



GROUP ACTIVITY AND RESULTS

FIRST HALF 2021

PRESS RELEASE

Lisbon, 2 August 2021
(unaudited financial information)

HIGHLIGHTS

SECOND QUARTER OF POSITIVE PROFITABILITY

- **NOVO BANCO announces second consecutive profitable quarter with net profit of €137.7mn in the 1H21** (vs -€555.3mn in 1H20; 1Q21: €70.7mn; 2Q21: €67.0mn). This significant turn-around in profitability demonstrates the capacity of the business to consequently generate capital;
- **Net interest income increased 13.1% YoY**, contributing to an improvement in commercial banking income, +9.7% YoY (1Q21: €208.5mn; 2Q21: €216.3mn), 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 €220.7mn (+27.5%; +€47.6mn YoY)**, driven by improved commercial banking income and lower operating costs (-4.7%; -€10.0mn YoY);
- **Further improvement of Cost to Income**, excluding markets and other operating results, reaching **48.1%** in the period (FY20: 52.2%; 1H20: 55.3%);
- **Impairments for credit totalled €84.7mn**, including €35.2mn impairments for Covid-19 related risks, a YoY reduction of -69.9% or -€196.4mn. The cost of risk reached 68bp, or 40 bps if excluded the impairments related with Covid-19.

SOLID BUSINESS MODEL WITH RESILIENT LENDING AND DEPOSITS GROWTH

- **Net customer loans at €23.5bn**, broadly stable across corporate (adjusted for NPL disposal), mortgage and consumer books;
- Total customer funds increased by +3.7% YTD, **with customer deposits increasing by 3.0% (+€782mn)**, reflecting the continued confidence of clients in NOVO BANCO;
- Continuous investment in the business, to provide a unique integrated customer experience, with the implementation of a **new distribution model** and the execution of **digital transformation initiatives**. Growth in the digital segment with **52% of active digital customers (+5.5% YoY)** with 32% share of digital sales;
- **Continued reduction of the non-performing loans (NPL) ratio to 7.3% (Dec/20: 8.9%; Mar/21: 8.0%)**, while **increasing the coverage ratio to 78.4%** (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 10.9% (total solvency ratio at 12.8%), liquidity ratio (LCR) of 150% and NSFR of 112%.

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, 1H20 is presented pro-forma.

NOVO BANCO GROUP RESULTS

In the first half of 2021, NOVO BANCO delivered a positive net income of €137.7mn, being the second consecutive quarter with positive results and an outstanding half-year result since its creation. The bottom-line performance (+€693.0mn YoY) was supported by an increase in commercial banking income of +9.7% (+€37.7mn YoY), positive capital markets results (€129.1mn), lower impairment and provisions (-€254.5mn YoY) and the loss accounted in the 1H20 (-€260.6mn) related with the Restructuring Funds.

INCOME STATEMENT	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change		mn€
				absolute	%	
Net Interest Income	270.8	255.7	289.3	33.6	13.1%	
+ Fees and Commissions	136.3	131.4	135.5	4.1	3.1%	
= Commercial Banking Income	407.1	387.1	424.8	37.7	9.7%	
+ Capital Markets Results	- 35.1	- 35.7	93.3	129.1	...	
+ Other Operating Results	- 54.9	- 57.9	- 29.1	28.8	49.7%	
= Banking Income	317.0	293.5	489.0	195.5	66.6%	
- Operating Costs	230.1	214.1	204.1	- 10.0	-4.7%	
= Net Operating Income	87.0	79.4	284.9	205.5	...	
+ Restructuring funds - independent valuation	- 260.6	- 260.6	0.0	260.6	100.0%	
- Net Impairments and Provisions	351.3	343.7	89.2	- 254.5	-74.0%	
Credit	289.5	281.0	84.7	- 196.4	-69.9%	
Securities	1.2	1.2	16.0	14.8	...	
Other Assets and Contingencies	60.5	61.4	- 11.5	- 72.9	...	
= Income before Taxes	- 524.9	- 524.8	195.7	720.5	...	
- Corporate Income Tax	4.5	4.6	21.1	16.6	...	
- Special Tax on Banks	27.4	27.4	34.2	6.8	24.7%	
= Income after Taxes	- 556.8	- 556.8	140.4	697.2	...	
- Non-Controlling Interests	- 1.5	- 1.5	2.7	4.2	...	
= Net Income for the period	- 555.3	- 555.3	137.7	693.0	...	

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

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

- Positive evolution of commercial banking income, which amounted to €424.8mn (+9.7%; +€37.7mn YoY), driven by net interest income increase of +€33.6mn (or +13.1%), and an improvement in fees and commissions (+3.1% or +€4.1mn), with the latter benefiting from 2Q21 QoQ performance (+€10mn; +16%);
- Capital markets results were positive by €93.3mn mostly due to the positive evolution of market interest rates in the period;
- Operating costs are lower YoY (-4.7%; -€10.0mn), standing at €204.1mn (1Q21: €102.7mn; 2Q21: €101.4mn), 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 half of 2021 the amount allocated to impairment and provisions totalled €89.2mn (including €35.2mn additional impairment within the scope of Covid-19), representing a YoY reduction of -€254.5mn (-74.0%).

Net Interest Income

Net interest income shows a YoY increase of 15 bp (from 1.31% to 1.46%), benefitting from 25 bp reduction of the average liability rate, with a slight decrease in the average asset rate as a result of the lower mortgage rates.

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	30-Jun-20			2020			30-Jun-21		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	40 738	1.76%	362	38 597	1.77%	694	39 395	1.65%	326
Customer Loans	27 054	2.07%	284	24 939	2.13%	541	25 033	2.03%	255
Mortgage Loans	10 244	1.19%	62	9 987	1.20%	122	9 946	1.06%	53
Consumer Loans and Others	1 528	5.73%	44	1 328	6.24%	84	1 353	5.90%	40
Corporate Lending	15 281	2.31%	179	13 624	2.42%	335	13 734	2.35%	162
Money Market Placements	2 896	0.63%	9	2 993	0.54%	16	3 883	0.18%	4
Securities and Other Assets	10 788	1.27%	69	10 665	1.26%	137	10 479	1.27%	67
INTEREST EARNING ASSETS AND OTHER	40 738	1.76%	362	38 597	1.77%	694	39 395	1.65%	326
INTEREST BEARING LIABILITIES	39 579	0.44%	87	36 782	0.35%	132	37 764	0.18%	35
Customer Deposits	28 611	0.28%	40	25 787	0.27%	72	26 425	0.20%	27
Money Market Funding	9 877	0.22%	11	9 913	-0.13%	-13	10 390	-0.24%	-25
Other Liabilities	1 091	6.64%	37	1 081	6.70%	74	949	7.01%	33
OTHER NON-INTEREST BEARING LIABILITIES	1 159	-	-	1 815	-	-	1 631	-	-
INTEREST BEARING LIABILITIES AND OTHER	40 738	0.42%	87	38 597	0.34%	132	39 395	0.18%	35
NIM / NII <small>(without stage 3 impairment adjustment)</small>		1.33%	275		1.43%	562		1.47%	291
Stage 3 impairment			- 4			- 6			- 2
NIM / NII		1.31%	271		1.41%	555		1.46%	289

The average rate on customer loans was 2.03%, lower YoY (-4bps) given the different weight of each segment (portfolio effect; -2bps) and the competitive environment (rate effect; -2bps). The lower YoY average balance reflects mainly the discontinuation of Spanish operations and the sale of the Carter and Wilkinson portfolio, with the loan portfolio broadly stable on an adjusted basis.

The average balance of deposits was €26.4bn, with an average interest rate of 0.20% (-8bps YoY), and Money Market Funding was €10.4bn, with -0.24% average interest rate, benefitting in part from the conditions of the ECB long-term refinancing operations.

The Group therefore continued to increase the spread between the rate on interest earning assets (1.65%; 1H20: 1.76%) and the cost of liabilities (0.18%; 1H20: 0.42%) with a positive impact on overall net interest margin (1.46%; 1H20: 1.31%).

Fees and Commissions

Driven by the performance in 2Q21 (€72.8mn; +14.5% compared with 2Q20), commissioning in the first half of 2021 posted a positive performance +3.1% YoY, totalling €135.5m.

This performance results from the revenue increase in Payments Management (+€1.8mn; +3.5% YoY) based on a higher volume of transactions/price and volume increase in the Asset Management & Bancassurance (+€4.6mn; +17.5%), reflecting a greater commercial activity and increased customer appetite for this line of products. Loans, Guarantees and Similar Commissions remained stable (-€0.2mn, -0.5%) even in the context of the current pandemic.

FEES AND COMMISSIONS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change	
				absolute	%
				mn€	
Payments Management	53.2	52.5	54.3	1.8	3.5%
Commissions on Loans, Guarantees and Similar	45.4	42.9	42.7	-0.2	-0.5%
Asset Management and Bancassurance	28.8	26.2	30.8	4.6	17.5%
Advising, Servicing and Other	8.8	9.8	7.7	-2.1	-21.4%
TOTAL	136.3	131.4	135.5	4.1	3.1%

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

Capital Markets and Other Operating Results

The results of financial operations were positive by €93.3mn mostly due to the positive evolution of market interest rates during the first half of 2021.

Other operating results, at -€29.1mn, includes, in addition to gains from credit recovery (+€16.1mn), the costs related with contributions to the Single Resolution Fund (€25.3mn) and to the Portuguese Resolution Fund (€15.2mn).

Operating Costs

Operating costs decreased -4.7% YoY, reflecting the continued optimisation and simplification of organisational structure and processes, alongside investment in the future of the business.

OPERATING COSTS	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change	
								absolute	%
								mn€	
Staff Costs	157.0	142.8	133.9	133.4	129.2	121.1	117.6	- 3.5	-2.9%
General and Administrative Costs	118.2	101.0	99.1	92.7	83.5	77.1	70.1	- 7.0	-9.0%
Depreciation	29.0	21.4	11.2	17.0	17.3	15.9	16.4	0.5	2.9%
TOTAL	304.2	265.2	244.2	243.1	230.1	214.1	204.1	- 10.0	-4.7%

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

Staff costs totalled €117.6mn (-2.9% 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 30 June 2021, NOVO BANCO Group had 4,470 employees (Dec/20: 4,582; -112 YTD).

General administrative costs decreased 9.0% YoY, to €70.1mn, due a widespread effort to reduce operating costs, alongside investment in the future of the business.

The number of branches as of 30 June 2021 was 349 (Dec/20: 359; -10 branches YTD).

Impairments and Provisions

In the first half of 2021, NOVO BANCO Group recorded an increase in provisions in the amount of €89.2mn (including €35.2mn additional impairment within the scope of Covid-19), a reduction compared to the same period of the previous year (-74.0%).

The cost of risk reached 68bps (or 40bps without the impact of Covid-19 additional impairment).

NET IMPAIRMENTS AND PROVISIONS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	30-Jun-21	Change	
				absolute	%
Customer Loans	289.5	281.0	84.7	-196.4	-69.9%
Securities	1.2	1.2	16.0	14.8	...
Other Assets and Contingencies	60.5	61.4	-11.5	-72.9	...
TOTAL	351.3	343.7	89.2	-254.5	-74.0%

* 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 and disciplined lending policy. This support has been provided across all industry sectors and all companies, with an emphasis on exporting SMEs and those that focus on innovation in their products, services or production systems.

CUSTOMER LOANS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YTD Change	
					absolute	%
Loans to corporate customers	15 715	14 295	13 873	13 694	-180	-1.3%
Loans to Individuals	11 720	11 402	11 344	11 293	-51	-0.5%
Residential Mortgage	10 244	10 064	10 010	9 926	-85	-0.8%
Other Loans	1 476	1 338	1 333	1 367	34	2.5%
Customer Loans (gross)	27 436	25 696	25 217	24 986	-231	-0.9%
Provisions	1 882	1 823	1 600	1 474	-125	-7.8%
Customer Loans (net)	25 554	23 874	23 617	23 512	-105	-0.4%

* 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 that as of June 2021 totalled €5.6bn (Dec/20: €6.9mM), representing circa 22% of the gross loan book, along with €1.3bn of guaranteed credit lines granted to corporates, of which ~97% are already disbursed. The moratoria under the regulatory framework support more than 20,000 clients and represented ~30% of the corporate portfolio, ~15% of the mortgage book and ~3% of other individual loans portfolio.

Loans to customers (gross) totalled €24,986mn (in line with March 2021), with the YTD evolution (-0.9%) influenced by the execution of the strategy to reduce the stock of non-performing loans (NPL). NOVO BANCO sold a portfolio of non-performing loans and related assets (Project Wilkinson) in the first half of 2021 with a gross value of €210.4mn.

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

ASSET QUALITY AND COVERAGE RATIOS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YtD Change	
					absolute	%
Overdue Loans > 90 days	1 009	925	610	577	- 33	-5.5%
Non-Performing Loans (NPL) ¹	3 120	3 007	2 498	2 209	- 288	-11.5%
Overdue Loans > 90 days / Customer Loans (gross)	3.7%	3.6%	2.4%	2.3%	-0.1 p.p.	
Non-Performing Loans (NPL) ¹ / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	10.2%	10.4%	8.9%	7.3%	-1.5 p.p.	
Credit Provisions / Customer Loans	6.9%	7.1%	6.3%	5.9%	-0.4 p.p.	
Coverage of Overdue Loans > 90 days	186.6%	197.0%	262.2%	255.6%	-6.6 p.p.	
Coverage of Non-Performing Loans ¹	62.8%	63.2%	74.1%	78.4%	4.3 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 2.3% and 7.3%, respectively (Dec/20: 2.4% and 8.9%; Jun/20: 3.6% and 10.4%).

On 30 June 2021, the coverage of non-performing loans by impairments (including deposits with Banks and loans and advances to Banks) was 78.4% (+4.3 pp YTD).

Provisions for credit amounted to €1.5bn, representing 5.9% 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 €11.1bn on 30 June 2021, representing 24.2% of assets.

Securities portfolio	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YTD Change	
					absolute	relative
Portuguese sovereign debt	3 465	3 465	3 468	3 262	- 206	-5.9%
Other sovereign debt	3 517	3 483	3 710	3 489	- 221	-6.0%
Bonds	3 588	3 588	3 323	3 463	140	4.2%
Other	961	958	866	903	37	4.3%
Total	11 531	11 495	11 367	11 117	- 249	-2.2%

* 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 €32.8bn at the end of the first half of 2021, showing an increase of 3.7% YTD. The deposits, which represent 81.8% of total customer funds, increased +3.0% YTD.

TOTAL FUNDS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21	YTD change		mn€
					absolute	%	
					Deposits	28 793	26 722
Other Customer Funds ⁽¹⁾	382	382	229	324	95	41.5%	
Debt Securities ⁽²⁾	699	699	558	559	1	0.1%	
Subordinated Debt	432	432	415	432	17	4.1%	
Sub -Total	30 307	28 235	27 296	28 190	895	3.3%	
Off-Balance Sheet Funds	4 734	3 999	4 376	4 655	279	6.4%	
Total Funds	35 041	32 235	31 672	32 846	1 174	3.7%	

* 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

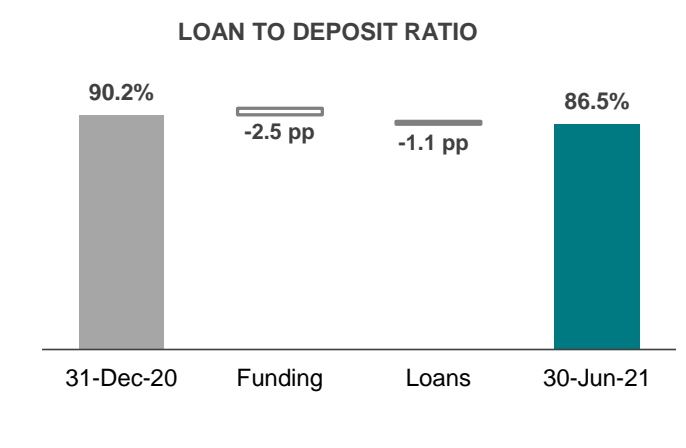
In the first half of the year, NOVO BANCO maintained a comfortable liquidity position as shown by its Liquidity Coverage Ratio (LCR) of 150%, well above the regulatory requirement and representing an increase of 10pp YTD.

The improved liquidity position of the Bank in the first half of the year is mainly explained by the positive impact of the funding instruments of the Bank, namely: (i) the increase in customer funds of €0.9bn YTD (of which €0.8bn of customer deposits), reflecting a positive performance on both the retail and corporate segment, (ii) increase in short-term collateralized interbank funding of €0.3bn YTD and (iii) the €0.3bn capital contribution received from the Resolution Fund under the CCA.

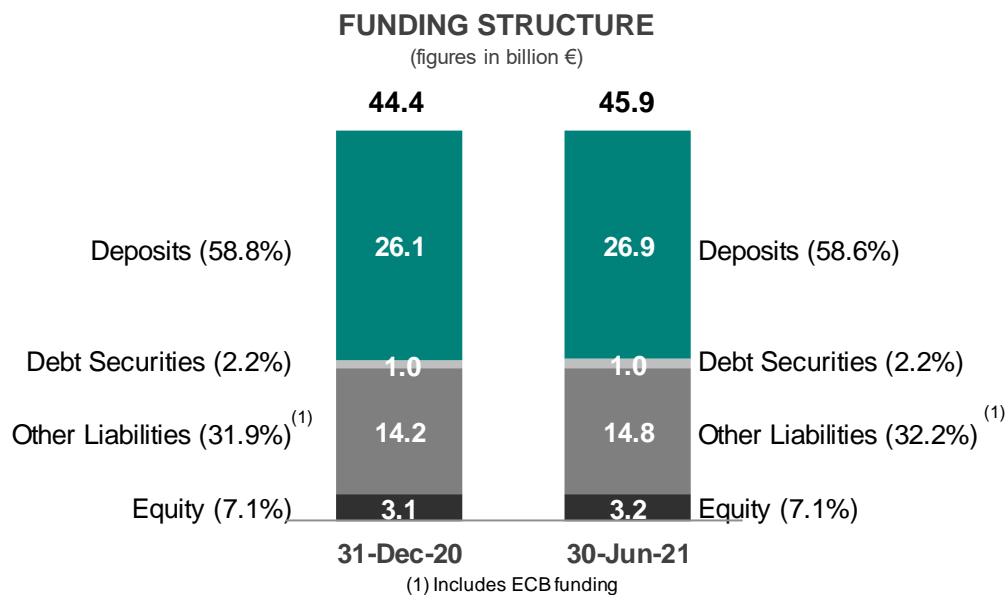
In addition, in terms of asset evolution, the loan portfolio has registered a small reduction, resulting mostly from an NPL sale and also a small reduction on the securities portfolio due to a de-risking strategy of the Bank.

Therefore, at the end of the period, the amount of cash and deposits with central Banks increased by circa €2.2bn and, consequently, the net financing from the ECB (European Central Bank; taken from the ECB less applications with this institution) in the first half decreased to €2.7bn (vs €4.7bn in Dec/20).

Finally, the portfolio of assets eligible for rediscount with the ECB, on 30 June 2021, totalled €17.0bn (net of haircut), to which are added HQLA assets non-eligible for ECB rediscount purposes. Hence at the end of the semester the Bank maintained a liquidity buffer of €12.8bn, mostly composed of highly liquid assets (around 84%).



Customer deposits remained the main source of balance sheet funding, accounting for 63.0% of total liabilities and 58.6% of total assets.



CAPITAL

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

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

CAPITAL RATIOS (CRD IV/CRR)		mn€			
		31-Dec-20 ⁽¹⁾ (Phased-in)	31-Dec-20 ⁽¹⁾ (Fully loaded)	30-Jun-21 ⁽²⁾ (Phased-in)	30-Jun-21 ⁽²⁾ (Fully loaded)
Risk Weighted Assets	(A)	26 689	26 392	27 348	27 025
Own Funds					
Common Equity Tier 1	(B)	2 902	2 511	2 981	2 630
Tier 1	(C)	2 903	2 512	2 982	2 631
Total Own Funds	(D)	3 415	3 023	3 496	3 145
Common Equity Tier 1 Ratio	(B/A)	10,9%	9,5%	10,9%	9,7%
Tier 1 Ratio	(C/A)	10,9%	9,5%	10,9%	9,7%
Solvency Ratio	(D/A)	12,8%	11,5%	12,8%	11,6%
Leverage Ratio		6,2%	5,4%	6,2%	5,4%

(1) Updated values

(2) Preliminary

Regarding the amount of €598mm requested to the Resolution Fund, regarding the year 2020, only a payment of €317mm was made. The difference results from divergences between NOVO BANCO and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain, (ii) the valuation of participation units and (iii) the interest rate hedging policy. Given the limitation to immediately access to this amount, the Bank deducted, as of 30 June 2021, the amount of €277.4mn from the calculation of regulatory capital, despite being recorded as receivable. NOVO BANCO considers the amount of €277.4mn as due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure the amount is received.

Additionally, NOVO BANCO and the Resolution Fund have the following differences subject to arbitration:

- Transition from the transitional regime of IFRS9, in its static option, to the full application of that standard, with the submission of a dispute to arbitration before the International Chamber of Commerce, in accordance with the CCA rules, due to the impact of that change on the calculation of the amount due by the Resolution Fund under the CCA in financial year 2019. Within this scope, it was agreed that NOVO BANCO would not proceed with the full application of IFRS9, remaining under the transitional regime until the conclusion of the arbitration proceedings. If the arbitral tribunal's decision is in favour of NOVO BANCO, the Resolution Fund shall pay the amount corresponding to the amount for the fully implemented IFRS 9, provided that the maximum amount of the CCA is not exceeded. The arbitration proceedings are ongoing and a decision by the arbitral court is expected by 4Q21;
- The application by the Bank, at the end of 2020, of the dynamic option of the transitional regime of IFRS 9.

COMMERCIAL ACTIVITY

Corporate Banking

NOVO BANCO, has an important presence in the Portuguese corporate sector and continues to act as a partner, seeking, as always, to provide 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 supply chains, specialised consultancy information or new opportunities, and access to international markets.

In the first half of 2021, NOVO BANCO continued to monitor its corporate customer base, given the impacts of Covid-19 on its activity, through three fundamental pillars:

- (i) financial support to small and medium-sized companies having granted in the 1H21 a total of €190mn of Credit Lines with the Mutual Guarantee Companies, covering more than 450 customers;
- (ii) monitoring the developments of moratoria that currently cover some 2,184 corporate segment customers, for an overall amount of €4.0bn;
- (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 period, medium and long-term credit originated in the medium and large corporate segment totalled €668mn, of which 28% related to Covid Credit Lines under guaranteed schemes (40% in medium corporates).

NOVO BANCO has an important presence in the Portuguese corporate sector, with market share of 14.6% in loans to non-financial companies and 12.8% in corporate deposits¹, maintaining a strong relevance in the exporting sector with around 58% of medium and large exporting companies as customers.

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 recognized by its clients, resulting in a market share of around 20.3%² (+1.3pp YTD).

NOVO BANCO was elected for the 16th time "Best Sub-custodian Bank 2021" in Portugal by the magazine Global Finance, in nineteen years of this distinction. This nomination represents the international recognition of NOVO BANCO's skills and performance in this business area, essential for the proper functioning of the financial market.

During the first half of 2021, NOVO BANCO continued to promote/participate in several initiatives, aiming to create solutions and the promotion of economic sectors, regions and companies that stand out and can be a reference for other Portuguese companies. These initiatives included regional events such as "Portugal que Faz", a partnership with Global Media, to give a voice to the Business Associations representing the Portuguese corporate sector, as well as sectoral events supporting the agricultural sector (37th Ovibeja; *Feira Nacional de Agricultura 2021*) and promoting the textile sector (*Simpósio da Indústria Têxtil e Vestuário*), one of the oldest and, at the same time, one of the most innovative Portuguese industries.

Reflecting the nature of a partner and proximity Bank, the relationship with the customer and the initiatives mentioned, the weight of Very Satisfied Customers (PCMS) with Customer Service reached 93.3% in June 2021, an increase of 4.6 pp compared to the previous year.

¹ May 2021

² June 2021, measured by the number of Swift messages

Retail Banking

NOVO BANCO is redesigning the face-to-face service experience, more focused on personalisation and space for relaxed and engagement with clients. This experience has required a total redesign of the branches, which in addition to the layout and architectural elements, are open to its eco-system, with more transparency, and with available areas for the community at master branches. During the 1H21, 20 more branches were redesigned with the aim of covering the entire branch network in a 3-year programme.

In 1H21, NBlink, a remote manager service with follow-up capabilities for high value customers who prefer remote contact, was further reinforced. This service has demonstrated higher efficiency levels than the traditional customer portfolio management model.

Offer

Day-to-day needs

- NB provides a set of products aimed at meeting the day-to-day needs of our Customers, including service accounts, credit cards and *Solução Ordenado*, which recorded a substantial increase in production compared to 1Q21 (+5%), exceeding the targets set.

Insurance

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

Lending

After the slowdown at the beginning of the year, credit production recorded an upward trend in the 2Q21, with execution line with the objectives set:

- Mortgages: production recorded a growth of +12% vs 1Q21, as well as an increase of +28% vs 2Q20;
- Consumer Loans: the signs of recovery were confirmed, with a substantial increase in production compared to 1Q21 (+35%) in the Personal Loans segment.

Savings and Investment Solutions

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.

NB reinforced the selection criteria of the companies that make up this type of product, having developed an assessment model of compliance with ESG components. The *Best Distributor Portugal* award, given by the *Structured Retail Products* (SRP) of the Euromoney Group, confirms the strategy defined.

Business Solutions

As a relationship and proximity Bank, the evolution of the business segment includes:

- Growth in the active customer base (+4.6% vs Dec/20), driven by service accounts (+6.3%) and active POS (+5.5%);
- Support in meeting treasury or financing needs, through the growth of the loan portfolio by 3.4% (vs Dec/20), with 43% of lending related to credit lines under protocol;
- Increase in business segment resources, with a growth of 6.4% YTD.

NB DIGITAL

The main digitization initiatives and developments in 1H21:

Innovation Highlights

Customer Journeys

- Improvements in the process of joining digital channels including request of debit card;
- Extending access to Online Business Credit to a larger customer base;
- Life Insurance simulation and subscription process in authenticated channels.

Digital Channels: NB smarter/smart app

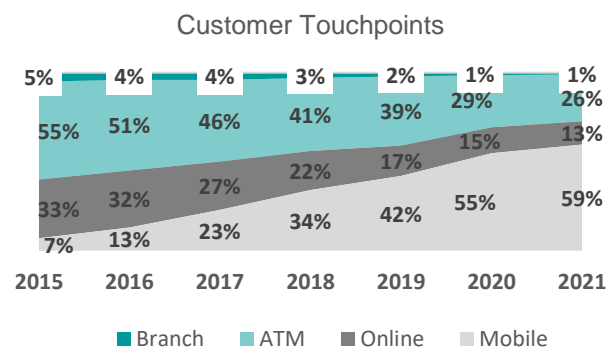
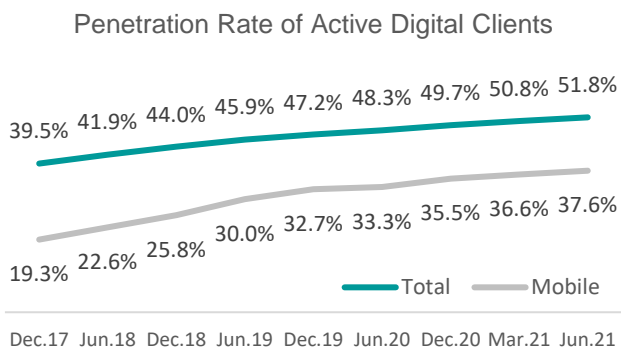
- New investment fund options in the NB smart app;
- Improved personalisation considering behavioural aspects in NB Smarter;
- Improved experience in the use of the mobile digital channel with the replacement of SMS by push notifications for operation validation.

Digital Channels: NBnetwork

- Implementation of a functionality for secure sending of documents/files through the digital channel;
- All the documentation supporting Factoring and Confirming operations made available on the NBnetwork.

Digital Activation

- 51.8% active digital customers as of Jun/21 (number of digital customers increased by 5.5% YoY);
- Number of active mobile customers grew 11% YoY (37.6% of customers are mobile).



Customer Touchpoints

- Mobile continues to be the main mean of contact for retail customers, with interactions via mobile (# logins) increasing 21% YoY;
- 73% of the contacts of retail customers were made through digital channels (+3 p.p. vs. end of last year);
- Digital channels, mainly mobile, are the relationship point par excellence, reinforcing the adoption of a "mobile digital first" strategy.

ECONOMIC ENVIRONMENT

The 1st half of 2021 was marked by a recovery in global economic activity, albeit with divergences between economies and with some constraints on productive activity, leading to an increase in inflation. In the Eurozone, GDP shrank by 0.3% QoQ in the 1Q21, under the impact of new restrictions on activity. A later start to vaccination, greater exposure to sectors more affected by the pandemic and less aggressive fiscal stimuli restrained the recovery begun in the 2Q. Still, quarterly growth rose to 1.5% in the 2Q21 as activity constraints were eased.

YoY inflation climbed from 1.4% to 5.4% in the US and from 0.9% to 1.9% in the Eurozone. Apart from statistical base effects linked to the fall in oil prices in 2020, the acceleration of prices mainly reflected one-off distortions associated with the pandemic. These included a strong release of demand following the periods of lockdown, as well as various constraints on production, such as shortages of raw materials, intermediate consumption and labour, and also increased transport costs.

The main central Banks perceived this rise in inflation as a transitory phenomenon. In the Eurozone, the ECB kept the key interest rates unchanged (deposit facility rate at -0.5%) and stepped up the monthly pace of debt securities purchases under the PEPP pandemic emergency purchase programme (while maintaining the total amount at €1.85 trillion, scheduled until March 2022). The 3-month Euribor exhibited a very slight upward trend until May, but ended the semester close to its level at the beginning of the year, at -0.54%. The euro lost 3.1% against the dollar in the first half of the year, to EUR/USD 1.1849.

In the first months of 2021, the recovery of activity and the patient posture of Central Banks supported expectations of reflation in the economies, driving up long-term market interest rates, and in the stock market, pushing up the price of the cyclical sectors. Between April and June there was a partial reversal of these movements. In the first half of the year, the yields on the 10-year Bund and Portuguese Treasury Bonds rose from -0.57% to -0.21% and from 0.03% to 0.39%, respectively, with the OT vs. Bund spread remaining flat at 60 bps. The S&P 500, Nasdaq and DAX stock market indices advanced by 14.4%, 12.5% and 13.2% respectively, in the first half of the year.

In Portugal, GDP shrank by 3.3% in the 1Q21, or 5.4% YoY, reflecting the effects of a new confinement forced by the increase in Covid-19 cases, which peaked at the end of January. Activity picked up in the 2Q21, with GDP quarterly growth of 5%, corresponding to a YoY increase of 15.5%, benefiting from favourable base effects and the gradual reopening of the economy. Activity in manufacturing and retail trade resumed pre-pandemic levels at the end of the first semester, and the same happened with exports of goods. However, the recovery of the services sector was held back, mainly due to the pandemic's negative impact on tourism. In May 2021, overnight stays by residents and non-residents had fallen by 22.3% and 83.8% compared to the same month in 2019 (i.e. before the pandemic).

Temporary support measures to businesses and the labour market, including loan moratoria, a simplified layoff scheme and gradual support to the recovery of activity, mitigated the economic impacts of the pandemic. The unemployment rate rose from 6.9% to 7.2% of the labour force. House prices decelerated in 1Q21, with year-on-year growth falling from 8.6% to 5.2%, but the real estate market remained resilient, with signs of recovery in 2Q21.

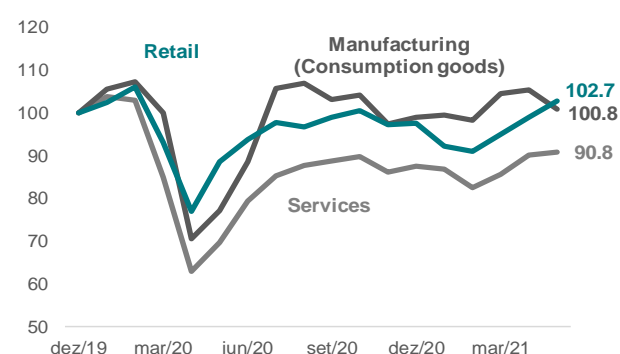
Market Performance

Equity Market	YTD
Dow Jones	12.7
S&P 500	14.4
Nasdaq	12.5
Euro Stoxx 600	13.5
IBEX	9.3
PSI 20	2.8

Sovereign Bonds (Yield %)	2 yrs	5 yrs
Portugal	-0.60%	-0.32%
Germany	-0.66%	-0.59%
United States	0.25%	0.89%

Sovereign Bonds (Performance bps)	2 yrs	5 yrs
Portugal	12.8	11.4
Germany	3.8	15.0
United States	12.8	52.7

Portugal - Sectoral Activity (Dec.2019=100)



RELEVANT FACTS IN THE PERIOD AND SUBSEQUENT EVENTS

- On 9 July NOVO BANCO announced a voluntary “Tender Offer and Solicitation Memorandum” for bonds issued by Novo Banco, S.A. Luxembourg and NB Finance. The deadline for early participation ended on 28 July. In the Offer were tendered ZC bonds corresponding to €161mn repurchase amount, equivalent to an estimated book value of €88mn. More information available at: www.bourse.lu/notices
- On 13 July, NOVO BANCO issued €300mn of senior preferred debt, with a 3 year tenor and the option of early redemption by the Bank at the end of year 2. The notes were subscribed at 100% price and have an annual interest rate of 3.5% in the first 2 years, and 3-month Euribor plus a margin thereafter. The issue was placed exclusively with institutional investors and settlement will take place on 23 July 2021. This inaugural senior issuance is part of the funding plan designed to meet the Minimum Requirements for own funds and Eligible Liabilities (“MREL”) requirements and will improve the funding profile of NOVO BANCO.

MAIN HIGHLIGHTS	30-Jun-20	30-Jun-20 Pro-forma* (exc. Spain)	31-Dec-20	30-Jun-21
ACTIVITY (mn€)				
Net Assets	45 169	45 169	44 396	45 887
Customer Loans (gross)	27 436	25 696	25 217	24 986
Customer Deposits	28 793	26 722	26 093	26 875
Equity	3 494	3 494	3 147	3 239
SOLVENCY ⁽³⁾				
Common Equity/Tier I / Risk Weighted Assets ⁽³⁾	12.0%	12.0%	10.9% ⁽⁴⁾	10.9%
Tier I / Risk Weighted Assets ⁽³⁾	12.0%	12.0%	10.9% ⁽⁴⁾	10.9%
Total Capital / Risk Weighted Assets ⁽³⁾	13.5%	13.5%	12.8% ⁽⁴⁾	12.8%
Leverage Ratio	7.3%	7.3%	6.2% ⁽⁴⁾	6.2%
LIQUIDITY (mn€)				
European Central Bank Funding ⁽²⁾	3 846	3 846	4 740	2 656
Eligible Assets for Repo Operations (ECB and others), net of haircut	15 760	15 760	16 684	17 048
(Total Credit - Credit Provision) / Customer Deposits ⁽¹⁾	89%	89%	90%	87%
Liquidity Coverage Ratio (LCR)	155%	155%	140% ⁽⁴⁾	150%
Net Stable Funding Ratio (NSFR)	114%	114%	112% ⁽⁴⁾	112%
ASSET QUALITY				
Overdue Loans > 90 days / Customer Loans (gross)	3.7%	3.6%	2.4%	2.3%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	10.2%	10.4%	8.9%	7.3%
Credit Provision / Overdue Loans > 90 days	186.6%	197.0%	262.2%	255.6%
Credit Provision / Customer Loans (gross)	6.9%	7.1%	6.3%	5.9%
Cost of Risk	2.11%	2.19%	2.08%	0.68%
PROFITABILITY				
Net Income for the Period (mn€)	-555.3	-555.3	-1329.3	137.7
Income before Taxes and Non-controlling interests / Average Net Assets ⁽¹⁾	-2.4%	-2.4%	-2.9%	0.7%
Banking Income / Average Net Assets ⁽¹⁾	1.4%	1.3%	1.4%	2.2%
Income before Taxes and Non-controlling interests / Average Equity ⁽¹⁾	-26.7%	-26.7%	-32.0%	9.9%
EFFICIENCY				
Operating Costs / Banking Income ⁽¹⁾	72.6%	72.9%	69.9%	41.7%
Operating Costs / Commercial Banking Income	56.5%	55.3%	52.2%	48.1%
Staff Costs / Banking Income ⁽¹⁾	40.8%	41.3%	39.7%	24.1%
EMPLOYEES (No.)				
Total	4 855	4 668	4 582	4 470
- Domestic	4 646	4 646	4 560	4 448
- International	209	22	22	22
BRANCH NETWORK (No.)				
Total	386	376	359	349
- Domestic	375	375	358	348
- 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

(4) Updated values

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

thousands of Euros

	30.06.2021	30.06.2020
Interest Income	370 383	368 626
Interest Expenses	(81 126)	(97 816)
Net Interest Income	289 257	270 810
Dividend income	5 359	9 925
Fees and commissions income	157 327	160 168
Fees and commissions expenses	(24 561)	(26 341)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	10 832	84 826
Gains or losses on financial assets and liabilities held for trading	18 972	(71 877)
Gains or losses on financial assets mandatorily at fair value through profit or loss	30 125	(294 875)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	81	(7)
Gains or losses from hedge accounting	8 192	(10 948)
Exchange differences	13 438	(15 636)
Gains or losses on derecognition of non-financial assets	1 308	(63)
Other operating income	48 661	51 178
Other operating expenses	(63 161)	(94 257)
Operating Income	495 830	62 903
Administrative expenses	(187 775)	(212 740)
<i>Staff expenses</i>	(117 628)	(129 194)
<i>Other administrative expenses</i>	(70 147)	(83 546)
Cash contributions to resolution funds and deposit guarantee schemes	(40 535)	(35 048)
Depreciation	(16 364)	(17 322)
Provisions or reversal of provisions	23 570	(36 951)
<i>Commitments and guarantees given</i>	18 610	7 326
<i>Other provisions</i>	4 960	(44 277)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(101 006)	(291 207)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	969	(1 105)
Impairment or reversal of impairment on non-financial assets	(12 730)	(22 019)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	953	386
Profit or loss before tax from continuing operations	162 912	(553 103)
Tax expense or income related to profit or loss from continuing operations	(21 115)	(4 487)
<i>Current tax</i>	(4 409)	2 710
<i>Deferred tax</i>	(16 706)	(7 197)
Profit or loss after tax from continuing operations	141 797	(557 590)
Profit or loss from discontinued operations	(1 411)	788
Profit or loss for the period	140 386	(556 802)
Attributable to Shareholders of the parent	137 707	(555 303)
Attributable to non-controlling interests	2 679	(1 499)
	140 386	(556 802)

NOVO BANCO, S.A.

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

	thousands of Euros	
	30.06.2021	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	4 897 885	2 695 459
Financial assets held for trading	372 135	655 273
Financial assets mandatorily at fair value through profit or loss	923 298	960 962
Financial assets at fair value through other comprehensive income	7 717 445	7 907 587
Financial assets at amortised cost	25 956 767	25 898 046
Securities	2 399 431	2 229 947
Loans and advances to banks	86 900	113 795
Loans and advances to customers	23 470 436	23 554 304
Derivatives – Hedge accounting	14 756	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	40 171	63 859
Investments in subsidiaries, joint ventures and associates	86 393	93 630
Tangible assets	789 825	779 657
Tangible fixed assets	198 663	187 052
Investment properties	591 162	592 605
Intangible assets	53 895	48 833
Tax assets	673 545	775 498
Current Tax Assets	610	610
Deferred Tax Assets	672 935	774 888
Other assets	2 921 067	2 944 292
Non-current assets and disposal groups classified as held for sale	1 439 924	1 559 518
TOTAL ASSETS	45 887 106	44 395 586
LIABILITIES		
Financial liabilities held for trading	418 523	554 791
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	39 194 843	37 808 767
Deposits from central banks and other banks	10 518 880	10 102 896
Due to customers	27 199 223	26 322 060
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 035 532	1 017 928
Other financial liabilities	441 208	365 883
Derivatives – Hedge accounting	52 349	72 543
Provisions	322 887	384 382
Tax liabilities	15 014	14 324
Current Tax liabilities	10 585	9 203
Deferred Tax liabilities	4 429	5 121
Other liabilities	523 669	417 762
Liabilities included in disposal groups classified as held for sale	2 121 016	1 996 382
TOTAL LIABILITIES	42 648 301	41 248 951
EQUITY		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	(964 669)	(823 420)
Retained earnings	(8 577 074)	(7 202 828)
Other reserves	6 711 831	6 570 153
Profit or loss attributable to Shareholders of the parent	137 707	(1 329 317)
Minority interests (Non-controlling interests)	31 010	32 047
TOTAL EQUITY	3 238 805	3 146 635
TOTAL LIABILITIES AND EQUITY	45 887 106	44 395 586

GLOSSARY

Income Statement

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

Balance Sheet / Liquidity

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

Asset Quality and Coverage Ratios

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

GLOSSARY

Efficiency and Profitability Ratios

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

€mn: million euros

€bn: billion euros

pp: percentage points

bps: basis points

QoQ: quarter-on-quarter

YoY: year-on-year