

NOVO BANCO^ℓ

9M2016 Results Presentation

November 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

- For the first time, **NOVO BANCO** reported a marginally positive quarterly result, in the amount of EUR 3.7mn.
- Clear improvement over the previous quarters (EUR -249.4mn in 1Q2016 and EUR -113.3mn in 2Q2016). The 3Q2016 net income is still negatively impacted by the high provisioning level, but positively influenced by the tax function.
- This mitigated the accumulated net income for the 9M2016, which were still a loss of EUR 359.0mn (+14.3% YoY).
- Banking income was up by 7.5%, to EUR 667.7mn, underpinned by a 29.2% rise in Net Interest Income.
- Operating costs reduced by 24.3% YoY, to EUR 449.9mn.
- Net Operating Income was positive, at EUR 217.7mn, a significant growth compared with EUR 26.4 min in 9M2015.
- Provision charges totalled EUR 762.6mn, (+EUR 298.3mn YoY) which reflects the continuing effort towards the consolidation of **NOVO BANCO**. Impairments include EUR 425.8mn for credit, EUR 113.7mn for securities and EUR 110.6mn for restructuring costs.

Income Statement (EUR mn)

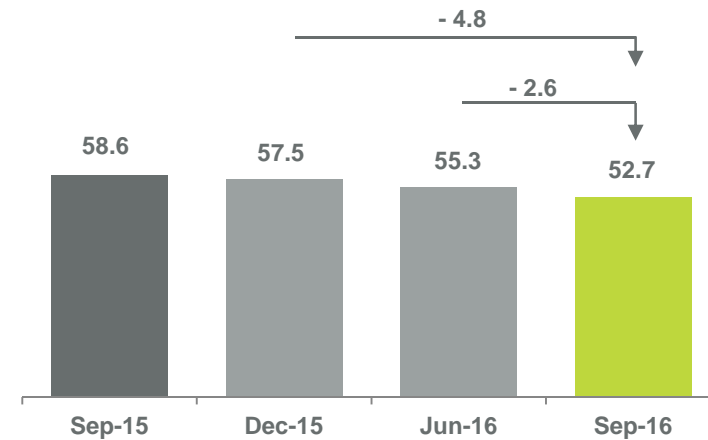
	9M15	9M16	Change %
Net Interest Income	302.7	391.1	29.2%
+ Fees and Commissions	278.5	206.4	(25.9%)
= Commercial Banking Income	581.2	597.4	2.8%
+ Capital Markets	63.2	48.0	(24.1%)
+ Other Results	(23.4)	22.3	-
= Banking Income	621.0	667.7	7.5%
- Operating Costs	594.7	449.9	(24.3%)
= Net Operating Income	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%)
- Corporate Income Tax	(50.2)	(212.5)	-
- Special Tax on Banks	23.6	37.0	56.8%
= Income After Taxes	(411.3)	(369.4)	2.8%
- Non-controlling interest	7.4	(10.4)	-
= Net Income	(418.7)	(359.0)	14.3%

Highlights

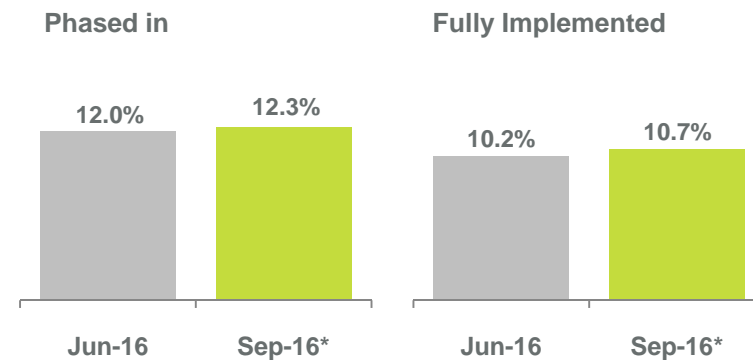
Activity and Capital

- Total assets of EUR 52.7bn, a reduction of EUR 4.8bn relative to Dec-15 (-8.3%).
- In line with the ongoing balance sheet deleveraging process, particularly targeted at the international portfolio, net customer loans contracted by EUR 3.1bn in the 9M2016.
- Customer funds resumed a levelling trend in the quarter. Total deposits decreased by EUR 2.7bn since Dec-15, to EUR 24.7bn. Retail deposits with a very positive performance (+EUR 800mn in the 9M2016), a clear sign of the consolidation of clients' confidence in **NOVO BANCO**.
- Loan to deposit ratio at 115% and net funding from the ESCB reduced by EUR 0.8bn to EUR 6.2bn. The LCR of 105% largely surpasses the current regulatory requirements (up from 77% as at Dec-15).
- **Estimated CET1 for Sep-16 of 12.3%, an improvement of 30bps relative to Jun-16** (estimated CET1 under the full implementation regime of 10.7%).
- Annualised cost of risk down by 32bps relative to Dec-15, from 198bps to 166bps in Sep-16. Credit at risk represents 24.8% of the loan book with a coverage ratio of 66.4%.

Assets (EUR bn)



Capital Ratios



* Estimated figures for Sep-16

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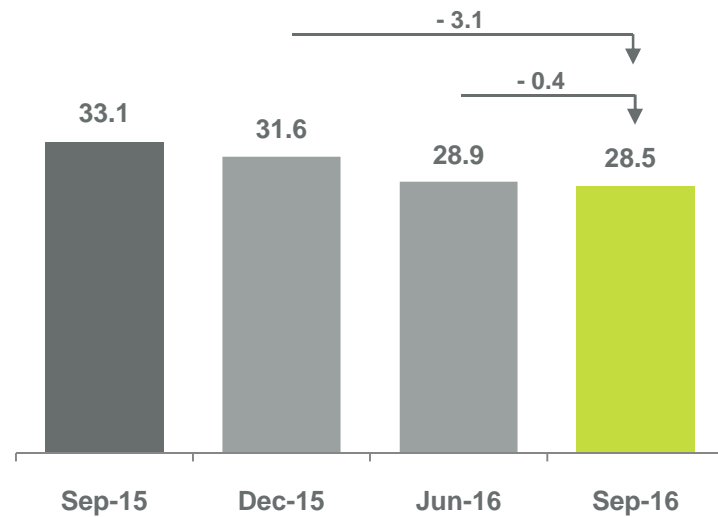
6. **Side Bank**

7. **Summary**

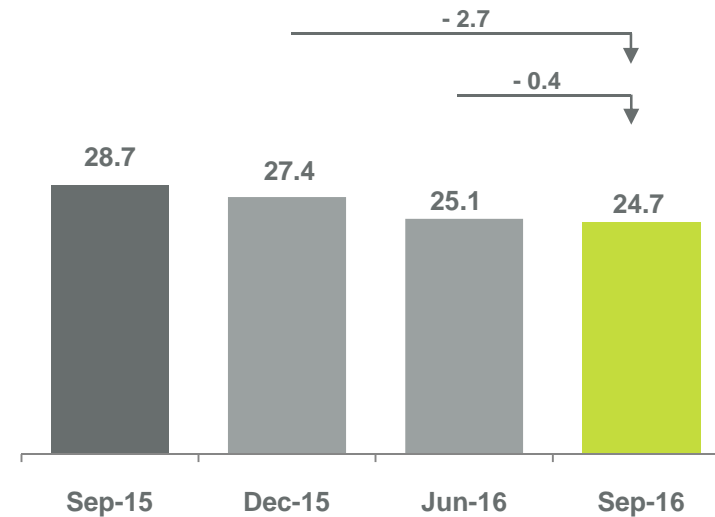
Appendix: Balance Sheet and Income Statement

Deleverage of customer loans without ceasing to support the domestic business community. Retail deposits +EUR 800mn in the first 9 months of 2016

Net Loans (EUR bn)



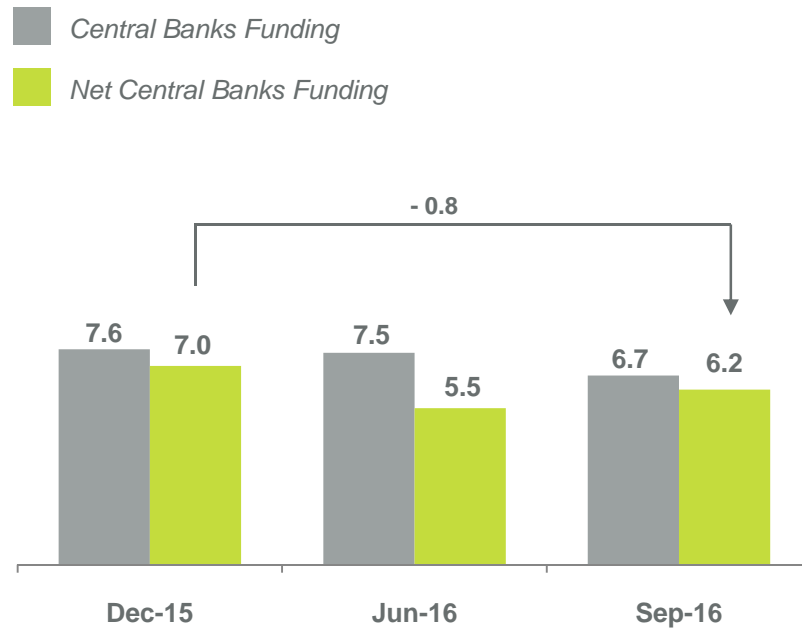
Deposits (EUR bn)



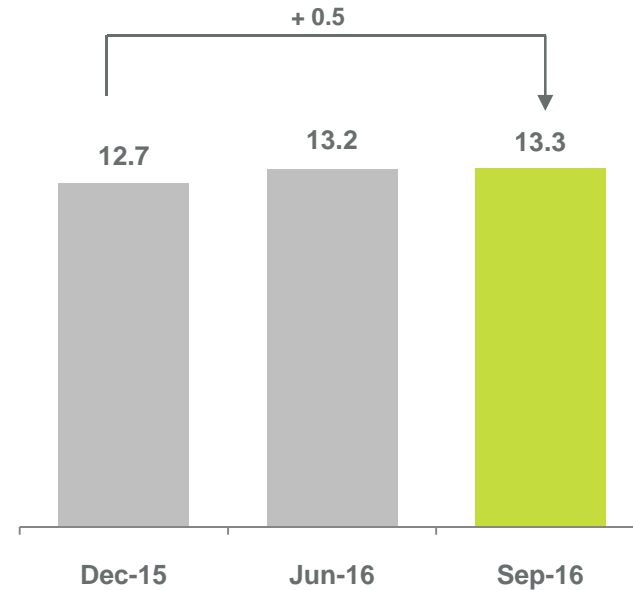
- In line with the ongoing balance sheet deleveraging process, particularly targeted at the international portfolio, customer loans contracted by EUR 3.1bn in the first nine months of the year. Average monthly production of residential mortgage loans +86% and of other loans to individuals +64% comparing with monthly average production of 2015.
- Total deposits of EUR 24.7bn, a decrease of EUR 2.7bn since Dec-15 (more noticeable reduction in large depositors and -EUR 0.4bn related to transfer of BESV and NB Asia to assets being discontinued). Retail banking deposits had a very positive performance, growing in the year by more than EUR 800mn net, which sends a clear sign of the consolidation of clients' confidence in **NOVO BANCO**.

Net ESCB Funding of EUR 6.2bn in Sep-16, decreasing by EUR 0.8bn since Dec-15

ESCB Funding (EUR bn)



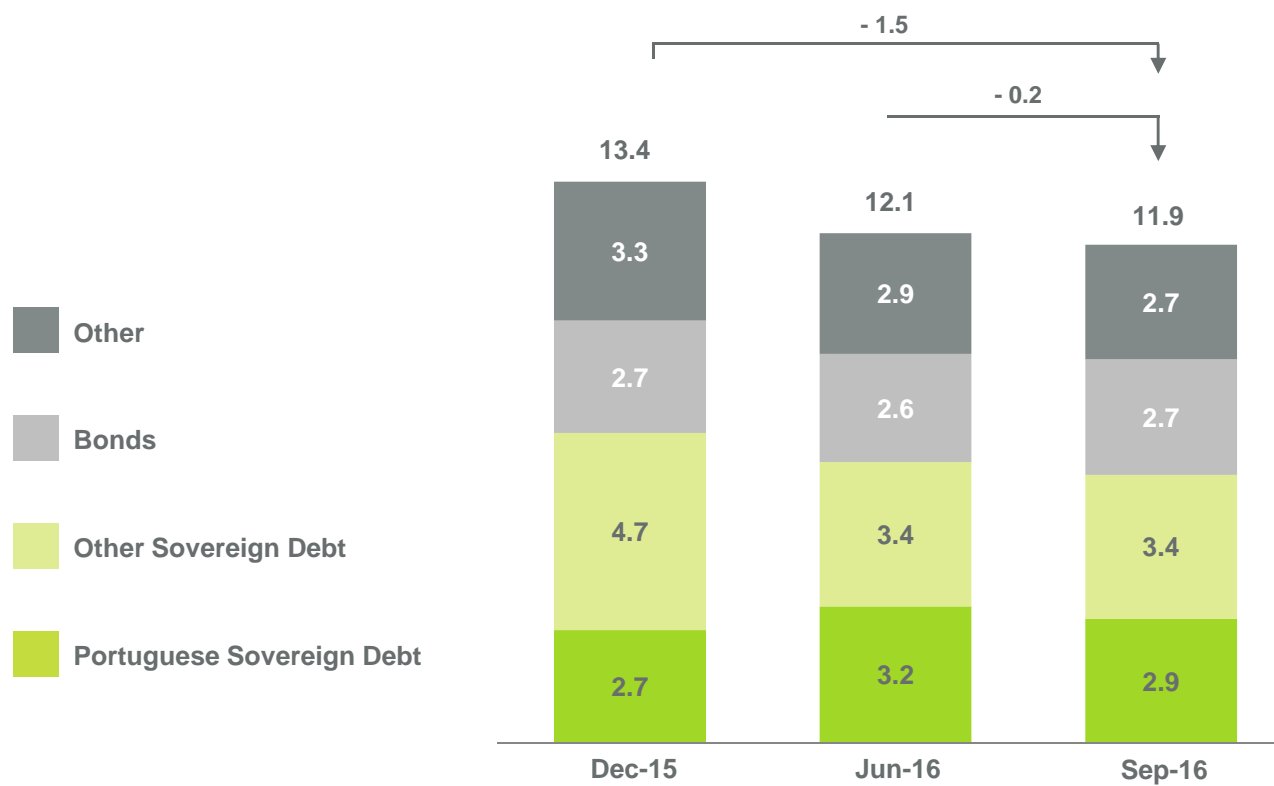
Eligible Assets (ECB and Other) (EUR bn)



- The net ESCB funding totalled EUR 6.2bn as at Sep-16, decreasing by EUR 0.8bn since Dec-15. The bulk of this funding was obtained through the new medium-term funding line (TLTRO II), which allows having a stable funding source at a lower cost.
- The portfolio of securities eligible for rediscount with the ECB remained stable (EUR 13.3bn in Sep-16).

Securities portfolio reflecting a conservative approach

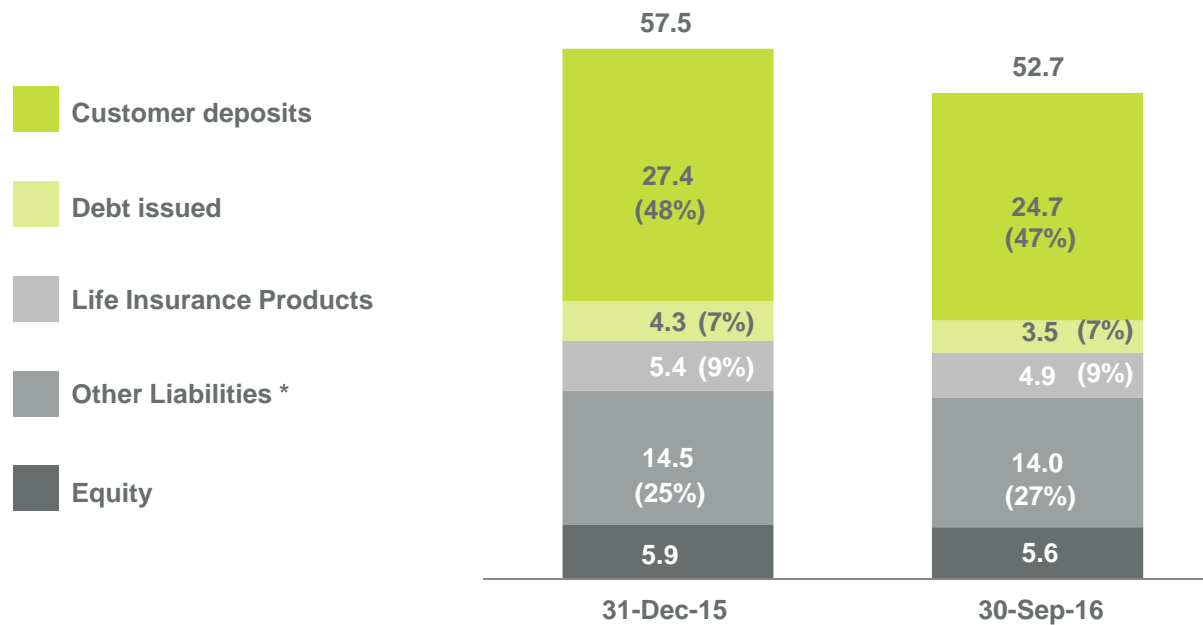
Evolution of Securities Portfolio (EUR bn)



- The securities portfolio reflects a conservative approach, based on securities with lower risk and higher liquidity.
- As at 30 September 2016 the securities portfolio has an associated positive fair value reserve of EUR 138.4mn (an increase of EUR 34mn from Dec-15).

Customer deposits continue to be the main funding source (47% of total assets)

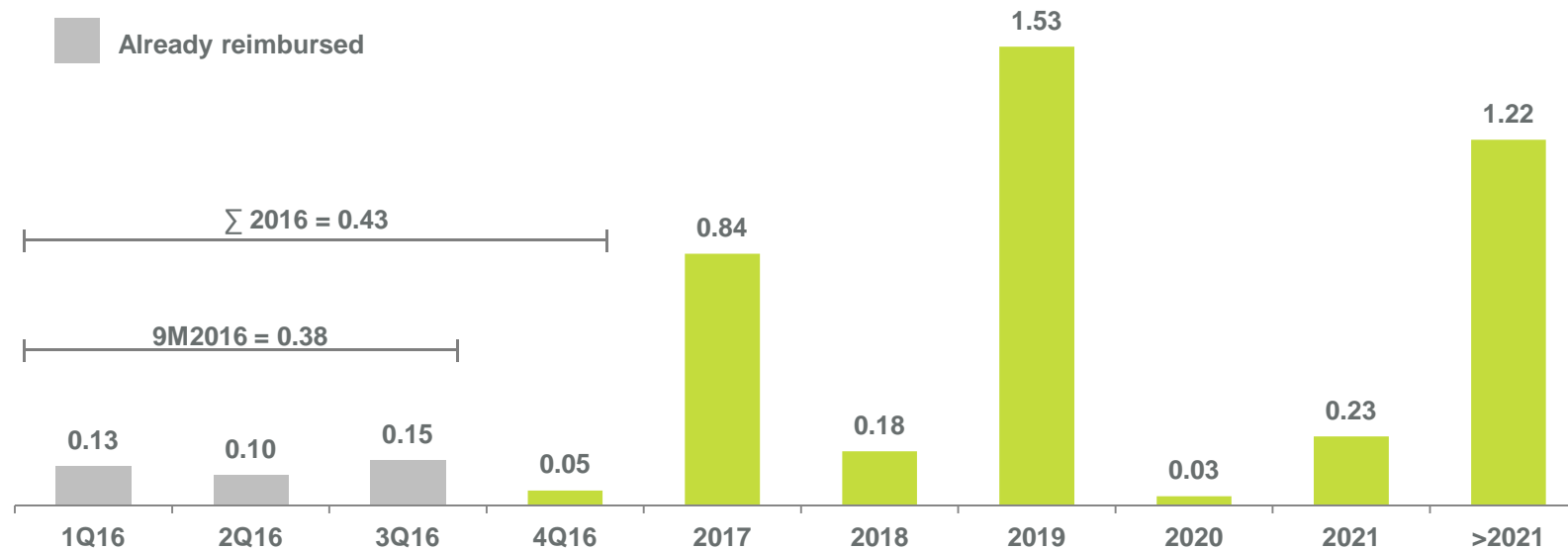
Evolution of the funding structure (EUR bn, as a % of Total Assets)



- Comparing with Dec-15, customer deposits continued to be the main funding source (47% of total assets).
- Debt securities decrease the nominal amount in the total funding due to repayments in the first 9 months (EUR 380mn) and the repurchase of own senior debt in the nominal value EUR 340mn.

Until the end of 2016 wholesale MLT debt reimbursements amount to only EUR 50mn (EUR 380mn repaid in the first 9 months)

Wholesale MLT Funding (EUR bn)



- During the first 9 months of 2016 the Group repaid EUR 380mn MLT debt placed with institutional clients, of which EUR 150mn in the 3Q2016. The reimbursements programmed until the end of 2016 amount to ca. EUR 50mn.
- Aiming to improve its liabilities' structure and cost, in late June, **NOVO BANCO** launched a tender offer on 8 senior debt bond issues maturing in 2019 and 2022. 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.

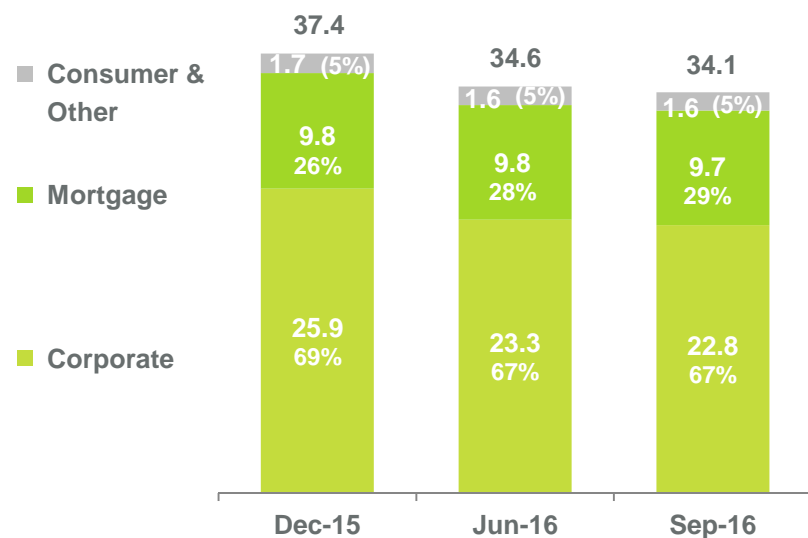
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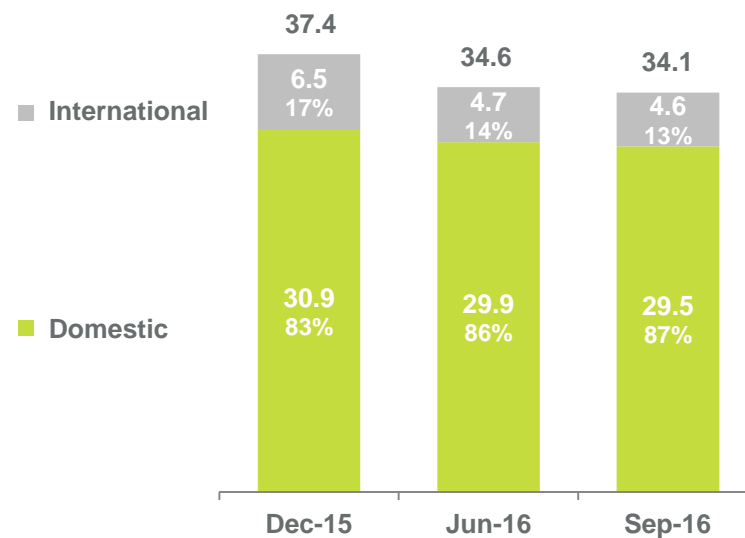
Appendix: Balance Sheet and Income Statement

Evolution of the customer loans portfolio in 9M2016 in line with the deleverage of the Balance Sheet

Gross Loans per Segment (EUR bn)



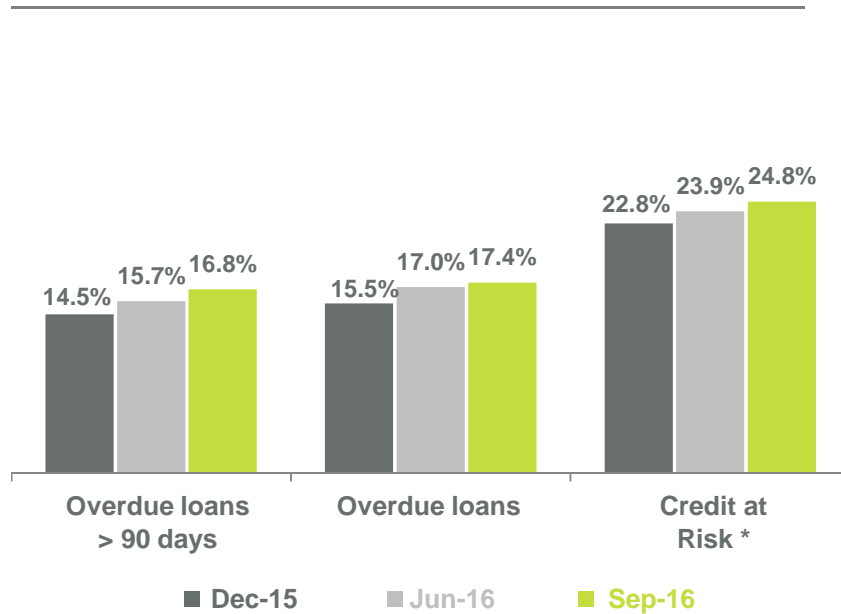
Gross Loans per Geography (EUR bn)



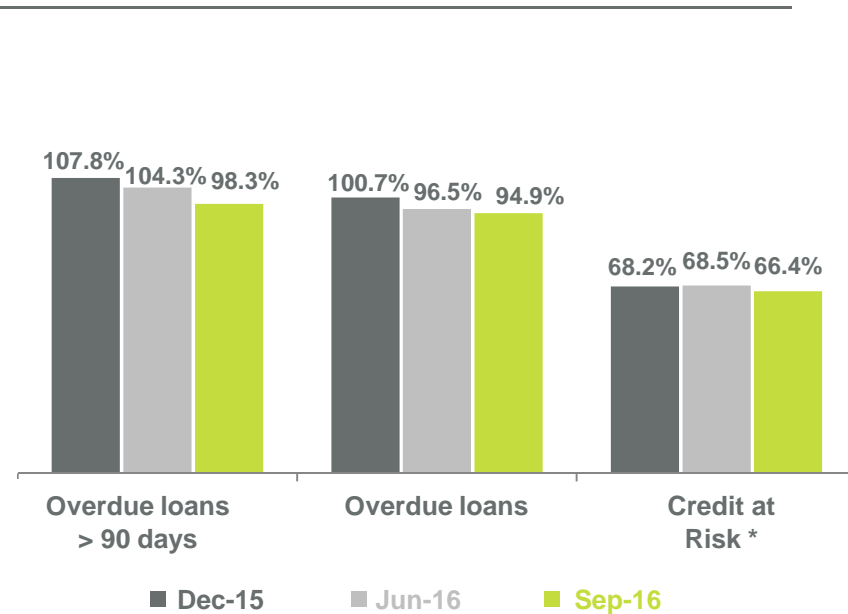
- Gross customer loans contracted by EUR 3.3bn in the first nine months of 2016, of which EUR 1.4bn in the domestic activity and EUR 1.9bn in the international activity (where the reduction mainly reflects the transfer of BES Vénétie and NB Asia to discontinued assets).
- Residential mortgage loans and other loans to individuals have been registering rising production levels (average monthly production of +86% and +64% 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 showed no significant changes relative to Dec-15 and Jun-16 (Credit at Risk decreased EUR 67mn from Dec-15 to Sep-16).
- Credit risk indicators have risen on the one hand driven by the increase in overdue loans, and on the other by the contraction of the customer loans book.
- Balance Sheet provisions of **NOVO BANCO** in Sep-16 amounted to EUR 5.6bn, representing 16.5% of Gross Loans and covered 98.3% of Overdue Loans > 90 days.

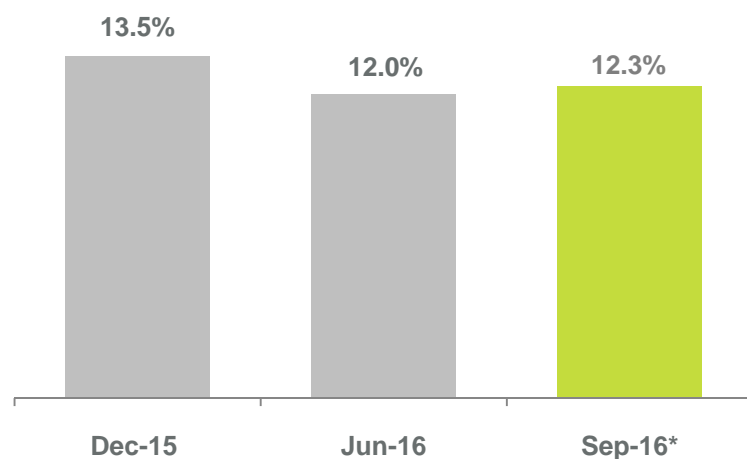
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Estimated CET1 phased-in ratio of 12.3%, an improvement of 30 bps relative to Jun-16

CET1 phased-in ratio evolution



Capital Ratios (phased-in)

BIS III (CRD IV / CRR)

EUR mn	Dec-15	Jun-16	Sep-16*
Risk Weighted Assets (A)	38,168	36,149	35,490
Own Funds			
CET 1 (B)	5,142	4,332	4,382
Tier 1 (C)	5,142	4,332	4,382
Total (D)	5,142	4,343	4,382
Common Equity Tier 1 – Phased-in (B/A)	13.5%	12.0%	12.3%
Tier 1 (C/A)	13.5%	12.0%	12.3%
Solvency Ratio (D/A)	13.5%	12.0%	12.3%
Common Equity Tier 1 – fully implemented	11.3%	10.2%	10.7%

- The estimated regulatory capital ratio Common Equity Tier 1 (CET1) for Sep-16 was 12.3%, an improvement of 30 bps relative to Jun-16.
- Estimated CET1 fully implemented ratio of 10.7% in Sep-16 (10.2% in Jun-16 and 11.3% in Dec-15).

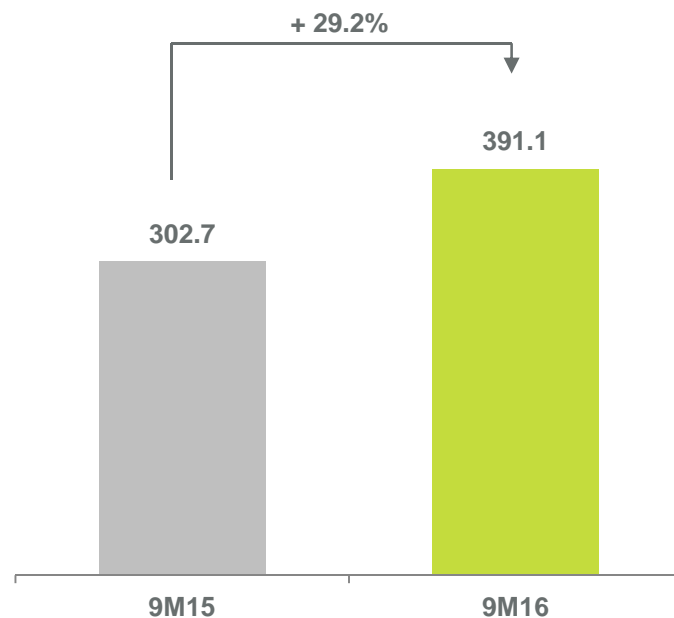
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Net Interest Income grew by 29.2% YoY in 9M2016

Net Interest Income (EUR mn)



Net Interest Margin

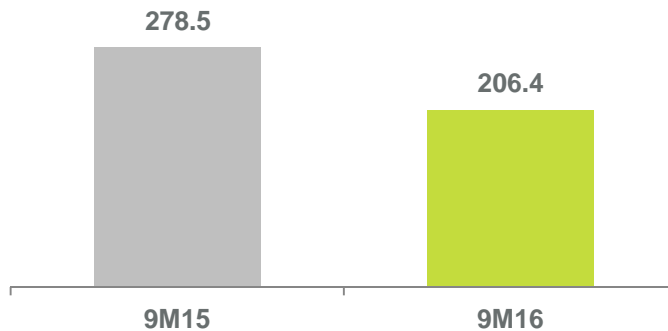
0.82%

1.10%

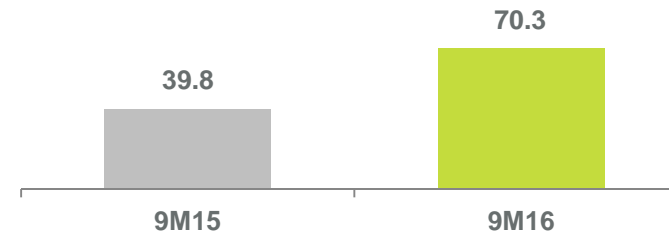
- **Net Interest Income grew by 29.2% YoY in 9M2016:**
 - Positive impact of a higher reduction in the cost of liabilities (-72 bps to 1.41%, from 2.13% in Sep-15) than in the interest rate on assets (- 43 bps); and
 - Lower level of accounting annulment of accrued overdue interest, showing a stabilization trend in asset quality.
- **Net Interest Margin was 1.10% (Sep-15: 0.82%),** underpinned by an average interest rate on financial assets of 2.52% and an average interest rate on liabilities of 1.41% (decrease in the cost of deposits from 1.37% in Sep-15 to 0.94% in Sep-16).

Capital Markets results of EUR 48mn. Fees and commissions reflecting the Portuguese economy and NB's business profile

Fees and Commissions (EUR mn)



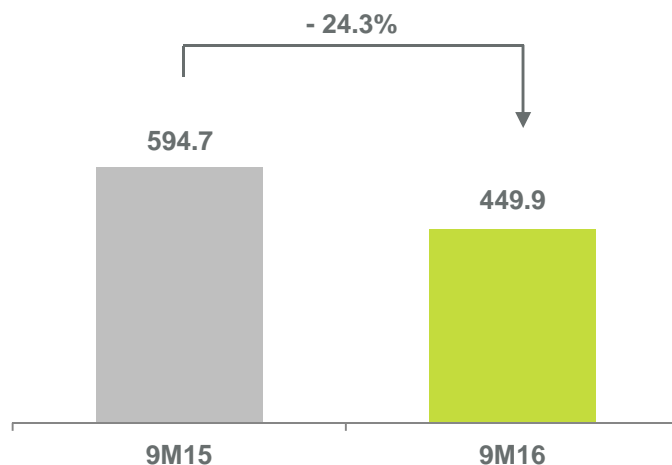
Capital Markets and Other Results (EUR mn)



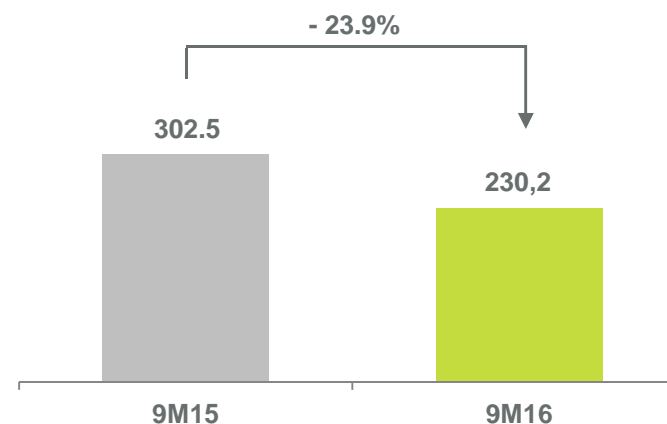
- The reduction in fees and commissions reflects the difficulties saddling the recovery of the Portuguese economy, (deleveraging of the private sector), and also **NOVO BANCO**'s need to reduce the volume of its activity in certain sectors and regions. It includes also the commissions paid by **NOVO BANCO** in the scope of debt issues guaranteed by the Portuguese Government (EUR 25.8mn).
- Capital market results of EUR 48.0mn were underpinned by positive performance across the various capital market areas. The other results of EUR 22.3mn were negatively adversely affected by a total contribution of EUR 31.8mn to the Resolution Funds (EUR 5.0mn in Sep-15) and on the positive side by the changes recognised in the quarter arising from the renegotiation of the ACT (+EUR 28.2mn).

Operating Costs decreased by 24.3% in 9M2016

Operating Costs (EUR mn)



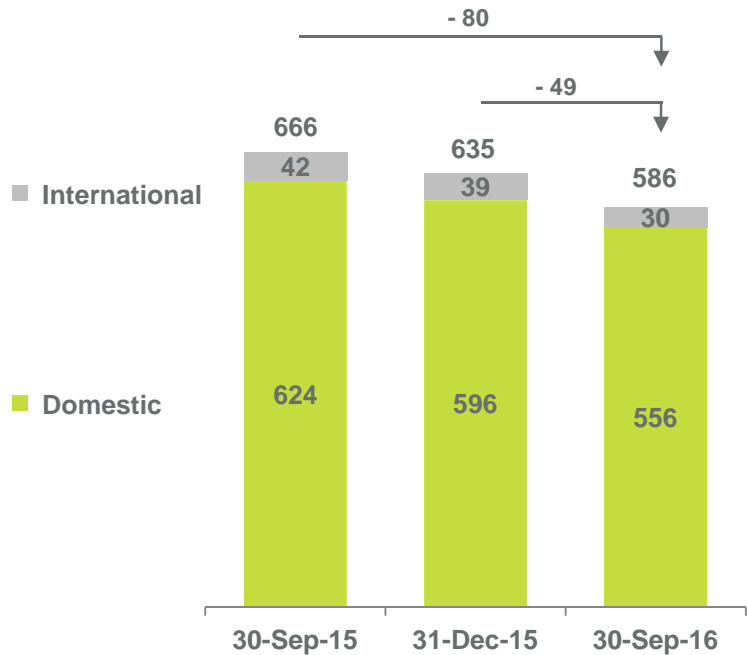
Staff Costs (EUR mn)



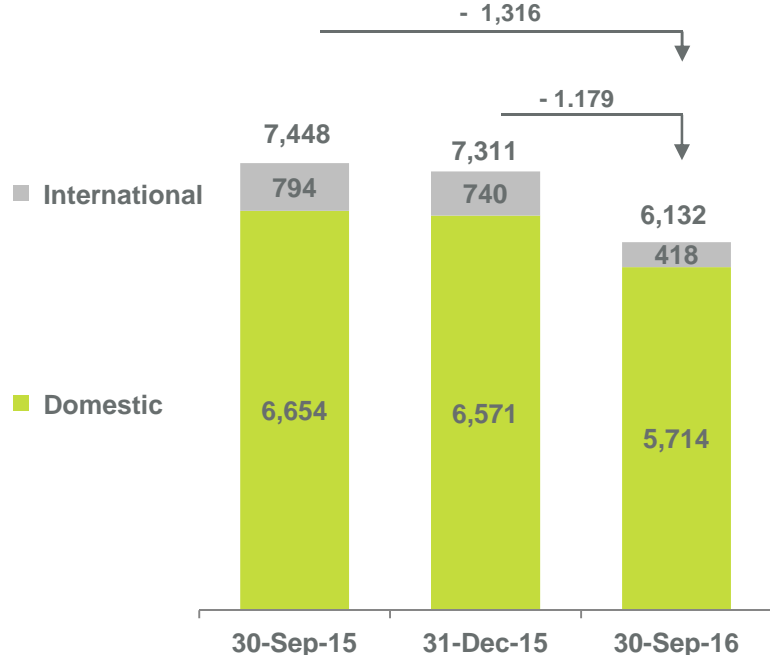
- The Board of Directors of **NOVO BANCO** has prepared a Restructuring Plan that was submitted to the European Commission at the end of 2015. This Plan comprises a set of measures, including the reduction in 2016 of EUR 150mn in recurring operating costs (excluding the restructuring costs), a staff cut of 1,000 employees and the downsizing of the branch network to 550 branches. **At the end of Sep-16 the workforce reduction target has been accomplished, the cost reduction has already been secured (EUR -145mn) and the number of branches at year-end will be 540.**
- **Operating costs show a YoY reduction of 24.3%**, reflecting the ongoing implementation of the restructuring measures involving the downsizing of the distribution network and the simplification and downsizing of the organisational structure and processes, with the consequent reduction of the headcount.

Downsizing of the branch network and headcount reduction

Branch Network



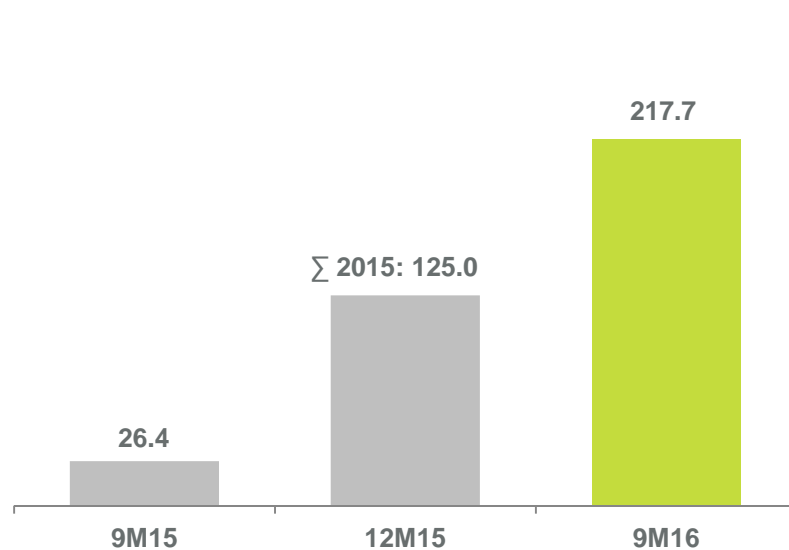
Employees



- Downsizing of the distribution network in line with the new business environment reality.
- Headcount reduction of 1,316 employees since Sep-15, of which 214 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 Sep-16 of 1,062 employees (this does not include employees from discontinued activities).

Net Operating Income of EUR 217.7mn, higher than the 2015 full year

Net Operating Income (EUR mn)



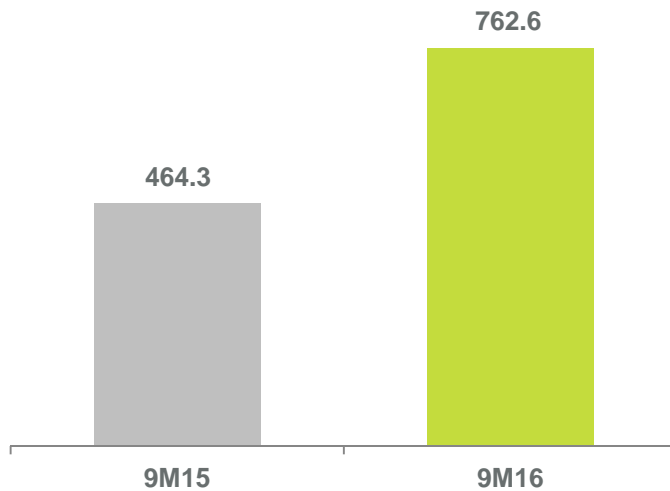
- Positive net operating income of EUR 217.7mn was higher than the 2015 full year net operating income (EUR 125.0mn), which reflects **NOVO BANCO** Group's growing income-generating capacity:

- Changes vs Sep-15 due to:

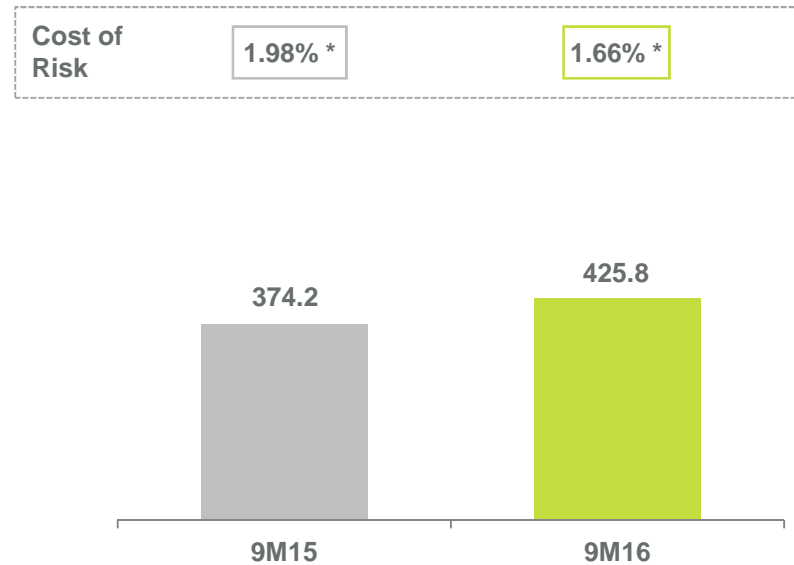
- Banking Income was up by +7.5%, to EUR 667.7mn, underpinned by net interest income.
- Decrease of 24.3% in Operating Costs.

Provisions include a provision for the costs of the restructuring process of EUR 110.6mn

Total Provisions (EUR mn)



Credit Provisions (EUR mn)



- Provisions totalled EUR 762.6mn including a EUR 110.6mn provision for the costs of the ongoing restructuring process.
- Credit Provisions enabled the reinforcement of the level of coverage of credit by provisions, which increased from 15.6% in 2015 (14.1% in Sep-15) to 16.5% in Sep-16.
- Annualised cost of risk decreased to 166 bps, down by 32 bps relative to Dec-15.

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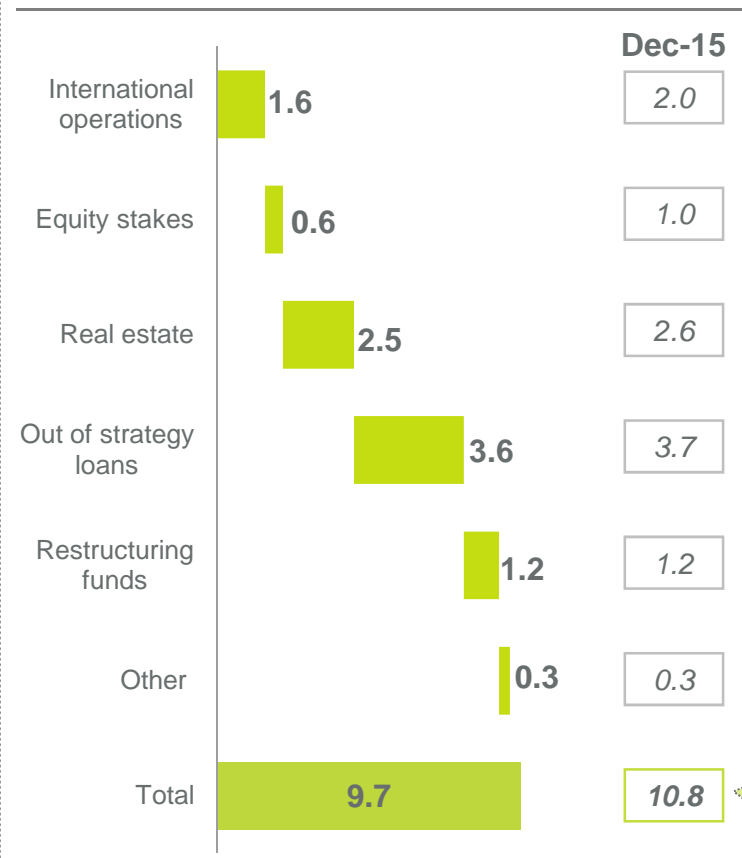
Appendix: Balance Sheet and Income Statement

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

Sep-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

- **NOVO BANCO is committed to a gradual and orderly divestment, aiming organizational simplification and preservation of Group capital**
- **Decrease of EUR 1.1bn 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 52.7bn** (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 28.5bn in Sep-16.
- Deposits of EUR 24.7bn in Sep-16.
- Loan to Deposit ratio of 115% in Sep-16.
- Estimated ratios in Sep-16: CET1 phased-in of 12.3% and CET 1 fully implemented of 10.7%.

Awards in Several Areas

Best financial app
Apple Store
 and *Google Play*

App	Apple Store	Google Play
NOVO BANCO	4.1	4.4
Bank B	2,9	4.2
Bank C	3.6	4.2
Bank D	3.5	4.2
Bank E	3.4	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 Sep. 16
Cash and deposits with central banks	776	678
Deposits with banks	340	274
Financial assets held for trading	775	761
Financial assets at fair value through profit and loss	1,526	1,283
Available for sale financial assets	11,811	10,568
Loans and advances to banks	1,691	628
Loans and advances to customers	31,584	28,516
Derivatives held for risk management purposes	319	262
Non current assets held for sale	3,182	156
Non current assets held for sale: - discontinued operations	40	1,413
Investment properties	55	1,300
Other tangible assets	312	216
Intangible assets	221	198
Investments in associated companies	405	343
Current tax assets	39	45
Deferred tax assets	2,535	2,583
Technical reserves of reinsurance ceded	8	7
Other assets	1,910	3,499
Total Assets	57,529	52,730

(EUR mn)	31 Dec.15	30 Sep.16
Deposits from central banks	7,633	6,710
Financial liabilities held for trading	744	733
Deposits from banks	4,157	4,017
Due to customers	27,582	24,959
Debt securities issued	4,225	3,417
Derivatives held for risk management purposes	78	116
Investment Contracts	4,043	3,546
Non-current liabilities held for sale	163	120
Non-current liabilities held for sale: - discontinued operations	93	722
Provisions	465	380
Technical reserves	1,344	1,349
Current tax liabilities	39	34
Deferred tax liabilities	12	18
Other Subordinated debt	56	48
Other liabilities	948	952
Total Liabilities	51,582	47,122
Share capital	4,900	4,900
Revaluation reserves, other reserves and retained earnings	1,971	1,015
Net income for the period	(981)	(359)
Non-controlling interest	57	51
Total Equity	5,948	5,607
Total Liabilities + Equity	57,529	52,730

Consolidated Income Statement

<i>(EUR mn)</i>	9M15	9M16
Net Interest Income	302.7	391.1
Dividend income	10.2	35.1
Fee and Commission income	365.5	280.8
Fee and Commission expense	(99.8)	(85.2)
Net gains/ (losses) from financial assets at fair value through profit or loss	(122.7)	(66.6)
Net gains/ (losses) from available-for-sale financial assets	224.0	108.6
Net gains/ (losses) from foreign exchange revaluation	21.3	(11.2)
Net gains/ (losses) from sale of other assets	9.5	(16.5)
Insurance earned premiums. net of reinsurance	27.7	33.2
Claims incurred. net of reinsurance	(194.3)	(132.6)
Change on the technical provision. net of reinsurance	149.0	89.3
Other operating income and expense	(110.3)	(6.2)
Operating Income	582.8	619.8
Staff costs	(302.5)	(230.2)
General and administrative expenses	(225.6)	(176.8)
Depreciation and amortisation	(66.6)	(42.9)
Provisions and impairments	(464.3)	(762.6)
Results from associated companies consolidated by equity method	8.9	10.0
Profit / (Loss) before income tax	(467.3)	(582.7)
Income tax		
Current tax	49.6	11.5
Deferred tax	(99.8)	(224.0)
Profit / (Loss) from continuing activities	(417.1)	(370.2)
Income from discontinued activities	5.8	0.9
Net Consolidated Profit / (Loss) for the period	(411.3)	(369.4)
Non-controlling interests	7.4	(10.4)
Net Consolidated Profit / (Loss) attributable to the shareholders	(418.7)	(359.0)

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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