Announcement

Lisbon, 17 May 2019

# NOVO BANCO GROUP ACTIVITY AND RESULTS

## 1st Quarter 2019

(Unaudited financial information)

## PERFORMANCE OF NOVO BANCO RECURRENT

- **NOVO BANCO Recurrent reported a positive income before taxes of €85.4 million, which highlights a recovery achieved from the figure reported for the whole of 2018 (€2.2 million), as a result of the continued focus in the domestic and Iberian business and in new commercial initiatives, backed by the growth and higher profitability of its assets as well as in the diversification of funding sources.**
- **Commercial Banking Income increased by 14.1% backed by the evolution of net interest income, which increased by 33.4%, due to the optimisation measures concluded in 2018, namely those related with the reduction of cost of funding.**

## EVOLUTION OF THE ACTIVITY OF NOVO BANCO RECURRENT

- **The commercial dynamism was reflected in the 0.6% increase in customer loans in NOVO BANCO Recurrent, reflecting the continued support to the domestic companies, across all economic sectors and to all companies with a special focus on SMEs.**
- **In what regards funding, it should be highlighted the increase in off-balance sheet funds, which grew by 7.6% comparing to December 2018, leading to the diversification of the funding structure.**
- **The larger involvement of the Bank with the convenience and simplification, as exemplified by the new model for account opening through the digital mobile key, an innovation in Portugal.**

## EVOLUTION OF THE ACTIVITY OF NOVO BANCO *Legacy*

- **Maintenance of the divestment strategy, with non-performing loans (including deposits with banks and loans and advances to banks) decreasing by €308 million comparing with the end of 2018. Three operations of sale of non-performing assets are underway, namely project NATA II (sale of NPLs), project Sertórius (real estate) and project Albatroz in Spain (NPLs and real estate).**

- **Income before taxes of NOVO BANCO Legacy, impacted by the provisions for restructuring, and for the project of sale of non-performing assets in Spain (project Albatroz), was negative in €142.0 million.**
- **NOVO BANCO Legacy total assets reduced by 0.3% as a consequence of the divestment of assets with higher risk (loans to customers, securities and real estate), while GNB Vida remained classified as assets for sale.**

## COMBINED ACTIVITY: NOVO BANCO CONSOLIDATED

- **Liquidity at comfortable levels, with loan to deposit ratio of 90% and capital markets access re-established.**
- **DBRS Rating GmbH (DBRS) considered that there was an improvement in NOVO BANCO's risk profile, and in 2019, it upgraded the long term ratings of the Bank, from which it should be highlighted the upgrade of the long term deposits rating to BB (low) from B at the end of 2018. DBRS maintains a positive trend for all the long term ratings and for the subordinated debt of NOVO BANCO.**
- **In combined terms, NOVO BANCO posted a loss of €93.1 million in the 1st quarter 2019, in line with the Strategic Plan and** the **commitments made to the European Authorities.**

Similarly to 2018, NOVO BANCO announces 1st quarter 2019 financial results (unaudited) presenting separately the financial results of NOVO BANCO Recurrent, which includes the core banking activity, and NOVO BANCO Legacy, which includes customer loans not only those included in the Contingent Capital Agreement but also other loans, securities, (non-yielding) real estate, and discontinued operations, considered in the majority as non-strategic in the commitments assumed to DGCOMP after the resolution.

NOVO BANCO believes that differentiating between NOVO BANCO Recurrent and NOVO BANCO Legacy results will help customers and other stakeholders to assess the progress of the Bank's ongoing restructuring.

## NOVO BANCO RECURRENT

### Results

NOVO BANCO continued to focus on the core domestic and Iberian banking business, as well as new commercial initiatives, based on growing and higher profitability of its assets. As a result, in 1st quarter 2019, NOVO BANCO Recurrent reported a positive income before taxes of €85.4 million, which highlights a recovery achieved from the income of €2.2 million for the whole of 2018.

Comparing with 1st quarter 2018, income before taxes posted an increase of €2.8 million, with the growth in net interest income (+€29.2 million) being partially offset by the lower fees and commissions (-€6.0 million) and lower capital markets results (-€10.2 million).

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| Income Statement | | Recurrent | | |
|---|---|---|---|---|
| | | **1Q2018 *** | **1Q2019** | **Chg. %** |
| | Net Interest Income | 87.2 | 116.4 | 33.4 |
| + | Fees and Commissions | 77.4 | 71.4 | - 7.7 |
| **=** | **Commercial Banking Income** | **164.6** | **187.8** | **14.1** |
| + | Capital Markets Results | 41.5 | 31.3 | - 24.5 |
| + | Other Operating Results | 15.0 | 3.9 | - 74.1 |
| **=** | **Banking Income** | **221.1** | **223.0** | **0.8** |
| - | Operating Costs | 115.2 | 116.2 | 0.8 |
| **=** | **Net Operating Income** | **105.9** | **106.8** | **0.8** |
| **-** | **Net Impairments and Provisions** | **23.4** | **21.5** | **-8.0** |
| | Credit | 15.9 | 22.3 | 39.6 |
| | Securities | - 0.5 | - 1.1 | ... |
| | Other Assets and Contingencies | 7.9 | 0.3 | - 95.9 |
| = | **Income before Taxes** | **82.6** | **85.4** | **3.4** |

* Data as at 31 March 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 **Net interest income** presents an increase of +33.4% driven by the optimisation measures implemented in 2018, namely those related to the reduction in the cost of funding.

**Fees and commissions** on banking services contributed €71.4 million to the results, down by 7.7% from €77.4 million in March 2018. Main contributors to the Fees and commissions are:

- support services to companies – including income from guarantees provided, documentary credits, and services related to loan management and other (33.1% of total fees and commissions);
- commissions on payment services (40.2% of the total) – cards and payment processing, including cheques, transfers, payment orders, POS and ATMs, and also sight account management fees; and
- asset management and *bancassurance* products, which accounted for 23.0% of total fees and commissions.

The **Capital markets results** were positive in €31.3 million reflecting the gains on the sale and revaluation of securities, in particular sovereign debt securities.

**Operating costs** show a year-on-year (YoY) change of +0.8% (+€1.0 million), in line with 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 since 2017.

Comparing with 31 December 2018, there was a headcount reduction of 26, and therefore NOVO BANCO Group had 5,070 employees on 31 March 2019 (Mar-18: 5,449).

The downsizing of the distribution network in line with the new business environment implied a reduction in the number of branches to 401 on 31 March 2019 (Mar-18: 473).

**Core operating income** (Commercial banking income – Operating costs) increases €22.2 million compared with the 1st quarter 2018 to €71.6 million at the end of 1st quarter 2019.

**Provision and impairments** presented a reduction of 8.0%, with the credit provision charge of €22.3 million (+€6.4 million).

### Activity

Assets increased by €390 million (+1.0%). Net customer loans grew by 0.6%, due to the continued support to domestic companies, across all economic sectors and to all companies with a special focus on SMEs.

The non-performing loans ratio (including deposits with banks and loans and advances to banks) was 5.6%, with the respective coverage ratio by impairments standing at 48.7%.

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| Assets | Recurrent | | |
|---|---|---|---|
| | **31-Dec-18** | **31-Mar-19** | **Chg. %** |
| Loans and advances to banks | 1,102 | 672 | - 39.0 |
| Customer loans | 22,465 | 22,595 | 0.6 |
| Securities | 9,380 | 9,481 | 1.1 |
| Real Estate | 374 | 403 | 7.8 |
| Discontinued operations | - | - | ... |
| Other assets | 4,295 | 4,855 | 13.0 |
| **Total** | **37,616** | **38,006** | **1.0** |

## NOVO BANCO LEGACY

NOVO BANCO Legacy activity income before taxes was -€142.0 million, impacted by the reinforcement of impairments for legacy customers (+€55.4 million), as well as for provision for the restructuring (+€36.2 million) and for the project of sale of non-performing assets in Spain (project Albatroz: +€35.2 million).

Income before taxes reflects a reduction of €161.3 million compared to the income registered in the 1st quarter 2018 (+€19.3 million). A major factor to this development was the increase of impairments and provisions in 1st quarter 2019 and the positive impact in 2018 of the discontinuing activities (GNB Vida: +€51.2 million).

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| Income Statement | Legacy | | |
|---|---|---|---|
| | 1Q2018 | 1Q2019 | Chg. % |
| Net Interest Income | 19.7 | 8.4 | - 57.4 |
| + Fees and Commissions | 1.3 | 0.8 | - 36.5 |
| **= Commercial Banking Income** | **21.0** | **9.2** | **- 56.1** |
| + Capital Markets Results | - 2.3 | - 3.4 | - 47.7 |
| + Other Operating Results | 21.8 | - 13.4 | ... |
| **= Banking Income** | **40.5** | **-7.6** | **...** |
| - Operating Costs | 6.8 | 4.1 | - 38.7 |
| **= Net Operating Income** | **33.7** | **-11.8** | **...** |
| **- Net Impairments and Provisions** | **14.4** | **130.3** | **...** |
| Credit | 34.2 | 55.4 | 62.2 |
| Securities | 1.6 | - 0.6 | ... |
| Other Assets and Contingencies | - 21.3 | 75.5 | ... |
| = **Income before Taxes** | **19.3** | **- 142.0** | **...** |

The NOVO BANCO Legacy assets reduced by 0.3% compared with December 2018, and it is worth mentioning the reduction in the net Customer loans portfolio and in real estate by circa €125 million (-5.5%) and €71 million (-4.3%), respectively.

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| Assets | Legacy | | |
|---|---|---|---|
| | 31-Dec-18 | 31-Mar-19 | Chg. % |
| Loans and advances to banks | 299 | 305 | 2.0 |
| Customer loans | 2,289 | 2,164 | - 5.5 |
| Securities | 1,613 | 1,590 | - 1.4 |
| Real Estate | 1,661 | 1,590 | - 4.3 |
| Discontinued operations | 4,090 | 4,277 | 4.6 |
| Other assets | 706 | 702 | - 0.6 |
| **Total** | **10,658** | **10,628** | **- 0.3** |

The non-performing loans ratio (including deposits with banks and loans and advances to banks) was 89.9%, with the respective coverage ratio by impairments standing at 63.1%.

| MAIN HIGHLIGHTS | 31-Mar-18[3] | 31-Dec-18 | 31-Mar-19 |
|---|---|---|---|
| **ACTIVITY (mn€)** | | | |
| Net Assets | 50,880 | 48,274 | 48,634 |
| Customer Loans (gross) | 31,293 | 28,712 | 28,561 |
| Customer Deposits [3] | 28,567 | 28,350 | 27,780 |
| Equity [3] | 5,040 | 3,922 | 4,206 |
| **SOLVENCY [4]** | | | |
| Common EquityTier 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 | 13.9% | 14.5% | 15.1% |
| **LIQUIDITY (mn€)** | | | |
| European Central Bank Funding (net) [2] | 5,237 | 5,864 | 6,064 |
| Eligible Assets for Repo Operations (ECB and other), net of haircut | 13,968 | 14,624 | 14,368 |
| (Total Credit - Credit Provision) / Customer Deposits [1] [3] | 89% | 89% | 90% |
| Liquidity Coverage Ratio (LCR) [4] | 123% | 125% | 121% |
| Net Stable Funding Ratio (NSFR) [4] | 108% | 106% | 106% |
| **ASSET QUALITY** | | | |
| Overdue Loans > 90 days / Customer Loans (gross) | 16.0% | 12.1% | 11.6% |
| Non-Performing Loans (NPL)/ (Customer Loans (gross) + Deposits with banks and Loans and advances to banks (gross)) | 29.4% | 22.4% | 21.8% |
| Credit Provision / Overdue Loans > 90 days | 114.9% | 114.3% | 115.1% |
| Credit Provision / Customer Loans (gross) | 18.4% | 13.8% | 13.3% |
| Cost of Risk | 0.16% | 0.92% | 1.09% |
| **PROFITABILITY** | | | |
| Net Income (mn€) [3] | 70.4 | -1,412.6 | -93.1 |
| Income before Taxes and Non-controlling interests / Average Net Assets [1] [3] | 0.6% | -1.5% | -0.7% |
| Banking Income / Average Net Assets [1] [3] | 2.1% | 1.0% | 1.8% |
| Income before Taxes and Non-controlling interests / Average Equity [1] [3] | 5.8% | -14.3% | -7.7% |
| **EFFICIENCY** | | | |
| Operating Costs / Banking Income [1] [3] | 46.6% | 100.6% | 55.8% |
| Staff Costs / Banking Income [1] [3] | 25.2% | 55.0% | 30.7% |
| **EMPLOYEES (No.)** | | | |
| Total | 5,449 | 5,096 | 5,070 |
| - Domestic | 5,124 | 4,804 | 4,783 |
| - International | 325 | 292 | 287 |
| **BRANCH NETWORK (No.)** | | | |
| Total | 473 | 402 | 401 |
| - Domestic | 448 | 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 31 March 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 31 March 2019

## NOVO BANCO GROUP RESULTS

NOVO BANCO Group reported a net loss of €93.1 million in 1st quarter 2019, in line with the forecast.

The income statement for the 1st quarter 2018 was restated to reflect the change in 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.

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| INCOME STATEMENT | 1Q2018 * | 1Q2019 | % Change |
|---|---|---|---|
| Net Interest Income | 106.9 | 124.7 | 16.7% |
| + Fees and Commissions | 78.7 | 72.2 | -8.2% |
| = **Commercial Banking Income** | **185.5** | **197.0** | **6.1%** |
| + Capital Markets Results | 39.2 | 28.0 | -28.7% |
| + Other Operating Results | 36.9 | - 9.5 | ... |
| = **Banking Income** | **261.6** | **215.4** | **-17.7%** |
| - Operating Costs | 121.9 | 120.3 | -1.3% |
| = **Net Operating Income** | **139.7** | **95.1** | **-31.9%** |
| - **Net Impairments and Provisions** | **37.8** | **151.8** | **...** |
| Credit | 50.1 | 77.7 | 55.0% |
| Securities | 1.1 | - 1.7 | ... |
| Other Assets and Contingencies | - 13.4 | 75.8 | ... |
| = **Income before Taxes** | **101.9** | **- 56.6** | **...** |
| - Corporate Income Tax | 3.9 | 8.1 | ... |
| - Special Tax on Banks | 27.3 | 27.3 | 0.0% |
| = **Income after Taxes** | **70.8** | **- 92.0** | **...** |
| - Non-Controlling Interests | 0.4 | 1.2 | ... |
| = **Net Income** | **70.4** | **- 93.1** | **...** |

* Data as at 31 March 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 main highlights of the activity developed in 1st quarter 2019 are the following:

- Commercial banking income reached €197.0 million (+6.1% YoY), supported by the increase in net interest income (+16.7%);
- Capital markets results were positive by €28.0 million, reflecting the gains on the sale and revaluation of securities, in particular sovereign debt securities;
- Operating costs decreased by 1.3% YoY, to €120.3 million, underpinned by the improvements made in terms of simplifying processes and streamlining the structure, with the consequent reduction in the number of branches and employees;

- Core operating income (commercial banking income - operating costs) increased by 20.5%, from €63.6 million to €76.7 million;
- The provision charge in the period, totalling €151.8 million, includes credit impairments amounting to €77.7 million, -€1.7 million for securities and €75.8 million for other assets and contingencies, of which €36.2 million are provisions for restructuring and €35.2 million are related with the project for the sale of non-performing assets in Spain (project Albatroz).

The 1st quarter 2019 net income does not compare adequately with the 1st quarter 2018 net income given that the latter included a positive effect of the discontinuing activities due to the classification of GNB Vida as discontinued activity (+€51.2 million), which was offset by a negative change in reserves in the same amount.

## NET INTEREST MARGIN

The reduction of the interest rate on liabilities (-33bps) contributed to the increase of the net interest margin by 34bps YoY (from 0.92% to 1.26%), with the interest rate on assets decreasing by 1bp (from 1.80% to 1.79%).

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| NET INTEREST INCOME AND NET INTEREST MARGIN | 1Q2018 | | | 2018 | | | 1Q2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Avg. Rate | Income / Costs | Average Balance | Avg. Rate | Income / Costs | Average Balance | Avg. Rate | Income / Costs |
| INTEREST EARNING ASSETS | 42,584 | 1.80% | 192 | 42,285 | 1.75% | 752 | 39,533 | 1.79% | 177 |
| Customer Loans | 31,256 | 2.14% | 167 | 30,722 | 2.06% | 643 | 28,842 | 2.00% | 144 |
| Money Market Placements | 3,019 | 0.75% | 6 | 2,610 | 0.83% | 22 | 1,194 | 1.62% | 5 |
| Securities and Other Assets | 8,309 | 0.91% | 19 | 8,952 | 0.95% | 87 | 9,497 | 1.15% | 27 |
| OTHER NON-INTEREST EARNING ASSETS | - | - | - | - | - | - | - | - | - |
| **INTEREST EARNING ASSETS AND OTHER** | **42,584** | **1.80%** | **192** | **42,285** | **1.75%** | **752** | **39,533** | **1.79%** | **177** |
| INTEREST BEARING LIABILITIES | 38,547 | 0.92% | 88 | 38,404 | 0.73% | 284 | 37,556 | 0.53% | 49 |
| Customer Deposits | 29,004 | 0.92% | 67 | 28,836 | 0.66% | 194 | 28,037 | 0.36% | 25 |
| Money Market Funding | 8,389 | 0.25% | 5 | 8,470 | 0.30% | 26 | 8,447 | 0.30% | 6 |
| Other Liabilities | 1,154 | 5.58% | 16 | 1,098 | 5.73% | 64 | 1,072 | 6.77% | 18 |
| OTHER NON-INTEREST BEARING LIABILITIES | 4,037 | - | - | 3,881 | - | - | 1,977 | - | - |
| **INTEREST BEARING LIABILITIES AND OTHER** | **42,584** | **0.83%** | **88** | **42,285** | **0.66%** | **284** | **39,533** | **0.50%** | **49** |
| **NIM / NII** (without the stage 3 impairment adjustment) | | **0.97%** | **103** | | **1.09%** | **468** | | **1.29%** | **127** |
| **Stage 3 impairment** | | | **-8** | | | **-14** | | | **- 2** |
| **NIM / NII** | | **0.92%** | **97** | | **1.06%** | **454** | | **1.26%** | **125** |

The average rate on customer loans, the main component of financial assets (73.0%), was 2.00%. As for liabilities, the average balance of deposits was €28.0 billion, with an average interest rate of 0.36%.

## FUNDING

At 31 March 2019 deposits totalled €27.8 billion, which is €0.6 billion less than at the end of December 2018. This reduction translates the effort made to reprice the offer of deposits.

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| TOTAL FUNDS | 31-Mar-18* | 31-Dec-18 | 31-Mar-19 | YoY Change | | Absolute change in 1Q2019 |
|---|---|---|---|---|---|---|
| | | | | absolute | relative | |
| Deposits | 28,567 | 28,350 | 27,780 | -787 | -2.8% | -570 |
| Other Customer Funds (1) | 300 | 346 | 354 | 54 | 17.9% | 9 |
| Debt Securities (2) | 1,006 | 689 | 675 | -331 | -32.9% | -14 |
| Subordinated Debt | 0 | 415 | 423 | 423 | ... | 8 |
| **Sub -Total** | **29,873** | **29,799** | **29,233** | **-640** | **-2.1%** | **-567** |
| Off-Balance Sheet Funds | 4,922 | 4,769 | 5,130 | 208 | 4.2% | 361 |
| **Total Funds** | **34,795** | **34,568** | **34,363** | **-433** | **-1.2%** | **-205** |

* Data as at 31 March 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

The legacy activity does not have liabilities directly related to it, so the liabilities are allocated based on the need to finance the assets at each balance sheet date, thus corresponding to the difference between legacy assets, allocated capital and liabilities of discontinued operations.

## LIQUIDITY

In 1st quarter 2019 and similarly to the previous quarters, NOVO BANCO maintained comfortable liquidity levels. Given the focus on improving the profitability of the Bank, we note the effort made to reprice the offer of deposits, which although in a small manner, contributed to a reduction in customer deposits, which at the end of the quarter totalled €27.8 billion.

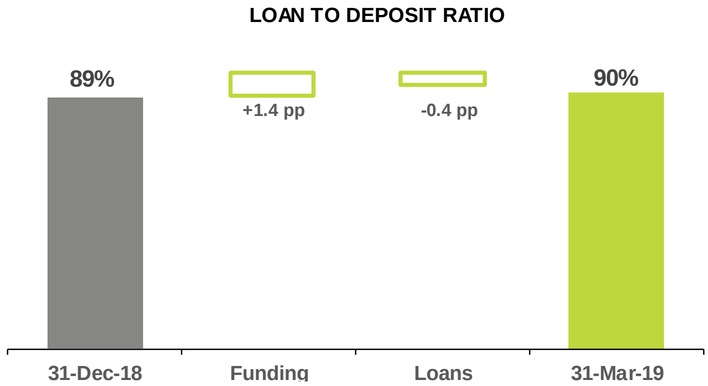
In terms of assets, NOVO BANCO maintained the investment in its securities portfolio and the loan portfolio stood almost unchanged comparing with the figure at year-end.

Hence, the reduction of customer funds was partially compensated by funds from other credit institutions and with a slight decrease in cash and deposits with central banks

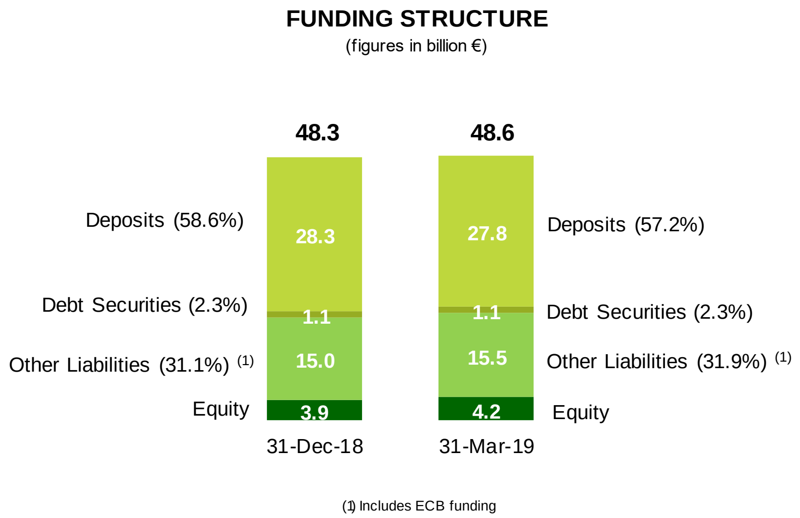
The portfolio of eligible assets for rediscount with the European Central Bank, as at 31 March 2019, totalled €14.4 billion (net of haircuts), which compares with €14.6 billion at the end of 2018, which implied that the liquidity buffer of NOVO BANCO stood at a high level in 1st quarter 2019.

NOVO BANCO maintained a comfortable liquidity position, with the regulatory Liquidity Coverage Ratio (LCR) staying at 121% at the end of 1st quarter 2019, which compares with 125% at the end of 2018.

The loan to deposit ratio (90%) is in line with the ratio as at 31 December 2018.




Customer deposits remain the main source of balance sheet funding, accounting for 62.7% of total liabilities and 57.2% of total assets. Non-subordinated debt securities amounted to €675 million at the end of 1st quarter 2019.




## CAPITAL

NOVO BANCO's Common Equity Tier 1 (CET1) and Tier 1 ratios are protected in predetermined levels up to the amount of losses already recorded on the assets included in the Contingent Capital Agreement (CCA). The compensation amount to be requested for 2019, will only be definitive at the end of the year, taking into account eventual losses (incurred or to be incurred) on the assets included in the CCA and the regulatory requirements related to capital ratios in force in 2019.

As at 31 March 2019, NOVO BANCO complied with all capital ratios required by the European Central Bank (ECB) under the Supervisory Review and Evaluation Process (SREP).

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| CAPITAL RATIOS - BIS III (CRD IV/CRR) | | 31-Dec-18 | 31-Mar-19 [1] |
|---|---|---|---|
| Risk Weighted Assets | (A) | 29,874 | 30,756 |
| Own Funds | | | |
| Common Equity Tier 1 | (B) | 3,808 | 4,151 |
| Tier 1 | (C) | 3,809 | 4,152 |
| Total Own Funds | (D) | 4,328 | 4,652 |
| 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% | 8.9% |

[1] Provisional data

As at 31 March 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%).

## NOVO BANCO GROUP ASSET QUALITY

Taking into account the legacy and recurrent activity, as at 31 March 2019 the main groups of credit risk showed an improvement compared to December 2018.

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| CREDIT QUALITY | 31-Mar-18 | 31-Dec-18 | 31-Mar-19 | YoY Change | |
|---|---|---|---|---|---|
| | | | | absolute | relative |
| Customer Loans (gross) | 31,293 | 28,712 | 28,561 | -2,732 | -8.7% |
| Overdue Loans | 5,098 | 3,539 | 3,362 | -1,736 | -34.0% |
| Overdue Loans > 90 days | 5,010 | 3,464 | 3,305 | -1,705 | -34.0% |
| Restructured Credit | 6,817 | 4,833 | 4,578 | -2,239 | -32.9% |
| Non-Performing Loans (NPL)* | 9,822 | 6,739 | 6,457 | -3,365 | -34.3% |
| Credit Provisions | 5,754 | 3,958 | 3,803 | -1,951 | -33.9% |

* Includes Deposits with banks and Loans and advances to banks

The reduction in overdue loans by more than 90 days and in non-performing loans (including deposits with banks and loans and advances to banks) improved the respective asset quality ratios to 11.6% and 21.8%, respectively, at the end of March 2019.

Credit provisions amounted to €3.8 billion, representing 13.3% of the total loan book.

| ASSET QUALITY AND COVERAGE RATIOS | 31-Mar-18 | 31-Dec-18 | 31-Mar-19 | Relative change in 1Q2019 (pp) |
|---|---|---|---|---|
| Overdue Loans / Customer Loans (gross) | 16.3% | 12.3% | 11.8% | -0.6 |
| Overdue Loans > 90 days / Customer Loans (gross) | 16.0% | 12.1% | 11.6% | -0.5 |
| Restructured Credit / Customer Loans (gross) | 21.8% | 16.8% | 16.0% | -0.8 |
| Non-Performing Loans (NPL) / [Customer Loans (gross) + Deposits with banks and Loans and advances to banks (gross)] | 29.4% | 22.4% | 21.8% | -0.6 |
| Credit Provisions / Customer Loans (gross) | 18.4% | 13.8% | 13.3% | -0.5 |
| Coverage of Overdue Loans | 112.9% | 111.8% | 113.1% | 1.3 |
| Coverage of Overdue Loans > 90 days | 114.9% | 114.3% | 115.1% | 0.8 |
| Coverage of Non-Performing Loans | 58.6% | 59.9% | 60.1% | 0.2 |

The reduction in non-performing loans (including deposits with banks and loans and advances to banks), from €6.7 billion in December 2018 to €6.5 billion in March 2019, was particularly noticeable, with the respective asset quality ratio improving by 0.6p.p. to 21.8%. The coverage of non-performing loans (including deposits with banks and loans and advances to banks) by impairments reached 60.1%.

## ECONOMIC ENVIRONMENT

The 1st quarter of 2019 saw activity growth accelerating in the US and stabilising in China and in the Euro Area, in the last two cases in line with the readings observed in the 4th quarter of 2018. The US economy grew 3.2% quarter-on-quarter annualised (vs. 2.2% in the first quarter), above initial estimates. China's GDP rose 6.4% year-on-year, also above expectations, interrupting the decelerating trend in activity observed since the beginning of 2018. And economic activity in the Euro Area repeated the 0.2% quarter-on-quarter expansion observed in the last three months of 2018 (or around 0,8% annualised), with a resilient domestic demand making up for a weak external demand.

Downward revisions in annual growth and inflation expectations led the US Federal Reserve and the European Central Bank (ECB) to adopt more cautious stances in their respective monetary policies. The Fed signalled it would keep the target fed funds rate unchanged in 2019, abandoning the expectation of two rate hikes, previously stated in December 2018. At the same time, the Fed announced that it would be ending the ongoing reduction of its balance sheet by September. In turn, the ECB – citing downside risks to the outlook – put aside the scenario of an increase in policy rates in 2019 and announced a new long term liquidity injection operation (TLTRO-III). In this context, the 3-month Euribor fell from -0.309% to -0.311%, while the 10-year Bund yield retreated from 0.242% to -0.07%. A relatively less favourable outlook for the Euro Area economy contributed to a 2% depreciation of the euro against the dollar, to EUR/USD 1.1221. The US yield curve (10Y-3m) briefly inverted at the end of the first quarter, with the 10-year Treasury yield falling from 2.685% to 2.406%.

The combination of resilient economic activity growth and persistently low inflation and interest rates supported an environment of risk propensity in financial markets. The Dow Jones, S&P 500 and Nasdaq equity indices increased 11.2%, 13.1% and 16.5%, respectively. In China, the Shanghai Composite went up by 23.9%, also benefiting from new fiscal and monetary stimuli in this economy. In Europe, the DAX, the CAC 40 and the IBEX indices returned 9.2%, 13.1% and 8.2%, respectively. The equity market also benefited from a perception of lower political risks, with favourable developments in US-China trade negotiations and with a lower probability attributed to the scenario of a hard Brexit. The Brent oil price increased 27% in the first quarter, to USD 67.5/barrel.

In Portugal, economic activity is estimated to have accelerated slightly in the first quarter, with GDP growth around 0.6% in the period, vs. 0.4% in the previous quarter. Growth remained supported by favourable monetary and financial conditions, by a thriving activity in tourism and by a fall in the unemployment rate (to 6.3% of the labour force). The environment of low interest rates, the search for yield and a favourable perception of the Portuguese economy kept investors attracted to Portuguese Government Bonds. The 10-year PGB yield fell from 1.72% to 1.25%, with the spread to the German Bund narrowing by 16 bps, to 132 bps. In March, S&P revised Portugal's sovereign rating, from BBB- to BBB. The PSI-20 equity index followed the global trend and increased 10% in the quarter.

## NOVO BANCO, S.A.

### CONSOLIDATED INCOME STATEMENT AS AT 31 MARCH 2019 AND 31 MARCH 2018

thousand€

| | 31.03.2019 | 31.03.2018 * |
|---|---|---|
| Interest and similar income | 178 052 | 191 188 |
| Interest expense and similar charges | 53 306 | 84 304 |
| **Net Interest Income** | **124 746** | **106 884** |
| Dividend Income | 508 | 3 107 |
| Fee and Commission income | 85 467 | 93 129 |
| Fee and Commission expense | 14 564 | 16 256 |
| Net gains / (losses) from financial assets and liabilities at fair value through profit or loss | ( 36 998) | 8 778 |
| Net gains / (losses) from assets at fair value through profit or loss mandatory | 6 928 | 5 849 |
| Net gains / (losses) from financial assets at fair value through other comprehensive income | 49 559 | 21 859 |
| Net gains / (losses) from foreign exchange revaluation | 9 003 | 4 270 |
| Net gains / (losses) from the sale of other assets | ( 1 340) | 3 497 |
| Other operating income and expenses | ( 35 990) | ( 20 218) |
| **Operating Revenues** | **187 319** | **210 899** |
| Staff Costs | 66 194 | 65 894 |
| General and Administrative Costs | 45 570 | 50 246 |
| Depreciation and amortisation | 8 531 | 5 798 |
| Provisions, net of reversals | 67 134 | 7 874 |
| Impairment losses on loans, net of reversals | 77 665 | 50 104 |
| Impairment losses on other financial assets, net of reversals | ( 1 779) | ( 1 584) |
| Impairment losses on other assets, net of reversals | 8 737 | ( 18 595) |
| **Operating Costs** | **272 052** | **159 737** |
| Sale of subsidiaries and associates | 13 | 1 026 |
| Results from associated companies consolidated by the equity method | 1 211 | 2 072 |
| **Income before taxes and non-controlling interests** | **( 83 509)** | **54 260** |
| Corporate income tax | | |
| Current taxes | 5 383 | 3 394 |
| Deferred taxes | 2 683 | 457 |
| | 8 066 | 3 851 |
| **Income from continuing activities** | **( 91 575)** | **50 409** |
| Income from discontinued operations | ( 395) | 20 356 |
| **Net Income for the period** | **( 91 970)** | **70 765** |
| **Attributable to shareholders of the Bank** | **( 93 122)** | **70 355** |
| Attributable to Non-controlling interests | 1 152 | 410 |
| | ( 91 970) | 70 765 |

* Data as at 31 March 2018 was 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 31 MARCH 2019 AND AS AT 31 DECEMBER 2018

thousand€

| | 31.03.2019 | 31.12.2018 |
|---|---|---|
| **ASSETS** | | |
| Cash and deposits with central banks | 478 544 | 701 883 |
| Deposits with other banks | 257 798 | 275 789 |
| Securities held for trading | 409 295 | 257 270 |
| Derivatives held for trading | 542 038 | 516 336 |
| Loans and advances to banks | 372 942 | 423 058 |
| Loans and advances to customers | 24 758 549 | 24 754 445 |
| Securities portfolio | 10 542 072 | 10 617 312 |
| Derivatives held for risk management purposes | 70 315 | 71 404 |
| Non-current assets held for sale | 1 888 | 1 888 |
| Non-current assets held for sale - discontinued operations | 4 277 395 | 4 090 358 |
| Investment properties | 1 088 135 | 1 098 071 |
| Other tangible assets | 204 038 | 142 494 |
| Intangible assets | 5 757 | 5 425 |
| Investments in associated companies | 120 112 | 118 698 |
| Current tax assets | 3 136 | 6 689 |
| Deferred tax assets | 1 154 394 | 1 196 525 |
| Other assets | 4 347 171 | 3 996 257 |
| **TOTAL ASSETS** | **48 633 579** | **48 273 902** |
| **LIABILITIES** | | |
| Deposits from central banks | 6 410 657 | 6 410 461 |
| Financial liabilities held for trading | 553 903 | 492 953 |
| Deposits from other banks | 2 144 589 | 1 945 099 |
| Due to customers | 28 134 055 | 28 695 268 |
| Debt securities issued | 675 156 | 689 252 |
| Financial liabilities related to transferred assets | 44 451 | 44 450 |
| Derivatives held for risk management purposes | 50 166 | 36 150 |
| Non-current liabilities held for sale | - | - |
| Non-current liabilities held for sale - discontinued operations | 4 573 580 | 4 438 001 |
| Provisions | 439 077 | 425 935 |
| Current tax liabilities | 13 979 | 12 050 |
| Deferred tax liabilities | 6 293 | 6 403 |
| Subordinated debt | 423 331 | 414 903 |
| Other liabilities | 958 795 | 740 616 |
| **TOTAL LIABILITIES** | **44 428 032** | **44 351 541** |
| **EQUITY** | | |
| Share Capital | 5 900 000 | 5 900 000 |
| Other reserves and retained earnings | ( 1 637 310) | ( 600 343) |
| Net Income for the period attributable to the shareholders of the Bank | ( 93 122) | ( 1 412 642) |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK | 4 169 568 | 3 887 015 |
| Non-controlling interests | 35 979 | 35 346 |
| **TOTAL EQUITY** | **4 205 547** | **3 922 361** |
| **TOTAL LIABILITIES AND EQUITY** | **48 633 579** | **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 orther comprehensive income and at amortised cost. |
| **Due to customers**<br>Banco de Portugal Instruction n. 16/2004 | Sums 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** | On- 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**<br>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 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)**<br>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)**<br>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**<br>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**<br>Banco de Portugal Instruction n. 16/2004 | Ratio of income before tax and non-controlling interests to average net assets. |
| **Return on average equity**<br>Banco de Portugal Instruction n. 16/2004 | Ratio of income before tax and non-controlling interests to average equity. |

€ million; mn€: million euros

€ billion: billion euros

pp: percentage points

NBV: net book value

YoY: year-on-year