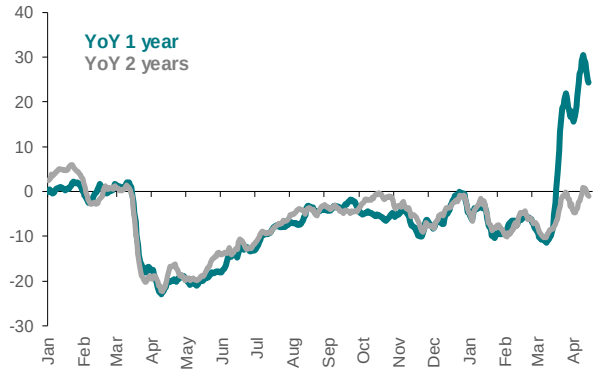
Although still relatively contained, in the main economies inflation and inflation expectations rose in the 1Q21. This increase was supported by several factors, including base effects related to decrease in oil prices in 2020, an increase in freight costs, a shortage of semiconductors (negatively impacting production), stronger consumer demand (e.g. food products and agricultural goods) and the aggressive fiscal and monetary policy stimuli.

The reflation expectations translated into higher market interest rates and a steepening in the yield curve, although with differences between economies. The 10-year US Treasury yield rose 83 bps, to 1.74%, while the German Bund yield in the same maturity rose 28 bps, to -0.29%. The 3-month Euribor was relatively stable in the quarter, around -0.54%, given the delay in the Euro Area recovery and with the ECB suggesting that it would keep, or reinforce, the expansionary stance of its monetary policy. While showing some volatility (mainly due to concerns with higher interest rates), the main equity indices ended the 1Q21 with YTD gains. Cyclical sectors performed relatively better than IT sectors. The divergent outlooks for the US and Euro Area economies favoured a depreciation in the euro, which fell close to 4% against the US dollar, to EUR/USD 1.173.

Market Performance

Equity Market	YTD	
Dow Jones	7.8	
S&P 500	5.8	
Nasdaq	2.8	
Euro Stoxx 600	7.7	
IBEX	6.3	
PSI 20	0.6	
Sovereign Bonds (Yield %)	**2 yrs**	**10 yrs**
Portugal	-0.6	0.2
Germany	-0.7	-0.3
United States	0.2	1.7
Sovereign Bonds (Performance bps)	**2 yrs**	**10 yrs**
Portugal	16	20
Germany	2	28
United States	4	83

Portugal - Daily indicator of economic activity (% YoY)



In Portugal, a significant increase in Covid-19 cases in the beginning of the year led to a new period of confinement between mid-January and early-April, constraining economic activity, mainly in sectors related to travel and tourism, hospitality, retail trade and transportation. The number of overnight stays in the tourism accommodation sector fell close to 88% YoY in February (94% YoY in the case of non-residents). The Daily Indicator of Economic Activity was down by an average 3.5% YoY in the 1Q, which suggests a milder impact from the lockdown period compared with the first confinement in 2020. GDP is expected to have contracted around 2% QoQ in the 1Q21. Portuguese households and firms appeared to have adjusted better to the Covid-19 constraints in 2021, but the effects of were also mitigated by policy measures supporting liquidity, employment and income. In Feb/21, the loans in moratorium stood at €45.6bn, or 23% of GDP. Loans to firms in moratorium stood at €24.7bn, or 33% of total loans in this segment. The unemployment rate was stable at 6.9% of the labour force between Dec/20 and Feb/21 (344 thousand workers) but, in March, around 430 thousand workers benefitted from employment protection schemes.

RELEVANT FACTS IN THE PERIOD AND SUBSEQUENT 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 €210.4mn (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 had a marginally positive impact on NOVO BANCO's capital and its 2021 income statement;
- On 5 April 2021, NOVO BANCO informed that, that following a competitive bidding process it had signed an agreement with ABANCA CORPORACIÓN BANCARIA, S.A. for the sale of its Spanish branch business. The sale is consistent with the Bank's medium-term plan in order to comply with the commitments set for 2021 undertaken by the Portuguese Republic with the European Commission in 2017 in the context of the sale of a shareholding of NOVO BANCO and will improve the Bank's cost to income and return on equity ratios. The transaction is expected to:
    - have a marginal impact on 2021 net income;
    - strengthen the capital position with an expected circa 55 bps increase in Common Equity Tier 1 ratio; and
    - have positive impact in liquidity ratios (both LCR and NSFR).

  The completion of the transaction is subject to the respective authorities' approvals, and closing is expected to occur in the second half of 2021;
- On 3 May 2021, the Court of Auditors released the audit to NOVO BANCO public financing requested by Parliament, and subsequently both Banco de Portugal and the Resolution Fund published a press release about this topic. Banco de Portugal mentions in a statement that "The Court of Auditors concluded that NOVO BANCO's public financing, through the Contingent Capital Agreement, contributes to the stability of the financial system, mainly because it avoided Bank's liquidation and that systemic risk was reduced". The Resolution Fund also stressed in its statement "As a central conclusion of the Court of Auditors' assessment, it should be noted that the Court maintains that NOVO BANCO's public financing, through the Contingent Capital Agreement, contributed to the stability of the financial system, right from the start, because it allowed the liquidation of NOVO BANCO to be avoided and reduced the systemic risk".

MAIN HIGHLIGHTS	31-Mar-20	31-Mar-20 Pro-forma* (exc. Spain)	31-Dec-20	31-Mar-21
ACTIVITY (mn€)				
Net Assets	45 572	45 572	44 396	44 854
Customer Loans (gross)	26 923	25 175	25 217	24 952
Customer Deposits	28 494	26 385	26 093	26 234
Equity	3 732	3 732	3 147	3 205
SOLVENCY (3)				
Common EquityTier I / Risk Weighted Assets (3)	12.3%	12.3%	11.3%	11.3%
Tier I / Risk Weighted Assets (3)	12.3%	12.3%	11.3%	11.3%
Total Capital / Risk Weighted Assets (3)	13.8%	13.8%	13.3%	13.3%
LIQUIDITY (mn€)				
European Central Bank Funding (2)	4 490	4 490	4 740	4 175
Eligible Assets for Repo Operations (ECB and others), net of haircut	14 875	14 875	16 684	17 283
(Total Credit - Credit Provision) / Customer Deposits (1)	89%	89%	90%	89%
Liquidity Coverage Ratio (LCR)	137%	137%	144%	140%
Net Stable Funding Ratio (NSFR)	104%	104%	113%	111%
ASSET QUALITY				
Overdue Loans > 90 days / Customer Loans (gross)	3.9%	3.8%	2.4%	2.4%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	11.1%	11.4%	8.9%	8.0%
Credit Provision / Overdue Loans > 90 days	177.5%	185.6%	262.2%	244.8%
Credit Provision / Customer Loans (gross)	6.9%	7.1%	6.3%	6.0%
Cost of Risk	2.11%	2.21%	2.08%	0.88%
PROFITABILITY				
Net Income for the Period (mn€)	-179.1	-179.1	-1329.3	70.7
Income before Taxes and Non-controlling interests / Average Net Assets (1)	-1.6%	-1.6%	-2.9%	0.7%
Banking Income / Average Net Assets (1)	1.0%	0.9%	1.4%	2.5%
Income before Taxes and Non-controlling interests / Average Equity (1)	-16.7%	-16.7%	-32.0%	9.0%
EFFICIENCY				
Operating Costs / Banking Income (1)	99.5%	101.6%	69.9%	37.6%
Operating Costs / Commercial Banking Income	55.7%	54.7%	52.2%	49.3%
Staff Costs / Banking Income (1)	56.2%	57.7%	39.7%	21.5%
EMPLOYEES (No.)				
Total	4 854	4 658	4 582	4 557
- Domestic	4 635	4 635	4 560	4 535
- International	219	23	22	22
BRANCH NETWORK (No.)				
Total	386	376	359	357
- Domestic	375	375	358	356
- International	11	1	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 MARCH 2021 AND 2020

thousands of Euros

	31.03.2021	31.03.2020
Interest Income	186 337	187 070
Interest Expenses	(40 592)	(49 673)
Net Interest Income	**145 745**	**137 397**
Dividend income	303	5 185
Fees and commissions income	73 984	82 909
Fees and commissions expenses	(12 479)	(13 633)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	12 869	4 093
Gains or losses on financial assets and liabilities held for trading	35 268	(43 253)
Gains or losses on financial assets mandatorily at fair value through profit or loss	(353)	(42 330)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	-	(7)
Gains or losses from hedge accounting	6 576	(4 767)
Exchange differences	(4 647)	(13 881)
Gains or losses on derecognition of non-financial assets	935	(587)
Other operating income	22 493	20 403
Other operating expenses	(42 189)	(44 242)
Operating Income	**238 505**	**87 287**
Administrative expenses	(94 610)	(107 180)
Staff expenses	*(58 710)*	*(65 407)*
Other administrative expenses	*(35 900)*	*(41 773)*
Cash contributions to resolution funds and deposit guarantee schemes	-	*(39)*
Depreciation	*(8 138)*	*(8 615)*
Provisions or reversal of provisions	*3 927*	*(2 319)*
Commitments and guarantees given	*1 177*	*2 705*
Other provisions	*2 750*	*(5 024)*
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	*(55 930)*	*(143 856)*
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	*(336)*	*29*
Impairment or reversal of impairment on non-financial assets	*(9 448)*	*(5 373)*
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	829	584
Profit or loss before tax from continuing operations	**74 799**	**(179 482)**
Tax expense or income related to profit or loss from continuing operations	(4 211)	(529)
Current tax	(1 655)	(1 145)
Deferred tax	*(2 556)*	*616*
Profit or loss after tax from continuing operations	**70 588**	**(180 011)**
Profit or loss from discontinued operations	1 445	1 029
Profit or loss for the period	**72 033**	**(178 982)**
Attributable to Shareholders of the parent	**70 730**	**(179 072)**
Attributable to non-controlling interests	1 303	90
	72 033	**(178 982)**

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2021 AND 31 DECEMBER 2020

thousands of Euros

	31.03.2021	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	3 357 904	2 695 459
Financial assets held for trading	489 487	655 273
Financial assets mandatorily at fair value through profit or loss	959 320	960 962
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	7 638 960	7 907 587
Financial assets at amortised cost	25 975 059	25 898 046
Securities	2 483 525	2 229 947
Loans and advances to banks	75 221	113 795
Loans and advances to customers	23 416 313	23 554 304
Derivatives – Hedge accounting	18 320	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	42 608	63 859
Investments in subsidiaries, joint ventures and associates	90 179	93 630
Tangible assets	777 474	779 657
Tangible fixed assets	186 582	187 052
Investment properties	590 892	592 605
Intangible assets	49 312	48 833
Tax assets	806 771	775 498
Current Tax Assets	615	610
Deferred Tax Assets	806 156	774 888
Other assets	3 096 390	2 944 292
Non-current assets and disposal groups classified as held for sale	1 552 373	1 559 518
TOTAL ASSETS	**44 854 157**	**44 395 586**
LIABILITIES		
Financial liabilities held for trading	451 486	554 791
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	38 473 926	37 808 767
Deposits from central banks and other banks	10 507 047	10 102 896
Due to customers	26 512 807	26 322 060
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 020 343	1 017 928
Other financial liabilities	433 729	365 883
Derivatives – Hedge accounting	60 042	72 543
Provisions	365 055	384 382
Tax liabilities	13 981	14 324
Current Tax liabilities	9 403	9 203
Deferred Tax liabilities	4 578	5 121
Other liabilities	424 769	417 762
Liabilities included in disposal groups classified as held for sale	1 860 028	1 996 382
TOTAL LIABILITIES	**41 649 287**	**41 248 951**
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(902 591)	(823 420)
Retained earnings	(8 577 074)	(7 202 828)
Other reserves	6 681 273	6 570 153
Profit or loss attributable to Shareholders of the parent	70 730	(1 329 317)
Minority interests (Non-controlling interests)	32 532	32 047
TOTAL EQUITY	**3 204 870**	**3 146 635**
TOTAL LIABILITIES AND EQUITY	**44 854 157**	**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 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