

Lisbon, 10 November 2016

NOVO BANCO GROUP ACTIVITY AND RESULTS**3rd quarter 2016**

(Unaudited financial information)

**NOVO BANCO posts marginally positive quarterly result,
for the first time**

For the first time, NOVO BANCO reported a marginally positive quarterly result, in the amount of EUR 3.7 million.

This result evidences a clear improvement over the previous quarters. We remind that since its creation in 2014 NOVO BANCO has reported quarterly net losses averaging more than EUR 250 million, posting a loss of EUR 249.4 million in the first quarter of this year and a loss of EUR 113.3 million in the second quarter. The third quarter net income is still negatively impacted by the high provisioning level, but positively influenced by the tax function. At the level of current business activity, the results benefited from the improvement of banking income and the very sharp reduction in operating costs.

This mitigated the accumulated net income for the first nine months of 2016, which were still a loss of EUR 359.0 million, though improving by 14.3% relative to the same period last year, when NOVO BANCO posted a loss of EUR 418.7 million.

Net operating income in the year to September was positive, at EUR 217.7 million, a significant growth compared with EUR 26.4 million in the same period in 2015.

Banking income reached EUR 667.7 million at the end of September, a YoY increase of 7.5% underpinned by the 29.2% growth of net interest income.

In line with the ongoing balance sheet deleveraging process, particularly targeted at the international portfolio, customer loans contracted by EUR 3.1 billion in the first nine months of the year.

Customer funds resumed a levelling trend in the reporting quarter. Even so, total deposits decreased by EUR 2.7 billion since December 2015, to EUR 24.7 billion. Still, in the retail banking segments, deposits had a very positive performance, growing by more than EUR 800 million, which sends a clear sign of the consolidation of clients' confidence in NOVO BANCO.

Higher impairments, lower costs

Provision charges totalled EUR 762.6 million, an increase of EUR 298.3 million over the first nine months of 2015 that reflects the continuing effort towards the consolidation of NOVO BANCO. Impairments include EUR 425.8 million for credit, EUR 113.7 million for securities and EUR 110.6 million for restructuring costs.

Operating costs were reduced by 24.3% YoY, to EUR 449.9 million.

The Bank decided to bring forward the achievement of a large part of the objectives set out in the announced Restructuring Plan. Hence the planned headcount downsizing was achieved in September (1062 departures against the target of 1000), the reduction of operating costs has already been secured (EUR 145 million reduction up to September versus a target contraction of EUR 150 million by the end of the year), and the final number of branches at year-end, following the last scheduled closures, will be 540, which compares with the 550 foreseen in the plan.

The estimated regulatory capital ratio Common Equity Tier 1 (CET1) for 30 September 2016 was 12.3%, an improvement of 30 bps relative to June 2016.

FINANCIAL HIGHLIGHTS

31-Dec-15 30-Sep-16

ACTIVITY (EUR mn)		
Net Assets	57 529	52 730
Gross Loans	37 417	34 146
Customer Deposits	27 364	24 657
Total Equity	5 947	5 607
SOLVENCY ⁽¹⁾⁽²⁾		
<i>Common Equity Tier I/RWA's</i>	13.5%	12.3%
<i>Tier I/RWA's</i>	13.5%	12.3%
Total Own Funds/RWA's	13.5%	12.3%
LIQUIDITY (EUR mn)		
ECB Funds (net) ⁽³⁾	7 040	6 205
Eligible Assets for repo operations (ECB and other)	12 740	13 282
(Total Credit - Credit Provisions) / Customer Deposits ⁽²⁾	113%	115%
<i>Liquidity Coverage Ratio (LCR)</i>	77%	105%
<i>Net Stable Funding Ratio (NSFR)</i>	87%	100%
ASSET QUALITY		
Overdue Loans > 90 days/Gross Loans	14.5%	16.8%
Overdue and Doubtful Loans / Total Loans ⁽²⁾	15.8%	18.6%
Overdue and Doubtful, net of impairments / Total Net Loans ⁽²⁾	0.2%	2.5%
Credit at Risk/Total Loans ⁽²⁾	22.8%	24.8%
Credit at Risk (net) / Total Net Loans ⁽²⁾	8.6%	10.0%
Rescruited Credit ⁽²⁾ / Gross Loans	17.7%	19.8%
Rescruited Credit not included in Credit at Risk ⁽²⁾ / Gross Loans	10.5%	10.4%
Credit Provisions/Overdue Loans > 90 days	107.8%	98.3%
Credit Provisions/Gross Loans	15.6%	16.5%
Cost of Risk	1.98%	1.66%
PROFITABILITY		
Net Income (EUR mn)	-980.6	-359.0
Income before Taxes and Non-controlling Interests / Average Net Assets ⁽²⁾	-1.6%	-1.3%
Banking Income / Average Net Assets ⁽²⁾	1.4%	1.6%
Income before Taxes and Non-controlling Interests / Average Net Assets ⁽²⁾	-17.4%	-12.0%
EFFICIENCY		
General Admin. Costs + Depreciation / Banking Income ⁽²⁾	85.8%	67.4%
Staff Costs / Banking Income ⁽²⁾	45.2%	34.5%
EMPLOYEES		
Total	7 311	6 132
- Domestic	6 571	5 714
- International	740	418
BRANCH NETWORK		
Total	635	586
- Domestic	596	556
- International	39	30

(1) Estimated data for 30 September 2016

(2) According to Banco de Portugal Instruction n. 16/2004, in its version in force

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

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RESULTS

In 2016 NOVO BANCO Group is focused on consolidating its position in domestic commercial banking, maintaining adequate liquidity and solvency levels, promoting the improvement of profitability and efficiency levels, simplifying processes and streamlining the organisational and functional structure.

Since the third quarter of 2015, the subsidiaries BICV (Cape Verde), BES Vénétie (France), NB Asia (Macau), ES Ventures and FCR ES Ventures II and III (Portugal) have been allocated to discontinued operations and the branches in New York, Nassau and Cape Verde were closed.

NOVO BANCO Group reported for the first time a small positive quarterly net income of EUR 3.7 million with the contribution of the continuing improvement of the operational performance.

EUR million			
INCOME STATEMENT	9M15	9M16	% Change
Net Interest Income	302.7	391.1	29.2%
+ Fees and Commissions	278.5	206.4	-25.9%
= Commercial Banking Income	581.2	597.4	2.8%
+ Capital Markets	63.2	48.0	-24.1%
+ Other Results	- 23.4	22.3	...
= Banking Income	621.0	667.7	7.5%
- Operating Costs	594.7	449.9	-24.3%
= Net Operating Income	26.4	217.7	...
- Net Provisions	464.3	762.6	64.2%
Credit	374.2	425.8	13.8%
Securities	141.7	113.7	-19.7%
Other Assets and Contingencies	- 51.6	223.1	...
= Income before Taxes	- 438.0	- 544.9	-24.4%
- Income Tax	- 50.2	- 212.5	...
- Special Tax on Banks	23.6	37.0	56.8%
= Income after Taxes	- 411.3	- 369.4	10.2%
- Non-controlling Interests	7.4	- 10.4	...
= Net Income	- 418.7	- 359.0	14.3%

The consolidated net income for the first nine months of 2016, a loss of EUR 359.0 million, was influenced, on the negative side, by the provision for restructuring costs and the recognition of the full amount of the Special Tax on Banks and of the contributions to the Portuguese Resolution Fund and Single Resolution Fund, and on the positive side, by gains obtained from the changes resulting from the coming into force of the new banking sector Collective Work Agreement

("Acordo Coletivo de Trabalho", "ACT") and the merger of VISA Europe into VISA Inc. (USA). Excluding these effects the 9M2016 net income would be a loss of EUR 297.0 million.

The main points of the activity developed in the period relates to the following aspects:

- banking income totalled EUR 667.7 million (+7.5% YoY), with a 58.6% contribution from net interest income and a 30.9% contribution from fees and commissions; capital markets results reached EUR 48.0 million, and other results totalled EUR 22.3 million (being adversely impacted by the recognition of the contributions to the Resolution Funds);
- operating costs decreased by 24.3% YoY, to EUR 449.9 million, underpinned by the staff cuts and the improvements achieved in terms of simplifying processes and streamlining the structure. In terms of efficiency, we highlight the fact that operating costs represented 67.4% of banking income, down from 95.8% in September 2015;
- Positive net operating income (before provisions and impairments) of EUR 217.7 million surpassed the 2015 full year net operating income (EUR 125.0 million), which reflects NOVO BANCO Group's growing income-generating capacity;
- the period's total provision charge of EUR 762.6 million includes EUR 425.8 million for credit, EUR 113.7 million for securities and EUR 110.6 million for restructuring costs.

Net Interest Income

The performance of net interest income continued to be impacted by the decline in benchmark interest rates, which are on negative ground, and the need to stabilise funding through customer funds. However, this objective was thwarted by the re-transfer of five senior bonds to BES in December 2015, which led to the downgrade of NOVO BANCO's long-term deposit ratings and caused a reduction in the deposits of some large institutional and corporate clients.

Despite these constraints, net interest income grew by 29.2% YoY, reaching EUR 391.1 million. This improvement not only reflects a lower level of accounting annulment of accrued overdue interest but also the positive impact of a higher reduction in the cost of liabilities (-72 bps, to 1.41% in September 2016 from 2.13% in September 2015) than in the interest rate on assets (- 43 bps).

The net interest margin was 1.10%, underpinned by an average interest rate on financial assets of 2.52% and an average rate on liabilities of 1.41%, influenced by the decrease in the cost of deposits to 0.94% (from 1.37% in September 2015), which compares with an average 3-month Euribor in the year of -0.25%.

EUR million

NET INTEREST INCOME AND NET INTEREST MARGIN	9M15			2015			9M16		
	Average Balance	Avg Rate	NII	Average Balance	Avg Rate	NII	Average Balance	Avg Rate	NII
INTEREST EARNING ASSETS	48 973	2.98%	1 090	48 694	2.85%	1 389	47 218	2.52%	892
Customer Loans	39 282	2.87%	842	38 829	2.80%	1 088	34 972	2.70%	710
Money Market Placements	2 864	1.19%	25	2 782	1.39%	39	2 558	2.49%	48
Securities and Other Assets	6 827	4.37%	223	7 083	3.71%	263	9 688	1.85%	134
OTHER NON-INTEREST EARNING ASSETS	428	-	-	-	-	-	-	-	-
INTEREST EARNING ASSETS & OTHER	49 401	2.95%	1 091	48 694	2.85%	1 389	47 218	2.52%	892
INTEREST BEARING LIABILITIES	49 401	2.13%	788	47 455	1.98%	938	44 487	1.50%	500
Due to Customers	28 227	1.37%	289	27 773	1.27%	352	25 141	0.94%	177
Money Market Funding	9 433	0.51%	36	9 864	0.81%	80	11 835	0.36%	32
Other Liabilities	11 741	5.27%	463	9 818	5.15%	506	7 511	5.21%	292
OTHER NON-INTEREST BEARING LIABILITIES	-	-	-	1 239	-	-	2 731	-	-
INTEREST BEARING LIABILITIES & OTHER	49 401	2.13%	788	48 694	1.93%	938	47 218	1.41%	500
NIM / NII		0.82%	303		0.93%	451		1.10%	391

The average rate on customer loans, the main component of financial assets (74.1%), was 2.70%. As to customer funds, the average balance of deposits was EUR 25.1 billion, with an average interest rate of 0.94%.

Despite the unprecedented challenge to asset and liability management and to profitability of benchmark interest rates persistently on negative ground, the Group has achieved a sustained recovery of the net interest margin, which rose from 0.82% in September 2015 to 0.93% in December 2015 and to 1.10% in September 2016.

Fees and Commissions

Fees and commissions on banking services gave a positive contribution to results, amounting to EUR 206.4 million, which compares with EUR 278.5 million in September 2015.

FEES AND COMMISSIONS	9M15	9M16	EUR million	
			Weight	
			9M15	9M16
Payments and Account Management	72.8	73.0	23.9%	31.4%
Commissions on Loans, Guarantees and Similar	133.3	95.3	43.8%	41.1%
Asset Management and Bancassurance	60.6	45.4	19.9%	19.5%
Advising, Servicing and Other	37.6	18.4	12.4%	7.9%
SUBTOTAL	304.3	232.1	100.0%	100.0%
Costs with State Guarantees	-25.8	-25.8		
TOTAL	278.5	206.4		

The reduction of 25.9% in fees and commissions reflects the difficulties saddling the recovery of the Portuguese economy, namely due to the deleveraging of the private sector (families and businesses), and also NOVO BANCO's need to reduce the volume of its activity in certain sectors and regions.

In the activity of NOVO BANCO Group we stress the relevance of the following:

- Support services to companies – including income from guarantees provided, documentary credits, and services related to loan management and other (41.1% of the total fees and commission income);
- Commissions on payment services (31.4% of the total) – cards and payment processing, including cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- asset management and bancassurance products, which accounted for 19.5% of total fees and commissions.

Fees and commissions in the 9M15 and 9M16 include the negative effect of the EUR 25.8 million fee paid by NOVO BANCO in connection to issuing of debt securities guaranteed by the Republic of Portugal.

Capital Markets and Other Results

Capital market results amounted to EUR 48.0 million, underpinned by a positive performance across the various market areas. The other operating results totalled EUR 22.3 million, being adversely affected by a total contribution of EUR 31.8 million to the Resolution Funds (EUR 5 million in September 2015) and on the positive side by the changes recognised in the quarter arising from the renegotiation of the ACT (+ EUR 28.2 million).

Operating Costs

Operating costs show a YoY reduction of 24.3%, reflecting the ongoing implementation of the restructuring measures, which were stepped up in the second and third quarters and involved the downsizing of the distribution network and the simplification and downsizing of the organisational structure and processes, with the consequent reduction of the headcount.

EUR million			
OPERATING COSTS	9M15	9M16	% Change
Staff Costs	302.5	230.2	-23.9%
General and Administrative Costs	225.6	176.8	-21.6%
Depreciation	66.6	42.9	-35.6%
TOTAL	594.7	449.9	-24.3%

Staff costs decreased by 23.9% YoY, to EUR 230.2 million, underpinned by a headcount reduction of 1316 employees since 30 September 2015, of which 214 resulting from discontinued activities. Compared to November 2015, the base date for the commitments assumed in the Restructuring Plan, there was an effective reduction of 1062 employees up to September 2016 (this does not include the employees from the discontinued activities).

General administrative expenses dropped by 21.6% YoY, to EUR 176.8 million. This reduction, which occurred across the majority of all types of costs, reflects the rationalisation and streamlining policy under way.

The reduction in depreciation is explained, among others, by greater selectivity in IT investment, the rationalisation of equipment and the closure of facilities.

The contraction in operating costs also reflects the downsizing of the distribution network in line with the new business reality. In September 2016 NOVO BANCO had 586 branches, which is 80 units less than a year earlier.

Provisions

In the first nine months of 2016 the NOVO BANCO Group reinforced provisions by EUR 762.6 million (+EUR 298.3 million comparing with September 2015), the bulk of which was allocated to credit provisions.

	EUR million		
PROVISIONS	9M15	9M16	% Change
Credit	374.2	425.8	13.8%
Securities	141.7	113.7	-19.7%
Non-Current Assets Held for Sale	50.5	100.5	99.1%
Other Assets and Contingencies	-102.1	122.6
TOTAL	464.3	762.6	64.2%

The credit provision charge totalled EUR 425.8 million, improving the credit coverage ratio to 16.5%, from 14.1% in September 2015.

The annualised cost of risk decreased to 166 bps, from 198 bps in December 2015.

Under IAS 37 the costs arising from the ongoing restructuring plan, totalling EUR 110.6 million, can be included in the provision for restructuring costs. The costs assumed in the second and third quarters relating to early retirements, redundancy payments, and closure of facilities (EUR 81.7 million) were considered against the said provision.

RESTRUCTURING PLAN

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 Restructuring Plan, currently in execution, was drawn up in close cooperation with Banco de Portugal. It comprises a set of measures, notably viewing concentration in banking and retail and corporate activities in Portugal and Spain, divestment from non-strategic assets and a EUR 150 million reduction in recurring operating costs during 2016 (excluding the restructuring costs) through staff cuts of 1000 employees and the downsizing of the distribution network to 550 branches.

By the end of 3Q16 the staff cutting targets for the full year had already been met, the distribution network's downsizing is progressing aiming to exceed the target forecasting 540 branches at the end of 31 December 2016 and the cost-cutting programme is in line with the objectives, with operating costs having fallen by 24.3% (- EUR 144.8 million) YoY.

SIDE BANK

As an integral part of this Restructuring Plan and as agreed between the Portuguese Government and the Directorate-General for Competition (DGCOM), a virtual division has been established between the strategic assets, defined as Core assets, and the non-strategic assets, which were included in a so-called Side Bank and are intended for gradual and orderly divestment, aiming organisational simplification and the preservation of NOVO BANCO Group's capital.

Concerning these assets and the concept of a Side Bank it was established and agreed that (i) as a rule the exposure to such assets cannot increase, save in the case of a marginal increase to support preserving sale value, (ii) they should be sold, discontinued or liquidated but taking into account the maximisation of their value, viewing an estimated reduction in 2016 to an amount of or below EUR 9.0 billion.

Under this exercise the value of non-strategic assets on 30 September 2016 was EUR 9.7 billion net of provisions (Dec. 15: EUR 10.8 billion).

ACTIVITY EVOLUTION

Funding

The resumption of normal operating conditions and the consolidation of the relationship with the clients positively influenced the recovery of funding based on retail customer funds, resulting in a more balanced and stable funding structure.

Deposits totalled EUR 24.7 billion at the end of 3Q16, having dropped by EUR 2.7 billion (-9.9%) since December 2015. This reduction, which was more noticeable in the large depositors, also reflects the impact of the transfer of BES Vénétie and NB Ásia to assets being discontinued (EUR -0.4 billion). The positive performance of the retail banking segment should be stressed, with customer deposits registering a net increase of over EUR 800 million in the first nine months of 2016.

CUSTOMER FUNDS	30-Sep-15	31-Dec-15	30-Jun-16	30-Sep-16	EUR million	
					Quarterly Change	
					absolute	relative
Deposits	28 664	27 364	25 061	24 657	- 404	-1.6%
Other Customer Funds ⁽¹⁾	895	218	335	302	- 33	-9.9%
Debt Securities placed with Clients	1 305	1 331	1 004	998	- 6	-0.5%
Life Insurance Products	5 421	5 388	5 138	4 895	- 243	-4.7%
Off-Balance Sheet Funds	5 734	5 642	5 111	5 121	10	0.2%
Total Customer Funds	42 020	39 943	36 649	35 975	- 674	-1.8%

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

Customer Loans

NOVO BANCO has been conducting a very strict and selective lending policy, without ceasing to support the domestic business community. This support is provided across all industry sectors and all companies, regardless of size, placing a particular focus on the exporting small and medium-sized companies (SMEs) and those that incorporate innovation in their products, services or production systems. Corporate loans account for a 66.9% share of the total loan book.

CUSTOMER LOANS	30-Sep-15	31-Dec-15	30-Jun-16	30-Sep-16	EUR million	
					Quarterly Change	
					absolute	relative
Corporate Lending	26 942	25 908	23 264	22 830	- 434	-1.9%
Loans to Individuals	11 637	11 509	11 350	11 315	- 35	-0.3%
Residential Mortgage	9 935	9 842	9 767	9 742	- 25	-0.3%
Other Loans	1 702	1 667	1 583	1 573	- 10	-0.6%
Customer Loans (Gross)	38 579	37 417	34 614	34 146	- 468	-1.4%
<i>Domestic</i>	31 624	30 946	29 896	29 549	- 346	-1.2%
<i>International</i>	6 955	6 471	4 718	4 596	- 122	-2.6%
Provisions	5 432	5 833	5 673	5 630	- 43	-0.8%
Customer Loans (Net)	33 147	31 584	28 941	28 516	- 425	-1.5%

Customer loans contracted by EUR 3.3 billion in the first nine months of 2016, of which EUR 1.4 billion in the domestic activity and EUR 1.9 billion in the international activity (where the reduction mainly reflects the transfer of BES Vénétie and NB Asia to discontinued assets).

Residential mortgage loans and other loans to individuals, though decreasing, have been registering rising production levels.

Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the European Central Bank (ECB), totalled EUR 11.9 billion on 30 September 2016 and represented 22.5% of assets.

The breakdown of the securities portfolio reflects a conservative portfolio management approach, based on securities with lower risk and higher liquidity, namely sovereign debt of Eurozone countries, which account for roughly 52% of the total available securities.

SECURITIES PORTFOLIO	net of impairments				EUR million	
	30-Sep-15	31-Dec-15	30-Jun-16	30-Sep-16	Quarterly Change	
					absolute	relative
Portuguese Sovereign Debt	2 416	2 685	3 242	2 945	- 296	-9.1%
Other Sovereign Debt	3 466	4 689	3 438	3 430	- 8	-0.2%
Bonds	2 681	2 671	2 573	2 748	175	6.8%
Other	3 464	3 307	2 874	2 729	- 145	-5.1%
Total	12 027	13 352	12 127	11 852	- 275	-2.3%

The securities portfolio has an associated positive fair value reserve of EUR 138.4 million (an increase of EUR 34 million from December 2015).

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity

The Group's focus on customer funds acquisition and the balance sheet deleveraging process have enabled the stabilisation of its liquidity position. In particular, the behaviour of the retail banking segment should be stressed, with customer funds registering a net increase of more than EUR 800 million.

Until the end of the third quarter of the year NOVO BANCO repaid medium long-term debt placed in the market of approximately EUR 380 million, of which EUR 150 million in the last quarter. Moreover, medium long-term debt was also reduced through the repurchase of more than EUR 340 million (nominal value) of own bonds under the senior debt tender offer launched in June and settled at the beginning of July. Until the end of the year NOVO BANCO only has to make one more reimbursement of ca. EUR 50 million in December.

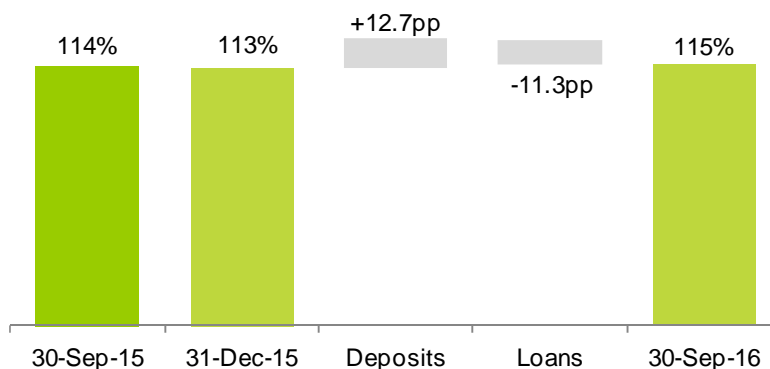
In this context net funding from the ECB was reduced by EUR 0.8 billion, to EUR 6.2 billion at the end of September 2016, from EUR 7.0 billion at the end of 2015. Note that the fact that the bulk of this funding is obtained through the new medium-term funding line (*TLTRO II*) allows having a stable funding source at a lower cost. On the other hand, the portfolio of securities eligible for rediscount with the ECB remained stable. At the end of the third quarter of 2016 the amount of securities eligible for rediscount with the ECB held by NOVO BANCO Group totalled EUR 13.3 billion including the exposure to sovereign debt of EUR 4.7 billion, of which EUR 2 billion in

treasury bills (excluding securities held by GNB Vida). The sovereign debt portfolio was mainly concentrated in European countries, of which EUR 2.0 billion of Portuguese sovereign debt, EUR 1.5 billion of Italian sovereign debt, EUR 1.0 billion of Spanish sovereign debt and EUR 0.2 billion of German sovereign debt (all excluding the exposure of GNB Vida).

At 105% at the end of September (up from 77% at the end of December 2015) the Liquidity Coverage Ratio (LCR) largely surpasses the current regulatory requirements.

The loan to deposit ratio increased by 2pp since December 2015 and 1pp YoY to 115%, the result of a sharper reduction in customer deposits than in customer loans.

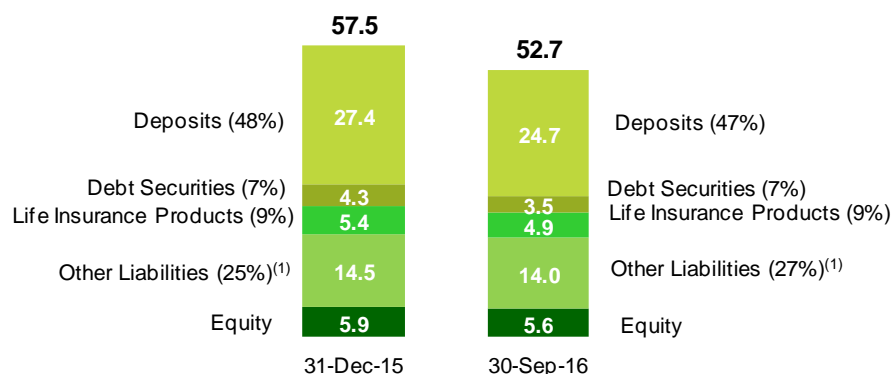
Loan to Deposit Ratio



Customer deposits remained the main source of funding, representing 47% of total assets.

FUNDING STRUCTURE

(figures in EUR billion)



⁽¹⁾ Includes ECB Funding

Capital Management

NOVO BANCO Group's solvency ratios are calculated based on the rules stipulated in Directive 2013/36/EU and Regulation (EU) no. 575/2013, which define the criteria for access to the activity of credit institutions and investment firms and determine the prudential requirements for these institutions, and also in Banco de Portugal's Notice 6/2013, which regulates the phased-in arrangements for own funds, under said Regulation. The NOVO BANCO Group is authorised to use the Internal Ratings Based (IRB) approach to calculate credit risk weighted assets and the Standardised Approach to calculate both market risk and operational risk weighted assets.

Under the terms of said rules, the solvency ratios of NOVO BANCO Group, as at 30 September 2016 and 31 December 2015, were as follows:

		EUR million		
CAPITAL RATIOS - BIS III (CRD IV/CRR)		31-Dec-15	30-Jun-16	30-Sep-16⁽¹⁾
Risk Weighted Assets	(A)	38 168	36 105	35 490
Own Funds				
<i>Common Equity Tier 1</i>	(B)	5 142	4 332	4 382
<i>Tier 1</i>	(C)	5 142	4 332	4 382
Total Capital	(D)	5 142	4 343	4 382
<hr/>				
<i>Common Equity Tier 1 Ratio (Phased-in)</i>	(B/A)	13.5%	12.0%	12.3%
<i>Tier 1 Ratio</i>	(C/A)	13.5%	12.0%	12.3%
Solvency Ratio	(D/A)	13.5%	12.0%	12.3%
<hr/>				
<i>Common Equity Tier 1 Ratio (full implementation)</i>		11.3%	10.2%	10.7%

⁽¹⁾ Estimated Data

The estimated phased-in Common Equity Tier 1 (CET1) ratio for 30 September 2016 was 12.3% (estimated 10.7% under the full implementation regime applicable as from 1 January 2018).

Special Regime for Deferred Tax Assets

Under the terms of the annex to Law no. 61/2014, of 26 August, NOVO BANCO adhered to the special regime applicable to deferred tax assets (DTAs) resulting from impairment losses in loans and employee benefits. Under this regime, DTAs are converted into tax credits when a taxable entity reports net losses.

In this context, NOVO BANCO's individual net income loss for 2015 will imply the following in 2016:

- the conversion of eligible deferred tax assets into tax credits;
- the simultaneous creation of a special reserve and conversion rights into shares attributable to the State.

The conversion of eligible deferred tax assets into tax credits as a result of the net income loss determined in the 2015 accounts was made in the same proportion as that between the amount of this loss and the total equity at individual level. The special reserve was set up for the same amount of the tax credit determined plus 10%, and will be included in the share capital. The conversion rights are securities that entitle the State to demand from NOVO BANCO the corresponding capital increase through the incorporation of the amount of the special reserve and consequent issuance and allotment of ordinary shares. The Resolution Fund, as the sole shareholder of NOVO BANCO, has the potestative right to acquire the conversion rights from the State.

The amount of deferred tax assets converted into tax credits totalled approximately EUR 161 million, and the special reserve amounted to EUR 177 million. The conversion rights to be issued and allocated to the State should give it a stake of up to 2.7% in NOVO BANCO's share capital.

The amount of the deferred tax assets converted into tax credits, the creation of the special reserve and the issuance and allocation to the State of the conversion rights must be still be certified by a chartered accountant, a process that is already under way.

In addition to certification by a statutory auditor, the conversion of deferred tax assets into tax credit is also dependent on confirmation by the *Autoridade Tributária e Aduaneira* (AT – the Portuguese Tax and Customs Authority) through a tax inspection procedure. With respect to the taxation period of 2015, the said tax inspection should begin during the month of January 2017. The conditions and procedures for the potestative acquisition of the conversion rights attributed to the State by the Resolution Fund have yet to be established in legal terms.

ASSET QUALITY

The quality of the loan book shows no significant changes relative to December 2015 and June 2016.

CREDIT QUALITY	30-Sep-15	31-Dec-15	30-Jun-16	30-Sep-16	EUR million	
					Quarterly Change	
					absolute	relative
Gross Loans	38 579	37 417	34 614	34 146	- 468	-1.4%
Overdue Loans	5 514	5 791	5 878	5 933	55	0.9%
Overdue Loans > 90 days	4 868	5 412	5 437	5 726	289	5.3%
Credit at Risk ⁽¹⁾	8 410	8 547	8 283	8 480	197	2.4%
Restructured Credit ⁽²⁾	6 293	6 634	6 657	6 754	97	1.5%
Restructured Credit not included in Credit at Risk ⁽²⁾	3 863	3 927	3 721	3 565	- 156	-4.2%
Provisions for Credit	5 432	5 833	5 673	5 630	- 43	-0.8%

⁽¹⁾ According to Banco de Portugal Instruction n.23/2011.

⁽²⁾ According to Banco de Portugal Instruction n.32/2013.

Credit risk indicators have risen since 31 December 2015, on the one hand driven by the increase in overdue loans, and on the other by the contraction of the customer loans book. At the end of September 2016 the overdue loans / gross loans and credit at risk / gross loans ratios were 17.4% and 24.8%, respectively, with the Credit at Risk Coverage ratio standing at 66.4%.

Provisions for Credit amounted to EUR 5.6 billion, representing 16.5% of the total loan book (Dec.15: 15.6%; Sep. 15: 14.1%).

ASSET QUALITY AND COVERAGE RATIOS	30-Sep-15	31-Dec-15	30-Jun-16	30-Sep-16	Quarterly Change (p.p.)
Overdue Loans / Gross Loans	14.3%	15.5%	17.0%	17.4%	0.4
Overdue Loans > 90 days / Gross Loans	12.6%	14.5%	15.7%	16.8%	1.1
Credit at Risk ⁽¹⁾ / Gross Loans	21.8%	22.8%	23.9%	24.8%	0.9
Restructured Credit ⁽²⁾ / Gross Loans	16.3%	17.7%	19.2%	19.8%	0.6
Restructured Credit not included in Credit at Risk ⁽²⁾ / Gross Loans	10.0%	10.5%	10.7%	10.4%	-0.3
Provisions for Credit / Gross Loans	14.1%	15.6%	16.4%	16.5%	0.1
Coverage of Credit at Risk ⁽¹⁾	64.6%	68.2%	68.5%	66.4%	-2.1
Coverage of Overdue Loans > 90 days	111.6%	107.8%	104.3%	98.3%	-6.0
Coverage of Overdue Loans	98.5%	100.7%	96.5%	94.9%	-1.6

⁽¹⁾ According to Banco de Portugal Instruction n.23/2011.

⁽²⁾ According to Banco de Portugal Instruction n.32/2013.

COMMERCIAL ACTIVITY

Retail Banking

The first nine months of 2016 saw a strong acceleration in the retail banking activity, at various levels.

Retail banking deposits achieved a net increase of over EUR 800 million, a clear sign of the consolidation of clients' confidence in NOVO BANCO. At the same time, it was possible to lower by 40 bps the cost of the term deposits stock compared to December 2015. These results contributed to reinforce the Group's liquidity levels as well as its operating profitability.

Production of retail loans also maintained a brisk pace. The average monthly production of consumer loans grew by 64% in the first nine months of 2016 compared to the average monthly production in 2015. In residential mortgage loans, the average monthly production surged by 86% relative to the average monthly production in 2015, while the price of new loans was significantly higher than the average price of the residential mortgage loan book.

The average monthly production of life and non-life insurance products unconnected to loans through cross-selling was up by approximately 28% on a year earlier. The number of clients with credit cards grew by 4% compared to 2015.

Finally, the commercial activity with the small and micro companies included in the retail banking segment also expanded in the period. Under the *PME Crescimento* credit line NOVO BANCO maintained the lead in the production of new loans to micro and small companies, with a market share of around 17%. As a result the stock of medium and long-term loans to small and micro companies in the retail segment grew in the first nine months of 2016 by ca. 11%.

Thanks to the digital transformation process under way at NOVO BANCO digital active clients in the retail banking segment (*NBnet*, *Mobile* and *Tablet*) now total more than 402 thousand. Moreover, *Mobile* active clients in the segment have grown by more than 40% since the start of the year.

Several new functionalities were recently launched in the NB smart app, chosen from among the declared top preferences of NOVO BANCO clients:

- prior periods 'Account Statements' in PDF format, which can be sent by e-mail and saved by the client;
- and the 'Savings Subscription and Management' new area, which aims to boost this channel as a sales platform.

The Bank's continuous bet on the development of pioneering solutions makes the clients fully capable of carrying out the main day-to day financial transactions by themselves and remotely.

NOVO BANCO's website, besides being a gateway to the Internet Banking services, also serves as a point of commercial contact and servicing, having registered more than 51 million logins since the start of the year.

Corporate Banking

During the third quarter of 2016 the NOVO BANCO Group maintained its commitment to support the Portuguese companies as a reference partner in their daily activities. This support is provided across all industry sectors and all companies (micro, small, medium-sized or large), placing a particular focus on the exporting small and medium-sized companies and those that incorporate innovation in their products, services or production systems, i.e., companies that are able to compete in the global markets. NOVO BANCO saw its role in supporting the exports and internationalisation of the Portuguese companies recognised in 2016 through the awards for 'Best Trade Finance Bank in Portugal' received from the Global Finance Magazine, and 'Best Trade Bank in Portugal 2016', from the Trade & Forfeiting Review (TRF) magazine.

The Treasury Solutions ("*Soluções de Tesouraria*"), one of the pillars of NOVO BANCO's support to corporate clients, also act as a barometer of the quality of the support provided to these client's daily needs. NOVO BANCO's comprehensive and innovative offer is tailored to address all its corporate clients needs. In this area, we should stress new factoring production, which grew by 45% YoY.

Another important pillar is the medium/long term credit and leasing to Support Investment ("*Apoio ao Investimento*") and the reinforcement of permanent capital ("*Reforço de Capitais Permanentes*"). Operations contracted under this type of credit up to 30 September 2016 totalled more than EUR 500 million. Production under the *PME Crescimento 2015*, *NB FEI Inovação* (agreed with the European Investment Fund) and *NB BEI* (agreed with the European Investment Bank) credit lines also deserves to be stressed.

Also in the context of *Support to Investment*, the Group, through its team of investment experts, actively promotes the credit lines that complement the Portugal 2020 programme ("*Programa Portugal 2020*"). This team, in coordination with the commercial network, contributes to accelerate the implementation of important investment projects that will support the future sustainability of the Portuguese business community as well as job creation.

Human Resources solutions are the Group's third pillar in the relation with its corporate clients, affording individual and collective recognition to their staff as well as high levels of well-being. In

this area, we should also stress the good response to the social and tax benefits afforded to corporate clients' staff through Meal Cards and Life Insurance products, which in the third quarter of 2016 grew by 4% and 14%, respectively, over the same period in 2015.

NOVO BANCO dos Açores

Novo Banco dos Açores (NB Açores) pursued its policy of proximity and engagement with its retail banking, corporate and institutional clients, in line with its mission and with its status as the only bank operating in the Azores with headquarters in this Autonomous Region.

Customer deposits increased by roughly EUR 24 million in the year to September, with assets totalling EUR 651.5 million at the end of the period. NB Açores posted a net profit for the period of EUR 566 thousand, which was adversely affected by extraordinary costs, mainly relating to the restructuring process that entailed staff cuts of 15 employees.

Banco Electrónico de Serviço Total

During the year Banco Best has pursued its strategy of innovation leader in the offer of financial products and services in Portugal. Accordingly, it has launched the first banking app for Apple Watch in Portugal (*Best Watch*), through which clients can easily access securities, funds and index prices and their investment portfolio, or at any time view their account balances, movements and overall portfolio, and check the detail of credit card movements, among others. As part of its activities to promote financial literacy and investors' informed decisions by imparting knowledge about the various components of the capital markets, the Bank promoted the organisation of seminars opened to clients and non clients in several cities in the country, focusing on the following themes: How to invest in shares and indices; "*All-Terrain*" *Investment Strategies*; *Best Trading Pro ADN of Trading – to Analyse, to Decide and to Negotiate*, and *Market Rules*. Customer loans contracted by 15% relative to December 2015, while customer funds increased by 22%. Banco Best posted a net profit for the period of EUR 3.7 million.

GNB Asset Management

At the end of the first quarter of 2016 the global volume of assets under management totalled EUR 12.6 billion. The international activity accounted for EUR 2.4 billion of this total, with EUR 1.1 billion corresponding to assets under management in Spain and approximately EUR 0.5 billion to assets under management in Luxembourg. In terms of costs, the optimisation and streamlining effort implemented led to a 3% YoY reduction. The period's results were a positive net income of EUR 4.8 million.

GNB Seguros Vida

GNB Seguros Vida (GNB Life Insurance) reported a net loss of EUR 57.1 million up to the third quarter of 2016, which compares with a net profit of EUR 98.7 million in the same period in 2015. The 9M16 results were strongly influenced by the performance of its financial area, where realised capital gains decreased YoY, and by the increase in the level of impairments (to EUR 33.6 million in September 2016 from EUR 5.4 million in September 2015) due to the fact that all assets are marked to market and liabilities recognised at amortised cost (in accordance with the standards in force). If liabilities fluctuated at potential market value, the period's net income would be close to zero. The application of the Solvency II regulations, which entail high capital requirements, as from 1 January 2016, combined with an environment of low interest rates, strongly discouraged the sale of guaranteed capital or interest rate products, leading to a sharp decline in sales volumes in the domestic and European insurance markets. GNB Seguros Vida's production totalled EUR 116.5 million in the first nine months of the year, while the volume of customer funds under management amounted to EUR 4.7 billion (EUR 5.2 billion on 31 December 2015). The volume of new contracts for life risk products grew by roughly 22% YoY, with gross premia dropping by 1.0%. In terms of operating costs, a 31.7% YoY reduction has been achieved as a result of the streamlining and rationalisation efforts carried out.

International Commercial Banking

NOVO BANCO Group's international activity in the first nine months of 2016 was marked by the implementation of the restructuring plan for its international units, which namely entailed the sale and discontinuation of some international units as well as the operational optimisation of the branches in Spain, London and Luxembourg. An agreement with WELL LINK GROUP HOLDINGS LIMITED, a Hong-Kong based company, on the acquisition of the entire share capital of NB Asia, was announced in August 2016. The completion of the transaction is pending the

approval of the competent authorities. The sale process of the subsidiary in France (BES Vénétie) is under way and is expected to be completed before the end of 2016.

During the second quarter of 2016 the Branch in **Spain** underwent a deep restructuring, entailing the closure of several business centres and the simplification and reshaping of the business model around three customer segments: corporate, retail, and private banking. As at 30 September 2016 the impact of the restructuring translated into a 17.1% YoY reduction in operating costs, with staff costs decreasing by 20.5%. During the period under analysis there was an overall contraction in business, with a decrease in the asset volumes, assets under management and the number of clients.

The activity in the **United Kingdom** during the third quarter of 2016 was marked by the implementation of the last phase of the branch restructuring plan, which placed particular emphasis on the reduction of costs, which contracted by around 41% compared to the last quarter of 2015 and by 12% quarter-on-quarter. Total assets amounted to EUR 3.8 billion, of which roughly 44% correspond to the loan portfolio. The 9M16 net operating income was EUR 15.9 million.

The **Luxembourg** branch also completed its restructuring and strategic reorientation process. Total assets at the end of the third quarter of 2016 were EUR 3.1 billion, with operating costs in the third quarter of 2016 decreasing by 37% compared with the last quarter of 2015.

MAIN EVENTS IN THE THIRD QUARTER OF 2016

- In a press release dated 4 November 2016, Banco de Portugal announced that the period for investors meeting the eligibility criteria for the sale process of Novo Banco to submit their offers ended on that day. Five offers were received, under the two sale methods (Strategic Sale Procedure or Market Sale Procedure) and will henceforth be analysed under the criteria set forth in the respective specifications, disclosed in April last.
- On 10 October NOVO BANCO announced that its subsidiary ES Tech Ventures, SGPS had sold its 41.66% stake in E.S. Contact Center – Gestão de Call Centers, to Armatis – LC Ibéria, a company incorporated in Portugal.
- On 30 September NOVO BANCO informed that its indirect subsidiary ES Concessions International Holding B.V. had entered an agreement with Parkinvest B.V., a company incorporated in Holland and operating under Dutch law, to sell a 22.21% stake in Empark – Aparcamientos y Servicios, for a total consideration of EUR 69 million. The agreement is subject to certain regulatory approvals and contractual condition.

- On 5 August NOVO BANCO informed it had entered a sale and purchase agreement with a group of investors, led by SONAE INVESTMENT MANAGEMENT - SOFTWARE AND TECHNOLOGY, SGPS, in respect of limited partnership interests in tech venture capital funds FCR - Espírito Santo Ventures II, Fundo De Capital De Risco Espírito Santo Ventures III and Fundo De Capital De Risco Espírito Santo Ventures Inovação e Internacionalização, as well as the whole share capital of Espírito Santo Ventures – Sociedade De Capital De Risco, which will be controlled by the management team. The execution of this transaction is conditioned to obtaining a set of authorizations, including from Banco de Portugal.
- As announced on 4 August, NOVO BANCO entered a sale and purchase agreement with WELL LINK GROUP HOLDINGS LIMITED, a company incorporated in Hong Kong, in respect of the entire share capital of NB Ásia. The execution of this transaction is conditioned to obtaining a set of authorisations from the relevant authorities, including the Autoridade Monetária de Macau.
- On 3 August NOVO BANCO, S.A. informed that its indirect subsidiary Ascendi Group, SGPS (“Ascendi”), owned in partnership with Mota-Engil, has entered an agreement with Ardian Infrastructure to sell a group of assets for a total consideration of EUR 600 million, which may be increased by an additional amount of EUR 53 million via a variable price mechanism. The agreement is subject to certain corporate reorganisations at Ascendi level, as well as regulatory and contractual approvals. The agreement also includes the sale of stakes in operation and maintenance service companies related to these concessions and owned by Ascendi.
- In July NOVO BANCO was elected 'best trade finance bank in Portugal' by the Trade & Forfaiting Review international magazine. This award translates the international recognition of NOVO BANCO's capabilities in this important business area, where it is domestic market leader and where it has been asserting its position as the Portuguese financial group with the largest and best offer in support to international trade.
- On 13 July NOVO BANCO informed that on 12 July Banco de Portugal had decided, based on a proposal by the Resolution Fund and subject to the authorisation of the European Central Bank, to appoint Mr. António Manuel Palma Ramalho as Chairman of the Board of Directors of NOVO BANCO, effective from 1 August 2016. The ECB confirmed this appointment on 19 August 2016.
- On 6 July NOVO BANCO informed that Mr. Eduardo Stock da Cunha and Mr. José João Guilherme had resigned their positions as Chairman of the Board of Directors and Member of the Board of Directors of NOVO BANCO.
- On 30 June 2016 Banco de Portugal informed it had received four offers for the acquisition of NOVO BANCO. After analysing the proposals, a decision will be taken concerning which of the

methods - Strategic Sale Procedure or Market Sale Procedure - will be followed to conclude the sale process of the stake held by the Resolution Fund in NOVO BANCO

- ✦ In May NOVO BANCO was named the best provider of Securities and Custody services in Portugal (2016) by the Global Finance international magazine. The choice was based on the following main selection criteria: customer relations, quality of service, knowledge of local regulations and practices, the scope of global coverage, competitive pricing, and continued investment in the development of this business line.
- ✦ On 28 April 2016 NOVO BANCO was notified, as affected party (“*contra-interessado*”), that it was provisionally granted an injunction (“*decretamento provisório de uma providência cautelar*”) filed by a third party, which determined provisionally the re-transfer of certain non-subordinated bonds from Banco Espírito Santo to NOVO BANCO and the Banco de Portugal’s notification to carry out all the necessary actions to give effect to said measure. On 23 May 2016 the Court decided to lift the injunction granted provisionally and the injunction process continues according with the terms and time limits provided by Law.
- ✦ On 31 March Banco de Portugal issued a press release where it disclosed the terms of the new procedure to sell the stake held by the Resolution Fund in NOVO BANCO, following the re-launch of the sale process announced on 15 January 2016.
- ✦ On 30 March NOVO BANCO informed that the Rating Agency Dagong Europe had taken a rating action on NOVO BANCO. Dagong Europe decided to downgrade NOVO BANCO’s long-term credit rating to CCC+ from B- and its short-term credit rating to C from B. The watch Evolving was removed and a Stable outlook was assigned for all the ratings. On the same date Dagong Europe decided to withdraw the rating of the following entities: Espírito Santo, plc (Ireland), Banco Espírito Santo North American Cap. LLC and Novo Banco’s New York Branch. NOVO BANCO informed on that date that there were no debt securities issued by Espírito Santo, plc (Ireland) and that the entities Banco Espírito Santo North American Cap. LLC and Novo Banco New York Branch had been closed.
- ✦ On 19 February, following the announcement dated 29 September 2015, NOVO BANCO informed that, after having satisfied the conditions to which the sale of the stake in Tertir – Terminais Portuários, SGPS was subject, it had concluded the sale of this stake to Yildirim Group, along with the sale of the stake of the majority shareholder MOTA-ENGIL, SGPS.
- ✦ At the end of January 2016 NOVO BANCO took notice of two lawsuits submitted to the Venezuela Supreme Court (“Supremo Tribunal de Justicia de Venezuela”) by Banco de Desarrollo Económico y Social de Venezuela and Fondo de Desarrollo Nacional against Banco Espírito Santo, S.A. (BES) and NOVO BANCO, regarding the sale of debt securities issued by entities that belonged to Grupo Espírito Santo, in the amount of USD 37 million and USD 335

million, respectively, and requesting the repayment of the amounts invested, plus interest, compensation due to inflation and related expenses. Under the terms of the resolution applied to BES by Banco de Portugal these liabilities were not transferred to NOVO BANCO. Nevertheless a precautionary measure of seizure of assets of BES and NOVO BANCO was enacted: the execution of the measure and a decision by the Court to the objection submitted by NOVO BANCO is now pending.

- In January NOVO BANCO was considered the "best trade finance bank" in Portugal by the Global Finance international magazine. The main criteria for this award were transaction volume, scope of global coverage, customer service, competitive pricing and innovative technology solutions available to clients.
- On 15 January 2016 Banco de Portugal announced the re-launch of the sale process of the Resolution Fund's holding in NOVO BANCO.
- On 7 January 2016, following the announcement by Banco de Portugal on 29 December 2015, NOVO BANCO informed that the Rating Agency DBRS had taken a rating action on NOVO BANCO. DBRS decided to downgrade NOVO BANCO's senior long-term debt and deposits rating to CCC (high) from B and its short-term debt & deposits rating to R-5 from R-4. The outlook on the long-term ratings is Negative and on the short-term ratings is Stable. The agency confirmed the rating on NOVO BANCO's senior bonds guaranteed by the Republic of Portugal at BBB (low) with Stable outlook.
- On 4 January 2016 NOVO BANCO informed the market that, following the announcement by Banco de Portugal on 29 December 2015, the Rating Agency Moody's had taken a rating action on NOVO BANCO and its supported entities. On this date Moody's decided to confirm NOVO BANCO's Baseline Credit Assessment (BCA) at caa2 and to downgrade its senior debt and long-term deposit ratings to Caa1 from B2 and its counterparty risk assessment (CRA) to B2(cr) from B1(cr). The Agency affirmed NOVO BANCO's short-term deposit and senior debt ratings at Not-Prime and the short-term CRA at Not-Prime(cr). The outlook on NOVO BANCO's deposit and senior debt ratings is now Developing. The Ba1 rating of NOVO BANCO's senior bonds guaranteed by the Republic of Portugal was unaffected by this decision.

ECONOMIC ENVIRONMENT

The third quarter of 2016 was marked by the favourable behaviour of global economic activity, with advanced economies posting resilient, if moderate growth, and emerging markets showing brighter growth expectations. In the US, GDP grew by 2.5% (annualised) in the third quarter, accelerating from its 1.4% increase in the previous quarter. In the Euro Area, economic activity expanded by 0.3% (1.2% annualised), sustaining the growth rate of the previous three months. A stabilisation in GDP growth was also visible in China in the third quarter of 2016, at 6.7% year-on-year.

At the same time, expectations of low inflation lingered in the main economic areas. The price of oil (Brent) retreated by 1.5% in the quarter, to USD 47.7/barrel (YoY decrease of 1.2%). In this context, the ECB maintained its monetary policy stance unchanged, keeping the interest rate on the deposit facility at -0.4% and the monthly acquisition of assets at EUR 80 billion, while also maintaining an easing bias that translated into the persistence of very contained market interest rates. The 3-month Euribor closed the quarter at -0.3010%, which compares with -0.1310% at the start of the year and -0.244% in the second quarter. The yield on the 10-year *Bund* stabilised in the third quarter at -0.12%, having retreated by 6 bps since the start of the year. The expectation of 'lower for longer' interest rates was also noticeable in the US, which saw a postponement of expectations concerning the removal of stimuli by the Federal Reserve. In this context the USD depreciated in the quarter by 1.4% against the euro, to EUR/USD 1.12. The combination of resilient economic activity growth with expansionary monetary policies benefited the main stock market indices. In the US, the S&P 500 and Nasdaq advanced by 3.3% and 9.7%, respectively. In Europe, the DAX gained 8,6%, while the FTSE 100 advanced by 6.1%, influenced by some retraction of fears about the Brexit. Even so, the pound lost 3.1% against the euro, to EUR/GBP 0.8656.

In Portugal, economic activity is thought to have marginally recovered in the third quarter, with GDP growing slightly above 1% YoY (vs. 0.9% in the second quarter), underpinned by the good performance of net external demand. Although decelerating, domestic demand was shored up by improvements in the labour market, as well as by an increase in disposable income and a rise in the flow of new loans to households. However, the negative trend in new loans to non-financial corporations persisted. After reaching a year-to-date high of 4.1% in February, the yield on the 10-year Portuguese Government Bond retreated to 2.9% at the end of the first quarter, subsequently rising to 3.3% in the third quarter. The spread vs. 10Y Bunds widened 31 bps in the third quarter, to 345 bps, reflecting some uncertainty concerning fiscal consolidation. The PSI-20 followed the European trend, rising by 3.2% in the quarter.

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015 AND AS AT 30 SEPTEMBER

EUR thousand

	31.12.2015	30.09.2016
ASSETS		
Cash and deposits with Central Banks	775 608	677 762
Deposits with banks	340 209	273 611
Financial assets held for trading	775 039	760 947
Other financial assets at fair value through profit or loss	1 526 193	1 283 029
Available-for-sale financial assets	11 810 712	10 567 981
Loans and advances to banks	1 690 628	628 225
Loans and advances to customers	31 583 759	28 515 746
Financial Assets held to maturity	-	-
Assets with Repurchase Agreement	-	-
Derivatives held for risk management purposes	318 596	261 914
Non-current assets held for sale	3 182 479	156 067
Non-current assets held for sale - Discontinued operations	40 327	1 412 938
Investment properties	54 625	1 299 889
Other tangible assets	312 437	216 009
Intangible assets	221 168	198 145
Investments in associated companies	405 486	342 638
Current tax assets	38 848	45 380
Deferred tax assets	2 535 423	2 583 315
Technical reserves of reinsurance ceded	7 696	6 697
Other assets	1 910 126	3 499 489
Debtors for direct and indirect insurance	3 019	1 023
Other assets	1 907 107	3 498 466
TOTAL ASSETS	57 529 359	52 729 782
LIABILITIES		
Deposits from Central Banks	7 632 794	6 710 140
Financial liabilities held for trading	743 860	732 937
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	4 157 132	4 017 136
Due to customers	27 582 142	24 959 414
Debt securities issued	4 224 658	3 417 468
Financial liabilities related to transferred assets	-	-
Derivatives held for risk management purposes	77 846	116 115
Investment contracts	4 043 488	3 546 374
Non-current liabilities held for sale	162 709	120 155
Non-current liabilities held for sale - Discontinued operations	92 893	722 055
Provisions	465 114	379 622
Technical reserves	1 344 216	1 349 040
Current tax liabilities	38 643	34 183
Deferred tax liabilities	12 336	18 016
Equity Instruments	-	-
Subordinated debt	56 260	47 637
Other liabilities	947 625	952 044
Creditors for direct and indirect insurance	17 301	11 179
Other liabilities	930 324	940 865
TOTAL LIABILITIES	51 581 716	47 122 336
EQUITY		
Share Capital	4 900 000	4 900 000
Share premium	-	-
Other equity instruments	-	-
Treasury stock	-	-
Revaluation Reserves	(249 748)	(224 550)
Other Reserves and Retained Earnings	2 221 368	1 239 673
Profit / (loss) for the period	(980 558)	(358 995)
Interim Dividends	-	-
Non-controlling Interests	56 581	51 318
TOTAL EQUITY	5 947 643	5 607 446
TOTAL LIABILITIES AND EQUITY	57 529 359	52 729 782

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 SEPTEMBER 2016 AND AS AT 30 SEPTEMBER 2015

	EUR thousand	
	30.09.2015	30.09.2016
Interest and similar income	1 133 728	911 409
Interest expense and similar charges	831 050	520 350
Net Interest Income	302 678	391 059
Dividend income	10 234	35 066
Fee and Commission income	365 471	280 849
Fee and Commission expense	99 835	85 153
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(122 736)	(66 618)
Net gains / (losses) from available-for-sale financial assets	224 021	108 551
Net gains / (losses) from foreign exchange revaluation	21 287	(11 235)
Net gains/ (losses) from the sale of other assets	9 508	(16 457)
Insurance earned premiums, net of reinsurance	27 693	33 181
Claims incurred, net of reinsurance	194 319	132 590
Change in technical reserves, net of reinsurance	149 045	89 298
Other operating income and expenses	(110 263)	(6 161)
Operating Income	582 784	619 790
Staff costs	302 451	230 236
General and administrative expenses	225 602	176 832
Depreciation and amortisation	66 598	42 863
Operating Costs	594 651	449 931
Provisions, net of reversals	(70 718)	52 684
Impairment losses on loans, net of reversals and recoveries	374 262	475 846
Impairment losses on other financial assets, net of reversals and recoveries	140 846	113 683
Impairment losses on other assets, net of reversals and recoveries	19 924	120 392
Provisions and Impairments	464 314	762 605
Sale of subsidiaries and associates	33	3 648
Negative consolidation differences	-	-
Results from associated companies consolidated by the equity method	8 868	6 386
Profit / (loss) before income tax	(467 280)	(582 712)
Income tax		
Current tax	49 586	11 497
Deferred tax	(99 806)	(223 972)
	(50 220)	(212 475)
Income from continuing activities	(417 060)	(370 237)
Income from discontinued operations	5 750	884
Net Income for the period	(411 310)	(369 353)
Attributable to shareholders of the Bank	(418 743)	(358 995)
Attributable to Non-controlling interests	7 433	(10 358)
	(411 310)	(369 353)