

Lisbon, 22 May 2017

NOVO BANCO GROUP ACTIVITY AND RESULTS**1st quarter 2017**

(Unaudited financial information)

NOVO BANCO Group's 1st quarter 2017 results reflect the operational consolidation effort pursued since 2016, with a €130.9 million loss comparing favourably with the €249.4 million loss reported in March 2016.

Commercial banking income net of operating costs reached €59.6 million, having grown by 7.0% comparing with the 1st quarter of 2016.

Banking income totalled €180.8 million, reflecting a 22.8% YoY decrease, although underpinned by the positive contribution of fees and commissions, which were up by 8.2%.

Operating costs were reduced by €20.0 million (-12.9% YoY), to €135.2 million, confirming the downward trend observed since the creation of NOVO BANCO.

The provision charge in the period, €137.4 million, was €210.8 million lower than in the 1st quarter of 2016 (-60.5%), when it included €109.6 million for restructuring costs. Credit impairments amounted to €119.3 million, which compares with €185.5 million a year earlier (-35.7%).

Customer loans were down by €0.3 billion in the 1st quarter of 2017, which is in line with the deleveraging process still under way.

Customer deposits increased to €25.2 billion, from €25.1 billion in the 1st quarter of 2016.

The estimated regulatory capital ratio Common Equity Tier 1 (CET1) for 31 March 2017 was 10.8%, which compares with 12.0% in December 2016.

FINANCIAL HIGHLIGHTS
31-Mar-16 31-Dec-16 31-Mar-17

ACTIVITY (€ million)			
Net Assets	55 952	52 333	51 124
Gross Loans	35 207	33 750	33 483
Customer Deposits	25 145	25 585	25 169
Total Equity	5 740	5 148	5 049
SOLVENCY ⁽¹⁾⁽²⁾			
Common Equity Tier I / RWAs	12.3%	12.0%	10.8%
Tier I / RWAs	12.3%	12.0%	10.8%
Total Own Funds / RWAs	12.3%	12.0%	11.0%
LIQUIDITY (€ million)			
ECB Funds (net) ⁽³⁾	7 955	5 123	6 019
Eligible Assets for repo operations (ECB and other)	13 744	13 139	13 192
(Total Credit - Credit Provisions) / Customer Deposits ⁽²⁾	115%	110%	110%
Liquidity Coverage Ratio (LCR)	84%	107%	98%
Net Stable Funding Ratio (NSFR) ⁽¹⁾	88%	99%	99%
ASSET QUALITY			
Overdue Loans > 90 days/Gross Loans	15.1%	17.0%	17.0%
Overdue and Doubtful Loans / Total Loans ⁽²⁾	16.6%	18.7%	18.7%
Overdue and Doubtful, net of impairments / Total Net Loans ⁽²⁾	-0.1%	2.6%	2.4%
Credit at Risk/Total Loans ⁽²⁾	23.0%	25.6%	25.5%
Credit at Risk (net) / Total Net Loans ⁽²⁾	7.7%	10.9%	10.5%
Restructured Credit ⁽²⁾ / Gross Loans	19.2%	23.7%	24.3%
Restructured Credit not included in Credit at Risk ⁽²⁾ / Gross Loans	11.6%	11.9%	12.3%
Credit Provisions/Overdue Loans > 90 days	110.8%	97.2%	98.5%
Credit Provisions/Gross Loans	16.7%	16.5%	16.7%
Cost of Risk	2.11%	1.99%	1.43%
PROFITABILITY			
Net Income (€ million)	-249.4	-788.3	-130.9
Income before Taxes and Non-controlling Interests / Average Net Assets ⁽²⁾	-1.9%	-1.9%	-1.0%
Banking Income / Average Net Assets ⁽²⁾	1.7%	1.8%	1.4%
Income before Taxes and Non-controlling Interests / Average Net Assets ⁽²⁾	-17.4%	-17.0%	-9.5%
EFFICIENCY			
General Admin. Costs + Depreciation / Banking Income ⁽²⁾	66.3%	60.4%	74.8%
Staff Costs / Banking Income ⁽²⁾	34.8%	31.0%	39.7%
EMPLOYEES			
Total	6 875	6 096	6 037
- Domestic	6 308	5 687	5 646
- International	567	409	391
BRANCH NETWORK			
Total	625	537	536
- Domestic	586	507	507
- International	39	30	29

(1) Estimated data for 31 March 2017

(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

RESULTS

The 1st quarter 2017 results confirm the trend towards the resumption of normal operating conditions at NOVO BANCO Group as well as its position as one of the more entrenched banks in the Portuguese business community, maintaining adequate liquidity and solvency levels, promoting the sustained improvement of profitability and efficiency levels, simplifying processes and streamlining the organisational and functional structure.

NOVO BANCO Group reported a net loss of €130.9 million in the 1st quarter of 2017, which is an improvement compared to both the first and the last quarters of 2016 (net losses of €249.4 million and €429.3 million, respectively).

€ million			
INCOME STATEMENT	1Q2016	1Q2017	% Change
Net Interest Income	140.8	119.0	-15.5%
+ Fees and Commissions	70.1	75.8	8.2%
= Commercial Banking Income	210.9	194.8	-7.6%
+ Capital Markets	27.3	- 6.3
+ Other Results	- 4.1	- 7.8	90.1%
= Banking Income	234.1	180.8	-22.8%
- Operating Costs	155.2	135.2	-12.9%
= Net Operating Income	78.9	45.6	-42.3%
- Net Provisions	348.2	137.4	-60.5%
Credit	185.5	119.3	-35.7%
Securities	24.8	6.6	-73.4%
Other Assets and Contingencies	137.9	11.5	-91.7%
= Income before Taxes	- 269.3	- 91.8	-65.9%
- Income Tax	- 49.9	6.2
- Special Tax on Banks	36.9	33.2	-10.2%
= Income after Taxes	- 256.3	- 131.2	48.8%
- Non-controlling Interests	- 7.0	- 0.3	96.3%
= Net Income	- 249.4	- 130.9	47.5%

Main highlights of the activity developed in the 1st quarter 2017:

- commercial banking income amounted to €194.8 million, down by 7.6% YoY but in line with the remaining quarters of 2016;
- operating costs decreased by 12.9% YoY, to €135.2 million, reflecting the staff cuts and the improvements achieved in terms of simplifying processes and streamlining the structures.

- commercial banking income net of operating costs reached €59.6 million, having grown by 7.0% over the 1st quarter of 2016.
- positive net operating income (before provisions and taxes) of €45.6 million underlines NOVO BANCO Group's income-generating capacity;
- the period's total provision charge of €137.4 million includes €119.3 million for credit, €6.6 million for securities and €11.5 million for other assets and contingencies.

Net Interest Income

The performance of net interest income was impacted by the fact that benchmark interest rates remained on negative ground, and by the need to stabilise funding through customer funds.

Under these constraints, net interest income dropped by 15.5% YoY, to €119.0 million. This evolution of net interest income was influenced by the positive impact of the reduction in the cost of liabilities (-24 bps, from 1.52% in Mar.16 to 1.28% in Mar.17), but still lower than the reduction in the interest rate on assets (-37 bps).

The net interest margin was 1.06%, underpinned by an average interest rate on financial assets of 2.35% and an average rate on financial liabilities of 1.28%. The decrease in the cost of deposits, from 1.00% in March 2016 to 0.83% at the end of the 1st quarter of 2017, contributed to the reduction on the rate of liabilities.

NET INTEREST INCOME AND NET INTEREST MARGIN	1Q2016			2016			1Q2017		
	Average Balance	Avg Rate	NII	Average Balance	Avg Rate	NII	Average Balance	Avg Rate	NII
INTEREST EARNING ASSETS	47 318	2.72%	320	46 823	2.48%	1 166	45 342	2.35%	262
Customer Loans	36 010	2.84%	255	34 695	2.68%	932	33 530	2.54%	210
Money Market Placements	2 683	2.30%	15	2 480	2.31%	57	2 390	1.58%	9
Securities and Other Assets	8 625	2.32%	50	9 647	1.84%	177	9 423	1.83%	43
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-	-	-	-
INTEREST EARNING ASSETS & OTHER	47 318	2.72%	320	46 823	2.49%	1 166	45 342	2.35%	262
INTEREST BEARING LIABILITIES	45 837	1.57%	180	43 978	1.48%	652	42 119	1.38%	143
Due to Customers	25 734	1.00%	65	25 123	0.91%	229	25 353	0.83%	52
Money Market Funding	12 212	0.38%	12	11 442	0.36%	41	9 793	0.34%	8
Other Liabilities	7 891	5.26%	103	7 413	5.15%	382	6 974	4.83%	83
OTHER NON-INTEREST BEARING LIABILITIES	1 481	-	-	2 845	-	-	3 223	-	-
INTEREST BEARING LIABILITIES & OTHER	47 318	1.52%	180	46 823	1.39%	652	45 342	1.28%	143
NIM / NII		1.19%	141		1.10%	514		1.06%	119

The average rate on customer loans, the main component of financial assets (73.9%), was 2.54%. As to liabilities, the average balance of customer deposits was €25.4 billion, with an average interest rate of 0.83%.

Fees and Commissions

Fees and commissions on banking services contributed with €75.8 million to the results, up by 8.2% from €70.1 million in the 1st quarter of 2016.

FEES AND COMMISSIONS	1Q2016	1Q2017	€ million	
			Weight	
			1Q2016	1Q2017
Payments and Account Management	22.6	25.8	28.7%	33.2%
Commissions on Loans, Guarantees and Similar	32.5	30.1	41.3%	38.7%
Asset Management and Bancassurance	16.9	15.3	21.5%	19.7%
Advising, Servicing and Other	6.7	6.6	8.5%	8.5%
SUBTOTAL	78.7	77.8	100.0%	100.0%
Costs with State Guarantees	-8.6	-2.0		
TOTAL	70.1	75.8		

In the activity of NOVO BANCO Group it is stressed the relevance of the following:

- Support services to companies – including guarantees provided, documentary credits, and services related to loan management and other (38.7% of the total);
- Commissions on payment services (33.2% of the total) – cards and payment processing, namely cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- Asset management and bancassurance products, which accounted for 19.7% of total fees and commissions.

In the 1st quarter of 2017, NOVO BANCO paid fees in the amount of €2.0 million relating to its issuance of debt securities guaranteed by the Republic of Portugal (€8.6 million in the 1st quarter of 2016).

Capital Markets and Other Operating Results

Capital market results registered a loss of €6.3 million, which compares with a profit of €27.3 million in the 1st quarter of 2016. The other operating results totalled -€7.8 million, having been penalised by losses on real estate funds' assets recognised as investment properties.

Operating Costs

Operating costs show a YoY reduction of 12.9%, reflecting the ongoing implementation of the restructuring measures that involved the downsizing of the distribution network and the simplification and scaling down of the organisational structure and processes, with the consequent reduction of the workforce.

€ million			
OPERATING COSTS	1Q2016	1Q2017	% Change
Staff Costs	81.4	71.8	-11.8%
General and Administrative Costs	58.7	52.4	-10.7%
Depreciation	15.1	11.0	-27.0%
TOTAL	155.2	135.2	-12.9%

Staff costs decreased by 11.8% YoY, to €71.8 million, underpinned by a headcount reduction of 838 employees since 31 March 2016.

General administrative expenses dropped by 10.7% YoY, to €52.4 million. This reduction, which occurred across most cost categories, 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 March 2017 NOVO BANCO had 536 branches, which is 89 fewer units than a year earlier.

Provisions

In the 1st quarter of 2017 the NOVO BANCO Group reinforced provisions by €137.4 million (-€210.8 million over March 2016), the bulk of which was allocated to credit. It should be noted the 1st quarter 2016 provision charge included €109.6 million for restructuring costs.

€ million			
PROVISIONS	1Q2016	1Q2017	% Change
Credit and Securities	210.3	125.9	-40.1%
Real Estate and Equipment	47.8	13.4	-72.0%
Other Assets and Contingencies	90.1	-1.9
TOTAL	348.2	137.4	-60.5%

The credit provision charge totalled €119.3 million, improving the loan coverage ratio to 16.7%, from 16.5% in December 2016.

ACTIVITY EVOLUTION

Funding

The steps taken towards resuming normal operating conditions and consolidating the relationship with the clients positively influenced the recovery of funding. Customer deposits increased to €25.2 billion, from €25.1 billion in the 1st quarter of 2016.

CUSTOMER FUNDS	31-Mar-16	31-Dec-16	31-Mar-17	YoY Change	
				absolute	relative
				€ million	
Deposits	25 145	25 585	25 169	24	0.1%
Other Customer Funds ⁽¹⁾	286	404	408	122	42.7%
Debt Securities placed with Clients	1 095	996	943	- 152	-13.9%
Life Insurance Products	5 196	4 730	4 516	- 680	-13.1%
Off-Balance Sheet Funds	5 628	5 069	4 952	- 676	-12.0%
Total Customer Funds	37 350	36 784	35 988	-1 362	-3.6%

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

Customer Loans

NOVO BANCO's strategy of support to the domestic business community was underlined by its strict and selective lending policy. This support has been provided across all industry sectors and all companies, placing a particular focus on the exporting small and medium-sized companies and those that incorporate innovation in their products, services or production systems. Corporate loans account for a 66.3% share of the total loan book.

CUSTOMER LOANS	31-Mar-16	31-Dec-16	31-Mar-17	YoY Change		€ million
				absolute	relative	
Corporate Lending	23 780	22 451	22 200	-1 580	-6.6%	
Loans to Individuals	11 427	11 300	11 283	- 144	-1.3%	
Residential Mortgage	9 795	9 726	9 707	- 88	-0.9%	
Other Loans	1 632	1 574	1 576	- 56	-3.4%	
Customer Loans (Gross)	35 207	33 750	33 483	-1 724	-4.9%	
Provisions	5 894	5 566	5 601	- 293	-5.0%	
Customer Loans (Net)	29 314	28 184	27 882	-1 432	-4.9%	

Customer loans were down by €1.7 billion YoY, which is in line with the deleveraging process still under way.

Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the European Central Bank (ECB), totalled €11.8 billion on 31 March 2017 and represented 23.2% of assets.

The breakdown of the securities portfolio reflects a portfolio management approach based on securities with lower risk and higher liquidity, namely sovereign debt of Eurozone countries, which account for roughly 55.2% of the total available securities. In the 1st quarter of the year the overall value of the portfolio remained relatively unchanged.

SECURITIES PORTFOLIO	31-Mar-16	31-Dec-16	31-Mar-17	YoY Change		1Q2017
				absolute	relative	absolute change
Portuguese Sovereign Debt	3 231	3 538	3 652	421	13.0%	114
Other Sovereign Debt	3 983	2 971	2 890	-1 093	-27.4%	- 81
Bonds	2 656	2 775	2 739	83	3.1%	- 36
Other	3 127	2 478	2 568	- 559	-17.9%	90
Total	12 997	11 762	11 849	-1 148	-8.8%	87

The securities portfolio has a positive fair value reserve of €194.6 million (Dec. 2016: €151.4 million)

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity

Even though the decision to sell NOVO BANCO was only announced at the end of the first quarter of 2017, the period was characterised by relative stability of customer funds, in particular in the retail segment. NOVO BANCO's liquidity enhancement strategy remained focused on the recovery of customer funds and on asset deleveraging, despite a particularly adverse climate for attracting customer funds, with market rates persistently on negative ground.

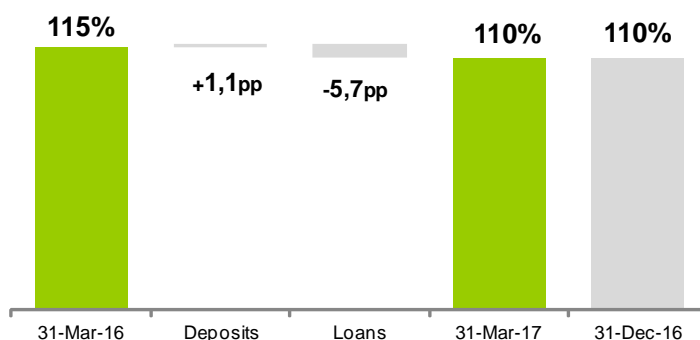
NOVO BANCO's last bond issuance guaranteed by the Portuguese Republic matured on 17 February 2017, with the amount of €1,500 million. The maturity of this issuance meant that NOVO BANCO ceased to have any kind of debt instrument guaranteed by the Portuguese Republic, while at the time of its incorporation it had three debt issues, totalling €3,500 million. Also during the 1st quarter NOVO BANCO reimbursed €40 million of covered bonds placed in the market in 2010.

In this context, gross funding from the European Central Bank totalled €6.6 billion at the end of March 2017, which represents a slight €200 million increase from €6.4 billion at the end of 2016.

The overall amount in the portfolio of assets eligible for rediscount with the European Central Bank has remained stable at around €11.5 billion, after haircuts.

The loan to deposit ratio (110%) improved compared to the 1st quarter of 2016 (115%) and is in line with its value in December 2016.

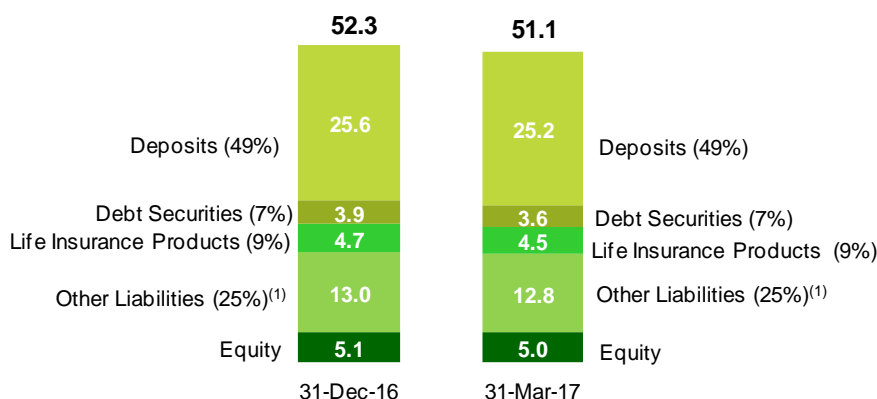
Loan to Deposit Ratio



Customer deposits remained the main source of funding, representing 49% of total assets.

FUNDING STRUCTURE

(figures in € 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 Regulation (EU) no. 2016/445, which determines the transitional (phased-in) arrangements for own funds set forth in Regulation (EU) no. 575/2013. 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 31 December 2016 and 31 March 2017, were as follows:

		€ million	
CAPITAL RATIOS - BIS III (CRD IV/CRR)		31-Dec-16	31-Mar-17⁽¹⁾
Risk Weighted Assets	(A)	33 627	33 512
Own Funds			
Common Equity Tier 1	(B)	4 051	3 620
Tier 1	(C)	4 051	3 620
Total Capital	(D)	4 051	3 675
Common Equity Tier 1 Ratio (Phased-in)	(B/A)	12.0%	10.8%
Tier 1 Ratio	(C/A)	12.0%	10.8%
Solvency Ratio	(D/A)	12.0%	11.0%
Common Equity Tier 1 Ratio (full implementation)		9.8%	9.6%

⁽¹⁾ Estimated Data

The estimated phased-in Common Equity Tier 1 (CET1) ratio for 31 March 2017 was 10.8% (estimated ratio of 9.6% under the full implementation regime applicable as from 1 January 2018).

ASSET QUALITY

The coverage ratios registered an improvement in the 1st quarter of 2017. The credit at risk ratio reduced by 10 bps and the Overdue Loans > 90 days ratio remained flat compared to December 2016.

CREDIT QUALITY			€ million	
	31-Dec-16	31-Mar-17	Change	
			absolute	relative
Gross Loans	33 750	33 483	- 267	-0.8%
Overdue Loans	5 936	5 957	21	0.4%
Overdue Loans > 90 days	5 728	5 686	- 42	-0.7%
Credit at Risk ⁽¹⁾	8 636	8 526	- 110	-1.3%
Restructured Credit ⁽²⁾	8 007	8 145	138	1.7%
Restructured Credit not included in Credit at Risk ⁽²⁾	4 008	4 134	126	3.1%
Provisions for Credit	5 566	5 601	35	0.6%

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

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

At the end of March 2017 the overdue loans / gross loans and credit at risk / gross loans ratios were 17.8% and 25.5%, respectively, with the Credit at Risk Coverage ratio standing at 65.7%.

Provisions for Credit amounted to €5.6 billion, representing 16.7% of the total loan book (Dec.16: 16.5%)

ASSET QUALITY AND COVERAGE RATIOS	31-Dec-16	31-Mar-17	Change (p.p.)
Overdue Loans / Gross Loans	17.6%	17.8%	0.2
Overdue Loans > 90 days / Gross Loans	17.0%	17.0%	0.0
Credit at Risk ⁽¹⁾ / Gross Loans	25.6%	25.5%	-0.1
Restructured Credit ⁽²⁾ / Gross Loans	23.7%	24.3%	0.6
Restructured Credit not included in Credit at Risk ⁽²⁾ / Gross Loans	11.9%	12.3%	0.5
Provisions for Credit / Gross Loans	16.5%	16.7%	0.2
Coverage of Credit at Risk ⁽¹⁾	64.5%	65.7%	1.2
Coverage of Overdue Loans > 90 days	97.2%	98.5%	1.3
Coverage of Overdue Loans	93.8%	94.0%	0.3

⁽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 Retail banking segment's activity in the 1st quarter of the year confirms the trend for a recovery of confidence in NOVO BANCO started in 2016. This movement is reflected in the growth of deposits, which increased by 9% YoY, underpinned by the regular launch of innovative products, including the Dual Deposit “*EUR NB DUAL GRANDES ÍNDICES 2017-2019*” (“EUR NB DUAL LARGE INDEXES 2017-2019”), which combines a simple term deposit with a deposit linked to the performance of the Euro Stoxx 50, S&P 500 and Swiss Market indices. Moreover, this performance was achieved while continuing to optimise the pricing of new deposits, with the average rate on new term deposits being reduced by 20 bps YoY.

Production of new loans to individuals accelerated, namely with residential mortgage loans growing by 57% YoY, while the average spread for new mortgage lending remained significantly higher than the portfolio's average spread. Consumer loans registered an equally positive performance, growing by 62% compared to the monthly average in 2016 and by 126% YoY. This acceleration was driven by the communication campaign “*O Crédito que o Conhece*” (“The Loan that Knows You”), advertising a competitive and comprehensive offer, and the existing proximity between NOVO BANCO and its clients.

Commercial activity in the Small Business segment also showed very positive dynamics. Production of medium/long-term loans, current accounts and leasing totalled €70 million, which is broadly in line with the production level in the 1st quarter of 2016. These results were bolstered by the launch of the ‘*Capitalizar*’ Credit Line (“*Linha de Crédito Capitalizar*”), where NOVO BANCO achieved a share of 22% in the line for small and micro companies. The monitoring and support provided by the Small Business team of managers contributed to strengthen the acquisition of clients’ liquidity, resulting in a 5% increase in deposits compared to December 2016.

NOVO BANCO's individual clients continued to value the investment in convenient solutions allowing permanent access to the Bank, namely through its direct channels: at the end of the quarter the number of frequent digital clients had increased by 7% YoY, to 491 thousand. Subscriptions to the mobile channel, which already surpass 193 thousand frequent clients and grew by 66% YoY, were a major contributor to this performance.

The goal of NOVO BANCO for the Digital is to continue to deliver outstanding services and experiences to its clients, both in NBnet (access via PCs) and through the NB smart app (access via smartphones). To this end, several new functionalities were launched during the 1st quarter, namely: (i) fingerprint access to the NB smart app, available for iPhone and Android smartphones: users no longer have to enter their PIN code for authentication, all they have to do is touch the smartphone's sensor with the tip of their finger; (ii) faster, easier and safer certification of mobile phone, internet and other services top-ups through the NB smart app and NBnet, with no need to enter the matrix or SMS code; (iii) ‘*DP NB smart app*’, a new term deposit offering special conditions, for exclusive subscription through the mobile channel; and (iv) fast and intuitive simulation and application for consumer loans through the NB smart app. NOVO BANCO's commitment to

enrich the experience of using the NB smart app has been widely recognized by users of mobile banking services, where the Bank achieved the highest average national ratings within the national banks, in the finance category, in both the Apple Store (iPhone devices) and Google Play (Android equipments).

Corporate Banking

In the Corporate Banking segment (medium-sized and large companies), the volume of deposits increased by €327 million (+8.8%) in the 1st quarter of 2017. Within this segment, production of medium and long-term loans to good risk clients reached €318 million, upholding NOVO BANCO's reference role in supporting the development of companies and economic activity in Portugal.

Moreover, production also increased under the 'PME Crescimento 2015', 'NB FEI' and 'NB Prime' Lines, with new loan disbursements reaching €167 million between January and March. In January, NOVO BANCO joined the '*Capitalizar*' Credit Line ("Linha de Crédito Capitalizar"), in partnership with the Portuguese State and the Mutual Guarantee System. This is one of the main instruments launched in 2017 to support investment and increase the permanent capital of SMEs.

The trade finance area, an important business area of NOVO BANCO, provides a wide range of products and specialised advice designed to support international trade. The Bank's know-how in this segment is evidenced by its market share, which reached 23% in this quarter.

During this period the Bank promoted initiatives addressed to companies and promoted the visibility of economic sectors and outstanding companies, namely through the following: (i) Agriculture - "New Crops and Trends in the Agricultural Sector" conference (Évora, 22 February); (ii) Agroindustry - presence at the International Trade Fair for Portuguese Food and Beverage - SISAB (Lisbon, 2 March); (iii) Tourism - exclusive sponsor of the Publituris Awards, for the last 10 years - "Publituris Portugal Trade Awards", an annual event that distinguishes excellence in tourism (Lisbon, 15 March, within the scope of the BTL); (iv) Leader SME - conference on the subject "Innovation and Internationalisation as cross-cutting factors of competitiveness" for "Leading SMEs", which coincided with the launch of the 9th edition of the *PME Líder* magazine, resulting from a partnership between NOVO BANCO and the *Exame* magazine .

NOVO BANCO dos Açores

The 1st quarter of 2017 was characterized by the effort made to attract new clients through various actions targeting companies, services and public entities with the objective of increasing the market share and bolstering the activity in terms of both funding and lending. At the end of the quarter NOVO BANCO dos Açores had total assets of €649.3 million (-7.2% YoY), with customer deposits having increased by 4.2% and gross customer loans decreased by 1.2% in the period. The reduction achieved in operating costs (-8.7%) and in particular in staff costs (-9.9%) should be highlighted. The Bank posted a profit for the period of €733 thousand, which compares with a loss of €765 thousand in March 2016.

Banco Electrónico de Serviço Total

During the 1st quarter of 2017, Banco Best maintained its strategy of innovation in the offer of financial products and services in Portugal while at the same time promoting financial literacy among investors in general. In this area of financial literacy, we highlight the conference held in Lisbon and Oporto on the possibilities and alternatives of investment in Robotics, Disruptive Technologies and Cyber Security, in partnership with Pictet Asset Management, a Swiss entity with more than €150 billion in assets under management. The Bank maintains the leadership in terms of the diversity of its offer of investment funds in Portugal, with more than 3,000 funds from 54 management companies. In the 1st quarter of the year, Banco Best added another two international management companies to its already large offer, namely Oyster and RAM. Customer loans grew by 2% in the quarter. The Bank posted a profit of €707 thousand in the period, which is much higher than in the 1st quarter of 2016 (€289 thousand).

Asset Management

GNB - Gestão de Ativos, which mainly operates in Portugal, Luxembourg and Spain, closed the 1st quarter of 2017 with €11.6 billion in total assets under management, which represents a year-on-year reduction of 2.3%, though the area of pension funds registered an increase of 7.4%. The net profit for the period was €2.9 million. Operating costs were reduced 19% YoY as a result of the reorganisation and restructuring plan carried out during 2016.

International Commercial Banking

In line with its strategy of divesting from non-strategic assets, NOVO BANCO entered into a sale and purchase promissory contract with BANCAMIGA, Banco Microfinanciero, C.A., of Venezuela, to sell the assets and liabilities of its Branch in Venezuela. The completion of this transaction is dependent on certain conditions being met as well as on the necessary approvals being obtained.

Concerning the sale of **NB Asia (Macau)**, the condition precedent to the transaction, namely the authorisation of the Macau Monetary Authority, was obtained on 28 April 2017, and therefore the conditions are in place to go ahead with the closing of the deal, which is being jointly programmed by the seller and the buyers, the latter led by the Hong-Kong based Well Link group.

The Branch in **Spain** registered a 2.6% decrease in business volume in the 1st quarter of 2017, with a reduction in both deposits and number of clients. Assets under management experienced a boost in the period, underpinned by the good performance of private banking, which grew by 7.5%. Operating costs maintained the downward trend seen in 2016, falling by 24% YoY, mainly on the back of lower staff costs and amortisation and depreciation. Pre-tax results, a loss of €702 thousand, were nevertheless €26.5 million better than in the 1st quarter of 2016.

Having concluded its restructuring plan in 2016, the London Branch (**United Kingdom**) focused its activity in the 1st quarter of 2017 on the management of its current portfolio, with assets remaining flat at €3.8 billion. As a result of the restructuring, the Branch's operating costs were slashed by 58% YoY. This unit posted a profit of circa €2.0 million in the quarter.

The Branch in **Luxembourg** also wrapped up its restructuring and strategic reorientation process at the end of 2016, concentrating during the 1st quarter of 2017 on managing its current portfolio. Total assets amounted to €3.0 billion at the end of the period. As a result of the restructuring, the Branch's operating costs were reduced by 22% YoY. The Luxembourg Branch posted a profit for the period of €0.3 million.

MAIN EVENTS

- On 1 May NOVO BANCO, S.A. announced it had entered into a sale and purchase promissory contract with BANCAMIGA, Banco Microfinanciero, C.A., in Venezuela, in respect of the assets and liabilities of its branch in Venezuela. The completion of this promissory contract is conditioned to the fulfilment of certain conditions and to the required authorisations from the relevant authorities being obtained, including from Banco de Portugal and the Venezuelan financial sector regulatory authority. With the completion of the transaction under the agreed terms and conditions NOVO BANCO's banking activities in Venezuela will terminate.
- On 20 April the Rating Agency Dagong Europe took a rating action on NOVO BANCO. Dagong Europe affirmed the Long-Term Credit Rating at 'CCC+' and the Short-Term Credit Rating at 'C' of NOVO BANCO and its subsidiaries/ branches, removed the stable outlook and assigned a watch 'Evolving' to all ratings. The rating action followed the release of NOVO BANCO's unaudited results for the financial year 2016 and the announcement on 31 March 2017 of the terms of the sale agreement of NOVO BANCO, which includes a liability management exercise (LME) involving non-subordinated bondholders. The watch 'Evolving' will be resolved dependent on additional information related to the closing of the sale process and the conditions of the LME not yet disclosed.
- On 13 April the Rating Agency DBRS took a rating action on NOVO BANCO. DBRS decided to place the senior ratings of Novo Banco 'under review with negative implications' (URN). These include the Issuer, Senior Long-Term Debt and Deposits rating of CCC (high), and the Short-Term & Deposit rating of R-5. DBRS confirmed the Critical Obligations Ratings (COR) at BB (low) / R-4, with Stable Trend. The rating

action followed the announcement on 31 March 2017 of a liability management exercise involving senior bondholders as part of the agreement to sell NOVO BANCO. Separately, DBRS withdrew the BBB (low) rating on the Senior and Unsubordinated Notes guaranteed by the Republic of Portugal as this debt had been repaid / cancelled.

- On 9 April NOVO BANCO informed the market about the new management and executive committee structure. The new management structure consists of a Board of Directors, including a Chairman, Mr. Rui Cartaxo, and an Executive Committee, led by Mr. António Ramalho. The new Executive Committee of 7 members was approved by the Resolution Fund on 21 December 2016 and received, with effects from 6 April 2017, the approval by the European Central Bank (ECB) for six of its members. On 8 May 2017 the Bank was informed of the approval by the ECB of an additional Board Member which is the 7th member of the Executive Committee.
- On 8 April NOVO BANCO informed the market that, due to a decision by its sole shareholder the Resolution Fund, it has changed in its Bylaws the articles 1, 3, 6, 7, 8 to 14, 16, 17 to 23 and added the articles 7-A, 7-B, 14-A, 16-A and 24. The press release states that the change in its management and supervision structure, which, in line with best governance practices, is now composed of a Board of Directors (including an Audit Committee) and a Statutory Auditor.
- On 5 April NOVO BANCO informed that the Rating Agency Moody's had taken a rating action on NOVO BANCO. The rating action followed the announcement by Banco de Portugal on 31 March 2017 that as part of NOVO BANCO's sale process, a liability management exercise on senior bonds would be undertaken with the aim of recapitalising the Bank. Moody's placed on review for downgrade NOVO BANCO's Caa1 long-term deposit ratings, downgraded the long-term senior unsecured debt rating to Caa2 from Caa1, and placed it on review for further downgrade. At the same time, Moody's downgraded the Bank's: (i) standalone Baseline Credit Assessment (BCA) to ca from caa2; and (ii) Counterparty Risk Assessment (CRA) to B3(cr) from B2(cr), and placed it on review for further downgrade. The outlook on the long-term deposit and debt ratings was changed to 'Ratings under Review' from 'Developing'. The Not-Prime short-term deposit and senior debt ratings and Not-Prime(cr) short-term CRA were unaffected by this rating action.
- On 31 March Banco de Portugal issued a press release in which it informed the market about the selection of LONE STAR for the conclusion of the sale process of NOVO BANCO and that the Resolution Fund had signed the contractual documents of the sale. The signing of the sale contract allowed compliance with the term for the sale process established in the commitments assumed by the Portuguese State with the European Commission. After the closing of the operation, the regime of transition bank will no longer be applicable to NOVO BANCO. Under the terms of the agreement, LONE STAR will inject capital in NOVO BANCO totaling EUR 1,000 million, of which EUR 750 million at the closing of the operation and EUR 250 million in a term of up to 3 years. Through the injection of capital to be carried out, LONE STAR will have a 75% stake in the share capital of NOVO BANCO and the Resolution Fund will maintain a 25% stake in the Bank. The agreed conditions include also a contingent capital mechanism, under the terms of which the Resolution Fund, while shareholder, is committed to make capital injections in the case of occurring some conditions cumulatively, related to: i) the

performance of a limited group of assets of NOVO BANCO and ii) the evolution of the capital levels of the bank. The possible capital injections to be carried out under the terms of this contingent mechanism benefit from a capital buffer resulting from the injection to be carried out under the terms of the sale agreement and are subject to an absolute maximum limit. The agreed conditions include also safeguard mechanisms for the interests of the Resolution Fund, aligning incentives and auditing mechanisms, notwithstanding the limitations related to State aid rules. The closing of the sale operation is dependent on the granting of the usual regulatory authorizations (including by the European Central Bank and the European Commission) and also on the completion of a liability management exercise, which will include the non-subordinated bonds of NOVO BANCO.

ECONOMIC ENVIRONMENT

In the first quarter of 2017 the global situation was marked by a relatively synchronized expansion of activity in the main economic areas. In the US, with the unemployment rate retreating to 4.5% of the labour force, the Fed raised the fed funds target rate by 25 bps, to 0.75%-1%. On the other hand the yield on the 10-year Treasuries fell from 2.445% to 2.338% in the quarter, mainly reflecting the cooling of expectations about the fiscal stimuli promised by the Trump Administration. In the Eurozone, GDP grew by 0.5% in the first quarter, maintaining the pace of expansion seen in the previous quarter. Year-on-year inflation remained well below the ECB target, reaching 1.5% in March (core inflation reached 0.8%). In this context, the monetary authority reaffirmed the need to maintain a highly expansionary policy in force over an extended period of time, causing the 3-month Euribor to slide from -0.319% to -0.329%. The 10-year *Bunds* yield, however, rose from 0.208% to 0.328%, reflecting the improvement in growth prospects and some abatement of political risks in the Eurozone. The euro advanced in the quarter by 1.4% against the dollar, to EUR/USD 1.0697.

The expansion of economic activity, the persistence of low interest rates and the improvement of corporate earnings propped up the main stock indices. In the US, the Dow Jones, S&P500 and Nasdaq indices gained 4.6%, 5.5% and 9.8%, respectively. In Europe, the DAX, CAC40 and IBEX rose by 7.3%, 5.4% and 11.9%. The emerging markets benefited from the toning down of expectations of a hike in interest rates in the US and, in some cases, from an improved domestic political and economic outlook. In this scenario, the Sensex (India), Shanghai Composite (China) and Bovespa (Brazil) indices registered gains of 11.2%, 3.8% and 7.9%, respectively. Oil prices (Brent) rose by 36% year-on-year, but retreated 4.9% from January through March, to US \$52.7/barrel.

In Portugal, GDP grew by 1% QoQ and 2.8% YoY in the first quarter, fuelled by the positive performances of net external demand and investment, which more than offset a slowdown in private consumption. The rate of unemployment retreated from 10.5% to 10.1% of the labour force. Mainly translating the expectations of "reflation" in the European economy that marked the early part of the year, the 10-year Treasury Bonds yield rose from 3.764% to 3.978% in the first quarter, with the spread against the *Bund* widening by 9 bps to 365 bps (in the meantime, the favourable evolution of economic activity, the announcement of a public deficit of

2% of GDP in 2016 and the abatement of political risks in the Eurozone contributed to push down the 10-year yield to close to 3.4% in May, with the spread vs. the *Bunds* narrowing to 296 bps). In the first three months of 2017 the PSI20 index advanced by 7%.

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016 AND AS AT 31 MARCH 2017

	€ thousand	
	31.03.2017	31.12.2016
ASSETS		
Cash and deposits with Central Banks	734 348	1 469 259
Deposits with banks	337 657	370 918
Financial assets held for trading	642 091	656 722
Other financial assets at fair value through profit or loss	1 141 069	1 203 807
Available-for-sale financial assets	10 706 984	10 557 972
Loans and advances to banks	755 626	724 167
Loans and advances to customers	27 881 931	28 184 426
Financial Assets held to maturity	-	-
Assets with Repurchase Agreement	-	-
Derivatives held for risk management purposes	223 334	222 769
Non-current assets held for sale	7 757	7 764
Non-current assets held for sale - Discontinued operations	1 135 218	1 217 371
Investment properties	1 196 478	1 206 355
Other tangible assets	199 684	206 459
Intangible assets	41 705	44 663
Investments in associated companies	160 463	158 650
Current tax assets	31 252	30 620
Deferred tax assets	2 587 748	2 603 979
Technical reserves of reinsurance ceded	7 017	6 355
Other assets	3 333 275	3 460 416
Debtors for direct and indirect insurance	2 482	1 086
Other assets	3 330 793	3 459 330
TOTAL ASSETS	51 123 637	52 332 672
LIABILITIES		
Deposits from Central Banks	6 610 043	6 410 033
Financial liabilities held for trading	612 631	632 831
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	2 999 153	3 577 914
Due to customers	25 577 233	25 989 719
Debt securities issued	3 632 211	3 817 801
Financial liabilities related to transferred assets	-	-
Derivatives held for risk management purposes	113 102	108 265
Investment contracts	3 235 644	3 396 425
Non-current liabilities held for sale	1 821	1 821
Non-current liabilities held for sale - Discontinued operations	730 816	748 807
Provisions	347 857	364 615
Technical reserves	1 280 635	1 333 567
Current tax liabilities	16 785	16 972
Deferred tax liabilities	16 726	19 301
Equity Instruments	-	-
Subordinated debt	48 554	48 100
Other liabilities	851 820	718 548
Creditors for direct and indirect insurance	23 633	10 945
Other liabilities	828 187	707 603
TOTAL LIABILITIES	46 075 031	47 184 719
EQUITY		
Share Capital	4 900 000	4 900 000
Share premium	-	-
Other equity instruments	-	-
Treasury stock	-	-
Revaluation Reserves	(257 167)	(289 082)
Other Reserves and Retained Earnings	455 946	1 244 028
Profit / (loss) for the period	(130 940)	(788 330)
Interim Dividends	-	-
Non-controlling Interests	80 767	81 337
TOTAL EQUITY	5 048 606	5 147 953
TOTAL LIABILITIES AND EQUITY	51 123 637	52 332 672

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 MARCH 2016 AND AS AT 31 MARCH 2017

	€ thousand	
	31.03.2017	31.03.2016
Interest and similar income	270 337	326 555
Interest expense and similar charges	151 338	185 781
Net Interest Income	118 999	140 774
Dividend income	1 454	17 739
Fee and Commission income	93 935	92 922
Fee and Commission expense	21 823	27 864
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(24 334)	11 206
Net gains / (losses) from available-for-sale financial assets	17 133	15 887
Net gains / (losses) from foreign exchange revaluation	2 758	(9 710)
Net gains/ (losses) from the sale of other assets	(4 797)	(763)
Insurance earned premiums, net of reinsurance	11 494	11 066
Claims incurred, net of reinsurance	75 375	63 432
Change in technical reserves, net of reinsurance	60 722	48 746
Other operating income and expenses	(33 768)	(32 634)
Operating Income	146 398	203 937
Staff costs	71 818	81 412
General and administrative expenses	52 356	58 653
Depreciation and amortisation	11 023	15 104
Provisions, net of reversals	(2 398)	106 350
Impairment losses on loans, net of reversals and recoveries	119 328	185 483
Impairment losses on other financial assets, net of reversals and recoveries	6 606	24 831
Impairment losses on other assets, net of reversals and recoveries	13 866	31 528
Operating Costs	272 599	503 361
Sale of subsidiaries and associates	-	3 648
Negative consolidation differences	-	-
Results from associated companies consolidated by the equity method	1 702	(33)
Profit / (loss) before income tax	(124 499)	(295 809)
Income tax		
Current tax	2 122	(378)
Deferred tax	4 069	(49 483)
	6 191	(49 861)
Income from continuing activities	(130 690)	(245 948)
Income from discontinued operations	(504)	(10 392)
Net Income for the period	(131 194)	(256 340)
Attributable to shareholders of the Bank	(130 940)	(249 369)
Attributable to Non-controlling interests	(254)	(6 971)
	(131 194)	(256 340)

GLOSSARY

Income Statement

Fees and Commissions	Fee and commission income less fee and commission expense
Commercial Banking Income	Net interest income and fees and commissions
Capital markets results	Dividend income, net gains / (losses) from financial assets and liabilities at fair value through profit or loss, net gains / (losses) from available-for-sale financial assets, net gains / (losses) from foreign exchange revaluation, and net gains / (losses) on the revaluation of liabilities
Other Results	Other operating income and expenses, disposal of subsidiaries and associated companies, and income/loss of equity accounted associated companies
Banking income	Net interest income, fees and commissions, capital markets results and other results
Operating costs	Staff costs, general and administrative expenses and depreciation and amortisation
Net operating income	Banking Income - operating costs
Net Provisions	Provisions net of reversals, impairment losses on loans net of reversals and recoveries, impairment losses on other financial assets net of reversals and recoveries and impairment losses on other assets net of reversals and recoveries

Balance Sheet / Liquidity

Assets eligible as collateral for rediscount operations with the ECB	The Eurosystem only grants credit against adequate collateral. This collateral consists of tradable financial securities and other types of assets such as nontradable assets and cash. The expression "eligible assets" is used for assets that are accepted as collateral by the Eurosystem.
Securities portfolio	Securities (bonds, shares and other variable-income securities) booked in the portfolios of financial assets held for trading, other financial assets at fair value through profit or loss and available-for-sale financial assets.
Due to customers Banco de Portugal Instruction n. 16/2004	Sums booked under the following balance sheet accounting headings: [#400 - #34120 + #52020 + #53100]
Net ECB funding	Difference between the amount of funding obtained from the ECB and the amount of loans and advances to the ECB
On-balance sheet customer funds	Deposits, other customer funds, debt securities placed with clients and life insurance products
Retail customer funds	On-balance sheet funds of retail clients
Off-Balance Sheet Funds	Off-balance sheet funds managed by Group companies, including mutual funds, real estate investment funds, pension funds, bancassurance, portfolio management and discretionary management.
Total Customer Funds	On- and off- balance sheet customer funds.
Loan to deposit ratio Banco de Portugal Instruction n. 16/2004	Ratio of [gross loans - (accumulated provisions / impairment for credit according with Instruction n. 22/2011 regarding the reporting of information on credit at risk)] to customer deposits

Asset Quality and Coverage

Overdue Loans ratio	Ratio of overdue loans to total credit
Overdue Loans > 90 days ratio	Ratio of overdue loans > 90 days to total credit
Overdue and Doubtful Loans ratio Banco de Portugal Instruction n. 16/2004	Ratio of overdue and doubtful loans [overdue credit > 90 days and doubtful loans reclassified as overdue for provisioning reasons (according with Notice 3/95, nr. 4, nr. 1, a)] to total credit. Notice 3/05 was revoked.
Overdue and Doubtful Loans ratio, net Banco de Portugal Instruction n. 16/2004	Ratio of overdue and doubtful loans - [(provisions for credit overdue + provisions for doubtful loans) and/or accumulated credit impairments, pursuant to the definition given in Instruction no. 22/2011 on the reporting of information on credit at risk] and customer loans net of impairments.
Credit at risk ratio Banco de Portugal Instruction n. 16/2004	Ratio of credit at risk [credit with overdue instalments of principal or interest for a period of 90 days or more, restructured credit after being overdue for 90 days or more without adequate strengthening of collateral or full repayment of overdue interest and other charges, outstanding credit with overdue instalments of principal or interest for a period of less than 90 days, but for which there is evidence justifying its classification as credit at risk, namely bankruptcy or liquidation of the debtor] to gross customer loans.
Credit at risk ratio, net Banco de Portugal Instruction n. 16/2004	Ratio of credit at risk - [(provisions for credit overdue + provisions for doubtful loans) and/or accumulated credit impairments, according with the definition in Instruction no. 22/2011 on the reporting of information on credit at risk] and customer loans deducted of accumulated impairment.
Restructured credit ratio Banco de Portugal Instruction n. 32/2013	Ratio of restructured credit due to financial difficulties of the client to total credit
Restructured credit not included in credit at risk ratio Banco de Portugal Instruction n. 32/2013	Ratio of restructured credit not included in credit at risk to total credit
Overdue Loans coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans.
Overdue Loans > 90 days coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans > 90 days
Credit at risk coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to credit at risk.
Coverage ratio of customer loans	Ratio of impairment on customer loans (on balance sheet) to gross loans.
Cost of Risk	Ratio of credit impairment charges accounted in the period to gross customer loans

GLOSSARY

Efficiency and Profitability Ratios

Efficiency Banco de Portugal Instruction n. 16/2004	Ratio of staff costs to banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses).
Efficiency Banco de Portugal Instruction n. 16/2004	Ratio of operating costs (staff costs, general and administrative expenses and depreciation and amortisation) to banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses).
Cost to Income	Ratio of operating costs (staff costs, general and administrative expenses and depreciation and amortisation) to banking income (net interest income, fees and commissions, capital markets results and other results)
Profitability Banco de Portugal Instruction n. 16/2004	Ratio of banking income (net interest income, securities income, net fees and commissions, capital markets results, income from associated companies and subsidiaries and other operating income and expenses) to average net assets.
Return on average net assets Banco de Portugal Instruction n. 16/2004	Ratio of profit before tax and non-controlling interests to average net assets.
Return on average equity Banco de Portugal Instruction n. 16/2004	Ratio of profit before tax and non-controlling interests to average equity.

This report is a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.