

NOVO BANCO GROUP ACTIVITY AND RESULTS

1st Half 2019

(Unaudited financial information)

"NOVO BANCO – a leading bank in both retail and SME corporate - continues to deliver on its targets. The underlying performance shows increasing net interest margin and growth in our retail and corporate loan books.

We are making progress towards executing our non-performing exposures reduction strategy.

The economy is supportive and continues to provide opportunities for our retail and business customers."

António Ramalho, CEO

As in 2018, NOVO BANCO discloses its 1st Half of 2019 financial results (unaudited) presenting separately the financial results of NOVO BANCO Recurrent, which include all the core banking activity, and those of NOVO BANCO Legacy and the combined group. NOVO BANCO considers that differentiating between NOVO BANCO Recurrent and NOVO BANCO Legacy will allow customers and other stakeholders to better understand the progress of the Bank's ongoing restructuring.

HIGHLIGHTS:

- **Growth of recurrent loan volumes (+3.1%; +€713 million), building on the positive trend achieved in the first quarter of 2019 (+0.7%; +€168 million), with increases in both retail and corporate portfolios, reflex of normalization of the activity.**

Corporates +3.1%; Residential Mortgage +3.1%; Consumer and other +2.9%

- **Progress to sustainable profitability.**

Recurrent net income +€113.4 million (Jun.18: +€28.6 million); Recurrent net interest income €236.0 million (Jun.18: €188.5 million).

- **Continued focus on costs control while investing in our network and digitally enabled Bank.**

Recurrent operating costs €235.9 million (Jun.18: €231.6 million).

- **Ongoing progress in reducing non-performing exposures.**

Reduced non-performing loans in €471 million (-7.0%) and real estate assets in €478 million (-23.5%).

NOVO BANCO remains on track to deliver its targets and commitments. In the six months, the Bank continued to make progresses on its strategic priorities, with a positive financial result in recurrent activity. In its Legacy segment the Bank continued to meet its deleveraging targets.

NOVO BANCO RECURRENT

RESULTS

In the 1st Half of 2019 NOVO BANCO Recurrent operation reported a positive net income of +€113.4 million (+€28.6 million the 1st Half of 2018). This reflects the continuing focus on the core domestic and Iberian banking business.

The year-on-year (YoY) increase, €84.8 million, was driven by the growth of net interest income (+€47.5 million) and capital markets results (+€43.0 million).

Income Statement	mn€		
	1H2018 *	Recurrent 1H2019	Chg. %
Net Interest Income	188.5	236.0	25.2
+ Fees and Commissions	156.4	150.7	- 3.7
= Commercial Banking Income	344.9	386.7	12.1
+ Capital Markets Results	4.9	47.9	...
+ Other Operating Results	- 4.4	- 20.8	...
= Banking Income	345.4	413.9	19.8
- Operating Costs	231.6	235.9	1.9
= Net Operating Income	113.8	178.0	56.4
- Net Impairments and Provisions	0.8	68.2	...
Credit	17.9	67.2	...
Securities	12.2	- 0.9	...
Other Assets and Contingencies	- 29.3	2.0	...
= Income before Taxes	113.1	109.7	- 2.9
Corporate Income Tax and Special Tax on Banks	84.2	-5.5	...
= Income after Taxes	28.8	115.3	...
= Non-Controlling Interests	0.2	1.9	...
= Net Income	28.6	113.4	...

* Data as of 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

Net interest income increased from €188.5 million to €236.0 million, benefitted from the positive contribution of the optimisation measures implemented in 2018.

NET INTEREST INCOME AND NET INTEREST MARGIN	1H2018			1H2019		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	33 295	1.98%	326	34 357	1.90%	328
Customer Loans	22 661	2.57%	289	23 451	2.30%	271
Other financial assets	10 634	0.71%	38	10 906	1.03%	57
Money Market Placements	2 195	0.00%	0	1 065	0.00%	0
Securities and Other Assets	8 439	0.90%	38	9 840	1.15%	57
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-
INTEREST EARNING ASSETS AND OTHER	33 295	1.98%	326	34 357	1.90%	328
INTEREST BEARING LIABILITIES AND OTHER	33 295	0.88%	145	34 357	0.50%	87
NIM /NII (w ithout stage 3 impairment adjustment)		1.10%	181		1.39%	241
Stage 3 impairment			- 12			- 5
NIM / NII		1.03%	169		1.37%	236

Similarly, and as a result of that liability management exercise, the cost of funding decreased from 0.88% to 0.50%. The interest rate on assets decreased 8bps (from 1.98% to 1.90%), with the interest rate on customer loans standing at 2.30% (2.57% in the 1st Half of 2018) reflecting the competitive market in retail and corporate. While growing our portfolios, NOVO BANCO remains focused on pricing discipline. The resulting net interest margin for the first six months of the year was 1.37% (+34 bps compared to the 1st Half of 2018).

Fees and commissions on banking services contributed €150.7 million to the results, which compares with €156.4 million in June 2018.

The **Capital markets results** reached €47.9 million, reflecting the gains on the sale and revaluation of securities, in particular sovereign debt securities.

Operating costs totalled €235.9 million, reflecting continued cost control even as the Bank invests in its network and in creating a digitally enabled Bank.

Core operating income (commercial banking income – operating costs) increased by €37.5 million year-on-year, to €150.8 million at the end of the 1st Half of 2019.

ACTIVITY

Assets increased by €1,588 million (+4.2%) with customer loans growing by 3.1% (+€713 million), building on the positive trend achieved in the first quarter of 2019 (+0.7%; +€168 million), with increases in all loan portfolios (loans to individuals and corporate loans). The growth in corporate loans reflects the continued support to domestic companies, across all economic sectors (namely industry, retail, real estate activities and tourism and services), with a special focus on SMEs.

	mn€				
	30-Jun-18*	31-Dec-18	30-Jun-19	YtD Change	
				absolute	relative
Customer loans	22 010	22 465	23 086	621	2.8%
Real estate	281	374	325	- 49	-13.1%
Other assets	16 818	14 777	15 793	1 016	6.9%
Total Net Assets	39 109	37 616	39 204	1 588	4.2%
Total Liabilities and Equity	39 109	37 616	39 204	1 588	4.2%

* Data as at 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

CUSTOMER LOANS	mn€				
	30-Jun-18	31-Dec-18	30-Jun-19	YtD Change	
				absolute	relative
Customer Loans (gross)	22 732	23 077	23 790	713	3.1%
Corporate	12 267	12 447	12 836	389	3.1%
Residential Mortgage	9 212	9 329	9 616	287	3.1%
Consumer finance and other	1 253	1 301	1 338	37	2.9%
Non-Performing Loans (NPL)*	1 385	1 309	1 383	74	5.6%
Impairment	721	612	704	92	15.0%
NPL Ratio*	5.5%	5.4%	5.6%	0.2 p.p.	...
NPL coverage*	52.0%	46.8%	50.9%	4.2 p.p.	...
Cost of Risk (bps)	31	17	56	39	...

* Includes Loans and advances to banks and Customer Loans

NOVO BANCO LEGACY

In line with the medium-term strategy of deleverage of legacy assets, NOVO BANCO Legacy reported a loss of -€513.5 million, which includes €340 million of losses related to sales of assets (notably the projects Sertorius, Albatroz and GNB Vida).

Income Statement	Legacy	
	1H2018 *	1H2019
Net Interest Income	32.5	26.5
+ Fees and Commissions	2.6	1.6
= Commercial Banking Income	35.2	28.1
+ Capital Markets Results	- 11.2	- 37.7
+ Other Operating Results	- 4.5	- 82.5
= Banking Income	19.5	-92.1
- Operating Costs	12.6	7.2
= Net Operating Income	6.8	-99.3
- Net Impairments and Provisions	247.6	446.7
Credit	181.7	99.5
Securities	- 1.7	- 3.7
Other Assets and Contingencies	67.6	351.0
= Income before Taxes	- 240.8	- 546.0
Corporate Income Tax and Special Tax on Banks	0.0	- 16.6
= Income after Taxes	- 240.8	- 529.4
= Non-Controlling Interests	0.0	- 15.9
= Net Income	- 240.8	- 513.5

* Data as of 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

The NOVO BANCO Legacy assets decreased by 6.6% relative to December 2018, underpinned by reductions in the net loan book and in real estate of -€200 million (-8.7%) and -€429 million (-25.8%), respectively.

	30-Jun-18*	31-Dec-18	30-Jun-19	YtD Change	
				absolute	relative
Customer loans	3 159	2 289	2 089	- 200	-8.7%
Real estate	2 080	1 661	1 232	- 429	-25.8%
Other assets	7 147	6 708	6 634	- 74	-1.1%
Total Net Assets	12 386	10 658	9 955	- 703	-6.6%
Total Liabilities and Equity	12 386	10 658	9 955	- 703	-6.6%

* Data as at 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

There are no liabilities directly allocated to the legacy activity, therefore the funding costs for legacy loans and real estate, are calculated based on the average balance sheet funding rate (0.50%).

CUSTOMER LOANS	30-Jun-18	31-Dec-18	30-Jun-19	YtD Change	
				absolute	relative
Customer Loans (gross)	7 989	5 635	5 133	- 502	-8.9%
Corporate	7 067	5 148	4 683	- 465	-9.0%
Residential Mortgage	549	220	211	- 9	-4.2%
Consumer finance and other	373	267	239	- 28	-10.4%
Non-Performing Loans (NPL)*	7 891	5 429	4 885	- 544	-10.0%
Impairment	4 830	3 346	3 044	- 302	-9.0%

* Includes Loans and advances to banks and Customer Loans

NOVO BANCO GROUP RESULTS

NOVO BANCO Group reported a net loss of €400.1 million in the 1st Half of 2019, this reflects the combined €513.5 million loss in legacy activity and €113.4 million gain in recurrent activity. In the first six months of 2019, NOVO BANCO Group recorded losses related to the restructuring process and the deleveraging of non-performing assets, namely project Sertorius (real estate), project Albatroz in Spain, and the sale process of GNB Vida, with a negative impact of €340 million.

mn€			
INCOME STATEMENT	1H2018 *	1H2019	% Change
Net Interest Income	221.0	262.5	18.8%
+ Fees and Commissions	159.0	152.3	-4.2%
= Commercial Banking Income	380.1	414.8	9.1%
+ Capital Markets Results	- 6.3	10.2	...
+ Other Operating Results	- 8.9	- 103.3	...
= Banking Income	364.9	321.8	-11.8%
- Operating Costs	244.2	243.1	-0.4%
= Net Operating Income	120.7	78.7	-34.8%
- Net Impairments and Provisions	248.4	514.9	...
Credit	199.6	166.7	-16.5%
Securities	10.5	- 4.7	...
Other Assets and Contingencies	38.3	353.0	...
= Income before Taxes	- 127.7	- 436.3	...
- Corporate Income Tax	57.0	- 49.3	...
- Special Tax on Banks	27.3	27.1	-0.5%
= Income after Taxes	- 212.0	- 414.1	-95.4%
- Non-Controlling Interests	0.2	- 14.0	...
= Net Income	- 212.2	- 400.1	-88.5%

* Data as of 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017. This restatement aims to ensure the comparability and consistency of the data presented for the 1st Half of 2019 and 2018.

The combined activity in the first six months of 2019 includes the following:

- Commercial banking income reached €414.8 million (+9.1% YoY), supported by the increase in net interest income (+18.8%);
- Capital markets results were positive, at €10.2 million, reflecting the gains on the sale and revaluation of sovereign debt securities but also included losses resulting from legacy activity (-€37.7 million);

- Operating costs decreased by 0.4% YoY, to €243.1 million, underpinned by the improvements made in simplifying processes and streamlining the organization, with the consequent reduction in the number of branches and employees. The Bank has also reduced costs in the legacy segment.
- The provision charges in the period, totalling €514.9 million, includes credit impairments amounting to €166.7 million, -€4.7 million for securities and €353.0 million for other assets and contingencies, of which €35.1 million are provisions for restructuring, €228.7 million are related with projects for the sale of non-performing assets (project Sertorius and project Albatroz in Spain), and €58.0 million are provisions for GNB Vida.

Net Interest Margin

The reduction in the interest rate on liabilities (-32bps) contributed to the increase in the net interest margin by 34bps YoY (from 0.96% to 1.30%), with the interest rate on assets decreasing by 2bps (from 1.84% to 1.82%), that also includes the net interest income of legacy assets.

NET INTEREST INCOME AND NET INTEREST MARGIN	1H2018			2018			1H2019		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	42 276	1.84%	385	42 285	1.75%	752	40 049	1.82%	367
Customer Loans	31 089	2.16%	333	30 722	2.06%	643	28 776	2.07%	299
Money Market Placements	2 658	0.95%	12	2 610	0.83%	22	1 367	1.36%	9
Securities and Other Assets	8 529	0.93%	39	8 952	0.95%	87	9 906	1.18%	59
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-	-	-	-
INTEREST EARNING ASSETS AND OTHER	42 276	1.84%	385	42 285	1.75%	752	40 049	1.82%	367
INTEREST BEARING LIABILITIES	38 248	0.90%	171	38 404	0.73%	284	37 727	0.53%	100
Customer Deposits	28 844	0.90%	128	28 836	0.66%	194	27 931	0.36%	50
Money Market Funding	8 322	0.38%	16	8 470	0.30%	26	8 724	0.30%	13
Other Liabilities	1 082	5.05%	27	1 098	5.73%	64	1 073	6.72%	36
OTHER NON-INTEREST BEARING LIABILITIES	4 027	-	-	3 881	-	-	2 322	-	-
INTEREST BEARING LIABILITIES AND OTHER	42 276	0.82%	171	42 285	0.66%	284	40 049	0.50%	100
NIM / NII <small>(without stage 3 impairment adjustment)</small>		1.02%	214		1.09%	468		1.33%	267
Stage 3 impairment			- 12			- 14			- 5
NIM / NII		0.96%	202		1.06%	454		1.30%	262

The average rate on customer loans, the main component of financial assets (71.9%), was 2.07%. As for liabilities, the average balance of deposits was €27.9 billion, with an average interest rate of 0.36%. The Bank therefore continued to build the spread between interest earning assets (1.82%; Dec. 2018: 1,75%) and the cost of liabilities (0.50%; Dec. 2018: 0,66%).

Fees and Commissions

Fees and commissions on banking services contributed €152.3 million to the results, which compares with €159.0 million in June 2018.

	mn€		
FEES AND COMMISSIONS	1H2018	1H2019	% Chg.
Payments Management	57.9	58.2	0.5%
Commissions on Loans, Guarantees and Similar	58.5	50.7	-13.4%
Asset Management and Bancassurance	32.6	33.5	2.8%
Advising, Servicing and Other	10.0	10.0	-0.7%
TOTAL	159.0	152.3	-4.2%

While payments, asset management and advisory remained stable, the decrease in commissions on loans and guarantees reflects the competitive corporate market.

Capital Markets and Other Operating Results

Capital markets results were positive, at €10.2 million, reflecting the gains on the sale and revaluation of sovereign debt securities and includes the losses resulting from legacy activity (-€37.7 million);

The other operating results include, apart from the losses related with project Sertorius (€71.6 million), the costs with the contributions to the Single Resolution Fund (€22.5 million) and to the Portuguese Resolution Fund (€12.2 million).

Operating Costs

Operating costs show a YoY reduction of 0.4%, reflecting the restructuring measures associated with the downsizing of the distribution network and simplification and scaling down of the organisational structure and processes, with the consequent reduction of the headcount.

	mn€					
OPERATING COSTS	1H2015	1H2016	1H2017	1H2018	1H2019	% Chg. YoY
Staff Costs	204.4	157.0	142.8	133.9	133.4	-0.3%
General and Administrative Costs*	149.1	118.2	101.0	99.1	92.7	-6.5%
Depreciation*	43.5	29.0	21.4	11.2	17.0	51.8%
TOTAL	397.0	304.2	265.2	244.2	243.1	-0.4%

* The adoption of IFRS 16 led to an increase of €8.8 million in Depreciation and to a decrease of the same amount in General and Administrative Costs.

Staff costs amounted to €133.4 million (-0.3% YoY), with an associated headcount reduction of 103 employees since 31 December 2018. As at 30 June 2019, NOVO BANCO Group had 4,993 employees.

General and administrative costs dropped by 6.5% YoY, to €92.7 million. This reduction, which occurred across most cost lines, reflects the continued rationalisation and streamlining processes.

At 30 June 2019 the branch network comprised 401 branches.

Impairments and Provisions

NOVO BANCO Group increased provisions by €514.9 million (€266.5 million more than at June 2018), of which €166.7 million for credit (€32.9 million reduction YoY), €353.0 million for other assets and contingencies, including €35.1 million for restructuring, €228.7 million related to projects for the sale of non-performing assets (projects Sertorius and Albatroz) and €58.0 million for GNB Vida.

mn€			
NET IMPAIRMENTS AND PROVISIONS	1H2018	1H2019	% Chg.
Customer Loans	199.6	166.7	-16.5%
Securities	10.5	-4.7	...
Other Assets and Contingencies	38.3	353.0	...
TOTAL	248.4	514.9	...

Net impairments and provisions include €446.7 million related to the legacy activity which represents 87% of the total of NOVO BANCO Group.

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, placing a particular focus on the exporting small and medium-sized companies in the industry, retail, real estate activities and tourism, and services sectors and those that incorporate innovation in their products, services or production systems.

CUSTOMER LOANS	30-Jun-18	31-Dec-18	30-Jun-19	YtD Change	
				absolute	relative
Corporate Lending	19 334	17 595	17 519	- 76	-0.4%
Loans to Individuals	11 387	11 117	11 404	287	2.6%
Residential Mortgage	9 761	9 550	9 827	277	2.9%
Other Loans	1 626	1 568	1 577	9	0.6%
Customer Loans (gross)	30 720	28 712	28 923	211	0.7%
Provisions	5 551	3 958	3 748	- 210	-5.3%
Customer Loans (net)	25 169	24 754	25 175	421	1.7%

Gross customer loans increased by €0.2 billion relative to December 2018. The reduction in corporate loans in the 1st Half of 2019 was mainly focused on non-performing loans, mainly from legacy activity, which decreased by €0.5 billion. In the recurrent activity, the loan volumes increased +3.1% showing an improvement in both portfolios of individuals and companies, reflecting the normalization of activity.

The main credit risk indicators showed an improvement compared to December 2018.

ASSET QUALITY AND COVERAGE RATIOS	30-Jun-18	31-Dec-18	30-Jun-19	YtD Change	
				absolute	relative
Overdue Loans > 90 days	4 910	3 464	3 228	- 236	-6.8%
Non-Performing Loans (NPL)*	9 277	6 739	6 268	- 471	-7.0%
Overdue Loans > 90 days / Customer Loans (gross)	16.0%	12.1%	11.2%	-0.9 p.b	
Non-Performing Loans (NPL) / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	27.6%	22.4%	20.7%	-1.7 p.b	
Credit Provisions / Customer Loans	18.1%	13.8%	13.0%	-0.8 p.b	
Coverage of Overdue Loans > 90 days	113.1%	114.3%	116.1%	1.8 p.b	
Coverage of Non-Performing Loans	60.7%	59.9%	61.0%	1.2 p.b	

* Includes Deposits with banks and Loans and advances to banks

The reduction of overdue loans by more than 90 days and of non-performing loans (including deposits with banks and loans and advances to banks) improved the respective asset quality ratios to 11.2% and 20.7%, respectively, at the end of June 2019. The coverage of non-performing loans by impairments (including deposits with banks and loans and advances to banks) remains stable of 61.0%.

Provisions for credit amounted to €3.7 billion, representing 13.0% of the total loan book.

FUNDING

As at 30 June 2019 total customer funds amounted to €34.6 billion, with off-balance sheet funds having increased by 9.9% YtD.

TOTAL FUNDS	30-jun-18 *	31-Dec-18	30-Jun-19	YtD Change	
				absolute	relative
				mri€	
Deposits	29 221	28 350	27 821	- 528	-1.9%
Other Customer Funds ⁽¹⁾	521	346	463	118	34.0%
Debt Securities ⁽²⁾	719	689	682	- 7	-1.0%
Subordinated Debt	400	415	432	17	4.1%
Sub -Total	30 861	29 799	29 399	- 401	-1.3%
Off-Balance Sheet Funds	5 062	4 769	5 239	471	9.9%
Total Funds	35 923	34 568	34 638	70	0.2%

* Data as at 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

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

(2) Includes funds associated to consolidated securitisation operations

LIQUIDITY

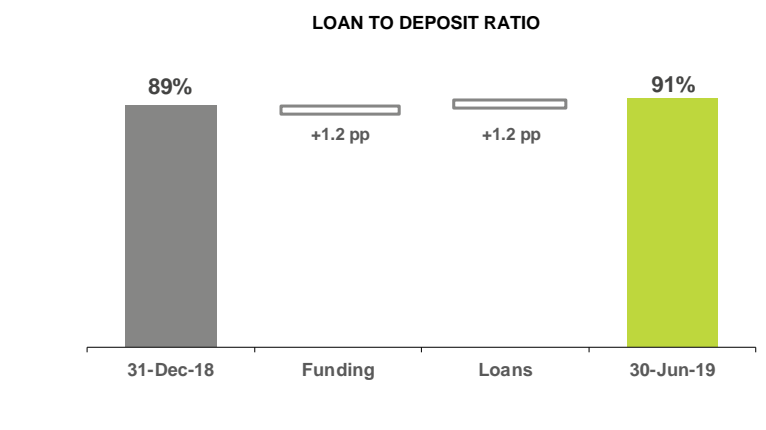
Customer deposits decreased by €0.5 billion, to €27.8 billion at the end of the 1st Half of 2019, reflecting the reduction in interest rate on deposits and the Group strategy of offering off balance sheet alternative to its customers.

NOVO BANCO thus maintained a comfortable liquidity position, with the regulatory Liquidity Coverage Ratio (LCR) rising to 130% at 30 June 2019, from 125% at the end of 2018. The Net Stable Funding Ratio (NSFR) was 106% (Dec. 2018: 106%).

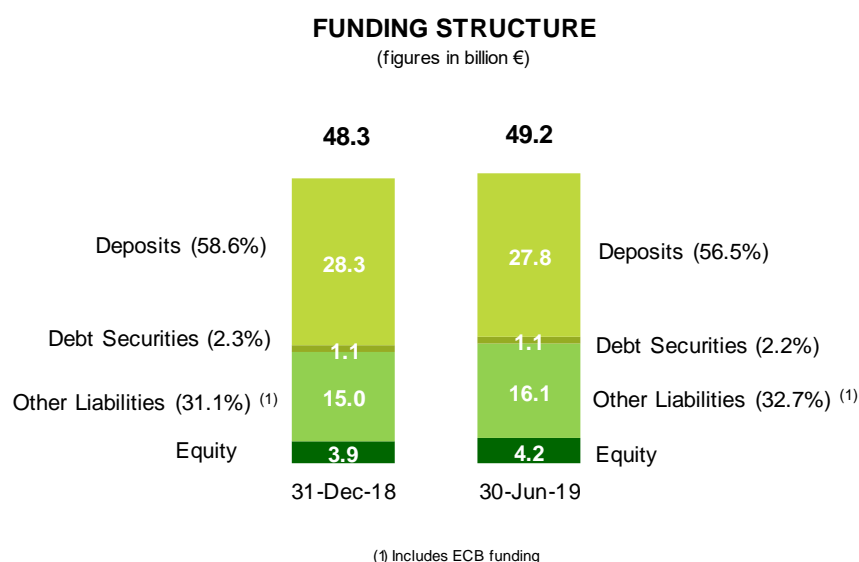
The loan to deposit ratio slightly increased compared to 31 December 2018, standing at 91%.

The portfolio of eligible assets for rediscount with the European Central Bank totalled €15.4 billion (net of haircuts) as at 30 June 2019, which compares with €14.6 billion at the end of 2018. 89% of the liquidity buffer is highly liquid assets and remains at a high level.

Ratings upgraded by Moody's Investor Service, notably the Long-Term Deposits rating to B2, and by DBRS Rating GmbH to BB (low), assigning a positive outlook to all long-term ratings.



Customer deposits remain the main source of balance sheet funding, accounting for 61.8% of total liabilities (excluding Equity) and 56.5% of total assets.



CAPITAL

NOVO BANCO's Common Equity Tier 1 (CET1) and Tier 1 ratios are protected at pre-established levels up to the amount of losses already recorded on the assets protected by the Contingent Capital Agreement.

The estimated capital compensation amount is €541 million for the first six months of 2019. The compensation amount to be requested for 2019 will only be definitive at the end of the year, taking into account the losses, recoveries and the regulatory requirements for capital ratios in force at the end of 2019.

At 30 June 2019 the CET1 ratio was 13.5% (31-Dec-2018: 12.8%), and the total capital ratio was 15.1% (31-Dec-2018: 14.5%), representing an increase compared to the end of 2018 due to the increase in capital reserves applicable to NOVO BANCO on a sub-consolidated basis.

As at 30 June 2019, NOVO BANCO complied with all capital ratios required by the European Central Bank (ECB) under the Supervisory Review and Evaluation Process (SREP).

CAPITAL RATIOS (CRD IV/CRR)		m€	
		31-Dec-18	30-Jun-19 ⁽¹⁾
Risk Weighted Assets	(A)	29 874	30 733
Own Funds			
Common Equity Tier 1	(B)	3 808	4 150
Tier 1	(C)	3 809	4 151
Total Own Funds	(D)	4 328	4 648
Common Equity Tier 1 Ratio	(B/A)	12.8%	13.5%
Tier 1 Ratio	(C/A)	12.8%	13.5%
Solvency Ratio	(D/A)	14.5%	15.1%
Leverage Ratio		8.2%	8.8%

⁽¹⁾ Provisional data

ECONOMIC ENVIRONMENT

The first half of 2019 saw the extension of the cycle of expansion of global economic activity, though with a growing focus on signs of deceleration. Growth in the major economies converged towards or below trend, mainly due to the constraints associated with the advanced phase of the cycle (e.g. increased scarcity of resources, rising production costs) and also with the impact of trade tensions, particularly between the US and China. These tensions negatively affected international trade flows, industrial output and investment by the main economic areas.

With inflation and inflation expectations remaining subdued, the main central banks exhibited a more cautious stance in their monetary policies during the first half of the year. In the US, the Fed abandoned the expectation of two rate hikes previously stated in December 2018 and signalled its intent to make a preventive cut of the target fed funds rate in the second half of 2019. In turn, the ECB announced a new series of long-term liquidity injection operations (TLTRO-III) and, citing downside risks to the outlook, suggested the possibility of new policy stimuli, which could include the return of the asset purchase programme or new policy rate cuts. In this context, the 3-month Euribor fell from -0.309% to -0.345%, while the 10-year *Bund* yield retreated from 0.242% to -0.327%. The 10-year Treasury yield fell from 2.685% to 2.006%, while the US yield curve (10Y-3m) inverted during part of the 1st half of the year. With the Fed more dovish on rates, the euro appreciated against the dollar in the 2nd quarter, but ended up falling by 0.8% against the American currency between January and June.

Although confidence levels were penalised by fears of trade wars, the main equity indices reported significant gains in the first half of 2019, benefiting from a combination of growing economic activity with persistently low interest rates. In the US, the Dow Jones, S&P 500 and Nasdaq indices gained 14%, 17.4% and 20.7%, respectively. In Europe, the DAX, CAC40 and IBEX rose by 17.4%, 17.1% and 7.7%.

In Portugal, growth proved resilient during the 1st half of the year, mainly supported by the vigour of domestic demand and in particular of investment. GDP grew by 0.5% in the 1st quarter, or by 1.8% in year-on-year terms, slightly accelerating relative to the previous quarter and apparently stabilising in the 2nd quarter. Notwithstanding the continued buoyancy of tourism activity and the favourable performance of exports of goods, the strong growth of imports resulted in a negative contribution of net external demand to GDP. The 10-year PGB yield fell from 1.72% to 0.476% in the 1st half of the year, with the spread to the German *Bund* narrowing from 148 bps to 80 bps in the period. The PSI-20 equity index advanced by 8.6% up to June.

MAIN HIGHLIGHTS	30-Jun-18 ⁽³⁾	31-Dec-18	30-Jun-19
ACTIVITY (mn€)			
Net Assets	51 495	48 274	49 159
Customer Loans (gross)	30 720	28 712	28 923
Customer Deposits ⁽³⁾	29 221	28 350	27 821
Equity ⁽³⁾	4 973	3 922	4 210
SOLVENCY ⁽⁴⁾			
Common Equity Tier I / Risk Weighted Assets	13.5%	12.8%	13.5%
Tier I / Risk Weighted Assets	13.5%	12.8%	13.5%
Total Capital / Risk Weighted Assets	14.7%	14.5%	15.1%
LIQUIDITY (mn€)			
European Central Bank Funding ⁽²⁾	4 499	5 864	5 947
Eligible Assets for Repo Operations (ECB and others), net of haircut	14 114	14 624	15 426
(Total Credit - Credit Provision) / Customer Deposits ⁽¹⁾⁽³⁾	87%	89%	91%
Liquidity Coverage Ratio (LCR) ⁽⁴⁾	138%	125%	130%
Net Stable Funding Ratio (NSFR) ⁽⁴⁾	110%	106%	106%
ASSET QUALITY			
Overdue Loans > 90 days / Customer Loans (gross)	16.0%	12.1%	11.2%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks (gross))	27.6%	22.4%	20.7%
Credit Provision / Overdue Loans > 90 days	113.1%	114.3%	116.1%
Credit Provision / Customer Loans (gross)	18.1%	13.8%	13.0%
Cost of Risk	1.30%	0.92%	1.15%
PROFITABILITY			
Net Income (mn€) ⁽³⁾	-212.2	-1412.6	-400.1
Income before Taxes and Non-controlling interests / Average Net Assets ⁽¹⁾⁽³⁾	-0.6%	-1.5%	-1.9%
Banking Income / Average Net Assets ⁽¹⁾⁽³⁾	1.4%	1.0%	1.3%
Income before Taxes and Non-controlling interests / Average Equity ⁽¹⁾⁽³⁾	-6.1%	-14.3%	-21.2%
EFFICIENCY			
Operating Costs / Banking Income ⁽¹⁾⁽³⁾	66.9%	100.6%	75.6%
Staff Costs / Banking Income ⁽¹⁾⁽³⁾	36.7%	55.0%	41.5%
EMPLOYEES (No.)			
Total	5 340	5 096	4 993
- Domestic	5 017	4 804	4 728
- International	323	292	265
BRANCH NETWORK (No.)			
Total	443	402	401
- Domestic	418	381	381
- International	25	21	20

(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) Data as at 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

(4) Provisional data for 30 June 2019

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2019 AND 30 JUNE 2018

thousand€

	30.06.2019	30.06.2018 *
Interest and similar income	369 632	382 562
Interest expense and similar charges	107 144	161 540
Net Interest Income	262 488	221 022
Dividend Income	6 086	8 025
Fee and Commission income	174 191	184 319
Fee and Commission expense	27 431	30 706
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(69 321)	(55 026)
Net gains / (losses) from assets at fair value through profit or loss mandatory	(16 054)	24 833
Net gains / (losses) from financial assets at fair value through other comprehensive income	67 293	31 091
Net gains / (losses) from foreign exchange revaluation	22 456	22 489
Net gains / (losses) from the sale of other assets	4 959	4 171
Other operating income and expenses	(132 275)	(77 946)
Operating Revenues	292 392	332 272
Staff Costs	133 410	133 867
General and Administrative Costs	92 652	99 095
Depreciation and amortisation	17 029	11 217
Provisions, net of reversals	84 096	(23 352)
Impairment losses on loans, net of reversals	166 660	199 562
Impairment losses on other financial assets, net of reversals	(4 789)	5 260
Impairment losses on other assets, net of reversals	268 980	66 940
Operating Costs	758 038	492 589
Sale of subsidiaries and associates	13	1 026
Results from associated companies consolidated by the equity method	945	3 468
Income before taxes and non-controlling interests	(464 688)	(155 823)
Corporate income tax		
Current taxes	11 123	6 444
Deferred taxes	(60 447)	50 518
	(49 324)	56 962
Income from continuing activities	(415 364)	(212 785)
Income from discontinued operations	1 258	813
Net Income for the period	(414 106)	(211 972)
Attributable to shareholders of the Bank	(400 108)	(212 217)
Attributable to Non-controlling interests	(13 998)	245
	(414 106)	(211 972)

* Data as at 30 June 2018 restated to reflect the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2019 AND AS AT 31 DECEMBER 2018

thousand€

	30.06.2019	31.12.2018
ASSETS		
Cash and deposits with central banks	719 672	701 883
Deposits with other banks	286 662	275 789
Securities held for trading	501 075	257 270
Derivatives held for trading	442 280	516 336
Loans and advances to banks	400 724	423 058
Loans and advances to customers	25 175 282	24 754 445
Securities portfolio	12 004 243	10 617 312
Derivatives held for risk management purposes	80 664	71 404
Non-current assets held for sale	1 888	1 888
Non-current assets held for sale - discontinued operations	4 236 836	4 090 358
Investment properties	871 853	1 098 071
Other tangible assets	200 295	142 494
Intangible assets	10 318	5 425
Investments in associated companies	93 683	118 698
Current tax assets	2 878	6 689
Deferred tax assets	986 845	1 196 525
Other assets	3 143 728	3 996 257
TOTAL ASSETS	49 158 926	48 273 902
LIABILITIES		
Deposits from central banks	6 536 686	6 410 461
Financial liabilities held for trading	597 010	492 953
Deposits from other banks	2 168 576	1 945 099
Due to customers	28 284 742	28 695 268
Debt securities issued	682 021	689 252
Financial liabilities related to transferred assets	44 451	44 450
Derivatives held for risk management purposes	66 190	36 150
Non-current liabilities held for sale	-	-
Non-current liabilities held for sale - discontinued operations	4 625 993	4 438 001
Provisions	402 197	425 935
Current tax liabilities	14 615	12 050
Deferred tax liabilities	6 661	6 403
Subordinated debt	431 844	414 903
Other liabilities	1 087 727	740 616
TOTAL LIABILITIES	44 948 713	44 351 541
EQUITY		
Share Capital	5 900 000	5 900 000
Other reserves and retained earnings	(1 325 877)	(600 343)
Net Income for the period attributable to the shareholders of the Bank	(400 108)	(1 412 642)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	4 174 015	3 887 015
Non-controlling interests	36 198	35 346
TOTAL EQUITY	4 210 213	3 922 361
TOTAL LIABILITIES AND EQUITY	49 158 926	48 273 902

GLOSSARY

Income Statement

Fees and Commissions	Fee and commission income less fee and commission expense.
Commercial Banking Income	Net interest income and fees and commissions.
Capital Markets Results	Dividend income, net gains / (losses) from financial assets and liabilities at fair value through profit or loss, net gains / (losses) from available-for-sale financial assets, net gains / (losses) from foreign exchange revaluation, and net gains / (losses) on the revaluation of liabilities.
Other Operating Results	Other operating income and expenses, disposal of subsidiaries and associated companies, and results from associated companies consolidated by 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.
Net Provisions	Provisions net of reversals, impairment losses on loans net of reversals, impairment losses on other financial assets net of reversals and impairment losses on other assets net of reversals.

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 and cash and deposits with banks and Loans and advances to banks
Non-performing loans coverage ratio	Ratio of impairment on customer loans (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.

€ million: million of euro

€ billion: billion of euro

p.p.: percentage points

bps: basis points

YtD: year-to-date

YoY: year-on-year