

## **NOVO BANCO GROUP ACTIVITY AND RESULTS FOR FINANCIAL YEAR 2019**

(Unaudited financial information)

**“2019 was a watershed year for NOVO BANCO where we saw a significant increase in the performance of our recurrent business.**

**We grew across all lines of business and significantly increased our profitability.**

**This was achieved while at the same time we accelerated the cleanup of our balance sheet reducing our legacy assets by €6.2 billion and NPL’s by more than €3.3 billion.”**

**António Ramalho**

### **HIGHLIGHTS**

- **Growth of recurrent loan volumes (+5.6%; +€1 303 million), building on the positive trend achieved in 1st half 2019 (+3.1%; +€713 million), with increases across both retail and corporate portfolios.**

Loans to Corporate +3.8%; Residential mortgage +8.3%; Consumer and other +4.2%.

- **Stable deposits and increase in total customer funds (+0.8%; +€262 million),** namely in off-balance sheet funds - the Bank continues to maintain a strong liquidity position through growing the recurrent bank funds.

- **Progress to sustainable profitability.**

Recurrent net income +€177.6 million (Dec.18: -€77.2 million).

Income before taxes increased from +€2.2 million in 2018 to +€175.3 million in 2019.

Recurrent commercial banking income grew to +€811.9 million (+16,6%) in the year, with a growth in all quarters, with the recurrent net interest margin and fees and commissions showing a growth of +26.9% and +3.7%, respectively, reflecting the continued strengthening of its franchise.

- **Continued focus on costs control while investing in the core business and in Digital transformation.**

Recurrent operating costs decreasing -0.8% to €460.8 million (Dec.18: €464.3 million).

- **Marked reduction in non-performing loans, in line with the defined strategy.**

Reduction of non-performing loans -€3 308 million from €6 739 million to €3 430 million (reduction of -€6 700 million comparing to December 2017), reflecting a NPL ratio decrease of circa 58% from 28.1% in Dec.17 to 11.8% in Dec.19. The NPL ratio of the recurrent activity decreased to 3.6% (Dec/18: 5.4%).

- **Reduction of legacy assets.**

Reduction of legacy assets by 57.9% (-€6 176 million), across all asset categories. The sale of GNB Vida's share capital contributed -€4 076 million to this reduction.

- **Contingent Capital Agreement**

As a result of the losses recorded in the legacy activity amounting to -€1 236.4 million, that reflects the continued deleverage of legacy loans and real estate assets, which were in the balance sheet in 2016, NOVO BANCO will request a compensation of €1 037 million under the Contingent Capital Agreement (CCA), as stipulated in the sale agreement. The amount of the compensation requested in 2017 and 2018 and to be requested relating to 2019 totals €2.98 billion. The maximum amount of compensation established in the CCA is €3.89 billion.

NOVO BANCO continues to deliver on its strategic plan, targets and the commitments assumed by the Portuguese Government with DGComp. Throughout the year, the Bank continued to make progress on its strategic priorities, achieving positive financial results in recurrent activity. In the Legacy activity the Bank pursued its strategy of reducing non-performing assets.

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

## NOVO BANCO RECURRENT

### RESULTS

As at 31 December 2019, NOVO BANCO Recurrent reported a positive net income of +€177.6 million, which represents a year-on-year increase of +€254.8 million. This positive performance was underpinned by the growth of net interest income (+€104.0 million; +26.9%), of fees and commissions (+€11.5 million; +3.7%), and of capital markets results (+41.8 million), and the reduction in impairments and provisions (-€51.0 million; -20.1%), being in part offset by the decrease in other operating results (-€38.9 million).

These results reflect the continuing focus on the core domestic business.

Income Statement	Recurrent			
	31-Dec-18	31-Dec-19	Change	
			absolute	%
Net Interest Income	387.2	491.2	104.0	26.9%
+ Fees and Commissions	309.2	320.7	11.5	3.7%
<b>= Commercial Banking Income</b>	<b>696.4</b>	<b>811.9</b>	<b>115.5</b>	<b>16.6%</b>
+ Capital Markets Results	30.4	72.2	41.8	...
+ Other Operating Results	- 6.6	- 45.5	- 38.9	...
<b>= Banking Income</b>	<b>720.1</b>	<b>838.6</b>	<b>118.5</b>	<b>16.5%</b>
- Operating Costs	464.3	460.8	- 3.5	-0.8%
<b>= Net Operating Income</b>	<b>255.8</b>	<b>377.8</b>	<b>122.0</b>	<b>47.7%</b>
<b>- Net Impairments and Provisions</b>	<b>253.6</b>	<b>202.5</b>	<b>- 51.0</b>	<b>-20.1%</b>
Credit	39.6	222.4	182.9	...
Securities	12.4	3.5	- 8.9	-71.8%
Other Assets and Contingencies	201.6	- 23.4	- 225.0	...
<b>= Income before Taxes</b>	<b>2.2</b>	<b>175.3</b>	<b>173.1</b>	<b>...</b>
Corporate Income Tax and Special Tax on Banks	74.8	-10.6	-85.4	...
<b>= Income after Taxes</b>	<b>- 72.6</b>	<b>185.8</b>	<b>258.4</b>	<b>...</b>
- Non-Controlling Interests	4.6	8.2	3.6	79.2%
<b>= Net Income for the year</b>	<b>- 77.2</b>	<b>177.6</b>	<b>254.8</b>	<b>...</b>

**Net interest income** increased by €104.0 million, to €491.2million (+26,9%), benefiting from the positive contribution of the optimisation measures implemented in 2018 and the expansion of the loan volume and continued focus on pricing policy.

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-18			31-Dec-19		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	34 147	1.83%	633	35 237	1.86%	666
Customer Loans	23 059	2.36%	551	23 902	2.24%	543
Other financial assets	11 088	0.73%	82	11 335	1.07%	123
Money Market Placements	2 221	-0.06%	- 1	1 056	0.01%	0
Securities and Other Assets	8 867	0.92%	83	10 279	1.18%	123
<b>INTEREST EARNING ASSETS AND OTHER</b>	<b>34 147</b>	<b>1.83%</b>	<b>633</b>	<b>35 237</b>	<b>1.86%</b>	<b>666</b>
<b>INTEREST BEARING LIABILITIES AND OTHER</b>	<b>34 147</b>	<b>0.69%</b>	<b>238</b>	<b>35 237</b>	<b>0.48%</b>	<b>172</b>
<b>NIM /NII</b> (without stage 3 impairment adjustment)		<b>1.14%</b>	<b>395</b>		<b>1.38%</b>	<b>494</b>
<b>Stage 3 impairment</b>			<b>- 8</b>			<b>- 3</b>
<b>NIM / NII</b>		<b>1.12%</b>	<b>387</b>		<b>1.37%</b>	<b>491</b>

During 2019 there was an increase in the loan volumes (corporate, mortgage and consumer) and revenue levels were maintained.

Growth in volumes was achieved while maintaining a focus on pricing discipline. However, the highly competitive corporate market contributed to a slight decrease in interest rates to 2.24% (Dec/18: 2.36%).

The liability management measures performed led to the reduction of the cost of funding from 0.69% to 0.48%, while the interest rate on assets increased from 1.83% to 1.86%. The resulting net interest margin was 1.37% (+25 bps compared to 31 December 2018).

**Fees and commissions** on banking services contributed +€320.7 million (+3.7%) to the results, which compares with +€309.2 million on 31 December 2018. Fees and commissions related to payments management, and loans and guarantees, were relatively stable despite the competitive environment that has characterised banking activity. Bancassurance and asset management continued to deliver good results.

**Recurrent commercial banking** income grew to +€811.9 million (+16,6%) in the year with a growth in all quarters (1Q19: +€188 million; 2Q19: +€199 million; 3Q19: +€202 million; 4Q19: +€223 million).

The **Capital markets results** totalled +€72.2 million, reflecting the gains on the sale and revaluation of securities, in particular sovereign debt securities. In addition, the losses recorded under this heading related to the hedging of sovereign debt securities (-€111.1 million) were more than offset by the increase of the respective fair value reserves (+€245.7 million), included in the Group's equity.

**Operating costs** totalled €460.8 million, a year-on-year absolute decrease of -0.8%, that reflects the investment in the core business and in the digital transformation, as well as continued cost control.

**Operating income** was up by €122.0 million year-on-year, reaching €377.8 million (+47.7%).

The **cost of risk** considering the credit impairment was 91bps. Excluding the one offs and exceptional provisions in 2019 the underlying cost of risk would be in the range of 55-65 bps.

## ACTIVITY

Assets increased by €3 198 million (+8.5%), with net customer loans growing by 5.7% (+€1 270 million), building on the positive trend already achieved up to the 3rd quarter of 2019 (+4.0%; +€895 million), with improvement in both individual and corporate. The growth in loans to corporate clients reflects the continued support to domestic companies, across all economic sectors (including industry, retail, real estate activities, tourism and services), with a special focus on SMEs.

	mn€			
	31-Dec-18	31-Dec-19	Change	
			absolute	%
Customer loans (net)	22 465	23 735	1 270	5.7%
Real estate	374	307	- 67	-18.0%
Other assets	14 777	16 772	1 995	13.5%
<b>Total Net Assets</b>	<b>37 616</b>	<b>40 814</b>	<b>3 198</b>	<b>8.5%</b>
<b>Total Liabilities and Equity</b>	<b>37 616</b>	<b>40 814</b>	<b>3 198</b>	<b>8.5%</b>

The recurrent assets' quality indicators improved, as shown by the NPL ratio's reduction to 3.6% and coverage ratio' improvement by 21.5pp.

CUSTOMER LOANS	mn€			
	31-Dec-18	31-Dec-19	Change	
			absolute	%
<b>Customer Loans (gross)</b>	<b>23 077</b>	<b>24 380</b>	<b>1 303</b>	<b>5.6%</b>
Corporate	12 447	12 925	478	3.8%
Residential Mortgage	9 329	10 100	770	8.3%
Consumer finance and other	1 301	1 355	55	4.2%
<b>Non-Performing Loans (NPL)*</b>	<b>1 309</b>	<b>946</b>	<b>- 363</b>	<b>-27.8%</b>
<b>Impairment</b>	<b>612</b>	<b>645</b>	<b>33</b>	<b>5.3%</b>
<b>NPL Ratio*</b>	<b>5.4%</b>	<b>3.6%</b>	<b>-1.8 p.p.</b>	<b>...</b>
<b>NPL coverage*</b>	<b>46.8%</b>	<b>68.3%</b>	<b>21.5 p.p.</b>	<b>...</b>
<b>Cost of Risk (bps)</b>	<b>17</b>	<b>91</b>	<b>74</b>	<b>...</b>

\* Includes Deposits and Loans and advances to Banks and Customer Loans

## NOVO BANCO LEGACY

In line with the medium-term strategy of deleverage of legacy assets, NOVO BANCO Legacy reported a loss of -€1 236.4 million, which includes losses related to the sale and devaluation of assets (project Sertorius - sale of real estate; project Albatros - sale of real estate and non-performing loans in Spain; project NATA II - sale of non-performing loans and related assets; and due to sale of GNB Vida).

Income Statement	Legacy			
	31-Dec-18	31-Dec-19	Change	
			absolute	%
Net Interest Income	67.2	49.4	- 17.8	-26.4%
+ Fees and Commissions	4.6	2.7	- 1.9	-40.8%
<b>= Commercial Banking Income</b>	<b>71.8</b>	<b>52.2</b>	<b>- 19.6</b>	<b>-27.4%</b>
+ Capital Markets Results	- 70.7	- 269.0	- 198.3	...
+ Other Operating Results	- 237.0	- 201.5	35.6	15.0%
<b>= Banking Income</b>	<b>-235.9</b>	<b>-418.3</b>	<b>-182.4</b>	<b>-77.3%</b>
- Operating Costs	22.9	17.7	-5.3	-22.9%
<b>= Net Operating Income</b>	<b>-258.8</b>	<b>-436.0</b>	<b>-177.2</b>	<b>-68.5%</b>
- Net Impairments and Provisions	<b>456.4</b>	<b>732.9</b>	<b>276.5</b>	<b>60.6%</b>
Credit	223.9	405.1	181.1	80.9%
Securities	0.9	- 3.7	- 4.6	...
Other Assets and Contingencies	231.5	331.5	100.0	43.2%
<b>= Income before Taxes</b>	<b>- 715.2</b>	<b>-1 168.9</b>	<b>- 453.7</b>	<b>-63.4%</b>
Corporate Income Tax and Special Tax on Banks	620.2	83.4	- 536.8	-86.5%
<b>= Income after Taxes</b>	<b>-1 335.4</b>	<b>-1 252.3</b>	<b>83.1</b>	<b>6.2%</b>
- Non-Controlling Interests	0.1	- 15.9	- 16.0	...
<b>= Net Income for the year</b>	<b>-1 335.5</b>	<b>-1 236.4</b>	<b>99.1</b>	<b>7.4%</b>

NOVO BANCO Legacy assets decreased by 57.9% compared to December 2018. This was underpinned by reductions in the net loan book of circa -€822 million (-35.9%), in real estate assets amounting to -€832 million (-50.1%), and in other assets in -€4 522 million (-67.4%), of which -€4 076 due to the sale of GNB Vida.

	Legacy			
	31-Dec-18	31-Dec-19	Change	
			absolute	%
Customer loans (net)	2 289	1 467	- 822	-35.9%
Real estate	1 661	829	- 832	-50.1%
Other assets	6 708	2 186	-4 522	-67.4%
<b>Total Net Assets</b>	<b>10 658</b>	<b>4 482</b>	<b>-6 176</b>	<b>-57.9%</b>
<b>Total Liabilities and Equity</b>	<b>10 658</b>	<b>4 482</b>	<b>-6 176</b>	<b>-57.9%</b>

There are no liabilities directly allocated to the legacy activity, therefore the funding costs for legacy loans and real estate, are calculated based on the Group's average balance sheet funding rate (0.48%).

CUSTOMER LOANS	31-Dec-18	31-Dec-19	mn€	
			Change	
			absolute	%
<b>Customer Loans (gross)</b>	<b>5 635</b>	<b>2 675</b>	<b>-2 960</b>	<b>-52.5%</b>
Corporate	5 148	2 307	-2 841	-55.2%
Residential Mortgage	220	165	- 56	-25.4%
Consumer finance and other	267	203	- 64	-23.9%
<b>Non-Performing Loans (NPL)*</b>	<b>5 429</b>	<b>2 485</b>	<b>-2 944</b>	<b>-54.2%</b>
<b>Impairment</b>	<b>3 346</b>	<b>1 208</b>	<b>-2 138</b>	<b>-63.9%</b>
<b>NPL Ratio*</b>	<b>90.3%</b>	<b>81.3%</b>	<b>-9.0 p.p.</b>	<b>...</b>
<b>NPL coverage*</b>	<b>63.0%</b>	<b>51.7%</b>	<b>-11.3 p.p.</b>	<b>...</b>
<b>Cost of Risk (bps)</b>	<b>397</b>	<b>1 515</b>	<b>1117</b>	<b>...</b>

\* Includes Deposits and Loans and advances to Banks and Customer Loans

## NOVO BANCO GROUP RESULTS

NOVO BANCO Group reported a net loss of -€1 058.8 million in 2019, reflecting the combined effect of a -€1 236.4 million loss in the legacy activity and a +€177.6 million gain in recurrent activity. In this period, NOVO BANCO Group recorded losses related to the restructuring process and the deleverage of non-performing assets, namely projects Sertorius, Albatros, NATA II and the sale process of GNB Vida.

INCOME STATEMENT	31-Dec-18	31-Dec-19	mn€	
			Change	
			absolute	%
Net Interest Income	454.3	540.6	86.3	19.0%
+ Fees and Commissions	313.9	323.5	9.6	3.1%
<b>= Commercial Banking Income</b>	<b>768.2</b>	<b>864.1</b>	<b>95.9</b>	<b>12.5%</b>
+ Capital Markets Results	- 40.3	- 196.8	- 156.5	...
+ Other Operating Results	- 243.7	- 247.0	- 3.3	-1.3%
<b>= Banking Income</b>	<b>484.2</b>	<b>420.3</b>	<b>- 63.9</b>	<b>-13.2%</b>
- Operating Costs	487.3	478.5	- 8.8	-1.8%
<b>= Net Operating Income</b>	<b>- 3.0</b>	<b>- 58.2</b>	<b>- 55.1</b>	<b>...</b>
<b>- Net Impairments and Provisions</b>	<b>710.0</b>	<b>935.4</b>	<b>225.5</b>	<b>31.8%</b>
Credit	263.5	627.5	364.0	...
Securities	13.3	- 0.2	- 13.5	...
Other Assets and Contingencies	433.1	308.1	- 125.0	-28.9%
<b>= Income before Taxes</b>	<b>- 713.0</b>	<b>- 993.6</b>	<b>- 280.6</b>	<b>-39.4%</b>
- Corporate Income Tax	667.7	45.8	- 621.9	-93.1%
- Special Tax on Banks	27.3	27.1	- 0.2	-0.7%
<b>= Income after Taxes</b>	<b>-1 408.0</b>	<b>-1 066.5</b>	<b>341.5</b>	<b>24.3%</b>
- Non-Controlling Interests	4.7	- 7.7	- 12.3	...
<b>= Net Income for the year</b>	<b>-1 412.6</b>	<b>-1 058.8</b>	<b>353.8</b>	<b>25.0%</b>

The combined activity in 2019 includes the following:

- Commercial banking income reached €864.1 million (+12.5% YoY), supported by increases in net interest income (+19.0%) and in fees and commissions (+3.1%);
- Capital markets results were negative, at -€196.8 million, reflecting the losses resulting from the legacy activity (-€269.0 million). In contrast, fair value reserves on the securities portfolio reported an impressive increase;
- Operating costs decreased by -1.8% year-on-year, to €478.5 million, underpinned by the improvements made in simplifying processes and streamlining the organisation, with the consequent reduction in the number of branches and employees. The costs related to the legacy activity were also significantly reduced.
- The provision charge in the period, totalling €935.4 million, is broken down into credit impairments amounting to €627.5 million and €308.1 million for other assets and contingencies, of which €47.3 million are provisions for restructuring and €177,8 million are related with the sale processes of non-performing assets (NATA II, Sertorius and Albatros) and GNB Vida.

## Net Interest Income

The reduction in the interest rate on liabilities (-18bps) contributed to the increase in the net interest margin by 26bps year-on-year (from 1.06% to 1.32%), with the interest rate on assets increasing by 7bps (from 1.75% to 1.82%). The net interest income shown also includes the net interest income of legacy activity.

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-18			31-Dec-19		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	42 285	1.75%	752	40 344	1.82%	745
Customer Loans	30 722	2.06%	643	28 558	2.08%	601
Money Market Placements	2 610	0.83%	22	1 442	1.32%	19
Securities and Other Assets	8 952	0.95%	87	10 344	1.19%	125
<b>INTEREST EARNING ASSETS AND OTHER</b>	<b>42 285</b>	<b>1.75%</b>	<b>752</b>	<b>40 344</b>	<b>1.82%</b>	<b>745</b>
INTEREST BEARING LIABILITIES	38 404	0.73%	284	37 960	0.51%	196
Customer Deposits	28 836	0.66%	194	27 949	0.34%	97
Money Market Funding	8 470	0.30%	26	8 931	0.37%	25
Other Liabilities	1 098	5.73%	64	1 080	8.93%	73
OTHER NON-INTEREST BEARING LIABILITIES	3 881	-	-	2 383	-	-
<b>INTEREST BEARING LIABILITIES AND OTHER</b>	<b>42 285</b>	<b>0.66%</b>	<b>284</b>	<b>40 344</b>	<b>0.48%</b>	<b>196</b>
<b>NIM / NII</b> <small>(without stage 3 impairment adjustment)</small>		<b>1.09%</b>	<b>468</b>		<b>1.34%</b>	<b>549</b>
<b>Stage 3 impairment</b>			<b>- 14</b>			<b>- 9</b>
<b>NIM / NII</b>		<b>1.06%</b>	<b>454</b>		<b>1.32%</b>	<b>541</b>



The average rate on customer loans, the main component of financial assets (70.8%), was 2.08%. Regarding liabilities, the average balance of deposits was €27.9 billion, with an average interest rate of 0.34%. The Bank therefore continued to build the spread between the rate on interest earning assets (1.82%; Dec.18: 1.75%) and the cost of liabilities (0.48%; Dec.18: 0.66%).

## Fees and Commissions

Fees and commissions on banking services contributed +€323.5 million (+3.1%), which compares with +€313.9 million on 31 December 2018.

FEES AND COMMISSIONS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Payments Management	118.8	117.2	-1.5	-1.3%
Commissions on Loans, Guarantees and Similar	111.6	107.8	-3.8	-3.4%
Asset Management and Bancassurance	66.7	71.5	4.8	7.2%
Advising, Servicing and Other	16.8	26.9	10.1	60.4%
<b>TOTAL</b>	<b>313.9</b>	<b>323.5</b>	<b>9.6</b>	<b>3.1%</b>

In 2019 there was a decrease in fees and commissions on payment services and on loans and guarantees, due to competitive nature of the Portuguese market, this was offset by the increase in fees on asset management, advisory, servicing and other.

## Capital Markets and Other Operating Results

Capital markets year-on-year change of -€156.5 million, reflect the gains on the sale and revaluation of sovereign debt securities, losses on the revaluation of derivative instruments and losses resulting from the legacy activity (-€269.0 million).

Other operating results include, apart from the losses related with the projects for the sale on non-performing assets (-€46.2 million), the costs with the contributions to the Single Resolution Fund (€22.5 million) and to the Portuguese Resolution Fund (€12.2 million).

## Operating Costs

Operating costs show a year-on-year reduction of -1.8%, reflecting the restructuring measures associated with the downsizing of the distribution network and simplification of organisational structure and processes and consequent reduction in headcount.

OPERATING COSTS	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	Change	
						31-Dec-19 vs 31-Dec-18	
						absolute	%
Staff Costs	397.6	303.5	275.7	266.1	265.4	- 0.8	-0.3%
General and Administrative Costs *	285.4	231.4	215.4	199.0	179.5	- 19.5	-9.8%
Depreciation *	71.7	56.1	58.1	22.1	33.7	11.5	52.0%
<b>TOTAL</b>	<b>754.6</b>	<b>590.9</b>	<b>549.2</b>	<b>487.3</b>	<b>478.5</b>	<b>- 8.8</b>	<b>-1.8%</b>

\* The adoption in 2019 of IFRS 16 led to an increase of c. €17 million in Depreciation and to a decrease of the same amount in General and Administrative Costs.

Staff costs amounted to €265.4 million (-0.3% YoY), with an associated headcount reduction of 227 employees since 31 December 2018. As at 31 December 2019, NOVO BANCO Group had 4 869 employees.

General and administrative costs dropped by -9.8% year-on-year, to €179.5 million. This reduction reflects the continued rationalisation and streamlining of the Bank's internal business processes.

As at 31 December 2019 the branch network comprised 387 units (402 at 31 December 2018).

### Impairments and Provisions

NOVO BANCO Group increased provisions by €935.4 million (€225.5 million more than at 31 December 2018), of which €627.5 million for credit (€364.0 million increase) and €308.1 million for other assets and contingencies, including €47.3 million for restructuring and €177.8 million related to the sale of non-performing assets.

NET IMPAIRMENTS AND PROVISIONS	31-Dec-18	31-Dec-19	Change	
			absolute	%
			Customer Loans	263.5
Securities	13.3	-0.2	-13.5	...
Other Assets and Contingencies	433.1	308.1	- 125.0	-28.9%
<b>TOTAL</b>	<b>710.0</b>	<b>935.4</b>	<b>225.5</b>	<b>31.8%</b>

Net impairments and provisions include €732.9 million related to the legacy activity, which represents 78% of the total for NOVO BANCO Group.

## ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

### CUSTOMER LOANS

NOVO BANCO's strategy is one of supporting the domestic business community combined with a robust lending policy. This support has been provided across all industry sectors and all companies, placing a particular focus on the exporting small and medium-sized companies, namely in the industry, retail, real estate, tourism, and services sectors, and those that focus on innovation of their products, services or production systems.

CUSTOMER LOANS	31-Dec-18	31-Dec-19	Change	
			absolute	%
<b>Loans to corporate customers</b>	<b>17 595</b>	<b>15 232</b>	<b>-2 363</b>	<b>-13.4%</b>
<b>Loans to Individuals</b>	<b>11 117</b>	<b>11 823</b>	<b>705</b>	<b>6.3%</b>
Residential Mortgage	9 550	10 264	714	7.5%
Other Loans	1 568	1 558	- 9	-0.6%
<b>Customer Loans (gross)</b>	<b>28 712</b>	<b>27 055</b>	<b>-1 658</b>	<b>-5.8%</b>
Provisions	3 958	1 852	-2 105	-53.2%
<b>Customer Loans (net)</b>	<b>24 754</b>	<b>25 202</b>	<b>448</b>	<b>1.8%</b>

Gross customer loans decreased by €-1 658 million relative to December 2018. The reduction in corporate loans in 2019 was mainly focused on legacy non-performing loans, which decreased by -€2 841 million. In the recurrent activity, loan volumes increased by +5.6%, with improvements in both individuals and corporate portfolios. It should be noted that in 2019 NOVO BANCO acquired €0.6 billion of portfolios of residential mortgage loans, which had been subject of Group's securitisation operations.

The main credit risk indicators also show an improvement compared to December 2017 and 2018.

ASSET QUALITY AND COVERAGE RATIOS	31-dez-17	31-Dec-18	31-Dec-19	Change	
				Dec-19 vs Dec-18	
				absolute	%
Overdue Loans > 90 days	5 127	3 464	1 083	-2 380	-68.7%
Non-Performing Loans (NPL)*	10 130	6 739	3 430	-3 308	-49.1%
Overdue Loans > 90 days / Customer Loans (gross)	16.3%	12.1%	4.0%		-8.1 p.p.
Non-Performing Loans (NPL) * / Customer Loans (gross) + Deposits with banks and advances to banks (gross)	28.1%	22.4%	11.8%		-10.7 p.p.
Credit Provisions / Customer Loans	17.9%	13.8%	6.8%		-6.9 p.p.
Coverage of Overdue Loans > 90 days	109.8%	114.3%	171.0%		56.7 p.p.
Coverage of Non-Performing Loans *	56.3%	59.9%	56.2%		-3.6 p.p.

\* Includes Deposits and Loans and advances to Banks and Customer Loans

The reduction in loans overdue by more than 90 days and in non-performing loans (including deposits with banks and loans and advances to banks) led to an improvement in the respective asset quality ratios to 4.0% and 11.8%, respectively, on 31 December 2019 (12.1% and 22.4% on 31 December 2018).

The coverage of non-performing loans by impairments (including deposits with banks and loans and advances to banks) reached 56.2%

Provisions for credit amounted to €1.9 billion, representing 6.8% of the total loan book.

## SECURITIES

The securities portfolio, the main source of eligible assets for funding operations with the ECB, totalled €12.0 billion on 31 December 2019 and represented 26.6% of assets.

net of impairment		mn€		
Securities portfolio	31-Dec-18	31-Dec-19	Change	
			absolute	relative
Portuguese sovereign debt	4 434	4 071	- 363	-8.2%
Other sovereign debt	2 946	3 750	804	27.3%
Bonds	1 839	2 883	1 044	56.8%
Other	1 656	1 337	- 318	-19.2%
<b>Total</b>	<b>10 875</b>	<b>12 042</b>	<b>1 167</b>	<b>10.7%</b>

## FUNDING

As at 31 December 2019 total customer funds amounted to €34.4 billion, with off-balance sheet funds having increased by 12.3% year-on-year.

TOTAL FUNDS	31-Dec-18	31-Dec-19	Change	
			absolute	%
Deposits	28 350	27 835	- 515	-1.8%
Other Customer Funds <sup>(1)</sup>	346	566	220	63.6%
Debt Securities <sup>(2)</sup>	689	708	18	2.7%
Subordinated Debt	415	415	0	0.0%
<b>Sub -Total</b>	<b>29 799</b>	<b>29 523</b>	<b>- 277</b>	<b>-0.9%</b>
Off-Balance Sheet Funds <sup>(3)</sup>	4 387	4 925	538	12.3%
<b>Total Funds</b>	<b>34 186</b>	<b>34 448</b>	<b>262</b>	<b>0.8%</b>

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

(2) Includes funds associated to consolidated securitisation operations.

(3) For comparison, in 2018 the Off-balance Sheet Funds placed by GNB Vida were not taken into consideration.

## LIQUIDITY

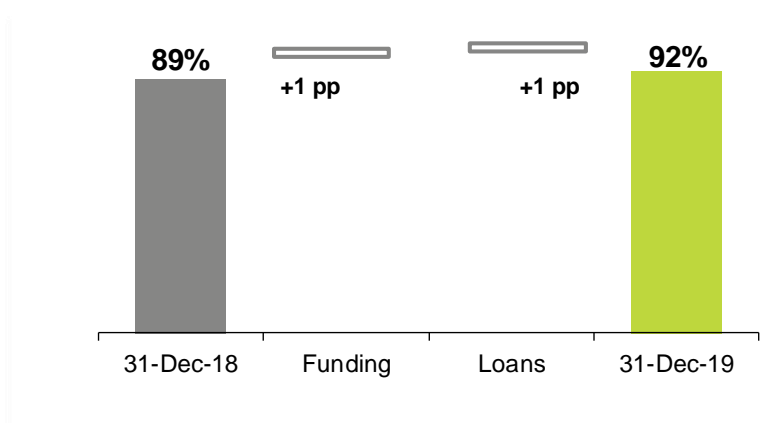
Focusing on improving profitability, during 2019, the Bank continued to pursue its policy of lowering the price of deposits while at the same time diversifying its offering (with focus on off-balance sheet products). As a result, customer deposits and other customer funds decreased by approximately €295 million year-on-year, reaching a total of €28.4 billion.

In terms of assets, in 2019 and in relation to the end of 2018, NOVO BANCO increased the amount invested in the securities portfolio (+11%) and the loan portfolio volume (+1.8%),

The portfolio of eligible assets for rediscount with the European Central Bank totalled €15.3 billion (net of haircuts) at the end of 2019 (which compares with €14.6 billion in 2018), to which add HQLA non-eligible for ECB rediscount purposes. Hence at the end of the year, the Bank maintained a liquidity buffer above €9 billion, largely composed of highly liquid assets (78%). Moreover, in December 2019 NOVO BANCO issued two new Covered Bonds, one in the nominal amount of €550 million and maturity in December 2024, and the other in the nominal amount of €750 million and maturity in June 2023.

NOVO BANCO thus maintained a comfortable liquidity position which is reflected in its Liquidity Coverage Ratio (LCR) of 143% at the end of 2019 (125% at the end of 2018).

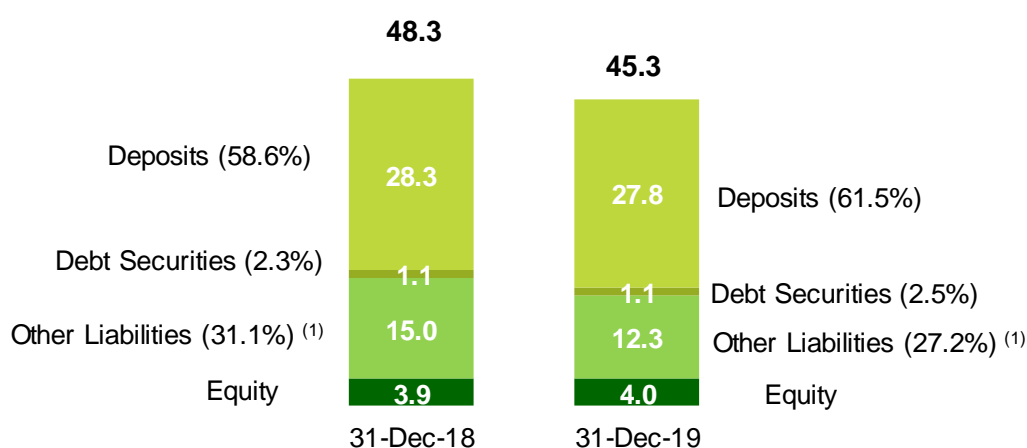
## LOAN TO DEPOSIT RATIO



Customer deposits remain the main source of balance sheet funding, accounting for 67.4% of total liabilities (excluding Equity) and 61.5% of total assets.

## FUNDING STRUCTURE

(figures in billion €)



(1) Includes ECB funding

The minimum requirement for own funds and eligible liabilities (MREL), set by the Single Resolution Board, using the financial and supervisory information as of 31 December 2018, has been set at 17,61% of Total Liabilities and Own Funds of NOVO BANCO. MREL requirement represents 26,01% of the Total Risk Exposure Amount and should be reached by 31 December 2023. The requirement is in line with Bank expectations, and consistent with the funding plans. It should be noted that the MREL requirement will be subject to ongoing regulatory reviews, reflecting ongoing assessment of the business evolution and this may lead to changes in the profile of NOVO BANCO assets and liabilities, and its underlying risks.

## CAPITAL

NOVO BANCO's Common Equity Tier 1 (CET1) and Tier 1 ratios are protected at pre-established levels, up to the amounts of losses already recorded on the assets protected by the Contingent Capital Agreement. The compensation amount to be requested relating to 2019, taking into account the losses incurred on the assets protected by the Contingent Capital Agreement, as well as the regulatory requirements for capital ratios defined for at the end of 2019, will be €1 037 million.

As at 31 December 2019 the CET1 ratio was 13.5% and the total solvency ratio was 15.1%, representing an increase compared to the end of 2018 due to the increase in capital reserves applicable to NOVO BANCO on a sub-consolidated basis.

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

CAPITAL RATIOS (CRD IV/CRR)		mn€		
		31-Dec-18 <i>(Phased-in)</i>	31-Dec-19 <i>(Phased-in)</i>	31-Dec-19 <i>(fully loaded)</i>
Risk Weighted Assets	(A)	29 874	29 579	29 436
Own Funds				
Common Equity Tier 1	(B)	3 808	3 996	3 768
Tier 1	(C)	3 809	3 998	3 769
Total Own Funds	(D)	4 328	4 475	4 228
Common Equity Tier 1 Ratio	(B/A)	12.8%	13.5%	12.8%
Tier 1 Ratio	(C/A)	12.8%	13.5%	12.8%
Solvency Ratio	(D/A)	14.5%	15.1%	14.4%
Leverage Ratio		8.2%	8.4%	7.9%

In the context of the ECB's Supervisory Review and Evaluation Process (SREP), the Pillar 2 requirement to apply from 1 January 2020 is 3.00% compared to the 3.25% required in 2019.

The minimum own funds requirements to be complied with on a consolidated basis from 1 January 2020 calculated relative to the Total Risk Weighted Assets (RWA) are the following:

Capital requirements for 2020 (SREP)						
Ratios	Ratios <i>phased-in</i> 31-Dec-2019	Ratios <i>fully loaded</i> 31-Dec-2019	Total	Of which:		
				Pillar 1	Pillar 2	Buffers <sup>(1)</sup>
CET1	13.5%	12.8%	10.01%	4.50%	3.00%	2.51%
T1	13.5%	12.8%	11.51%	6.00%	3.00%	2.51%
Rácio total	15.1%	14.4%	13.51%	8.00%	3.00%	2.51%

<sup>(1)</sup> Includes:

- Capital Conservation Buffer of 2.5%.

- Counter Cyclical Buffer that is 0% in Portugal but is 0.01% for NOVO BANCO Group.

The Other Systemically Important Institutions Buffer of 0.375% for 2020 increasing to 0.50% in 2021 needs to be fulfilled only at the consolidated level (LSF Nani Investments S.à.r.l.).

## COMMERCIAL ACTIVITY

### Corporate Banking

NOVO BANCO has strong roots in the Portuguese business community, as shown by its market shares, namely in loans to Non-financial companies, where its market share reaches 16.3%, and in deposits, where it stands at 15.0%<sup>1</sup>.

Production of medium- and long-term loans to the SME and Corporate segment totalled approximately €2 billion in 2019, the same as in 2018. NOVO BANCO thus maintained its reference role in supporting the companies development and the economic activity in Portugal, especially through protocol credit lines, and in particular through credit with mutual guarantees, which grew by 35% year-on-year.

In Trade Finance, NOVO BANCO provides a wide range of products and specialised advice designed to support international trade. The Bank's expertise in this segment is much valued by companies, which rewarded it with a market share of 20%<sup>2</sup>. In January 2020, NOVO BANCO was considered the 'best trade finance bank' in Portugal by the Global Finance international magazine, based on its activity in 2019. This award highlights the international recognition for the Bank's capabilities in this important business area.

Also worth noting, in 2019 NOVO BANCO was considered by the Global Finance magazine as the "*Best Integrated Corporate Banking Site*" in Western Europe, an award that highlights the recognised quality of the digital solutions designed by the Bank for the corporate sector. In this context, another relevant fact concerns the ever-increasing levels of use of the corporate online banking and mobile banking solutions made available by the Bank to its business clients - NBnetwork and NB smart app -, which in 2019, grew by 4% and 12%,

<sup>1</sup> Non-Financial Companies based in the Economic and Monetary Union, with contracts in Euro - October 2019.

<sup>2</sup> December 2019, as measured by the number of Swift messages.



respectively. The increase in customer satisfaction with these digital solutions should also be stressed, with 81% of the Clients responding they were very satisfied with NBnetwork.

2019 also saw the introduction of a number of additions to the Bank's digital offering, notably the possibility of requesting Bank Guarantees online, through an agile and very effective process that was rapidly adopted by the Clients.

As to the assessment made by the corporate Clients of NOVO BANCO and its team, the level of "Customer Service Satisfaction" reached 93% in November 2019 (percentage of responses of 8 to 10 in a scale of 1 to 10), which represents an increase of 4pp relative to 2017 and 2pp relative to 2018. Moreover, the results of other surveys conducted, namely relating to "Global Satisfaction with the Bank", "Trust", "Repurchase intention" and "Recommendation", have also improved steadily since 2015.

During the year, NOVO BANCO also promoted and/or participated in several initiatives addressed to the corporate segment and enhancing the visibility of economic sectors, regions and outstanding companies, namely the following:

- **Regional Events:** the NOVO BANCO "Algarve Summit" (February, in Albufeira), "Beira Interior Summit" (July, in Covilhã) and "Aveiro Summit" (November, in Aveiro) promoted these regions and their distinctive assets and reached out to their companies and entrepreneurs (under a partnership with the Expresso newspaper and SIC TV channel).

- **Industry-specific Events**, which promote the more dynamic, representative and innovative sectors in the Portuguese economy, namely:

- in the Agroindustry sector, the Bank participated in SISAB, the International Trade Fair for Portuguese Food and Beverages (March, in Lisbon);
- In the Agricultural sector, the Bank participated in Ovibeja (April) and in the National Agricultural Fair (June, in Santarém);
- in the Wine sector, the Bank participated in the Wine Harvest Fair, held in Viseu from the 19th to the 22nd of September, which celebrates the wine culture and economy of the Dão region. This year, the fair's programme featured, at the corporate level, the Conference "Wine Tourism in the Dão region - A way for Wine and Tourism";
- in the Textiles and Clothing industry, NOVO BANCO entered a partnership Protocol with ATP – *Associação Têxtil e Vestuário de Portugal* (the Portuguese Textiles and Clothing Association), under which it was the exclusive banking sponsor of the annual conference of the International Textile Manufacturers Federation (IMTF), held in Oporto from the 20th to the 22nd of October, as well as of the Textile Industry Forum, held in December, in Famalicão.
- in the Tourism sector, NOVO BANCO was the exclusive sponsor of the "Publituris Trade Awards" (March, in Lisbon) and "Publituris Travel Awards" (September, in Cascais), which are flagships of the dynamism and recognition enjoyed by the tourism business sector at national level.

#### - Events to promote Exports:

- The Export & Internationalization Awards, an initiative of NOVO BANCO and *Jornal de Negócios* newspaper (in partnership with IBERINFORM), that aim to distinguish SMEs and Large Companies in different areas, namely successful internationalisation and best exporting performance (October, in Ílhavo).
- 'Portugal Exporter', the largest national event dedicated to business internationalisation, under a partnership with AIP (Portuguese Industrial Association) and AICEP (Portugal Global Trade & Investment Agency); the purpose of this event is to promote capacity building and assert the exporting capabilities of Portuguese companies in international markets. This event, held in Lisbon on 27 November, had more than 1 200 participants and over 130 Portuguese and international speakers.

NOVO BANCO's objective is to maintain a competitive positioning in the corporate segment, and in particular to support the exporting companies and the most dynamic and innovative industries. To this end, it will continue to invest in developing digital platforms and streamlining processes that enhance Customers' service experience, designing its products and services that meet companies' needs and thus reinforcing its role as a partner of the Portuguese business community.

#### **Retail Banking**

In 2019, the Retail banking area once again stressed the day-to-day importance of thousands of Clients, individuals and small businesses, that entrust their main banking relationship to NOVO BANCO. In a context of fast-changing customer preferences and service requirements, and a very challenging competition environment, with new Fintech players entering the banking sector, NOVO BANCO maintained a prominent position in the main product lines, the result of differentiation through service quality and permanent enhancement of the functionalities and services provided through the various Customer relationship channels.

In its drive for Customer service, in 2019 NOVO BANCO launched the 'NB360° Singular' service, designed to improve the value proposition for the Affluent and Upper Affluent Clients. This service, under its own brand and identify, and having specifically dedicated spaces within the branches, fosters greater proximity to Client and gives access to investment experts.

In recognition of the focus placed by NOVO BANCO on the wellbeing of its Clients, there has been a widespread increase in day-to-day management products for the Portuguese companies and families, including bank accounts for domiciliation of salary, credit cards and service accounts. The number of active Clients using the digital channels grew by more than 10% year-on-year, while the number of Clients subscribing to the '*Solução NB Ordenado*' registered an increase of over 15% year-on-year.

The competitiveness and breadth of the Insurance and Protection offer, in both the Life and Non-Life products, also contributed to boost the commercial activity in Retail and to increase the level of client cross-selling, with production of new insurance policies growing by more than 20% year-on-year.

NOVO BANCO's saving and investment solutions were reinforced throughout the year with the launch of innovative products, such as the Profiled Investment Funds, which are customised to the risk appetite of each Client, and the 'NB ECO Structured Deposits', whose yield is linked to the performance of companies that are leading the change in their industry sectors' economic models, and are at the forefront of best environmental, social and governance practices.

NOVO BANCO's position as an expert in credit solutions, ensuring high speed of response, contributed to drive consumer lending, which grew by 10% year-on-year. In terms of the offering, some exclusive and thematic offers were launched in 2019, with products ranging through several categories (technology, jewellery, collectibles, football, and others). This has permitted to maintain the rising trend of NOVO BANCO's market share in loan granting by the Portuguese banking sector.

In Residential Mortgage Loans, the introduction of specific solutions targeting different segments - such as people under 35 or over 50 -, according to their specific needs at the time of purchasing a home, and a new proximity service to credit intermediaries, have allowed the Bank to maintain its competitive position, amidst an environment of increasing competition.

In the Small Business segment, NOVO BANCO has been reinforcing its product and service offer with specific solutions tailored to the different stages of companies' life-cycles, including the "NB Novo Negócio" Solution, which is free of maintenance fees for the first three years in activity and to which a POS can be associated, also free of monthly charges. In addition, leveraging on its deep knowledge of the characteristics of businesses and regions, obtained through its proximity to the Clients, NOVO BANCO has entered into regional protocols with several entities, which allow it to put this knowledge into practice. 2019 ended with a campaign that enhances the concept of proximity, joining the voice of the Clients to the voice of NOVO BANCO. This dynamic approach has yielded impressive growth rates, namely in Client acquisition (+25% YoY) and in medium- and long-term credit production, loans to construction and leasing (+10.7% YoY). Equally worth mentioning as a sign of the segment's buoyancy, the volume of loans contracted under the current edition of the mutual guarantee line dedicated to small and medium-sized enterprises ("Capitalizar MPE 2018") surpassed by 55% the volume contracted in the previous edition.

## ECONOMIC ENVIRONMENT

The cyclical expansion of the global economy continued in 2019, but with a deceleration of the main economic areas that brought down World GDP growth to 3%, the lowest in the last decade. This was mainly underpinned by a contraction of industrial activity, which resulted from constraints associated with the advanced phase of the cycle, from structural problems in the car industry, and from the impact of trade tensions between the US and China. Confidence was also undermined by other sources of political uncertainty, notably Brexit. This context led to a slowdown in international trade flows and to the postponement of investment decisions in the main economic areas. Nevertheless, in the US and in Europe, growth was supported by the continued expansion of the services sector and the favourable performance of private consumption (upheld by falling unemployment and rising wages). The US economy grew by 2.3% in 2019 (2.9% in 2018), while in the Euro Area GDP rose by 1.2% (1.9% in 2018). China's GDP grew by 6.1% (6.6% in 2018), the lowest growth rate since 1990.

Increasing risks to the outlook and the persistence of subdued inflation led the main Central Banks to reinforce the expansionary nature of monetary policy. In the US, the Fed made three 25 bps cuts to the target fed funds rate, between July and October, lowering it to 1.5%-1.75%. In the Euro Area, the ECB announced in September the return of its asset purchase programme (with monthly purchases of €20 billion as from November) and cut the deposit facility rate by 10 bps, to -0.50% (under a two-tier system, to mitigate the negative impact on the financial system). In this context, the 3-month Euribor fell from -0.309% to -0.383% in 2019, even after picking up at the end of the year, while the 10-year *Bund* yield retreated from 0.242% to -0.185% (hitting a low of -0.714% at the end of August). The 10-year Treasury yield fell from 2.685% to 1.919% (with a low of 1.457% at the beginning of September). The euro lost close to 1.95% to the US dollar.

Despite fears over trade tensions, the main equity indices reported significant gains in 2019, bolstered by a combination of expanding economic activity (even if at a slower pace) with the environment of low interest rates. In the US, the Dow Jones, S&P 500 and Nasdaq indices gained 22.3%, 28.9% and 35.2%, respectively. In Europe, the DAX, CAC40 and IBEX rose by 25.5%, 26.4% and 11.8%. These gains became sharper towards the end of the year, reflecting an apparent abatement of the risks associated with the US-China trade war and with Brexit.

In Portugal, economic activity proved resilient, mainly supported by domestic demand and tourism. GDP grew by 1.9% in the year, above the Euro Area average. Economic growth combined with improving public accounts benefited investors' perception of the Portuguese economy, notwithstanding a decline in the external accounts surplus. This perception translated into an improvement of the sovereign rating (from BBB- to BBB by S&P, and with a revision of the outlook to positive, by S&P, Moody's and Fitch). The 10-year PGB yield fell from 1.72% to 0.44% (with a low of 0.071% in mid-August), narrowing the spread to the German *Bund* from 148 bps to 63 bps. The PSI-20 equity index advanced by 10.2%.

## MAIN EVENTS IN 2019

- On 4 March, and following the announcement on 24 September 2018, NOVO BANCO S.A. informed that Mark Bourke had started on that day as member of the Executive Board of Directors of NOVO BANCO as Chief Financial Officer for the current term of office.
- On 17 April the rating agency DBRS Rating GmbH (“DBRS”) took several rating actions on NOVO BANCO. DBRS upgraded the Long-Term Issuer rating to B (high) from B, the Long-Term Senior Debt rating to B (high) from B, the Long-Term Deposits rating to BB (low) from B (high), the Intrinsic Assessment (IA) to B (high) de B, the Long-Term Critical Obligations Ratings (COR) to BB (high) from BB, and the Short-Term COR to R-3 from R-4. The Subordinated Debt rating was also upgraded to B (low) from CCC (high). The upgrade of the Long-Term Issuer rating to B (high) takes into consideration the improvement in the NOVO BANCO’s risk profile, particularly in terms of the reduction in Non-Performing Loans (NPLs), the divestment of non-core assets and the further rationalisation of the organisational structure. DBRS also made reference to notable achievements in 2018, which included large sales of NPLs and real estate assets. The trend remains Positive for the Long-Term ratings and for the Subordinated Debt. Other Short-Term ratings of NOVO BANCO remained unchanged at R-4 and the trend remains Stable. The Support Assessment remains at SA3.
- On 24 July, the rating agency Moody’s Investors Service (“Moody’s”) took several rating actions on NOVO BANCO. Moody’s upgraded the long-term deposit ratings two-notches to B2 from Caa1 and affirmed the long-term senior unsecured debt ratings at Caa2. Moody’s also upgraded the baseline credit assessment (BCA) and adjusted BCA of NOVO BANCO to caa1 from caa2. The outlook on the long-term deposit ratings remained positive while the outlook on the senior unsecured debt ratings improved to positive from negative. Moody’s also upgraded the long-term Counterparty Risk Ratings to B1 from B2, the long-term Counterparty Risk Assessment to B1(cr) from B2(cr) and the Subordinate Regular Bond rating to Caa2 from Caa3. The rating actions were taken following Moody’s change of the Macro Profile of Portugal (Baa3 stable) to “Moderate+” from “Moderate” in combination with the continued improvement in the banks’ credit fundamentals, notably asset risk.
- On 5 and 7 August, NOVO BANCO informed that its branch in Spain and Novo Banco Servicios Corporativos, S.L. signed a Sale and Purchase Agreement with Waterfall Asset Management L.L.C., a New York-based asset management firm, for the sale of a portfolio of real estate properties and non-performing loans known as “Project Albatros”. The portfolio had a gross book value of 308 million euro at NOVO BANCO consolidated level and the sale value amounted to 98.7 million euro.
- On 5 and 7 August, NOVO BANCO informed that it has signed a Promissory Sale and Purchase Agreement with entities indirectly owned by funds managed by Cerberus Capital Management, L.P., a New York-based firm, for the sale of a portfolio of real estate assets, known as “Project Sertorius”. The portfolio with a gross book value of 487.8 million euro comprises 195 properties, corresponding to 1,228 individual units, with industrial, commercial, land plots and residential uses, including parking spaces.
- On 5 September, NOVO BANCO, S.A. and ARRÁBIDA - FUNDO ESPECIAL DE INVESTIMENTO IMOBILIÁRIO FECHADO informed that they have signed a Sale and Purchase Agreement with BURLINGTON LOAN MANAGEMENT DAC, a company affiliated with and advised by DAVIDSON  
NOVO BANCO, SA | Av. da Liberdade, n. 195 Lisbon, Portugal | Share Capital: 5 900 000 000.00 euro  
Commercial and Tax identification number: 513 204 016 | 5493009W2E2YDCXY6S81

KEMPNER EUROPEAN PARTNERS, LLP, for the sale of a portfolio of non-performing loans and related exposures (Project Nata II). The final Gross and Net Asset disposals approved by the Fundo de Resolução were €1,365 million and €248 million respectively and the sale value was €157 million.

- On 14 October, NOVO BANCO, S.A. informed that it has completed the sale of the entire share capital of GNB – Companhia de Seguros de Vida, S.A. (“GNB Vida”) to GBIG Portugal, S.A., an entity wholly owned by funds to which the investment adviser is APAX PARTNERS, LLP. The total consideration for the sale amounts to an upfront fixed price of 123 million euro and an earn-out component of up to 125 million euro indexed to distribution targets associated to the 20-year agreement between NOVO BANCO and GNB Vida to distribute life insurance products in Portugal.

<b>MAIN HIGHLIGHTS</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>
<b>ACTIVITY (mn€)</b>		
Net Assets	48 274	45 296
Customer Loans (gross)	28 712	27 055
Customer Deposits	28 350	27 835
Equity	3 922	4 003
<b>SOLVENCY</b>		
Common Equity Tier I / Risk Weighted Assets	12.8%	13.5%
Tier I / Risk Weighted Assets	12.8%	13.5%
Total Capital / Risk Weighted Assets	14.5%	15.1%
<b>LIQUIDITY (mn€)</b>		
European Central Bank Funding <sup>(2)</sup>	5 864	4 714
Eligible Assets for Repo Operations (ECB and others), net of haircut	14 624	15 253
(Total Credit - Credit Provision) / Customer Deposits <sup>(1)</sup>	89%	92%
Liquidity Coverage Ratio (LCR)	125%	143%
Net Stable Funding Ratio (NSFR)	106%	101%
<b>ASSET QUALITY</b>		
Overdue Loans > 90 days / Customer Loans (gross)	12.1%	4.0%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	22.4%	11.8%
Credit Provision / Overdue Loans > 90 days	114.3%	171.0%
Credit Provision / Customer Loans (gross)	13.8%	6.8%
Cost of Risk	0.92%	2.32%
<b>PROFITABILITY</b>		
Net Income for the Period (mn€)	-1412.6	-1058.8
Income before Taxes and Non-controlling interests / Average Net Assets <sup>(1)</sup>	-1.5%	-2.1%
Banking Income / Average Net Assets <sup>(1)</sup>	1.0%	0.9%
Income before Taxes and Non-controlling interests / Average Equity <sup>(1)</sup>	-14.3%	-22.3%
<b>EFFICIENCY</b>		
Operating Costs / Banking Income <sup>(1)</sup>	100.6%	113.8%
Staff Costs / Banking Income <sup>(1)</sup>	55.0%	63.1%
<b>EMPLOYEES (No.)</b>		
Total	5 096	4 869
- Domestic	4 804	4 648
- International	292	221
<b>BRANCH NETWORK (No.)</b>		
Total	402	387
- Domestic	381	375
- International	21	12

(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

**NOVO BANCO, S.A.**  
**CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2019 AND 2018**

thousands of Euros

	<b>31.12.2019</b>	<b>31.12.2018</b>
Interest Income	753 087	758 691
Interest Expenses	( 212 474)	( 304 349)
<b>Net Interest Income</b>	<b>540 613</b>	<b>454 342</b>
Dividend income	9 909	8 974
Fee and comission income	367 400	366 068
Fee and comission expenses	( 53 456)	( 59 734)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	61 554	( 173 860)
Gains or losses on financial assets and liabilities held for trading	( 59 223)	( 20 405)
Gains or losses on financial assets mandatorily at fair value through profit or loss	( 253 720)	( 32 877)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	4	( 1 123)
Gains or losses from hedge accounting	( 1 740)	( 47 147)
Exchange differences	38 829	42 503
Gains or losses on derecognition of non-financial assets	3 954	32 270
Other operating income	139 802	177 776
Other operating expenses	( 403 299)	( 255 643)
<b>Operating Income</b>	<b>390 627</b>	<b>491 144</b>
Administrative expenses	( 444 840)	( 465 127)
<i>Staff expenses</i>	( 265 350)	( 266 138)
<i>Other administrative expenses</i>	( 179 490)	( 198 989)
Depreciation	( 33 664)	( 22 149)
Provisions or reversal of provisions	( 21 297)	( 238 870)
<i>Commitments and guarantees given</i>	60 776	( 26 189)
<i>Other provisions</i>	( 82 073)	( 212 681)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	( 627 294)	( 269 979)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	333	( 28 398)
Impairment or reversal of impairment on non-financial assets	( 287 159)	( 172 708)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	1 470	5 626
<b>Profit or loss before tax from continuing operations</b>	<b>( 1 021 824)</b>	<b>( 700 461)</b>
Tax expense or income related to profit or loss from continuing operations	( 45 769)	( 667 707)
<i>Current tax</i>	( 8 804)	( 8 790)
<i>Deferred tax</i>	( 36 965)	( 658 917)
<b>Profit or loss after tax from continuing operations</b>	<b>( 1 067 593)</b>	<b>( 1 368 168)</b>
Profit or loss from discontinued operations	1 128	( 39 819)
<b>Profit or loss for the period</b>	<b>( 1 066 465)</b>	<b>( 1 407 987)</b>
<b>Attributable to Shareholders of the parent</b>	<b>( 1 058 812)</b>	<b>( 1 412 642)</b>
Attributable to non-controlling interests	( 7 653)	4 655
	<b>( 1 066 465)</b>	<b>( 1 407 987)</b>



**NOVO BANCO, S.A.**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2019 AND 2018**

thousands of Euros

	31.12.2019	31.12.2018
<b>ASSETS</b>		
Cash, cash balances at central banks and other demand deposits	1 854 081	977 672
Financial assets held for trading	748 732	843 783
Financial assets mandatorily at fair value through profit or loss	1 314 742	1 566 225
Financial assets designated at fair value through profit or loss	-	480
Financial assets at fair value through other comprehensive income	8 849 896	7 661 207
Financial assets at amortised cost	27 141 460	26 533 068
Securities	1 622 545	1 389 400
Loans and advances to banks	369 228	423 058
Loans and advances to customers	25 149 687	24 720 610
Derivatives – Hedge accounting	7 452	1 227
Fair value changes of the hedged items in portfolio hedge of interest rate risk	52 540	33 835
Investments in subsidiaries, joint ventures and associates	92 628	118 698
Tangible assets	889 152	1 240 565
Tangible fixed assets	188 408	142 494
Investment properties	700 744	1 098 071
Intangible assets	26 378	5 425
Tax assets	900 095	1 203 214
Current Tax Assets	1 628	6 689
Deferred Tax Assets	898 467	1 196 525
Other assets	3 378 492	3 996 257
Non-current assets and disposal groups classified as held for sale	40 255	4 092 246
<b>TOTAL ASSETS</b>	<b>45 295 903</b>	<b>48 273 902</b>
<b>LIABILITIES</b>		
Financial liabilities held for trading	544 825	492 953
Financial liabilities designated at fair value through profit or loss	102 012	96 762
Financial liabilities measured at amortised cost	39 673 649	38 336 497
Deposits from central banks and other banks	9 849 623	8 355 560
Due to customers	28 400 127	28 695 268
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 065 211	1 051 843
Other financial liabilities	358 688	233 826
Derivatives – Hedge accounting	58 855	36 150
Provisions	307 817	425 935
Tax liabilities	17 980	18 453
Current Tax liabilities	11 873	12 050
Deferred Tax liabilities	6 107	6 403
Other liabilities	586 066	506 790
Liabilities included in disposal groups classified as held for sale	1 942	4 438 001
<b>TOTAL LIABILITIES</b>	<b>41 293 146</b>	<b>44 351 541</b>
<b>EQUITY</b>		
Capital	5 900 000	5 900 000
Accumulated other comprehensive income	( 702 311)	( 790 884)
Retained earnings	(6 115 245)	(4 682 300)
Other reserves	5 942 501	4 872 841
Profit or loss attributable to Shareholders of the parent	(1 058 812)	(1 412 642)
Minority interests (Non-controlling interests)	36 624	35 346
<b>TOTAL EQUITY</b>	<b>4 002 757</b>	<b>3 922 361</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>45 295 903</b>	<b>48 273 902</b>

## GLOSSARY

### ***Income Statement***

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

### ***Balance Sheet / Liquidity***

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

### ***Asset Quality and Coverage Ratios***

<b>Overdue loans ratio</b>	Ratio of overdue loans to total credit.
<b>Overdue loans &gt; 90 days ratio</b>	Ratio of overdue loans > 90 days to total credit.
<b>Overdue loans coverage ratio</b>	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans.
<b>Overdue loans &gt; 90 days coverage ratio</b>	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans > 90 days.
<b>Coverage ratio of customer loans</b>	Ratio of impairment on customer loans (on balance sheet) to gross customer loans.
<b>Cost of risk</b>	Ratio of credit risk impairment charges accounted in the period to gross customer loans.
<b>Non-performing loans</b>	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.
<b>Non-performing loans ratio</b>	Ratio of non-performing loans to the sum of total credit, deposits with banks and Loans and advances to banks
<b>Non-performing loans coverage ratio</b>	Ratio of impairment on customer loans and loans and advances to banks (on balance sheet) to non-performing loans.

## GLOSSARY

### **Efficiency and Profitability Ratios**

<b>Efficiency (Staff costs / Banking income)</b> 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).
<b>Efficiency (Operating costs / Banking income)</b> 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).
<b>Profitability</b> 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.
<b>Return on average net assets</b> Banco de Portugal Instruction n. 16/2004	Ratio of income before tax and non-controlling interests to average net assets.
<b>Return on average equity</b> Banco de Portugal Instruction n. 16/2004	Ratio of income before tax and non-controlling interests to average equity.

€ million: million euros

€ billion: billion euros

pp: percentage points

bps: basis points

YoY: year-on-year