

9 March 2015

# **NOVO BANCO GROUP CONSOLIDATED ACTIVITY AND RESULTS IN THE PERIOD OF 4 AUGUST TO 31 DECEMBER 2014**

(Unaudited financial information under IFRS as implemented by the European Union)

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## 1. NOVO BANCO

NOVO BANCO, SA was incorporated by resolution of the Bank of Portugal's Board of Directors of 3 August 2014, under the terms of article 145-G/5 of the General Law on Credit Institutions and Financial Companies (RGICSF), approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied to Banco Espírito Santo, under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF.

As determined in point two of the resolution of the Bank of Portugal's Board of Directors of 3 August 2014, drafted according to this Board of Directors' resolution of 11 August under the terms and for the purposes of article 145<sup>o</sup>-H/1 of the RGICSF, the assets, liabilities, off-balance-sheet items and assets under management of Banco Espírito Santo were transferred to NOVO BANCO, as per the criteria established in Annex 2 to said resolution.

Under Article 153-B of the RGICSF, the Resolution Fund is the sole holder of the share capital of NOVO BANCO, which is represented by 4,900 million registered shares with nominal value of EUR 1 per share, totalling EUR 4,900 million.

As a transition bank, NOVO BANCO has a limited period of two years, renewable for periods of one year under significant reasonable grounds of public interest, up to a total of 5 years (article 145<sup>o</sup>-G/12 of the RGICSF). According to the commitments undertaken by the Portuguese State before the European Commission, the sale of NOVO BANCO must occur within a maximum period of two years, counting from the date of its constitution.

NOVO BANCO's opening balance sheet, published on 3 December 2014, included the result of the confirmation performed by PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda (PwC), determined by the Bank of Portugal under the terms set out in paragraph 4 of article 145-H of the RGICSF, of the assets, liabilities, off balance sheet items and assets under management selected by the Bank of Portugal to be transferred from BES to NOVO BANCO, and notified by the Bank of Portugal in accordance with paragraph 7 of article 11 of Bank of Portugal's Notice 13/2012.

After publication of the opening balance sheet on 3 December 2014 the following changes have occurred that are relevant to the shareholders of NOVO BANCO:

- Bank of Portugal's Board of Directors resolution of 22 December 2014 determined that, the liability of Banco Espírito Santo to Oak Finance Luxembourg was not transferred to NOVO

BANCO. This decision implied the correction of the original reserves of NOVO BANCO, which led to a positive change of EUR 548.3 million;

- On 11 February 2015, Bank of Portugal's Board of Directors, in accordance with the provisions of paragraph 1 of article 145-G and paragraph 2 - a) and b) of article 145-H of the RGICSF, determined the following:

“a) For purposes of executing Bank of Portugal's resolution, it is hereby clarified that the liabilities of Banco Espírito Santo not transferred to NOVO BANCO under the terms of subparagraph i) of paragraph b) of Point 1 of Annex 2 to Bank of Portugal's Board of Directors Resolution of 3 August 2014 (20:00 hours), drafted according to this Board of Directors' resolution of 11 August 2014 (17:00 hours), include Banco Espírito Santo's liabilities for the pension for retirement and survivor and retirement and retirement and survivor pension supplements of the members of the Board of Directors of Banco Espírito Santo who were members of its Executive Committee and fall under subparagraph i) of paragraph b) of Point 1 of Annex 2 of said resolution, as defined by the Corporate Bylaws of Banco Espírito Santo and the Regulations of the General Meeting of Banco Espírito Santo, to which the bylaws refer back to, and therefore were not transferred to NOVO BANCO, without loss to the liabilities arising exclusively from employment contracts with Banco Espírito Santo.

b) NOVO BANCO and Banco Espírito Santo shall adjust their accounting records to the present resolution, taking the execution measures required for its proper application.”

The impact of the Resolution taken on 11 February 2015, by the Bank of Portugal is not reflected in the Balance Sheet of NOVO BANCO GROUP, but its adequate inclusion is being prepared. Hence, as of this date, the Balance Sheet includes all the liabilities with pensions and respective assets associated related to the full amount of the Pension Plan.

Also by virtue of the resolution of 3 August, it should be noted that the opening balance sheet and the balance sheet for 31 December 2014 maintain the full deferred tax assets resulting from tax losses transferred from the original bank accounted for up to 3 August 2014, and it is worth noting that the transfer of EUR 254 million of those deferred tax assets is still to be confirmed.

At the beginning of December 2014 NOVO BANCO finalised the negotiations with Haitong International Holdings Limited, entering an agreement with this company to sell 100% of its subsidiary BES Investimento (BESI). As a result, under the terms of IFRS 5, this subsidiary ceased to be fully consolidated and was classified as a discontinued operation. To allow the comparability of the financial information, it is also presented NOVO BANCO GROUP's pro-forma consolidated opening balance sheet as of 4 August 2014, where BESI is classified as a discontinued operation, with the respective assets and liabilities shown for their full value under specific balance sheet items (assets from discontinued operations).

As a result of said resolutions the opening balance sheet of NOVO BANCO GROUP underwent the following changes:

**NOVO BANCO Opening Balance Sheet as at 4 August and subsequent changes from  
Bank of Portugal deliberations**

	03 Dec 14	deliberations of 22 Dec 14	Opening Balance Sheet	Eur thousand Pro-Forma including BESI disposal <sup>(1)</sup>
<b>ASSETS</b>				
Cash and deposits at Central Banks	5 401 256	-	5 401 256	5 397 864
Deposits with banks	673 488	-	673 488	646 147
Financial assets held for trading	2 258 854	-	2 258 854	1 034 578
Financial assets at fair value through profit or loss	2 567 297	-	2 567 297	2 567 297
Available-for-sale financial assets	11 498 253	-	11 498 253	10 745 720
Loans and advances to banks	1 100 617	-	1 100 617	978 190
Loans and advances to customers	38 569 431	-	38 569 431	36 717 999
Hedging derivatives	391 761	-	391 761	329 227
Non-current assets held for sale	2 399 063	-	2 399 063	2 228 215
Assets from discontinued operations	-	-	-	4 977 192
Investment properties	305 493	-	305 493	305 493
Other tangible assets	427 067	-	427 067	409 425
Intangible assets	335 938	-	335 938	259 539
Investment in associates and subsidiaries excl. from consolidation	428 053	-	428 053	394 214
Current income tax assets	30 137	-	30 137	17 001
Deferred income tax assets	2 865 379	-	2 865 379	2 766 412
Reinsurance Technical Provisions	9 197	-	9 197	9 197
Other assets	3 203 952	( 74 777)	3 129 175	2 606 749
<b>TOTAL ASSETS</b>	<b>72 465 236</b>	<b>- 74 777</b>	<b>72 390 459</b>	<b>72 390 459</b>
<b>LIABILITIES</b>				
Deposits from central banks	13 824 376	-	13 824 376	13 717 870
Financial liabilities held for trading	1 404 249	-	1 404 249	1 040 492
Deposits from banks	4 180 247	-	4 180 247	3 416 311
Due to customers	27 281 015	( 623 100)	26 657 915	26 154 837
Debt securities	11 153 571	-	11 153 571	9 843 073
Hedging derivatives	121 187	-	121 187	82 554
Investment contracts	4 889 337	-	4 889 337	4 889 337
Non current liabilities held for sale	215 244	-	215 244	208 956
Liabilities from discontinued operations	-	-	-	3 455 476
Provisions	567 250	-	567 250	532 955
Technical provisions	1 705 871	-	1 705 871	1 705 871
Current income tax liabilities	82 898	-	82 898	52 383
Deferred income tax liabilities	80 765	-	80 765	80 765
Other subordinated loans	75 251	-	75 251	54 255
Other liabilities	1 306 580	-	1 306 580	1 029 606
<b>TOTAL LIABILITIES</b>	<b>66 887 841</b>	<b>- 623 100</b>	<b>66 264 741</b>	<b>66 264 741</b>
<b>EQUITY</b>				
Capital	4 900 000	-	4 900 000	4 900 000
Fair Value Reserve, retained earnings and other comprehensive income	543 486	548 323	1 091 809	1 091 808
Minority Interests	133 909	-	133 909	133 909
<b>TOTAL EQUITY</b>	<b>5 577 395</b>	<b>548 323</b>	<b>6 125 718</b>	<b>6 125 718</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>72 465 236</b>	<b>- 74 777</b>	<b>72 390 459</b>	<b>72 390 459</b>

(1) BESI is considered a discontinued operation under IFRS 5

Over the following sections, and whenever comparative financial information prior to 31 December 2014 is presented, it will be used pro-forma data where BESI is classified under IFRS 5 so as to permit a more adequate assessment of the evolution of the activity of NOVO BANCO GROUP.

## Main Indicators

	04-Aug-14	04-Aug-14 (Pro-Forma)	31-Dec-14
<b>ACTIVITY (Eur mn)</b>			
Total Assets <sup>(1)</sup>	84 207	83 977	74 871
Net Assets	72 390	72 390	65 487
Gross Loans	43 818	41 663	40 060
Customer Deposits	25 102	24 617	26 626
Total Equity	6 126	6 126	5 478
<b>SOLVENCY <sup>(2) (3)</sup></b>			
Common Equity Tier I / RWA'S	10.3%	-	9.6%
Tier I / RWA's	10.3%	-	9.6%
Total / RWA's	10.3%	-	9.6%
<b>LIQUIDITY (Eur mn)</b>			
ECB funds (net) <sup>(4)</sup>	8,871	8,768	7,812
Eligible Assets for repo operations (ECB and other)	16,111	15,892	14,171
(Total Credit - Credit Provisions) / Customer Loans <sup>(3)</sup>	144%	140%	126%
<b>ASSET QUALITY</b>			
Overdue loans + 90 days / Gross loans	7.5%	7.7%	8.7%
Overdue and Doubtful Loans / Gross Loans <sup>(3)</sup>	8.9%	9.2%	9.9%
Overdue and Doubtful Loans net of Impairments / Total Net Loans <sup>(3)</sup>	-3.5%	-3.0%	-3.4%
Credit at Risk / Gross Loans <sup>(3)</sup>	13.8%	13.5%	16.5%
Credit at Risk (net) / Net Loans <sup>(3)</sup>	2.1%	1.6%	3.6%
Credit Provisions / Overdue loans + 90 days	160.6%	153.7%	147.9%
Credit Provisions / Gross Loans	12.0%	11.9%	12.8%
Cost of Risk <sup>(5)</sup>	-	-	2.3%
<b>PROFITABILITY</b>			
Net Income (Eur mn)	-	-	-467.9
Income before Taxes and Minorities / Average Net Assets <sup>(3) (5)</sup>	-	-	-1.1%
Banking Income / Average Net Assets <sup>(3) (5)</sup>	-	-	2.9%
Income Before Taxes and Minorities / Average Equity <sup>(3) (5)</sup>	-	-	-11.6%
<b>EFFICIENCY</b>			
General Admin Costs + Depreciation / Banking Income <sup>(3)</sup>	-	-	46.7%
Staff Costs / Banking Income <sup>(3)</sup>	-	-	24.3%
Operating Costs / Total Assets <sup>(5)</sup>	-	-	1.2%
<b>EMPLOYEES</b>			
Total	8 689	7 887	7 722
- Domestic	7 195	6 950	6 834
- International	1 494	937	888
<b>BRANCH NETWORK</b>			
Total	674	674	675
- Domestic	631	631	631
- International	43	43	44

(1) Net Assets + Asset Management + Other off-balance sheet liabilities + Securitised Credit

(2) Calculated according to *IRB Foundation*

(3) According to Bank of Portugal instruction no 16/2004

(4) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending

(5) Annualised data

## 2. Key aspects of the activity and results

- Deposits recovered by EUR 4.2 billion in 4Q14, underlining the customers' confidence in NOVO BANCO and a return to normality.
- Assets decreased by EUR 6.9 billion in five months, mainly due to the deleverage of the loan portfolio (-EUR 1.8 billion; -4.9%) and of the securities portfolio (-EUR 1.7 billion; -12.7%).
- Marked improvement in liquidity: the loans to deposits ratio decreased to 126% (155% in Sep. 30th, 2014) while funding from the ESCB was reduced from EUR 13.6 billion (4 August 2014) to EUR 8.5 billion. NOVO BANCO fully reimbursed the loan obtained under the ELA (Emergency Liquidity Assistance).
- Adequate provisioning levels: the Coverage Ratio for Overdue Loans (>90 days) reached 147.9% while the Coverage Ratios for Credit at Risk and for Gross Loans were 77.8% and 12.8%, respectively. Moreover, provisions for non-current assets held for sale represent 31% of their gross value.
- The CET 1 capital ratio was 9.6% on 31 December 2014. Considering the Special Regime for Deferred Tax Assets introduced by Law no. 61/2014 of 26 August, the CET 1 ratio was 9.8%.
- Net interest income and fees and commissions totalled EUR 266.3 million and EUR 178.2 million, respectively, with commercial banking income reaching EUR 444.5 million.
- Operating costs for the five months totalled EUR 368.6 million. Recurrent operating costs posted a decrease of 5.8% in the 4Q in comparison with the 3Q, on a comparable basis.
- Net operating income totalled EUR 419.9 million.
- Provisions reached the amount of EUR 699.1 million, which jointly with the impact accounted in taxes related with the change of the income tax rate, have pressured the results of NOVO BANCO GROUP.
- The consolidated net result was negative in EUR 467.9 million, but excluding the impact of non-recurrent items (shown in page 19) the net result would be negative in EUR 229.7 million.

### 3. Activity and strategic priorities

The circumstances behind the creation of NOVO BANCO generated a very difficult context that required the utmost effort of all employees to deal with the exceptional and complex nature of the situation resulting from the application of the resolution measure.

Amongst the challenges that were faced, in terms of reach and relevance, the following should be highlighted:

- ✦ Winning back the confidence of the clients, supporting the stabilisation of the Bank's activity funding components;
- ✦ Implementation of the balance sheet deleveraging plan through the selective disposal of assets viewing compliance with the regulatory capital ratios;
- ✦ Reduction of funding from the ECB through the recovery of customer funds and the liquidity generated by the sale of assets;
- ✦ Full cooperation with the Supervision Authorities and compliance with all regulatory rulings in the context of the management of a transition bank.

#### 3.1 Customer confidence and recovery of customer funds

Winning customer confidence and recovering the funding provided by retail customer funds were the key strategic drivers for NOVO BANCO to be able to rely on a stable funding structure and attain a stage of operational normality. The efforts that were carried out to win back the confidence of the clients led to the recovery of customer funds that had been lost in the first two months of activity.



## Total Customer Funds

	Eur million				
	04-Aug-14 (Pro-Forma)	30-Sep-14 (Pro-Forma)	31-Dec-14	chg. from Aug 4th to Sep 30th	4Q14 change
<b>On-Balance Sheet Customer Funds</b>	<b>34 780</b>	<b>32 074</b>	<b>35 640</b>	<b>-2 706</b>	<b>3 566</b>
Deposits	24 617	22 404	26 626	-2 213	4 222
Other Customer Funds <sup>(1)</sup>	1 538	1 481	1 313	- 57	- 168
Debt Securities placed with Clients	2 030	2 161	1 861	131	- 300
Life Insurance Products	6 595	6 029	5 841	- 566	- 188
<b>Off-Balance Sheet Funds</b>	<b>9 227</b>	<b>8 050</b>	<b>7 099</b>	<b>-1 177</b>	<b>- 951</b>
<b>Total Customer Funds</b>	<b>44 006</b>	<b>40 125</b>	<b>42 739</b>	<b>-3 881</b>	<b>2 614</b>

(1) includes cheques and payables, sale and buyback operations and other funds

In fact, from 4 August to 30 September total customer funds suffered a contraction of EUR 3.9 billion (or 8.8%), of which EUR 2.2 billion in the deposits portfolio, EUR 0.6 billion in life insurance products and EUR 1.2 billion in off-balance sheet customer funds, whereas in the last quarter of the year it was possible to achieve a EUR 2.6 billion increase in total customer funds, with deposits growing by EUR 4.2 billion.

This increase reflects the effects of commercial campaigns supported by a dynamic commercial franchise, which offer a wide range of deposit solutions that was able to regain customer confidence and reverse the outflow of funds from both individual and corporate clients.

### 3.2 Deleveraging process

The implementation of the deleveraging plan aimed to shrink the balance sheet, through the reduction of the loan book and securities portfolio and a selective disposal of assets.

### Customer Loans

NOVO BANCO conducted a very strict and selective lending policy, without ceasing to support the small and medium sized companies in general and the exporting companies in particular.

## Customer Loans

	Eur million			
	04-Aug-14 (Pro-Forma)	31-Dec-14	Change	
			absolute	relative
Corporate Lending	29 308	28 009	-1 300	-4.4%
Loans to Individuals	12 354	12 051	- 303	-2.5%
Mortgage	10 410	10 230	- 180	-1.7%
Other Loans	1 944	1 821	- 123	-6.3%
<b>Customer Loans (Gross)</b>	<b>41 663</b>	<b>40 060</b>	<b>-1 602</b>	<b>-3.8%</b>
<b>Provisions</b>	<b>4 945</b>	<b>5 131</b>	<b>186</b>	<b>3.8%</b>
<b>Customer Loans (Net)</b>	<b>36 718</b>	<b>34 929</b>	<b>-1 789</b>	<b>-4.9%</b>

Net customer loans contracted by EUR 1.8 billion in the five months of activity, with reductions at both domestic and international level (-EUR 1.4 billion and -EUR 0.4 billion, respectively), and across all segments: mortgage loans decreased by EUR 180 million (-1.7%), other loans to individuals by EUR 123 million (-6.3%) and corporate loans by EUR 1,3 billion (-4.4%).

## Securities portfolio

The securities portfolio, besides providing the main source of eligible assets for funding operations with the ECB, was also managed as an originator tool of liquidity. The portfolio was thus reduced by EUR 1.7 billion.

## Securities Portfolio (net of impairments)

	Eur million			
	04-Aug-14 (Pro-Forma)	31-Dec-14	Change	
			absolute	relative
<b>Bonds</b>	4 509	3 558	- 951	-21.1%
<b>Other Sovereign Debt</b>	3 175	2 600	- 576	-18.1%
<b>Portuguese Sovereign Debt</b>	1 670	1 948	278	16.7%
<b>Other</b>	4 113	3 658	- 455	-11.1%
<b>Total</b>	<b>13 467</b>	<b>11 764</b>	<b>-1 704</b>	<b>-12.7%</b>

## **Sale of BESI**

On 8 December 2014 NOVO BANCO entered into a sale and purchase agreement with Haitong International Holdings Limited in respect of the entire share capital of BESI, for EUR 379 million. Haitong International Holdings Limited is a Hong Kong based wholly-owned subsidiary of Haitong Securities Co., Ltd., a company whose shares are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. The conclusion of the transaction is pending the necessary approvals, namely from the European Commission, the Competition Authorities, the entities that supervise BESI's international units, and naturally, also those that supervise the selling and buying entities. As a result of this operation BESI was excluded from NOVO BANCO's full consolidation scope, being accounted for in the financial statements in accordance with IFRS 5. On 31 December 2014 the assets and liabilities of the discontinued operations totalled EUR 4.2 billion and EUR 3.1 billion, respectively, being included in the Group's risk weighted assets for prudential purposes.

On 5 February 2015 the Bank of Portugal, the national resolution authority, authorised the sale of BESI.

## **Non-current assets held for sale**

The disposal of non-current assets held for sale was another key focus of the management, as it generates liquidity and positively contributes to streamlining the balance sheet. However, because the process of updating the title deeds of these assets is not yet concluded it was not possible to achieve significant sales of these assets in the period.

## Non-Current Assets held for sale

	Eur million		
	04-Aug-14 (Pro-Forma)	31-Dec-14	Change
Property held for sale	2 591	2 768	176
Provisions	( 818)	( 824)	( 7)
<i>Provisions / Property held for sale (%)</i>	<i>31.6%</i>	<i>29.8%</i>	<i>-1.8 pp</i>
<b>Property held for sale (net)</b>	<b>1 773</b>	<b>1 943</b>	<b>170</b>
Equipment and other foreclosed assets	15	16	2
Provisions	( 2)	( 2)	0
<b>Equipment and other foreclosed Assets (net)</b>	<b>12</b>	<b>14</b>	<b>2</b>
Assets of entities held for sale	919	1 192	274
Provisions	( 310)	( 403)	( 92)
<i>Provisions / Assets of entities held for sale (%)</i>	<i>33.8%</i>	<i>33.8%</i>	<i>0.0 pp</i>
<b>Assets of entities held for sale (net)</b>	<b>609</b>	<b>790</b>	<b>181</b>
<b>Non-current Assets held for sale</b>	<b>3 525</b>	<b>3 977</b>	<b>452</b>
Provisions	(1 130)	(1 229)	( 99)
<i>Provisions / Non-current assets held for sale (%)</i>	<i>32.1%</i>	<i>30.9%</i>	<i>-1.2 pp</i>
<b>Non-current Assets held for sale (net)</b>	<b>2 394</b>	<b>2 747</b>	<b>353</b>

Non-current assets held for sale, which include real estate received through loan foreclosures, discontinued premises and assets of entities held for sale, totalled close to EUR 4.0 billion, with provisions of EUR 1.2 billion, which represents a coverage of nearly 31%.

### 3.3 Liquidity improvement

The liquidity generated through the expressive increase of deposits in the fourth quarter, the sale of financial assets, the contraction of the loan book and the capital proceeds permitted a substantial reduction in funding from the ESCB and an improvement in the loans to deposits ratio.

#### Funding from European System of Central Banks

	Eur million		
	04-Aug-14 (Pro-Forma)	31-Dec-14	Change
Funds from ESCB	13 612	8 525	-5 086

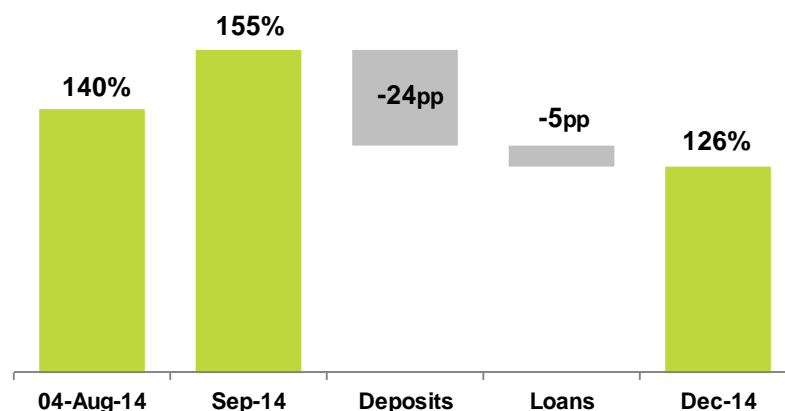
On 4 August 2014 funding from the ESCB totalled EUR 13.6 billion, having decreased to EUR 8.5 billion at the end of the year.

Similarly to other banks in the system, NOVO BANCO also tapped the Targeted Long Term Refinancing Operations (TLTRO) facility created by the ECB borrowing EUR 1.6 billion in September 2014. In order to create an additional liquidity buffer, in December NOVO BANCO extended the maturity of three bond issues guaranteed by the Portuguese Republic totalling EUR 3.5 billion.

At the end of 2014, the nominal value of the portfolio of repoable securities amounted to EUR 14.2 billion, of which EUR 12.8 billion were eligible for rediscount with the ECB. This amount includes exposure to Portuguese sovereign debt (excluding the position held by GNB Vida) of EUR 0.9 billion (of which EUR 0.4 billion maturing in less than one year). NOVO BANCO's other peripheral European sovereign exposures totalled EUR 1.2 billion (almost entirely maturing in less than one year), including EUR 1.1 billion of Italian Sovereign debt, EUR 0.1 billion of Spanish Sovereign debt, and a residual exposure of EUR 8 million of Greek Sovereign debt.

The recovery of the deposits base and contraction of the loan book significantly improved the loans to deposits ratio. From 140% on the date of the opening balance sheet (4 August) the ratio deteriorated in August and September to 155%, and improved afterwards to 126% as of 31 December 2014.

#### Loans to Deposits Ratio Evolution



### 3.4 Asset quality

The weak economic environment explains the deterioration of credit risk and credit risk indicators.

	Credit Risk			
	04-Aug-14 (Pro-Forma)	31-Dec-14	Change	
			absolute	relative
Gross Loans	41 663	40 060	-1 602	-3.8%
Overdue Loans	3 393	3 917	524	15.5%
Overdue Loans > 90 days	3 217	3 468	251	7.8%
Credit at Risk <sup>(1)</sup>	5 620	6 593	973	17.3%
Restructured Credit <sup>(2)</sup>	5 403	5 893	490	9.1%
Restructured Credit not included in Credit at Risk <sup>(2)</sup>	3 894	4 145	251	6.4%
Provisions for Credit	4 945	5 131	186	3.8%

<sup>(1)</sup> According to the definition of BoP Instruction n°23/2011

<sup>(2)</sup> According to the definition of BoP Instruction n°32/2013

Overdue loans increased by 15.5% and overdue loans > 90 days increased by 7.8%. Credit at Risk rose by 17.3%, reaching EUR 6,593 million.

Credit Risk indicators increased compared to 4 August 2014 due, on the one hand, to the contraction of the customer loans book, and on the other to the increase in overdue loans and credit at risk. At year-end the overdue loans and credit at risk indicators were 9.8% and 16.5%, respectively, while the ratio of restructured credit to total loans increased to 14.7%.

## Asset Quality and Coverage

	04-Aug-14 (Pro-Forma)	31-Dec-14	Change (p.p.)
Overdue Loans / Gross Loans	8.1%	9.8%	1.6
Overdue Loans > 90 days / Gross Loans	7.7%	8.7%	0.9
Credit at Risk <sup>(1)</sup> / Gross Loans	13.5%	16.5%	3.0
Restructured Credit <sup>(2)</sup> / Gross Loans	13.0%	14.7%	1.7
Restructured Credit not included in Credit at Risk <sup>(2)</sup> / Gross Loans	9.3%	10.3%	1.0
Coverage of Overdue Loans	145.7%	131.0%	-14.7
Coverage of Overdue Loans > 90 days	153.7%	147.9%	-5.8
Coverage of Credit at Risk <sup>(1)</sup>	88.0%	77.8%	-10.2
Provisions for Credit / Gross Loans	11.9%	12.8%	0.9

<sup>(1)</sup> According to the definition of BoP Instruction nº23/2011

<sup>(2)</sup> According to the definition of BoP Instruction nº32/2013

Provisions for Credit amounted to EUR 5,131 million, representing (excluding collaterals) 12.8% of the total loan book, 147.9% of overdue loans > 90 days and 77.8% of credit at risk.

### 3.5 Capital management

On 26 June 2013 the European Parliament and the European Council approved Regulation (EU) no. 575/2013 and Directive 2013/36/EU which establish the applicable prudential requirements for credit institutions and investment firms in the European Union, in force as from 1 January 2014. Bank of Portugal's Notice 6/2013, of 23 December, established the transitional regime for own funds, under said Regulation, and laid down measures to preserve own funds, establishing a minimum Common Equity Tier I (CET1) ratio of no less than 7%.

Under the terms of the mentioned rules, the capital ratios of NOVO BANCO GROUP, as of 4 August and 31 December 2014, were as follows:

**Risk Weighted Assets, Eligible Capital and Capital Ratios**  
BIS III (CRD IV / CRR)

Eur billion

		4-Aug-14	31-Dec-14	
			Current <sup>(1)</sup>	Special DTA Regime
Risk Weighted Assets	(A)	50.4	47.1	47.8
Regulatory Capital				
Common Equity Tier I	(B)	5.2	4.5	4.7
Tier I	(C)	5.2	4.5	4.7
Tier II		0.0	0.0	0.0
Total	(D)	5.2	4.5	4.7
Common Equity Tier I	(B/A)	10.3%	9.6%	9.8%
Tier I	(C/A)	10.3%	9.6%	9.8%
Solvency Ratio	(D/A)	10.3%	9.6%	9.8%

<sup>(1)</sup> considering the effective prudential regime in place at 31 December 2014

The balance sheet deleveraging process implied a reduction of risk weighted assets (RWA) to EUR 47.1 billion on 31 December 2014, which is EUR 3.3 billion less than on 4 August 2014. For prudential effects, BESI (assets from discontinued operations) is still being accounted in the RWA's.

On the other hand, eligible own funds decreased compared to the opening balance sheet, mainly due to the following factors:

- ✦ reduction from 3.5% to 2.5% of the discount rate used to estimate retirement pension liabilities, which, together with the unfavourable performance of the fund's assets, led to an actuarial deviation of EUR 270 million (which does not include the impacts from the 11 February 2015 deliberation from Bank of Portugal); and
- ✦ booking of the net loss for the period in the amount of EUR 467.9 million.

The Regulatory Capital and RWA's at the end of 2014 resulted in a CET 1 ratio of 9.6%.



## **Special Regime for Deferred Tax Assets**

Under the terms of Law no. 61/2014, of 26 August, NOVO BANCO expressed its interest in adhering to the special regime applicable to deferred tax assets (DTAs) resulting from impairment losses in loans and employee benefits, which came into force on 1 January 2015. Under this regime, DTAs may be converted into tax credits when a taxable entity reports net losses or enters liquidation proceedings through voluntary winding up, insolvency decreed by court ruling, or, where applicable, when its license is revoked by the competent supervision authority.

Considering the Special Regime for Deferred Tax Assets, the CET 1 pro-forma ratio is 9.8% as of 31 December 2014.

## **Loan to BES Angola/ Banco Económico**

The Bank of Portugal's resolution measure determined that the loans granted to BES Angola plus accrued interest, totalling EUR 3,438 million, should be transferred to NOVO BANCO and duly provisioned for.

On 20 October 2014 the National Bank of Angola took a set of decisions aimed at financially healing BES Angola, which impacted NOVO BANCO's loan and entailed the following new operations:

- ✦ Loan agreement for the equivalent of EUR 317 million, with 50% of the loan secured by Angolan treasury bonds; this loan matures on 30 April 2016;
- ✦ Subordinated loan agreement for the equivalent of EUR 317 million convertible into shares under the terms foreseen in the agreement, with reimbursement of principal up to 30 November 2024; and
- ✦ Subscription of shares representing 9.7% of the share capital of Banco Económico for the equivalent of EUR 54 million.

As a result, the remaining amount of the former debt of BES Angola was derecognised against the use of EUR 2,750 million of provisions existing in the opening balance sheet of NOVO BANCO.

## 4. Results

NOVO BANCO GROUP's income statement comprises the income and costs in the period between 4 August and 31 December 2014.

The performance of NOVO BANCO GROUP during its first five months of existence was conditioned by the exceptional circumstances that led to its creation and impacted several of its areas of activity, and also by the situation in Portugal, characterised by sluggish economic activity, high unemployment and interest rates at very low levels.

### Income Statement

	Eur million
	<b>from 4-Aug to 31-Dec-14</b>
Net Interest Income	266.3
+ Fees and Commissions	178.2
= <b>Commercial Banking Income</b>	<b>444.5</b>
+ Capital Markets and Other Results	344.0
= <b>Banking Income</b>	<b>788.5</b>
- Operating Costs	368.6
= <b>Net Operating Income</b>	<b>419.9</b>
<b>Gross Commercial Income</b>	<b>75.9</b>
- <b>Net Provisions</b>	<b>699.1</b>
Credit	378.1
Securities	199.7
Other	121.2
= <b>Income before Taxes and Minorities</b>	<b>- 279.2</b>
- Income Tax	177.7
- Special Tax on Banks	13.0
= <b>Income Before Minorities</b>	<b>- 469.9</b>
- Minority Interests	- 2.0
= <b>Net Income</b>	<b>- 467.9</b>

NOVO BANCO's net income for the period was negative in EUR 467.9 million, and the following should be highlighted:

- Commercial banking income reached EUR 444.5million, with a contribution of EUR 266.3 million from net interest income and EUR 178.2 million from fees and commissions.

- Operating costs of EUR 386.6 million which do not yet reflect entirely the effort carried out in its reduction;
- Net operating income before provisions and impairments totalled EUR 419.9 million.
- Provisions reached the amount of EUR 699.1 million, which jointly with the impact accounted in taxes related with the change of the income tax rate, have pressured the results of NOVO BANCO GROUP.

Excluding non-recurrent items, the net income was negative at EUR 229.7 million.

<b>Non-Recurrent Results</b> (net of taxes)	
Eur million	
<b>from 4-Aug to 31-Dec-14</b>	
<b>Reported Net Income</b>	<b>- 467.9</b>
Income Tax Change <sup>(1)</sup>	140.0
Impairment on Portugal Telecom / Oi	108.4
Loans Impairment	48.7
Losses from entities held for sale	101.3
Liabilities revaluation	- 210.6
Provisions for other assets and contingencies	29.9
Operating costs (incl. early retirements)	20.5
<b>Recurrent Net Income</b>	<b>- 229.7</b>

<sup>(1)</sup> adjustments in the corporate income tax (IRC) from 23% to 21% and in the deferred tax income to 29% related to temporary differences

## Net Interest Income

The performance of net interest income was impacted by the historical lows reached by benchmark interest rates and the need to stabilise the customer funding component of the activity funding, allowing the reduction of funding from the ESCB. As a consequence, net interest income increased to EUR 266.3 million, accounting for 34% of banking income. The annualised net interest margin was 1.21%, underpinned by an average interest rate on financial assets of 3.39% and an average rate on liabilities of 2.18%, which compare with an average 3-month Euribor in the same period of 0.09%.

## Net Interest Income and Net Interest Margin

	Eur million		
	from 4-Aug to 31-Dec-14		
	Average Balance	Avg Rate (%)	NII
Interest Earnings Assets	53 469	3.39%	745
Customer Loans	41 009	3.38%	570
Money Market	5 525	0.54%	12
Other Assets	6 936	3.42%	163
Other Non-Interest Earning Assets	-	-	-
<b>Interest Earning Assets &amp; Other</b>	<b>53 469</b>	<b>3.39%</b>	<b>745</b>
Interest Bearing Liabilities	52 149	2.24%	479
Deposits	24 622	1.47%	149
Debt Securities and Other	13 778	5.28%	299
Funds from ECB	11 023	0.26%	12
Other Liabilities	2 726	1.74%	20
Other Non-Interest Bearing Liabilities	1 321	-	-
<b>Interest Bearing Liabilities &amp; Other</b>	<b>53 469</b>	<b>2.18%</b>	<b>479</b>
<b>NIM/NII</b>		<b>1.21%</b>	<b>266</b>
<b>Euribor 3 M - average</b>		<b>0.09%</b>	

The average annualised rate on customer loans, that account 76.7% of financial assets was associated to an average annualised rate of 3.38%. As to customer funds, the average balance of deposits was EUR 24.6 billion with an average annualised rate of 1.47%, while debt securities and other interest bearing liabilities reached EUR 13.8 billion, carrying an average rate of 5.28%.

The fact that benchmark interest rates remain close to zero or are even negative represents an unprecedented challenge to profitability.

## Fees and Commissions

In December 2014, i.e., five months after NOVO BANCO GROUP started to operate, fees and commissions on banking services amounted to EUR 178.2 million. Breakdown of fees and commissions:

## Fees and Commissions

	Eur million from 4-Aug to 31-Dec-14
Collections	3.0
Securities	9.9
Guarantees	22.2
Account management	28.0
Commissions on loans and other <sup>(1)</sup>	28.3
Documentary credit	14.3
Asset management <sup>(2)</sup>	29.9
Cards	10.0
Bancassurance	21.8
Advising, Servicing and Other <sup>(3)</sup>	10.9
<b>Total</b>	<b>178.2</b>

<sup>(1)</sup> Includes commissions on loans, project finance, export financing and factoring  
<sup>(2)</sup> Includes investment funds and discretionary management  
<sup>(3)</sup> Includes costs with State Guarantees

In the activity of NOVO BANCO GROUP we stress the importance of the following:

- ↳ Cross-selling services – bancassurance and asset management products, i.e., products from the group’s insurers and asset management firms placed in the branch network – these account for nearly one third of total fees and commissions and as from September are showing the positive impact of the gradual consolidation of customer confidence on the NOVO BANCO brand;
- ↳ Support services to companies – including guarantees provided, documentary credits, and loan management and similar services (more than 36% of the total);
- ↳ Commissions on payment services – cards (EUR 10 million) and payment means (EUR 28 million), namely cheques, transfers, payment orders, POS and ATMs, and also account management fees.

NOVO BANCO GROUP believes that the provision of quality services represents one of the most important sources of income, and thus invests in the launch of innovative products (namely the ‘Express Bill’ service, which combines a credit component with the assurance of efficient payments management and timely payments to suppliers) and permanently seeks to add value to its services as a differentiating factor vis-à-vis the competition.

## Capital Markets and Other Results

Capital markets and other results were positive in EUR 344.0 million.

### Capital Markets and Other Results

	EUR million
	from 4-Aug to 31-Dec-14
<b>Interest Rate, Credit and FX</b>	<b>420.5</b>
Interest Rate	26.5
Liability revaluation	296.6
Credit	-47.0
FX and Other	144.4
<b>Equity</b>	<b>-9.1</b>
Trading	-13.9
Dividends	4.8
<b>Other Results</b>	<b>-67.4</b>
<b>Total</b>	<b>344.0</b>

The resolution measure was followed by a complex period where liquidity and exchange rate management were the main concerns of financial management.

The currency positions generated by balance sheet adjustments and the transfer of assets and liabilities to NOVO BANCO required redesigning the foreign exchange risk coverage mechanisms, within an environment of scarce liquidity and restricted access to the markets. However, the position in US dollars allowed the Bank to reap the benefits of this currency's appreciation against the euro, leading to the booking of positive foreign exchange results.

Given the reduction of NOVO BANCO's senior bond yields there was a reduction in the SPEs' liabilities included in the consolidated balance sheet, as the assets related to those SPEs are essentially composed by bonds issued by the Group.

Other Results include the costs of insurance premia and the impact of the reclassification of BESI as a discontinued operation following the sale and purchase agreement entered into.

## Operating Costs

Reducing operating costs has been a key objective since the Board of Directors took office, and it is set to be pursued into the future. Operating costs during the five months of activity totalled EUR 368.6 million, posting a 5.8% decrease QoQ in the 4Q2014 on a comparable basis.

### Operating Costs

	EUR million
	<b>from 4-Aug to 31-Dec-14</b>
Staff Costs	191.2
General and Administrative Costs	139.5
Depreciation	37.9
<b>Total</b>	<b>368.6</b>
<b>Total excluding non recurrent costs <sup>(1)</sup></b>	<b>342.7</b>

<sup>(1)</sup> Namely costs with early retirements, costs with AQR and consulting

In what concerns to staff costs, which totalled EUR 191.2 million, it is worth noting that it included EUR 22.0 million in early retirement costs of 53 employees. All in all, since 4 August up to the end of 2014, NOVO BANCO reduced its payroll by 121 employees, on an individual basis, and the 165 at group level. Excluding non recurrent costs, staff costs amounted to EUR 169.6 million.

### Staff Costs

	EUR million
	<b>from 4-Aug to 31-Dec-14</b>
Wages and salaries	130.7
Pension costs, Social Security and Other Social costs	60.5
<b>Total</b>	<b>191.2</b>
<b>Total excluding non recurrent costs <sup>(1)</sup></b>	<b>169.6</b>

<sup>(1)</sup> namely costs with early retirements

The general and administrative costs, which totalled EUR 139.5 million, are broken down by nature in the table below.

## General and Administrative Costs

	EUR million <b>from 4-Aug to 31-Dec-14</b>
Rental costs	18.3
Communication costs	9.3
Travelling and Representation Costs	2.7
Advertising	7.8
Maintenance and Repair	7.8
Transportation	2.1
IT Services	24.1
Cleaning Services	2.6
Temporary Work	1.7
Legal Costs	8.8
Electronic Payment Systems	3.1
Consulting and Auditing	17.8
Other services	33.4
<b>Total</b>	<b>139.5</b>
<b>Total excluding non recurrent costs <sup>(1)</sup></b>	<b>134.2</b>

<sup>(1)</sup> namely costs with AQR and consulting

## Provisions

Given that the Portuguese and the European economies have so far failed to enter a vigorous growth cycle and produce an environment likely to attract investment and reduce unemployment, it has not been possible to reverse the curb of risk indicators and thus achieve a significant reduction in provisions for impairments.

## Provisions

	EUR million <b>from 4-Aug to 31-Dec-14</b>
Credit	378.1
Securities	199.7
Non-Current Assets Held For Sale	57.7
Other Assets and Contingencies	63.6
<b>Total</b>	<b>699.1</b>



Total impairment cost reached EUR 699.1 million, with the following relevant items:

- ↳ Customer loans - EUR 378.1 million provision charge, impact of the devaluation of certain financial collaterals due to the sharp fall in equity prices, particularly in the domestic market, and to the change of the emergence period used in the determination of the loan portfolio basis impairment;
- ↳ Securities - besides the overall sharp fall of the PSI 20 index, impact from the devaluation of the stakes held in Portugal Telecom and Oi; the NOVO BANCO GROUP recognised impairments for the entire securities portfolio of EUR 199.7 million;
- ↳ Non-current assets held for sale - EUR 57.7 million provision charge; and
- ↳ Other assets and contingencies - EUR 63.6 million provision charge

## **5. Main business areas (operating segments)**

### **5.1 NOVO BANCO GROUP overview**

The NOVO BANCO GROUP develops its activity supported by a set of value propositions aimed at meeting the needs of its client base: companies, institutions and individual clients.

When monitoring the performance of each business area, the Group considers the following Operating Segments:

- Domestic Commercial Banking (which includes the Retail, Corporate and Institutional Clients and Private Banking sub-segments)
- International Commercial Banking
- Asset Management
- Life Insurance
- Markets

Each segment is directly supported by NOVO BANCO's dedicated structures, as well as by those central units whose activity is most closely related to. These structures run individual monitoring of each operational unit of the Group (considered from the viewpoint of an investment centre) while the Board of Directors defines strategies and commercial plans for each unit.

## 5.2 Retail

This segment includes the activity with individual clients, most notably deposit taking, sale of saving products, commissions for account management, cards and other means of payment, subscription of insurance products by retail clients, investment funds, brokerage of securities, custody services, mortgage credit, consumer credit and financing of small businesses

### Retail Banking

	Eur million
	<b>Dec-14</b>
<b>BALANCE SHEET</b>	
Customer Loans (gross)	13 879
Customer Funds	11 797
<b>INCOME STATEMENT</b>	
Commercial Banking Income	211.9
Capital Mkts & Other Results	5.3
Banking Income	217.1
Operating Costs	149.2
Provisions	31.8
Income Before Tax	36.1

Total retail customer funds reached EUR 11.8 billion at the end of the year, driven by a sharp increase in deposits in the last quarter (+8.0% in the period), which is a sign of the customers' confidence in NOVO BANCO, boosting an improvement in the Bank's funding levels.

Retail's lending policy maintained its selective criteria in new operations. However, NOVO BANCO did not cease to support the added value projects of its clients in the small businesses segment, in line with its philosophy of supporting the Portuguese business community. In December the Retail loan book totalled more than EUR 13.8 billion, a 1.6% drop, in the last quarter of the year, reflecting the regular amortisation of mortgage credit.

Retail's banking income for the period of August to December 2014 totalled EUR 217.1 million, with net interest income reaching EUR 150.4 million. Fees and commissions on banking services provided to clients exceeded EUR 60 million. The streamlining process of this business area enabled a gradual reduction trend in monthly operating costs (-8.4%).

The **Direct Channels** continued to gain ground within the multi-channel relationship with the clients. The NBnet's penetration in the retail customer base reached 41.7%, according to Marktest data. The mobile banking use (NBapp mobile and tablet) increased, with penetration in the retail customer base reaching 9.3% given the launching of new solutions. The new NB1click app with close to 40% of mobile top-ups being made through this app was remarkably successful and strongly reinforced NOVO BANCO's image of innovation. Offering services that are increasingly close to our clients' every day needs remains a strategic priority. The bank has strongly invested in the mobility area, developing and capitalising on the experience of using the new channels. Aiming to respond to the increasing array of devices used to access NOVO BANCO's website, the site was equipped with responsive design, i.e., the capacity to automatically adapt the layout to the viewing environment of the device being used. NBdireto, NOVO BANCO's customer support phone service reinforced its role as a back-up tool to the digital channels. NOVO BANCO's phone service won the Portuguese Association of Call Centres' 2nd prize (banking category) and once again obtained this association's quality seal, with a compliance level of 98%. Global satisfaction with the NBdireto service increased significantly, with the percentage of 'very satisfied clients' reaching 85.4%. At the end of the year the Direct Channels were responsible for 53% of all cashless transactions (transfers, payment of services, top-ups), and this percentage reached 89% in the service for corporate clients.

**Banco Best**, the innovation leader in the offer of financial products and services in Portugal, launched a new website, a bold new development that incorporates the latest technological trends and most up-to-date web surfing habits. More intuitive, easier to navigate, and with new functionalities, the new website has a responsive design. Having added three new fund managers (Neuberger Berman, MFS and Muzinich) to its portfolio, the bank maintains the lead in sales of foreign investment funds, with a 37.4% market share. In online derivatives trading, Best is market leader in online futures trading, with a share of 27% (according to CMVM, the Portuguese Securities Market Commission). The volumes achieved translate the performance of the various business areas, namely with the stock of foreign investment funds growing by 29%, to more than EUR 1 billion. This dynamics stresses the independent nature of the offer as well as the clients' demand for assets unrelated to national risk to diversify their investment portfolios. Moreover, Banco Best increased the number of clients by 5.2%. Banco Best posted a net profit for the year of EUR 6.8 million.

**NOVO BANCO dos Açores** activity was greatly impacted by the effects of the resolution measure, which impacted the activity of NB Açores during the last five months of 2014. Therefore, while customer funds (mainly off-balance sheet customer funds) decreased, the lending activity was pursued as usual. Net assets totalled EUR 437.5 million at the end of December. Net operating income totalled EUR 5.4 million in the full year, underpinned by the improvement in net interest income and the increase in fees and commissions. The year's results - a net loss of EUR 2.1 million - were penalised by the increase in credit provisions.

### 5.3 Corporate and Institutional Clients

This business area includes the business with large and medium-sized companies, as well as with institutional and municipal clients. The NOVO BANCO GROUP holds a significant position in this segment as a result of its support to the development of the national business community, where it targets companies with a good risk profile, innovative characteristics and exports oriented.

#### Corporate and Institutional Clients

	Eur million
	<b>Dec-14</b>
<b>BALANCE SHEET</b>	
Customer Loans (gross)	19 382
Customer Funds	7 762
<b>INCOME STATEMENT</b>	
Commercial Banking Income	194.8
Capital Mkts & Other Results	1.9
Banking Income	196.8
Operating Costs	22.3
Provisions	262.0
Income Before Tax	-87.5

The segment of Corporate and Institutional Clients of NOVO BANCO – characterised by its unique connection with the Portuguese corporate sector – contributed in a decisive manner to the recovery of on-balance sheet funds, with deposits growing by 29.2% in the last quarter of 2014.

In 2014 the international bankers of NOVO BANCO supported around 400 companies in differing stages of the internationalisation process. Opening new markets for NB's clients is a distinctive mark of the Bank, and it has fostered the growth of the international business of the companies we support

(market share of 28% in trade finance and 22.5% in credit to the exporting companies). The gross loans granted by NOVO BANCO GROUP to Winners – companies that produce transactional goods, with a large weight of exports and innovative with good risk profile – posted an 7.2% YoY increase

In the Iberian market, the strong connection between the domestic retail network and the Group's network in Spain has allowed for a growing commercial action of business development, having been acquired 106 new Iberian clients in 2014. In 2014, the “NB Express Bill” solution, which in Portugal has close to 19,000 clients and EUR 2,500 million in facilities approved, which guarantee the advancing of payments of more than EUR 12 billion per year, has been expanded to Spain, Portugal's main client and supplier, and remains the only financial instrument offered by Iberian banks that permits to guarantee and bring forward payments between companies from the two countries, online.

In 2014, NOVO BANCO continued its support to Innovation and Entrepreneurship, having launched the third edition of the Management Course for Innovators and Entrepreneurs (in partnership with EDP Inovação) and promoted the 10th edition of the National Innovation Awards, which have already distinguished 50 projects (among 1,558 competitors) and awarded EUR 3.1 million in prizes, and aims to contribute to revitalize the Portuguese productive sector.

NOVO BANCO has also had an important role in promoting the Credit Lines to finance the Portuguese SME's, having approved in 2014, EUR 166 million in credit in PME Investe, PME Crescimento and Investe QREN and EUR 303 million in lines with the European Investment Bank (EIB) and with the EIF (European Investment Fund).

Between August and December, the banking income from the Corporate and Institutional Clients segment reached EUR 196.8 million, of which EUR 119.5 million were due to net interest income and EUR 75.3 million were due to fees and commissions. As a result of a rationalization effort in terms of processes and expenses, monthly operating costs posted a decrease of 8.0% between September and December.

## **5.4 Private Banking**

This area is dedicated to the business with private clients, covering all products related to assets and attracting funding associated with these clients, notably deposits, custody services, brokerage of securities and insurance products.

## Private Banking

	Eur million
	<b>Dec-14</b>
<b>BALANCE SHEET</b>	
Customer Loans (gross)	574
Customer Funds	1 750
<b>INCOME STATEMENT</b>	
Commercial Banking Income	34.9
Capital Mkts & Other Results	1.0
Banking Income	35.9
Operating Costs	6.1
Provisions	2.2
Income Before Tax	27.6

In December 2014 on-balance sheet funds of private banking clients reached EUR 1,750 million, underpinned by a EUR 368 million increase in the last quarter of the year. This increase in on-balance sheet funds reinforced the stability of the funding structure of this important business area. The private banking loan book reached EUR 574 million in December.

As a result of the segment's activity the banking income for the period of August to December 2014 totalled EUR 35.9 million, mainly as a result of NII performance (EUR 30.1 million) with fees & commissions reaching EUR 4.8million. Regarding costs, the Private segment reduced its monthly operating costs by 20% in the Q2014, in line with the effort made by the Bank.

### 5.5. International Commercial Banking

This segment includes the retail units operating abroad, which develop their banking activity (excluding investment banking and asset management) with both individual and corporate clients. As happened in the domestic market, NOVO BANCO GROUP's international activity was also highly penalised by the events associated with the resolution measure applied to BES, which significantly impacted the international units' commercial volumes, particularly at the Spain Branch. Even so, and despite the adverse context, the segment reported a pre-tax profit of EUR 1.6 million.

## International Commercial Banking

	Eur million
	<b>Dec-14</b>
<b>BALANCE SHEET</b>	
Customer Loans (gross)	7 265
Customer Funds	5 423
<b>INCOME STATEMENT</b>	
Commercial Banking Income	123.7
Capital Mkts & Other Results	40.5
Banking Income	164.2
Operating Costs	70.0
Provisions	92.6
Income Before Tax	1.6

The activity of **NOVO BANCO Spain Branch** was impacted by the effects of the events associated to the Resolution measure. Main highlights in the period of 4 August to 31 December 2014 were related to: (i) reduction in customer deposits, which however recovered at year-end to their level on 3 August; this, combined with the loan book contraction, enabled an improvement in the Branch's self-sufficiency in terms of funding; (ii) off-balance sheet activity volume decreased to ca. EUR 1.1 billion at the end of the year; (iii) the international corporate activity volume decelerated, with the number of active clients in the period falling by 8.6%. (iv) despite the reduction in the number of clients, the number of private banking clients increased;(v) continued implementation of the prudent credit risk management policy, involving a reinforcement of provisions in light of the evolution and direct effects of the economic situation. As to the performance of banking income, the cost of liabilities maintained a downward trend, while fees and commissions were slightly below the average in the first half of the year. Cost containment, combined with the evolution of the other items, resulted in an operating income for the period of EUR 8.1 million.

**NOVO BANCO London Branch (United Kingdom)** concentrates its activity in wholesale banking in the European market. Reflecting the effects of the deleveraging plan as well as the reduction in the amount of short- and medium term debt issuance programmes, at the end of 2014 assets amounted to EUR 4.6 billion. The commercial banking income generated by the Branch from 4 August to the

end of the year totalled EUR 7.8 million. The branch reached a commercial banking income of EUR 7.8million, from 4 August until the end of the year.

**NOVO BANCO New York Branch (USA)** concentrates its activity in wholesale banking, mainly in the US and Brazil. 2014 continued to be marked by difficulty of access to market liquidity, penalising the placement of certificates of deposit and commercial paper. These constraints continued to demand extreme prudence in business development and focus on risk monitoring and management. Undermined by the sharply adverse context and the ongoing deleveraging process, the Branch posted a net loss of EUR 1.3 million.

**Banco Internacional de Cabo Verde (Cape Verde)** focuses on local corporate banking activity, where it mainly targets public sector companies, subsidiaries of Portuguese companies with economic interests in Cape Verde, and the local affluent market. This subsidiary's commercial volumes decreased in 2014, though consistently recovering during the last quarter of the year. Moreover, despite the unfavourable context, the unit generated net earnings of EUR 265,000.

The activity of **NOVO BANCO Asia (Macau/ People's Republic of China)** focuses on supporting its clients' business operations in the Asian region, providing banking services and attracting funding from institutional, affluent and private banking clients. At the same time, the bank seeks to seize business opportunities leveraged by the expressed intent of the central government of the People's Republic of China to consider Macau as a platform for economic cooperation with Portuguese-speaking countries. The deployment of the strategic plan entailed the replacement of the IT system, which had been in use since the bank's creation, by a new modular system. The new system is more flexible, making it easier to expand the offer and introduce new products and thus better address the clients' and the Bank's needs. The bank launched the bases to boost the development of the personal banking business for private and affluent clients, and also to develop a new acquiring business line intended to support traders. The activity of NOVO BANCO Asia was penalised both by the effects of the events associated to the Resolution measure and by the deceleration of the Macau economy due to the cooling down of the gambling/leisure and tourism sectors. The activity was affected by the decrease of customer deposits, which led total assets to amounted to EUR 122 million at the end of the year. The net profit for the year, EUR 139 thousand, was mainly affected by operating costs.



The activity of **Banque Espirito Santo et de la Vénétie (France)** was likewise impacted by the events occurred with its majority shareholder, which affected its corporate image and caused a reduction in client deposits. The contraction of activity combined with the increase in operating costs hindered the performance of the gross operating income, notwithstanding a lower cost of risk.

**Moza Banco (Mozambique)**, in which the NOVO BANCO GROUP holds a 49% stake, continued to deploy its commercial expansion plan in 2014, opening 8 new branches that increased the network to a total of 31 units at year-end. The bank continued to see strong growth, with net assets increasing by 59%, to EUR 594 million, making it the fourth largest bank in Mozambique by total assets.

**NOVO BANCO Venezuela Branch** has been focusing its activity on the Portuguese resident community and the local large companies and institutions. For the branch, the year was also influenced by the events associated to the resolution measure, and also by the adverse economic situation in Venezuela, which is suffering from hyperinflation. The branch assets stood at EUR 307mn at the end of 2014.

**NOVO BANCO Luxembourg Branch** has been acting as a platform for business with the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe. Customer loans totalled EUR 733 million, with customer deposits amounting to EUR 310 million.

## 5.6 Asset Management

This segment includes all the asset management activities of the Group, conducted by specialised companies within Portugal and abroad. Asset Management's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and portfolio management services.

## Asset Management

	Eur million
	<b>Dec-14</b>
<b>ASSETS UNDER MANAGEMENT</b>	7 834
<b>INCOME STATEMENT</b>	
Banking Income	19.4
Operating Costs	6.4
Provisions	-0.2
Income Before Tax	13.1

The global volume of assets under management reached EUR 7.8 billion on 31 December 2014. Assets under management of discretionary portfolio management, wealth management and real estate investment funds registered a sharp reduction.

Domestic wealth management volume decreased by more than half, due to the transfer to internal management of a set of portfolios from GNB Vida. Volumes under management of individual clients also decreased, but to a lower extent.

Assets under management of real estate investment funds fell by 53%, driven by reductions across all funds and the liquidation of some of them.

Pension fund assets remained flat, having increased in open-end funds (+15%) and decreased in close-end funds (-5%).

In the international business, assets under management totalled EUR 2.4 billion, with EUR 1.7 billion in Spain and EUR 0.7 billion in Luxembourg, posting a 12% decrease in assets under management.

## 5.7 Life Insurance

This business area comprises the activity developed by GNB Seguros Vida, which provides both traditional and unit-linked insurance products as well as pension plans.

### Life Insurance

	Eur million
	<b>Dec-14</b>
<b>BALANCE SHEET</b>	
Customer Funds	5 841
<b>PROFIT AND LOSS</b>	
Banking Income	17.9
Operating Costs	6.5
Provisions	30.0
Income Before Tax	-18.6

GNB Seguros Vida's production in Portugal totalled EUR 1,362.9 million, which represents a 31.7% YoY reduction in premium volume. Note that the positive performance of production volume in the first half of 2014 was broken by the events that led to the resolution measure, to which the Company's commercial activity was not immune, namely in terms of redemptions (ca. EUR 1 billion). All these factors combined caused a fall in mathematical provisions of ca. EUR 550 million, to EUR 6,476 million at the end of the year. The loss reported is explained by the recognition of impairments in real estate investment funds.

## 5.8 Markets

This segment includes the global financial management activity of the Group, namely raising and placement of funds in the financial markets, as well as investment in and risk management of credit, interest rate, FX and equity instruments, whether of a strategic nature or as part of current trading activity. It also includes activity with non-resident institutional investors, as well as any activities arising from strategic decisions impacting the entire Group, such as those taken with regard to the exceptional occurrences in the period, which led to a pre-tax loss of EUR 137.6 million.

### Markets and Strategic Holdings

	Eur million
	<b>Dec-14</b>
<b>INCOME STATEMENT</b>	
Banking Income	170.6
Operating Costs	27.6
Provisions	280.6
Income Before Tax	-137.6



NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

Eur thousand

	04-Aug-14	04-Aug-14 incl. 22-Dec-14 deliberations	31-Dec-14
<b>ASSETS</b>			
Cash and deposits at Central Banks	5 401 256	5 401 256	2 747 077
Deposits with banks	673 488	673 488	490 856
Financial assets held for trading	2 258 854	2 258 854	1 062 517
Financial assets at fair value through profit or loss	2 567 297	2 567 297	2 230 388
Available-for-sale financial assets	11 498 253	11 498 253	9 478 469
Loans and advances to banks	1 100 617	1 100 617	1 044 286
Loans and advances to customers	38 569 431	38 569 431	34 929 314
Assets with repurchase agreement	-	-	-
Held-to-maturity Investments	-	-	-
Hedging derivatives	391 761	391 761	404 582
Non-current assets held for sale	2 399 063	2 399 063	2 747 168
Assets from discontinued operations	-	-	4 209 800
Investment properties	305 493	305 493	297 133
Other tangible assets	427 067	427 067	397 088
Intangible assets	335 938	335 938	253 732
Investment in associates and subsidiaries excl. from consolidation	428 053	428 053	402 289
Current income tax assets	30 137	30 137	29 962
Deferred income tax assets	2 865 379	2 865 379	2 550 559
Technical reserves of reinsurance ceded	9 197	9 197	8 038
Other assets	3 203 952	3 129 175	2 204 073
Debtors from insurance and reinsurance operations	20 890	20 890	1 263
Other	3 183 062	3 108 285	2 202 810
<b>TOTAL ASSETS</b>	<b>72 465 236</b>	<b>72 390 459</b>	<b>65 487 331</b>
<b>LIABILITIES</b>			
Deposits from central banks	13 824 376	13 824 376	8 611 709
Financial liabilities held for trading	1 404 249	1 404 249	1 045 648
Financial liabilities at fair value through profit or loss	-	-	-
Deposits from banks	4 180 247	4 180 247	2 623 583
Due to customers	27 281 015	26 657 915	27 938 053
Debt securities	11 153 571	11 153 571	9 032 956
Financial liabilities to transferred assets	-	-	-
Hedging derivatives	121 187	121 187	104 140
Investment contracts	4 889 337	4 889 337	4 379 442
Non current liabilities held for sale	215 244	215 244	330 903
Liabilities from discontinued operations	-	-	3 072 720
Provisions	567 250	567 250	409 723
Technical provisions	1 705 871	1 705 871	1 461 070
Current income tax liabilities	82 898	82 898	34 273
Deferred income tax liabilities	80 765	80 765	50 309
Equity Instruments	-	-	-
Other subordinated loans	75 251	75 251	54 794
Other liabilities	1 306 580	1 306 580	860 099
Creditors from insurance and reinsurance operations	24 753	24 753	10 132
Other	1 281 827	1 281 827	849 967
<b>TOTAL LIABILITIES</b>	<b>66 887 841</b>	<b>66 264 741</b>	<b>60 009 422</b>
<b>EQUITY</b>			
Capital	4 900 000	4 900 000	4 900 000
Share premium	-	-	-
Other equity instruments	-	-	-
Treasury stock	-	-	-
Fair value reserve	-	-	( 78 582)
Other reserves and retained earnings	543 486	1 091 809	994 945
(Loss) / Profit for the year	-	-	( 467 900)
Dividens paid in advance	-	-	-
Minority Interests	133 909	133 909	129 446
<b>TOTAL EQUITY</b>	<b>5 577 395</b>	<b>6 125 718</b>	<b>5 477 909</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>72 465 236</b>	<b>72 390 459</b>	<b>65 487 331</b>



## NOVO BANCO, S.A.

### CONSOLIDATED INCOME STATEMENT FROM 4 AUGUST TO 31 DECEMBER

Eur thousand

	<b>from 4-Aug-14 to 31-Dec-2014</b>
Interest and similar income	781 667
Interest expense and similar charges	515 366
<b>Net Interest Income</b>	<b>266 301</b>
Dividend income	4 774
Fee and Commission income	225 331
Fee and Commission expense	56 423
Net gains from financial assets at fair value through profit or loss	( 21 207)
Net gains from available-for-sale financial assets	34 213
Net gains from foreign exchange differences	75 119
Net gains/ (losses) from sale of other assets	15 500
Insurance earned premiums net of reinsurance	17 799
Claims incurred net of reinsurance	273 706
Change on the technical provision net of reinsurance	239 264
Other operating income and expense	243 228
<b>Operating Income</b>	<b>770 193</b>
Staff costs	191 226
General and administrative expenses	139 496
Depreciation and amortisation	37 850
Provisions impairment net of reversals	( 35 163)
Loans impairment net of reversals	378 120
Impairment on other financial assets net of reversals	262 500
Impairment on other assets net of reversals	93 594
Negative consolidated differences	-
Associate Income and joint ventures (equity method)	5 221
<b>Net Income before income tax and minorities</b>	<b>( 292 209)</b>
Income tax	
Current tax	28 885
Deferred tax	148 809
<b>Net Income after taxes and before minorities</b>	<b>( 469 903)</b>
o.w. : Income after taxes from discontinued operations	143
Income after taxes from operations being discontinued	( 46 612)
Minority Interests	( 2 003)
<b>Net Income / (Loss) for the period</b>	<b>( 467 900)</b>