

NOVO BANCO^ℓ

1H2016 Results Presentation

9 August 2016

Unaudited financial information

Agenda

1. Highlights

2. Funding and Liquidity

3. Asset Quality

4. Capital

5. Results

6. Side Bank

7. Summary

Appendix: Balance Sheet and Income Statement

Highlights

Results

- Positive net operating income of EUR 142.3mn was higher than the 2015 full year net operating income (EUR 125.0mn), which shows **NOVO BANCO** Group's growing income-generating capacity.
- Banking income was up by +7.7%, to EUR 446.5mn, underpinned by a 22.0% rise in net interest income.
- Operating costs were decreased by 23.4% YoY, reflecting the effort undertaken by the Group (reduction of its workforce and optimisation of operational and commercial structures). 1H2016 cost-to-income of 68%.
- Provisions totalled EUR 576.7mn (+EUR 305.1mn YoY), including a EUR 109.6mn provision for the ongoing restructuring process costs.
- 1H2016 net income of -EUR 362.6mn is in line with the targets set in the Restructuring Plan and negatively influenced by the referred provision for restructuring costs and the recognition of the full amount of the Special Tax on Banks and of the contributions to the Resolution Funds. Excluding these effects the 1H2016 net income would be a loss of EUR 243.9mn (broadly the same as 1H2015).
- 2Q2016 net income of -EUR 113.3mn evidences an improving trend over the previous quarter.

Income Statement (EUR mn)

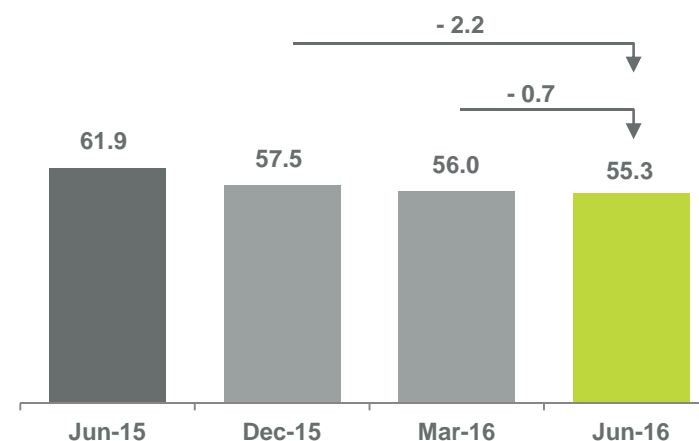
	1H15	1H16	Change %
Net Interest Income	214.7	262.0	22.0%
+ Fees and Commissions	193.2	141.5	(26.8%)
= Commercial Banking Income	407.9	403.5	(1.1%)
+ Capital Markets	(9.1)	60.6	-
+ Other Results	15.9	(17.6)	-
= Banking Income	414.6	446.5	7.7%
- Operating Costs	397.0	304.2	(23.4%)
= Net Operating Income	17.7	142.3	704.0%
- Net Provisions	271.6	576.7	112.3%
Credit	252.3	282.4	11.9%
Securities	99.1	75.4	(23.8%)
Other Assets and Contingencies	(79.8)	218.9	-
= Income Before Taxes	(253.9)	(434.4)	71.1%
- Corporate Income Tax	(28.0)	(100.7)	-
- Special Tax on Banks	15.7	36.9	135.0%
= Income After Taxes	(241.6)	(370.6)	53.4%
- Non-controlling interest	10.4	(8.0)	-
= Net Income	(251.9)	(362.6)	-

Highlights

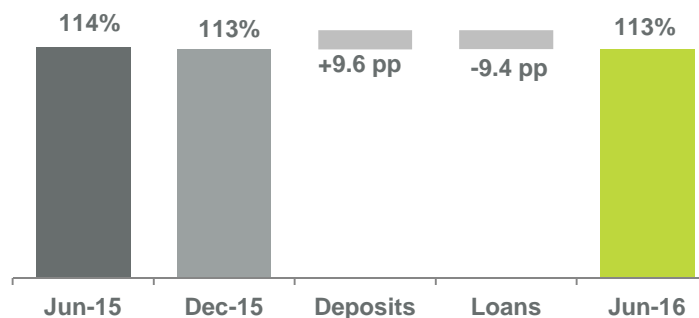
Activity and Capital

- Total assets of EUR 55.3bn, a reduction of EUR 2.2bn relative to Dec-15 (-3.9%) that is in line with the ongoing balance sheet deleveraging process.
- Deposit base stable in 2Q2016 (EUR 25.1bn) after the fall in the 1Q2016 (mainly in large corporate and institutional clients). Retail banking deposits grew by EUR 500mn in 2Q.
- Customer loans contracted by EUR 2.8bn in 1H (EUR 1.4bn related with BES Vénétie and NB Asia transfer to assets being discontinued) though not impacting the support provided to exporting SMEs. Growing flow of new mortgage loans and consumer loans.
- Loan to deposit ratio stable at 113% and funding from the ESCB reduced to EUR 5.5bn (-EUR 1.5bn since Dec-15).
- Estimated CET1 phased-in ratio of 12.0% in Jun-16 (13.5% in Dec-15) and CET1 fully implemented of 10.2% (11.3% in Dec-15).
- Annualised cost of risk decreased to 163 bps, down by 35 bps relative to Dec-15. Credit at risk stock with a decrease of EUR 264mn in 1H2016. Credit at risk ratio of 23.9% with a coverage ratio of 68.5%.

Assets (EUR bn)



Loan to Deposit Ratio



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3. **Asset Quality**

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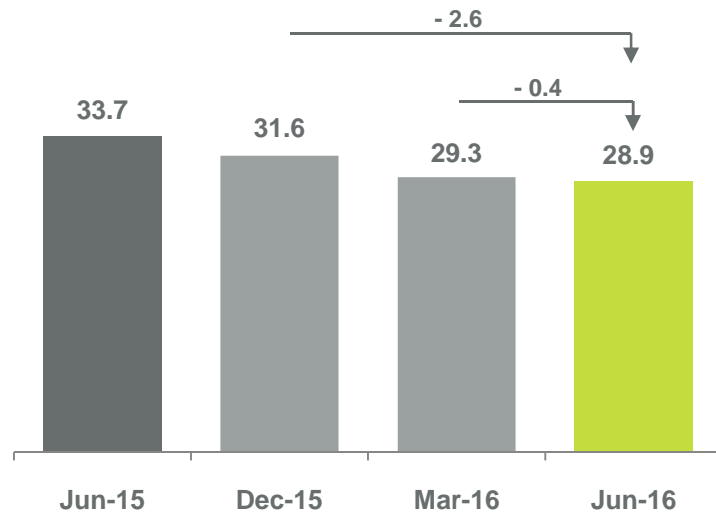
6. **Side Bank**

7. **Summary**

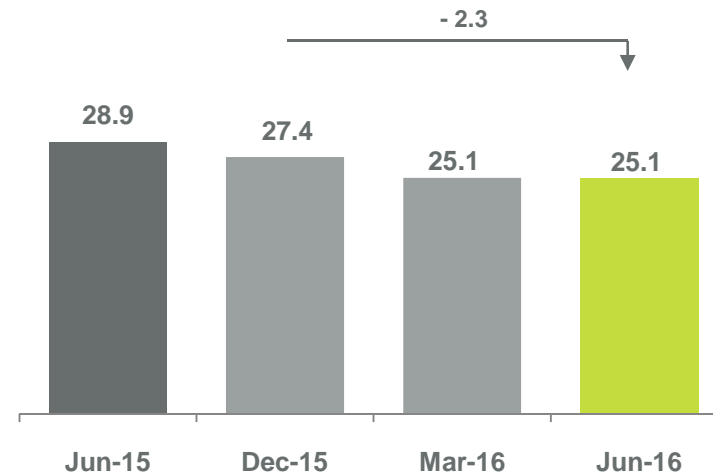
Appendix: Balance Sheet and Income Statement

Deposit base stable in 2Q2016 (EUR 25.1bn), with retail banking deposits growing EUR 500mn in the quarter

Net Loans (EUR bn)



Deposits (EUR bn)

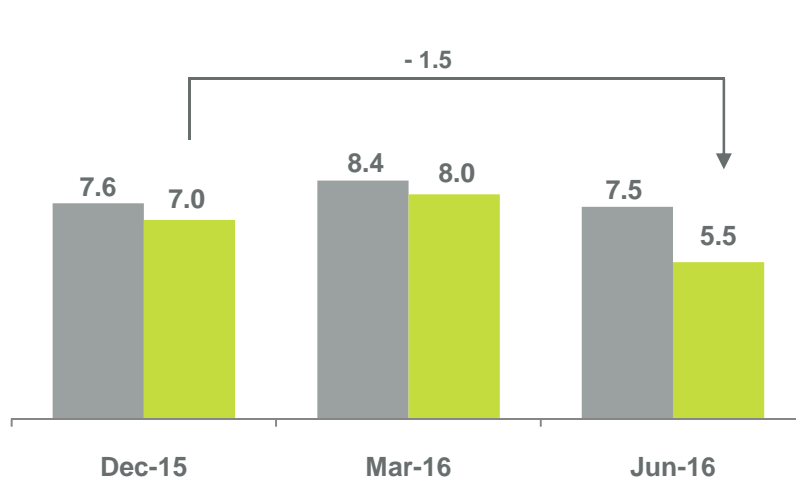


- Deposit base stable in 2Q2016 (EUR 25.1bn) after the fall in the 1Q2016 (mainly in large corporate and institutional clients). **Retail banking deposits grew by EUR 500mn in 2Q2016.**
- Deleveraging of Customer loans (gross) by EUR 2.8bn (of which EUR 1.4bn resulted from the transfer of BES Vénétie and NB Asia to assets being discontinued), though not impacting the support provided to the SMEs with good risk profile, innovative characteristics and a focus on exports. **Growing flow of new mortgage loans and consumer loans** (+78% and 53% vs 2015 new production monthly average, respectively).

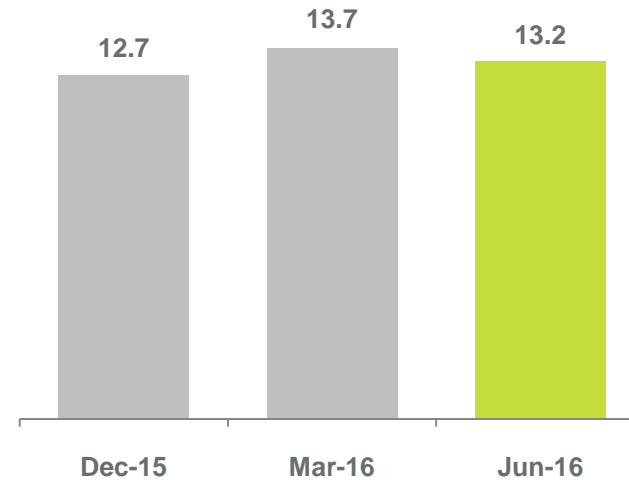
Net ESCB Funding of EUR 5.5bn in Jun-16, decreasing by EUR 1.5bn since Dec-15

ESCB Funding (EUR bn)

- Central Banks Funding
- Net Central Banks Funding



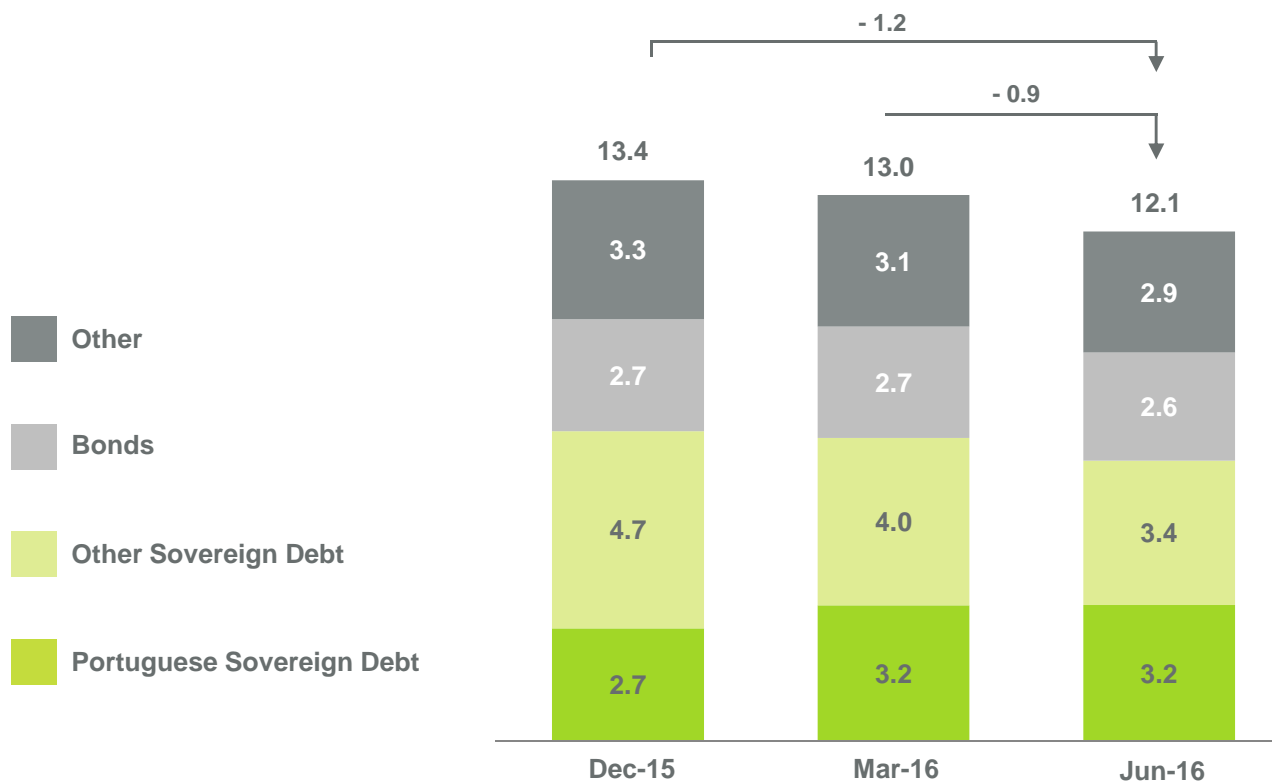
Eligible Assets (ECB and Other) (EUR bn)



- The net ESCB funding totalled EUR 5.5bn as at 30 June 2016, decreasing by EUR 2.5bn since Mar-16 and EUR 1.5bn since Dec-15.
- Eligible assets decreased slightly compared with Mar-16 due to the contraction in the sovereign debt portfolio.

Securities portfolio focused in Euro Zone Sovereign Debt

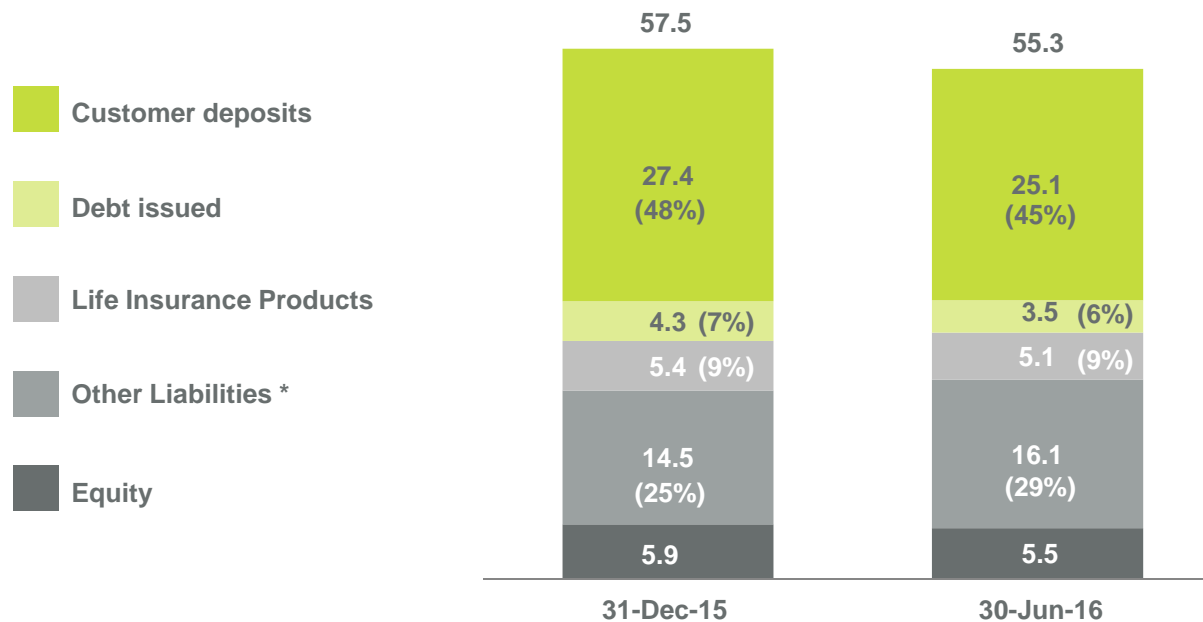
Evolution of Securities Portfolio (EUR bn)



- The securities portfolio reflects a conservative approach, based on securities with lower risk and higher liquidity.
- As at 30 June 2016 the securities portfolio has an associated positive fair value reserve of EUR 148.5mn (an increase of EUR 44mn from Dec-15).

Customer deposits continue to be the main funding source (45% of total assets)

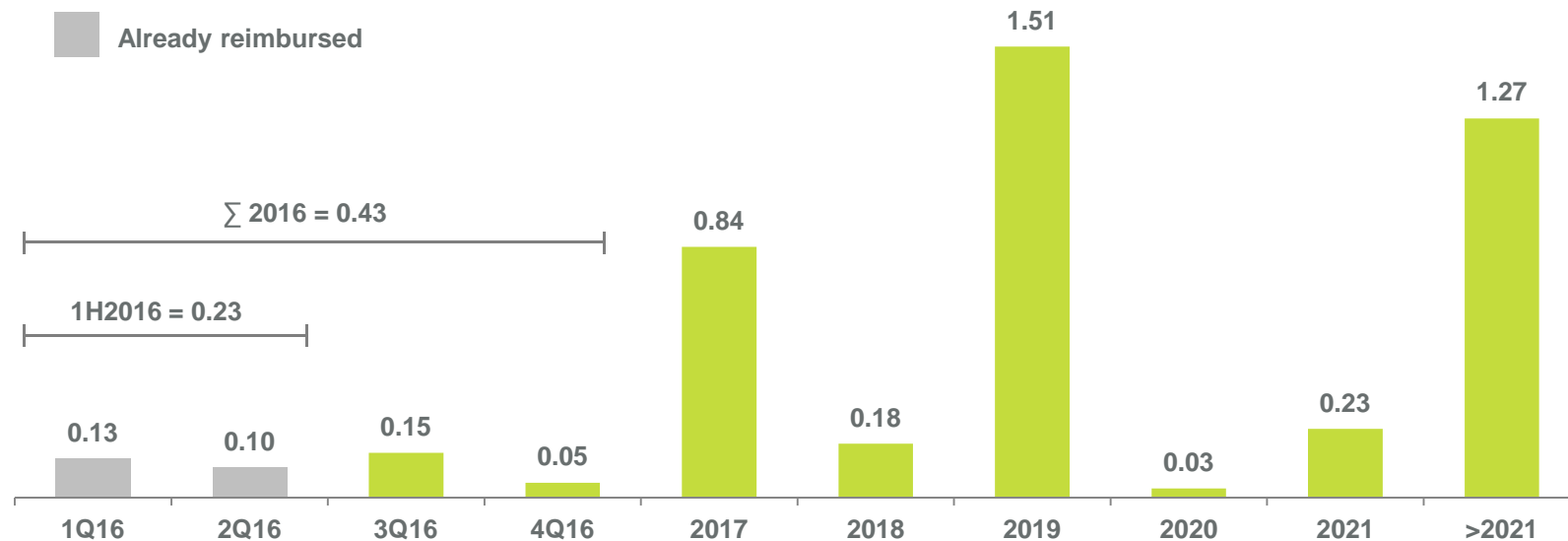
Evolution of the funding structure (EUR bn, as a % of Total Assets)



Comparing with Dec-15, customer deposits continued to be the main funding source (45% of total assets) and debt securities continued to decrease (scheduled redemptions and the tender offer in late June regarding 8 non-subordinated issues).

Until the end of 2016 wholesale MLT debt reimbursements amount to only EUR 0.2bn (2015 reimbursements: EUR 2.9bn)

Wholesale MLT Funding (EUR bn)



- During the 1H2016 the Group repaid EUR 230mn MLT debt placed with institutional clients. The projected reimbursements until the end of 2016 amount to ca. EUR 200mn.
- Considering that these reimbursements do not imply material amounts, the non-renewal of the corresponding financings did not and is not expected to have a relevant impact on the Bank's liquidity position.
- In late June, **NOVO BANCO** launched a tender offer on 8 senior debt bond issues maturing in 2019 and 2022, with the aim of improving its liabilities' structure and cost. This offer resulted in the acquisition of bonds worth a nominal aggregate amount of EUR 340mn, leading to a disbursement of ca. EUR 244mn in liquidity terms.

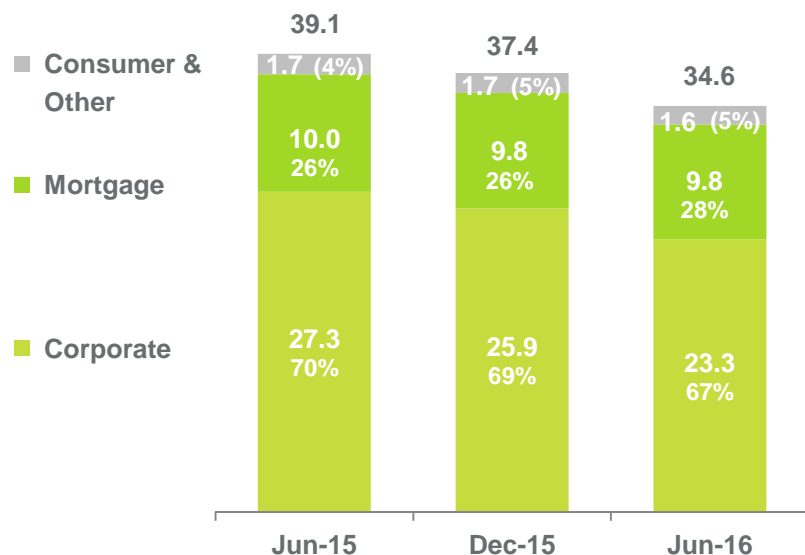
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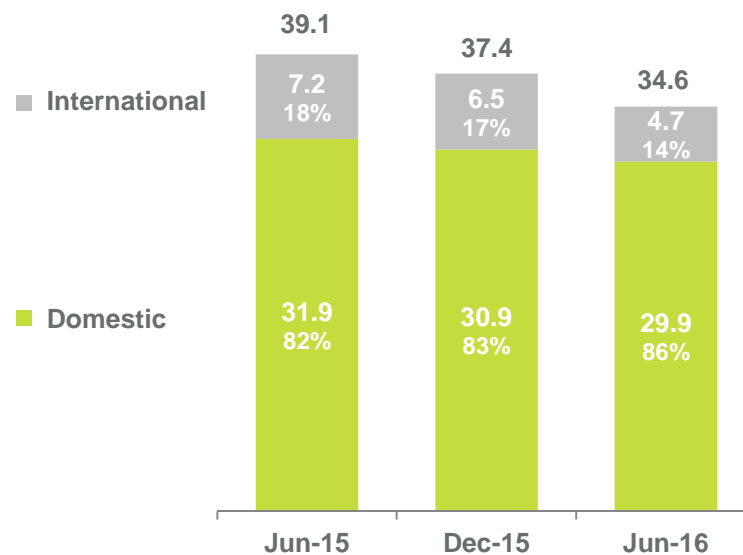
Appendix: Balance Sheet and Income Statement

Evolution of the customer loans portfolio in the 1H2016 in line with the deleverage of the Balance Sheet

Gross Loans per Segment (EUR bn)



Gross Loans per Geography (EUR bn)



- Customer loans contracted by EUR 2.8bn in the semester, of which EUR 1.4bn reflects the transfer of BES Vénétie and NB Asia to assets being discontinued.
- Residential mortgage loans and other loans to individuals, though decreasing, have been registering rising production levels (78% and 53% vs 2015 new production monthly average, respectively).

Credit Risk indicators with a slight increase due to the contraction of the customers loan book

Overdue and Credit Risk Ratios

Coverage Ratios



- The quality of the loan book is starting to give some signs of recovery, namely in terms of credit at risk, which decreased by EUR 264mn in the 1H2016. Credit Risk ratios increased slightly compared to Dec-15 due to the contraction of the customer loans portfolio.
- Balance Sheet provisions of **NOVO BANCO** in Jun-16 amounted to EUR 5.7bn, representing 16.4% of Gross Loans and covered 104.3% of Overdue Loans > 90 days.

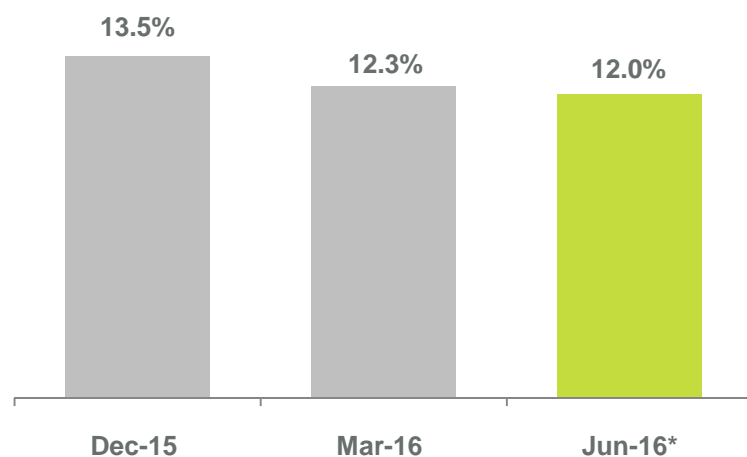
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Estimated CET1 phased-in ratio of 12.0%

CET1 phased-in ratio evolution



Capital Ratios (phased-in)

BIS III (CRD IV / CRR)

EUR mn	Dec-15	Mar-16	Jun-16*
Risk Weighted Assets (A)	38,168	36,282	36,149
Own Funds			
CET 1 (B)	5,142	4,471	4,332
Tier 1 (C)	5,142	4,471	4,332
Total (D)	5,142	4,471	4,332
Common Equity Tier 1 – Phased-in (B/A)	13.5%	12.3%	12.0%
Tier 1 (C/A)	13.5%	12.3%	12.0%
Solvency Ratio (D/A)	13.5%	12.3%	12.0%
Common Equity Tier 1 – fully implemented	11.3%	10.7%	10.2%

- The estimated Common Equity Tier 1 phased-in ratio of 12.0% on 30 June 2016 (Dec-15: 13.5%) reflects, on the risk-weighted assets, the continuation of the deleveraging effort, and on the own funds, the negative results reported and the effect of the change of year in the transitional regime.
- Estimated CET1 fully implemented ratio of 10.2% in Jun-16 (11.3% in Dec-15).

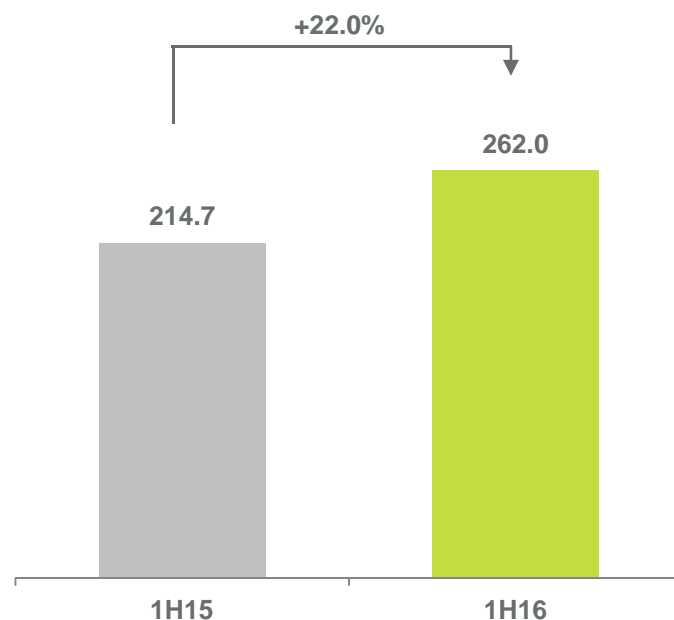
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Net Interest Income grew by 22.0% YoY in 1H2016

Net Interest Income (EUR mn)



Net Interest Margin

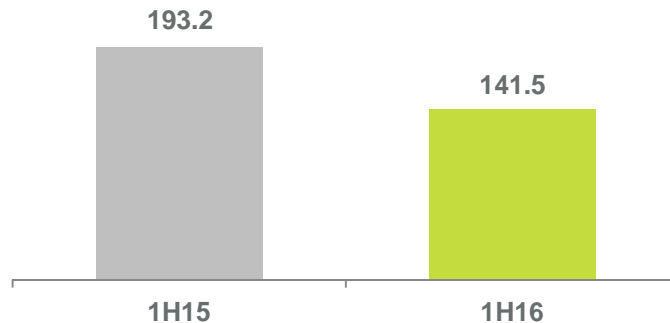
0.87%

1.10%

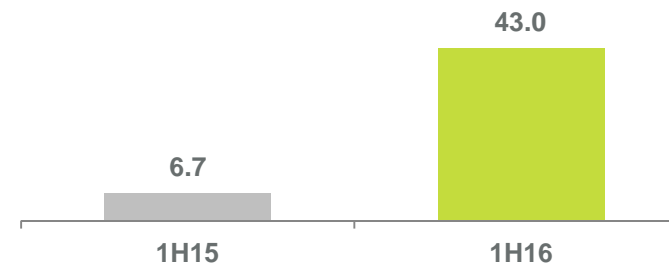
- **Net Interest Income grew by 22.0% YoY in the 1H2016**
 - Positive impact of a higher reduction in the cost of liabilities (-74 bps to 1.45%, from 2.19% in June 2015) than in the interest rate on assets (- 50 bps); and
 - Lower level of accounting annulment of accrued overdue interest, showing a stabilization trend in asset quality.
- **Net Interest Margin was 1.10% (Jun-15: 0.87%),** underpinned by an average interest rate on financial assets of 2.55% and an average interest rate on liabilities of 1.45% (decrease in the cost of deposits from 1.43% in June 2015 to 0.96% in June 2016)

Capital Markets results of EUR 60.6mn compensate the decrease in fees and commissions

Fees and Commissions (EUR mn)



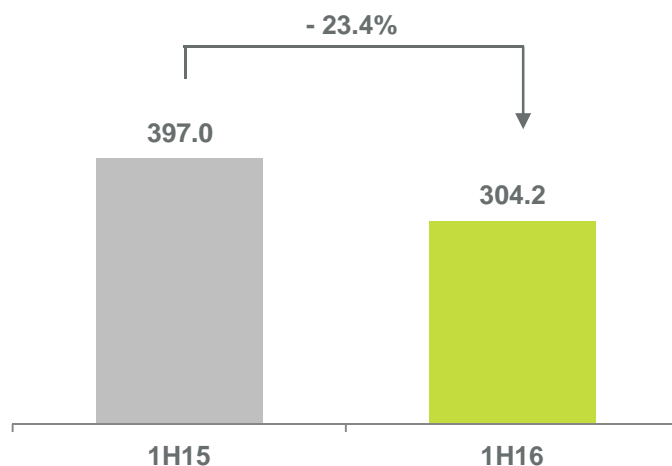
Capital Markets and Other Results (EUR mn)



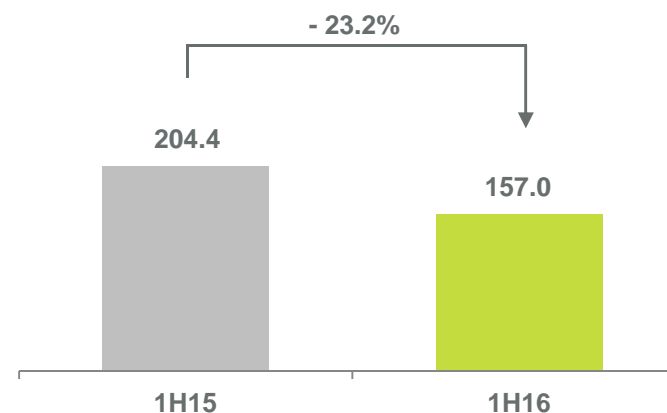
- The reduction in fees and commissions reflects the difficulties saddling the recovery of the Portuguese economy, (deleveraging of the private sector), and also **NOVO BANCO**'s need to reduce the volume of its activity in certain sectors and regions. It includes also the commissions paid by **NOVO BANCO** in the scope of debt issues guaranteed by the Portuguese Government (EUR 17.1mn).
- Capital market results of EUR 60.6mn were underpinned, on the one hand, by the less positive performance on the sovereign debt market, and on the other by the value increase in liabilities recognised at fair value. The other results of -EUR 17.6mn were adversely affected by the contribution to the Resolution Funds (EUR 31.8mn).

Operating Costs decreased by 23.4% in 1H2016

Operating Costs (EUR mn)



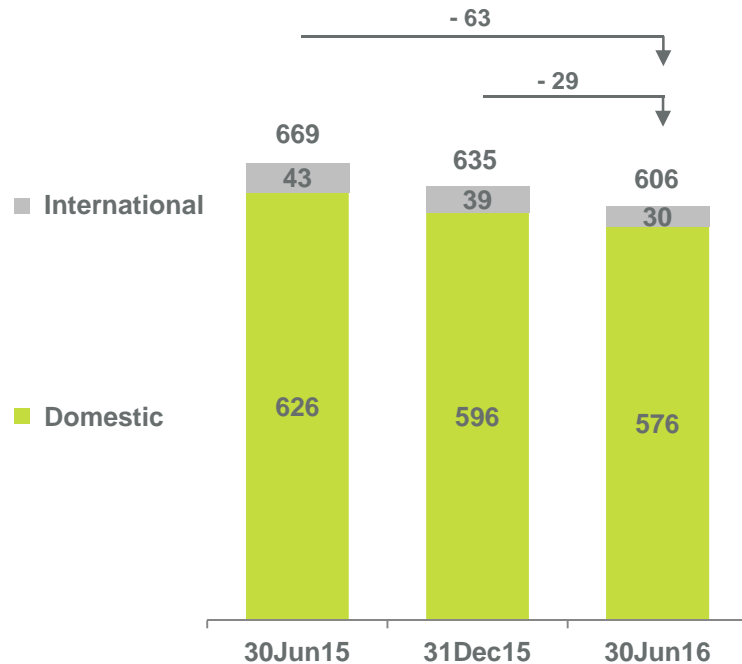
Staff Costs (EUR mn)



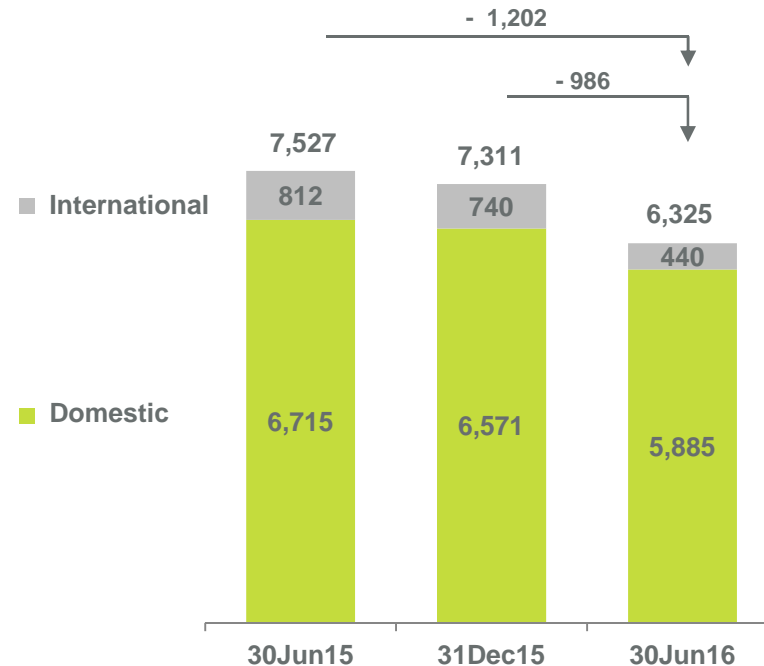
- The Board of Directors of **NOVO BANCO** has prepared a Restructuring Plan that was submitted to the European Commission at the end of 2015. This Plan comprises a set of measures, including the reduction in 2016 of EUR 150mn in recurring operating costs (excluding the restructuring costs), a staff cut of 1,000 employees and the downsizing of the branch network to 550 branches.
- **Operating costs were reduced by 23.4% YoY**, reflecting the effort undertaken by the Group, namely through the reduction of its workforce, the simplification and improvement of processes and the optimisation of the operational and commercial structures.

Downsizing of the branch network and reduction of the number of employees

Branch Network



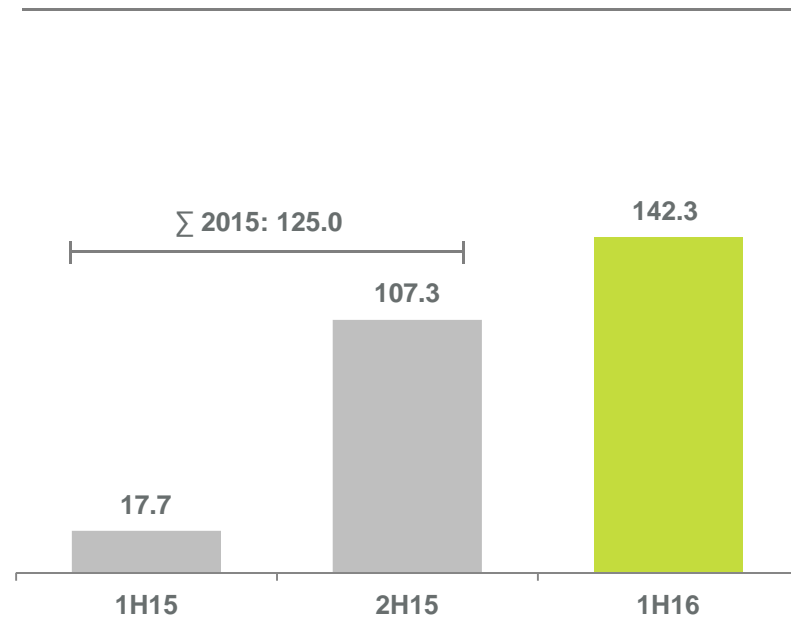
Employees



- Headcount reduction of 1,202 employees since Jun-15, of which 203 resulting from discontinued activities. Compared to Nov-15 (base date for the commitments assumed in the Restructuring Plan), there was an effective reduction up to June 2016 of 880 employees (this does not include employees from discontinued activities).
- Under the downsizing of the distribution network in line with the new business environment reality, **NOVO BANCO** had 63 units less than in June 2015.

Net Operating Income of EUR 142.3mn higher than the 2015 full year and reflecting the recovery in activity

Net Operating Income (EUR mn)



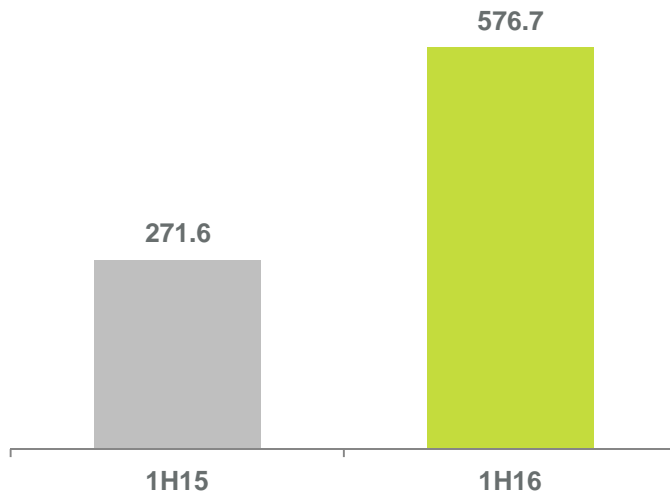
- Positive net operating income of EUR 142.3mn was higher than the 2015 full year net operating income (EUR 125.0mn), which shows **NOVO BANCO** Group's growing income-generating capacity.

- Changes vs Jun-15 due to:

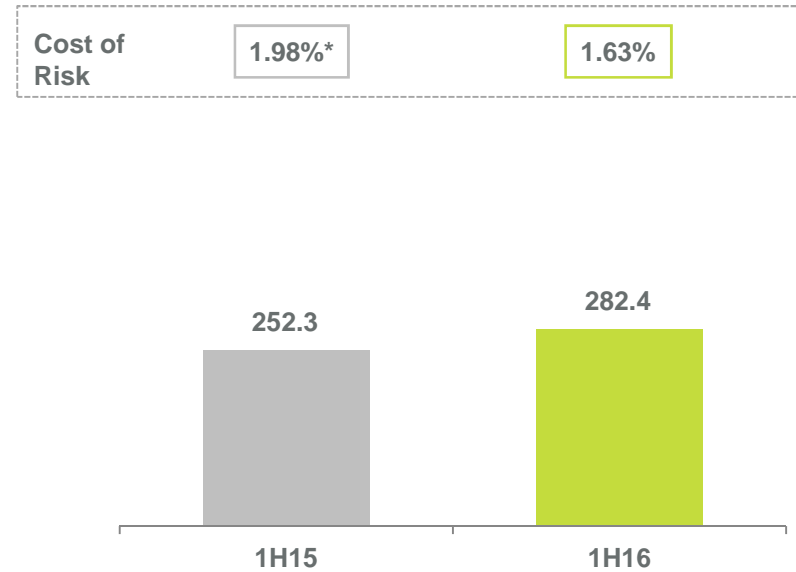
- Banking Income was up by +7.7%, to EUR 446.5mn, underpinned by net interest income
- Decrease of 23.4% in Operating Costs.

Provisions include a provision for the costs of the restructuring process of EUR 109.6mn

Total Provisions (EUR mn)



Credit Provisions (EUR mn)



- Credit Provisions enabled the reinforcement of the level of coverage of credit by provisions, which increased from 15.6% in 2015 to 16.4% in 1H2016. Cost of risk decreased to 163 bps, down by 35 bps relative to Dec-15 and by 48 bps compared to Mar-16.
- Provisions totalled EUR 576.7M including a EUR 109.6M provision for the costs of the ongoing restructuring process.

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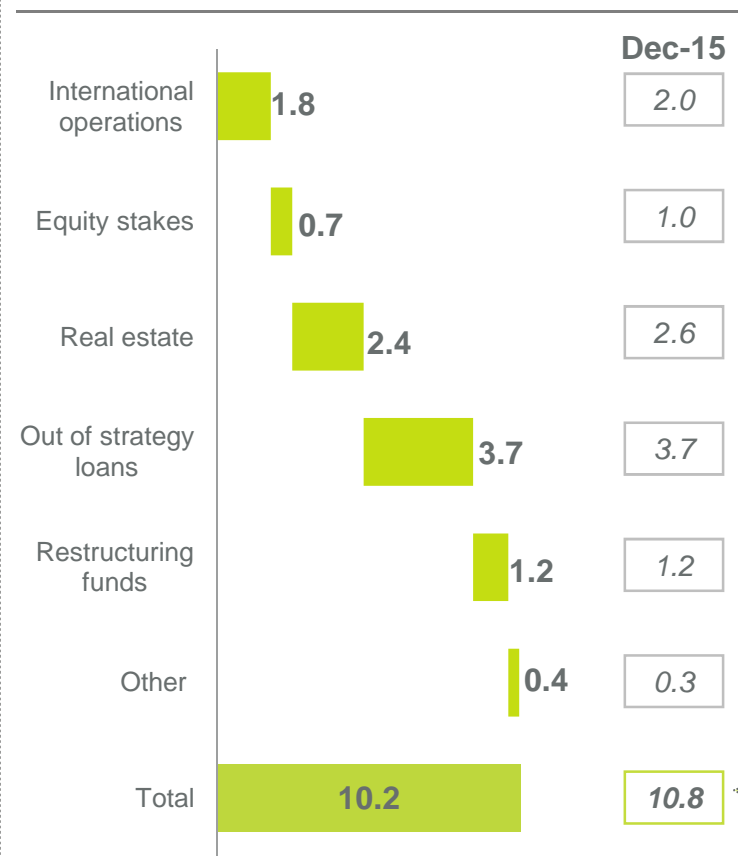
Appendix: Balance Sheet and Income Statement

Proactive down-sizing of Side Bank

Side Bank concept: Non-core assets include all assets that are not part of Commercial Franchise, which is being positioned as a viable bank primarily focused on the Portuguese market. This includes **non-core assets, such as non-core equity stakes, out of strategy loans, real estate, restructuring funds and all international** activity that is not linked to domestic clients.

Net Assets Side Bank

June-16, net book value, EUR Bn



Strategic Goals

- Wind-down or sale of non-core operations.
- Orderly sale process aimed at value maximisation either initiated or to be initiated.
- Staggered sales with ~EUR 500mn⁽¹⁾ sales targeted for 2016 (of which EUR 221mn land).
- Orderly deleverage to maximise value;
- Detailed business plan with identified options.
- Opportunistic sales

- **Decrease of EUR 0.6bn from EUR 10.8bn in Dec-15.**
- **Target to reduce total assets to EUR 9bn by 2016YE.**

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NOVO BANCO is a reference Bank in Portugal

NOVO BANCO's Profile

Strong Business Model

- **NOVO BANCO** is a reference institution in the Portuguese financial sector, with net assets of EUR 55.3bn (3rd largest bank in Portugal).
- Reference Bank in Corporate segment, 85% of Large Corporate and 78% of SMEs are clients of **NOVO BANCO**.
- One of the **leading banks in Retail and Private Banking in Portugal**, backed by a segmented commercial approach and by a multi-channel strategy.

Indicators

- Net Loans of EUR 28.9bn in 1H2016.
- Deposits of EUR 25.1bn in 1H2016.
- Loan to Deposit ratio of 113% in Jun-16.
- Estimated CET1 phased-in ratio of 12.0% and CET 1 fully implemented of 10.2% in Jun-16.

Awards in Several Areas

Best financial app
Apple Store
 and *Google Play*

App	Apple Store	Google Play
NOVO BANCO	4.7	4.3
Bank B	3.5	4.3
Bank C	3.6	4.2
Bank D	3.5	4.2
Bank E	3.6	4.1

Best Trade Finance Bank
 Global Finance



Payment Execution Prize
 JP Morgan



Best Securities Services Provider
 Global Finance



Best Trade Bank in Portugal 2016
 Trade & Forfating Review



Best Performance Distributor, Portugal
 Structured Retail Products
 (Euromoney Group)

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Consolidated Balance Sheet

(EUR mn)	31 Dec. 15	30 Jun. 16
Cash and deposits with central banks	776	2,117
Deposits with banks	340	296
Financial assets held for trading	775	775
Financial assets at fair value through profit and loss	1,526	1,318
Available for sale financial assets	11,811	10,809
Loans and advances to banks	1,691	682
Loans and advances to customers	31,584	28,941
Derivatives held for risk management purposes	319	259
Non current assets held for sale	3,182	2,880
Assets from discontinued operations	40	1,400
Investment properties	55	113
Other tangible assets	312	227
Intangible assets	221	203
Investments in associated companies	405	394
Current tax assets	39	43
Deferred tax assets	2,535	2,477
Technical reserves of reinsurance ceded	8	7
Other assets	1,910	2,351
Total Assets	57,529	55,291

(EUR mn)	31 Dec. 15	30 Jun. 16
Deposits from central banks	7,633	7,510
Financial liabilities held for trading	744	770
Deposits from banks	4,157	4,718
Due to customers	27,582	25,396
Debt securities issued	4,225	3,455
Derivatives held for risk management purposes	78	107
Investment Contracts	4,043	3,767
Non-current liabilities held for sale	163	158
Liabilities from discontinued operations	93	719
Provisions	465	309
Technical reserves	1,344	1,371
Current tax liabilities	39	41
Deferred tax liabilities	12	17
Other Subordinated debt	56	47
Other liabilities	948	1,341
Total Liabilities	51,582	49,727
Share capital	4,900	4,900
Revaluation reserves, other reserves and retained earnings	1,971	983
Net income for the period	(981)	(363)
Non-controlling interest	57	44
Total Equity	5,948	5,564
Total Liabilities + Equity	57,529	55,291

Consolidated Income Statement

<i>(EUR mn)</i>	1H15	1H16
Net Interest Income	214.7	262.0
Dividend income	6.5	31.8
Fee and Commission income	251.1	189.1
Fee and Commission expense	(67.1)	(55.7)
Net gains/ (losses) from financial assets at fair value through profit or loss	(107.5)	(28.4)
Net gains/ (losses) from available-for-sale financial assets	167.3	76.1
Net gains/ (losses) from foreign exchange revaluation	25.7	(8.7)
Net gains/ (losses) from sale of other assets	13.4	(0.8)
Insurance earned premiums. net of reinsurance	18.7	22.1
Claims incurred. net of reinsurance	(145.5)	(95.8)
Change on the technical provision. net of reinsurance	113.9	65.6
Other operating income and expense	(98.2)	(50.4)
Operating Income	393.0	406.9
Staff costs	(204.4)	(157.0)
General and administrative expenses	(149.0)	(118.2)
Depreciation and amortisation	(43.5)	(29.0)
Provisions and impairments	(271.6)	(576.7)
Results from associated companies consolidated by equity method	6.0	2.7
Profit / (Loss) before income tax and non-controlling interests	(269.6)	(471.3)
Income tax		
Current tax	(35.1)	(6.3)
Deferred tax	63.2	107.0
Profit / (Loss) after taxes and before non-controlling interests	(241.6)	(370.6)
<i>o.w. : Income after taxes from discontinued operations</i>	10.2	(5.6)
<i>Income after taxes from activities being discontinued</i>	13.5	0.7
Non-controlling interests	(10.4)	8.0
Net Consolidated Profit / (Loss) for the period	(251.9)	(362.6)

Disclaimer

This document may include certain statements relating to the NOVO BANCO Group that are neither reported financial results nor other historical information. The statements, which may include targets, forecasts, projections, descriptions of anticipated cost savings, statements regarding the possible development or possible assumed future results of operations and any statement preceded by, followed by or that includes the words “believes”, “expects”, “aims”, “intends”, “may” or similar expressions or negatives thereof are or may constitute forward-looking statements.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements. These factors include, but are not limited to, changes in economic conditions in individual countries in which the NOVO BANCO Group conducts its business, fiscal or other policies adopted by various governments and regulatory authorities of Portugal and other jurisdictions, levels of competition from other banks and financial services companies as well as future exchange rates and interest rates.

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