

# NOVO BANCO<sup>L</sup>



## Results Presentation 1Q2017

Unaudited financial information

22 May 2017

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## Portuguese Economy

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# Portuguese Economy – Highlights

Note prepared in May 2017

## MAIN ECONOMIC THEMES

- GDP increased 1% QoQ and 2.8% YoY in Q1 2017 (0.6% QoQ and 2% YoY in Q4), with a stronger contribution from net external demand and from fixed investment.
- Economic sentiment continues to improve and the coincident indicator of economic activity has accelerated in 2017. The unemployment rate is showing a downward trend (10.1% of the labour force in Q1 2017 vs. 12.4% in Q1 2016). External demand for tourism services remains very strong.
- 10Y PGB yields have been sensitive to external developments, rising from 3.76% in January to a year high of 4.3% in March. But with a retreat in European political risks and with the improvements in the domestic newsflow, the 10Y PGB yield fell to 3.20% by mid-May.

## OUTLOOK

- After 1.4% in 2016, GDP should grow around 2.3% in 2017, well above initial expectations. We expect some moderation in private consumption, a recovery in investment and a higher contribution from net external demand.
- Better than expected growth in Europe, domestic political stability, support from the ECB's asset purchase programme, a stabilisation of the banking sector, improving financing conditions, strong growth in tourism and stronger public and private investment should support activity growth.
- The economy remains vulnerable to negative external shocks. Growth remains constrained by high indebtedness levels and by ongoing adjustments in the banking sector.

## PUBLIC AND EXTERNAL ACCOUNTS

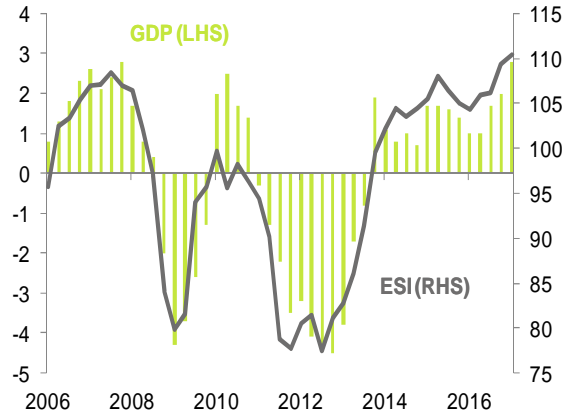
- The budget deficit fell to 2% of GDP in 2016, from 4.4% in 2015 (3.1% excluding one-offs), below target. The primary balance improved from 0.2% to 2.2% of GDP. The 2017 Budget points to a deficit of 1.5% of GDP.
- Public debt increased from 129% to 130.4% of GDP in 2016 (close to 122% excluding Central Government deposits) and it should reach around 128% of GDP in 2017. By May, Portugal had covered 56% of its PGB financing needs for 2017.
- The combined current and capital balance reached a surplus of 1.5% of GDP in 2016 (i.e. net financing capacity), up from 1% in 2014 and 0.3% in 2015. Sovereign ratings on hold (DBRS at BBB low, investment grade level).

## MAIN RISKS

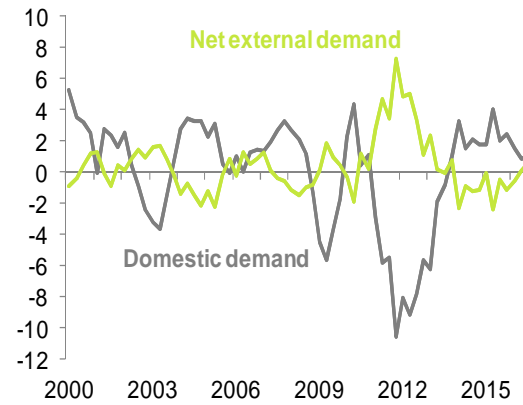
- Deterioration of investor sentiment associated with global political and financial market uncertainty (e.g. European fragmentation, Brexit, tapering of ECB asset purchases, US economic and foreign policies, etc.), impacting financing conditions.
- Fiscal and economic impacts of adjustments in the banking sector.
- Difficulties in achieving further structural fiscal consolidation, preventing an improvement in sovereign ratings.
- Stronger than expected growth could come from the impact of the ECB's QE, stronger than expected growth in Europe and short term effects of an expansionary fiscal policy.

# Portuguese Economy – Highlights

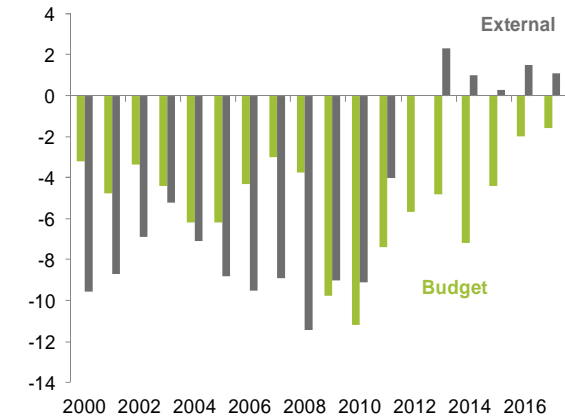
**Economic Sentiment Indicator vs. GDP growth (% YoY).**



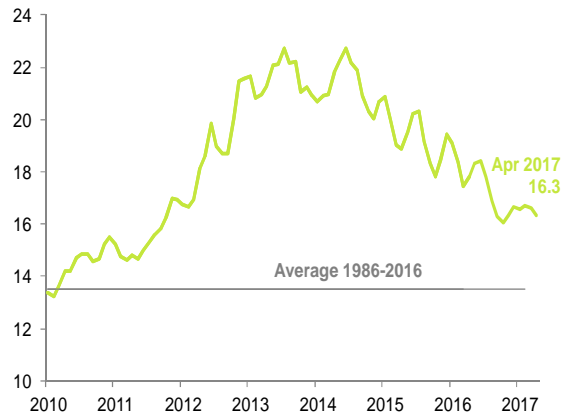
**Contributions of domestic and net external demand to GDP growth (p.p.).**



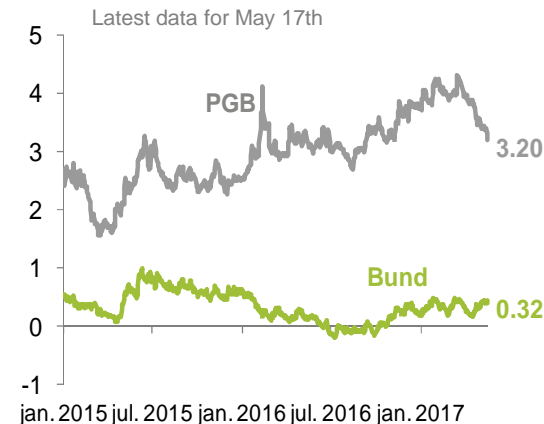
**Budget and external balances (% GDP).**



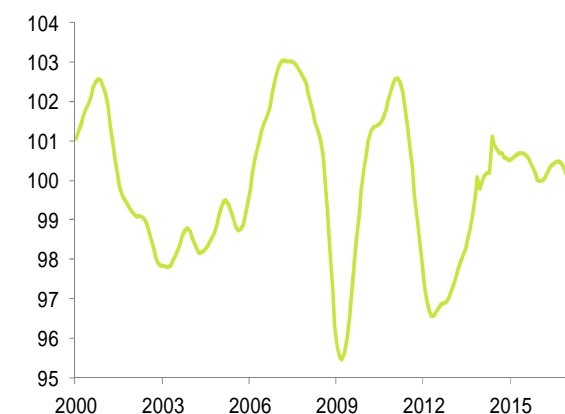
**Households financial stress indicator <sup>(1)</sup> (net balances, 3m MA).**



**PGB vs. Bund 10Y yield (%).**



**OECD leading indicator <sup>(2)</sup> (long term = 100).**



(1) Net balance of respondents reporting the need to increase indebtedness and tap savings to finance current expenditure; (2) Based on domestic and export order books, industrial production, share prices and unfilled job vacancies. **Sources:** INE, European Commission, Bank of Portugal, Bloomberg, OECD, NB Economic Research.

## Portuguese Economy – Main economic indicators 2010-2017

Annual growth rates (%), except where indicated	2010	2011	2012	2013	2014	2015	2016	2017F
GDP	1.9	-1.8	-4.0	-1.1	0.9	1.6	1.4	2.3
Private Consumption	2.4	-3.6	-5.5	-1.2	2.3	2.6	2.3	2.1
Public Consumption	-1.3	-3.8	-3.3	-2.0	-0.5	0.8	0.8	0.3
Investment	3.4	-14.0	-18.1	-5.1	5.1	4.6	-0.9	6.2
Exports	9.5	7.0	3.4	7.0	4.3	6.1	4.4	6.6
Imports	7.8	-5.8	-6.3	4.7	7.8	8.2	4.4	6.7
Inflation (%)	1.4	3.7	2.8	0.3	-0.3	0.5	0.6	1.5
Budget Balance (% GDP)	-11.2	-7.4	-5.7	-4.8	-7.2*	-4.4**	-2.0***	-1.6
Public Debt (% GDP)	96.2	111.4	126.2	129.0	130.6	129.0	130.4	128.9
Unemployment (% Labour Force)	10.8	12.7	15.6	16.2	13.9	12.4	11.1	9.9
Current & Capital Account Balance (% GDP)	-9.1	-4.0	0.0	2.3	1.0	0.3	1.5	1.1

\* Excluding one-off operations (e.g. SOE financing, BPN Crédito write-offs, tax credits to investment , severance payments to public sector workers), the deficit in 2014 stood at 3.6% of GDP. \*\* Excluding the recapitalisation of Banif, the deficit reached 3.1% of GDP. \*\*\* Includes one-off measures, including the ones associated to the extraordinary tax debt settlement scheme PERES and to corporate assets' revaluation.

F: Forecast.

Sources: INE, Bank of Portugal, NB Economic Research.

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## Results

- **Core Operating Income\*** of €59.6 million, growing 7.0% vs 1Q2016.
- **Banking income totalled €180.8 million**, reflecting a 22.8% YoY decrease, although underpinned by the positive contribution of fees and commissions (+8.2%).
- **Operating costs reduced 12.9% YoY**, to €135.2 million, confirming the downward trend observed since the creation of **NOVO BANCO**.
- **Provision charge of €137.4 million, €210.8 million lower than in the 1Q2016** (-60.5% YoY). Credit impairments amounted to €119.3 million, which compares with €185.5 million a year earlier (-35.7%).
- **Negative Net Income of €130.9 million, comparing favourably with the €249.4 million loss reported in 1Q2016.**

## Income Statement (€ million)

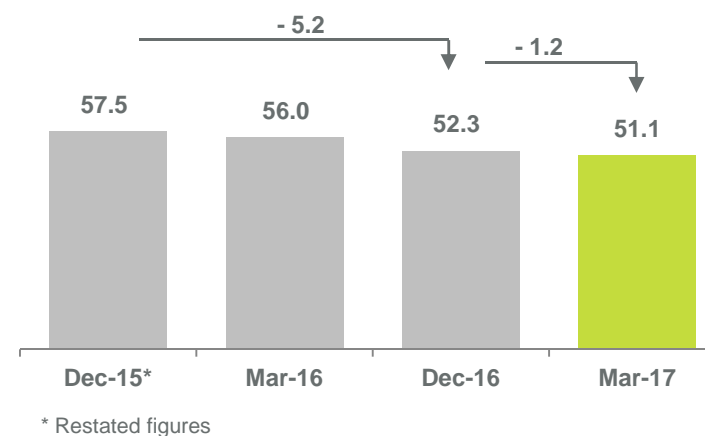
	1Q2016	1Q2017	Change %
Net Interest Income	140.8	119.0	(15.5%)
+ Fees and Commissions	70.1	75.8	8.2%
<b>= Commercial Banking Income</b>	<b>210.9</b>	<b>194.8</b>	<b>(7.6%)</b>
+ Capital Markets and Other Results	23.2	(14.1)	-
<b>= Banking Income</b>	<b>234.1</b>	<b>180.8</b>	<b>(22.8%)</b>
- Operating Costs	155.2	135.2	(12.9%)
<b>= Net Operating Income</b>	<b>78.9</b>	<b>45.6</b>	<b>(42.3%)</b>
(= Core Operating Income*)	55.7	59.6	7.0%
- Net Provisions	348.2	137.4	(60.5%)
<b>= Income Before Taxes</b>	<b>(269.3)</b>	<b>(91.8)</b>	<b>65.9%</b>
- Taxes and Non-controlling interest	(19.9)	39.1	-
<b>= Net Income</b>	<b>(249.4)</b>	<b>(130.9)</b>	<b>47.5%</b>

# Highlights

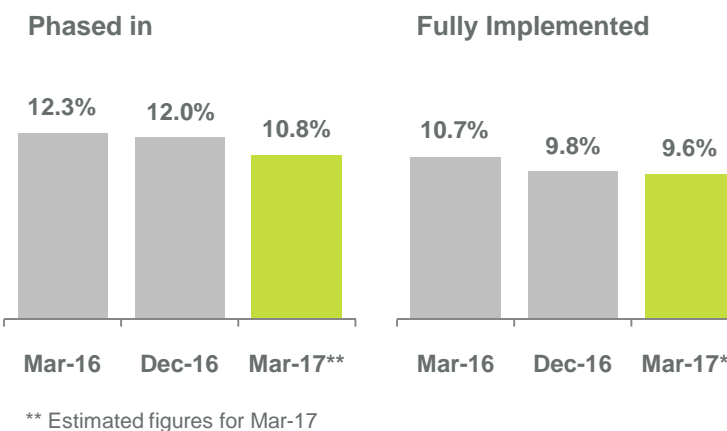
## Activity and Capital

- Customer loans were down by €0.3 billion in the 1Q2017, in line with the deleveraging process still under way.
- Production of Residential Mortgage Loans increased 57% YoY vs 1Q2016 and consumer loans production grew 62% vs 2016 monthly average (+126% YoY).
- Customer deposits of €25.2 billion, from €25.1 billion in the 1Q2016.
- Loan to deposit ratio of 110%, improved compared to the 1Q2016 (115%) and is in line with its value in Dec-2016.
- The last bond issuance guaranteed by the Portuguese Republic matured on 17-Feb-2017 (€1,500 million). This meant that **NOVO BANCO** ceased to have any kind of debt instrument guaranteed by the Portuguese Republic (initial amount of the 3 debt issues: €3,500 million).
- Estimated CET1 phased-in ratio of 10.8% and CET1 under the full implementation regime at 9.6%.

## Assets (€ billion)



## CET1 Ratios





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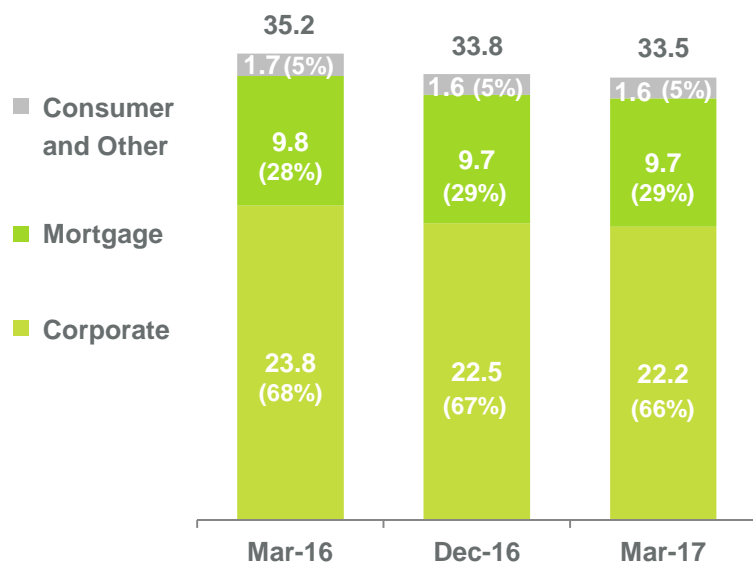
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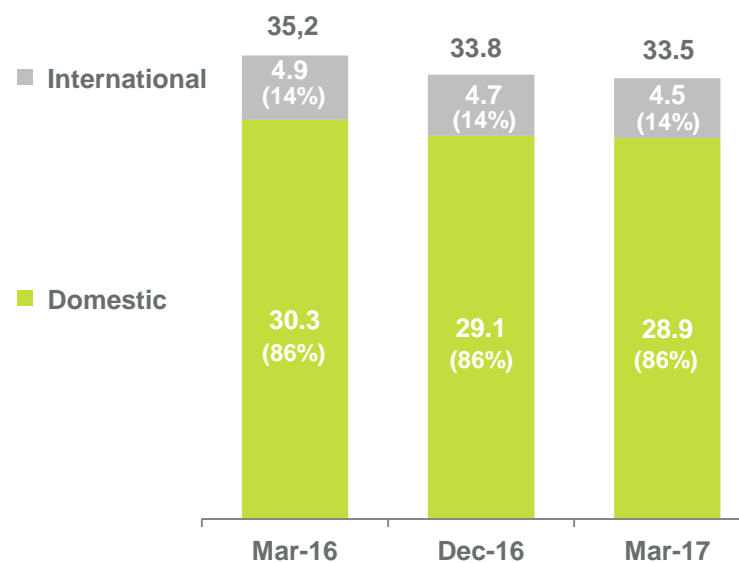
Appendix: Balance Sheet and Income Statement

# Decrease of Customer Loans in line with the balance sheet deleveraging process and a result of the selective lending policy

Loans per Segment (Gross, € billion)



Loans per Geography (Gross, € billion)

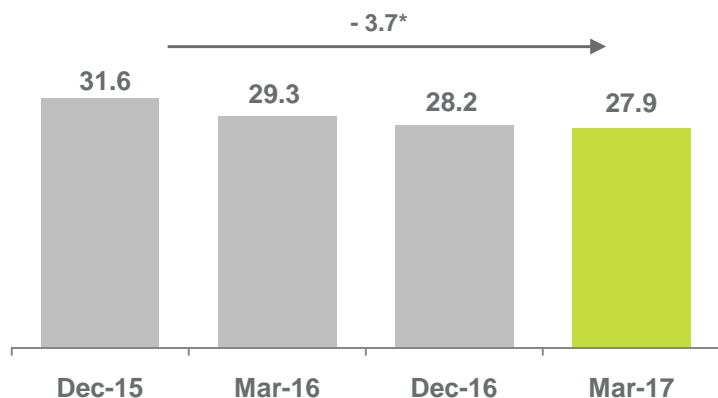


- Customer loans were down by €0.3 billion in the 1st quarter of 2017, which is in line with the deleveraging process still under way.
- Market share of 22% on the 'Capitalizar' Credit Line for Small Business.

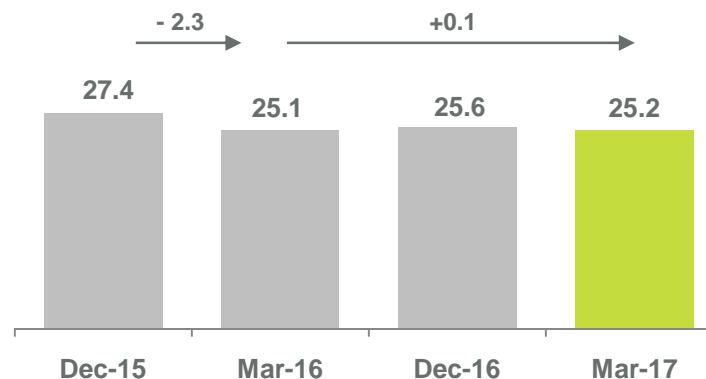
- Stock of Residential Mortgage Loans and Consumer and Other Loans to Individuals stable comparing with Dec-16.
- Residential Mortgage Loans and Consumer Loans with strong growth in production (+57% and +126%, compared with the 1Q2016).

# Stability in Customer Deposits since the 1Q2016 (+€0.1 billion YoY)

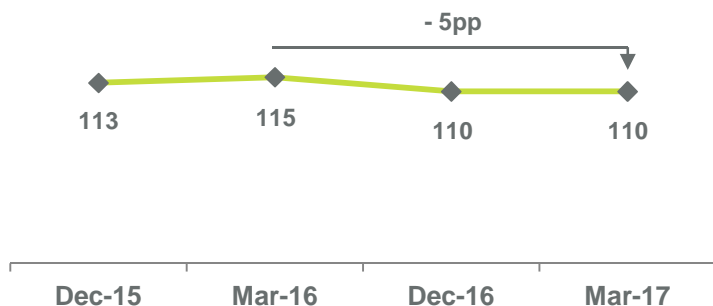
**Net Loans** (€ billion)



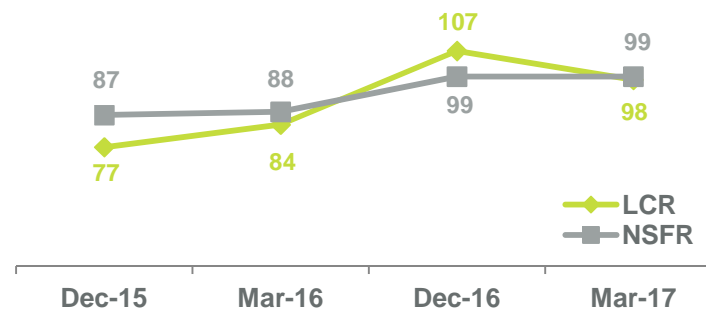
**Customer Deposits** (€ billion)



**Loan to Deposit Ratio** (%)



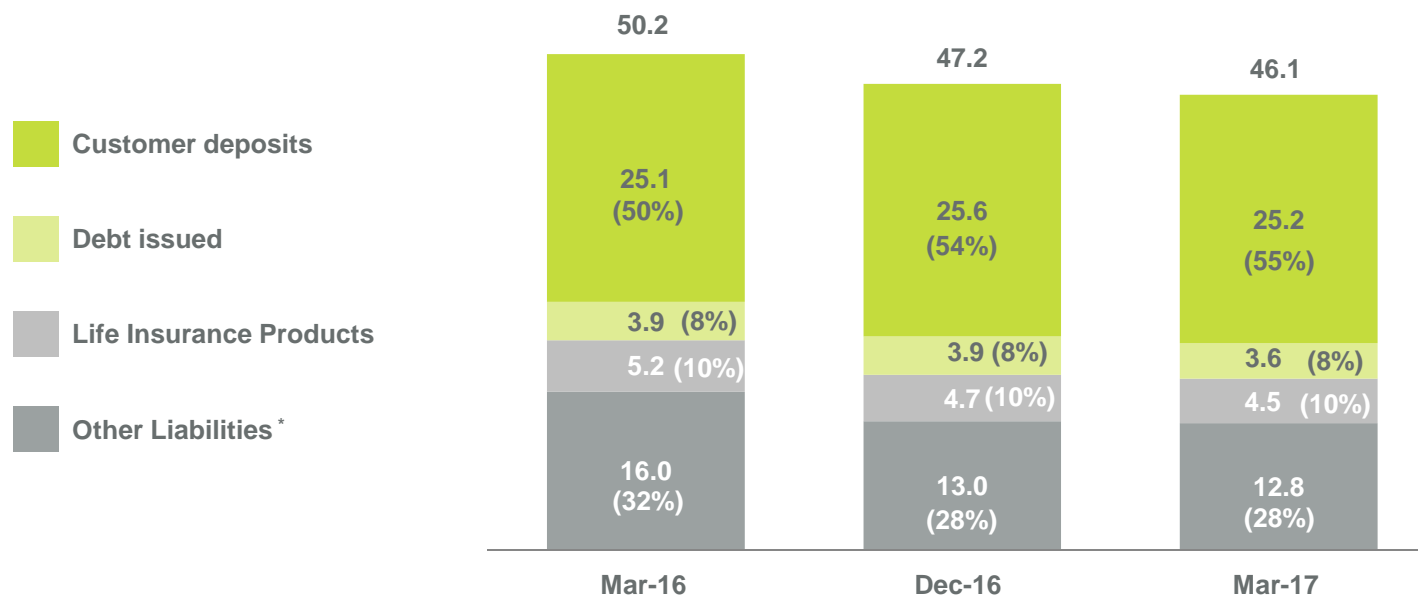
**Liquidity Ratios** (%)



\* In Gross Loans the decrease between Dec-15 and Mar-17 was of €3.9 billion of which €2.0 billion (-6%) in the domestic activity and €2.0 billion (-31%) in the international activity which mainly reflects the transfer of BES Vénétie and NB Asia to discontinued assets

# Customer Deposits increase weight in funding structure (excluding Shareholders Equity)

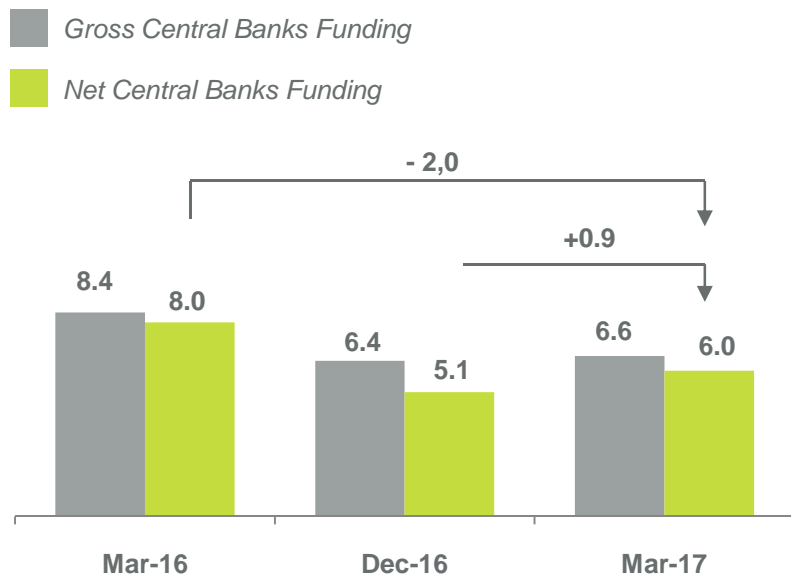
Evolution of the funding structure (€ billion, as a % of Total Liabilities)



- Customer deposits continue to be the main funding source.
- The last bond issuance guaranteed by the Portuguese Republic matured on 17-Feb-2017 (€1,500 million). This meant that **NOVO BANCO** ceased to have any kind of debt instrument guaranteed by the Portuguese Republic (at the time of its incorporation **NOVO BANCO** had three issues totalling: €3,500 million).

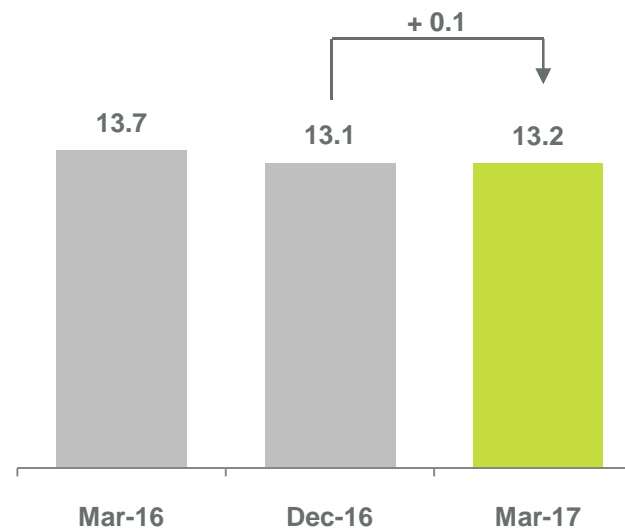
# Increase of net ESCB\* funding in €0.9 billion in the 1Q2017, but below 1Q2016 levels

**ESCB Funding** (€ billion)



- Net Funding with the ECB increased by €0.9 billion in the 1Q2017 to €6.0 billion, but with reduction compared to Mar-2016.

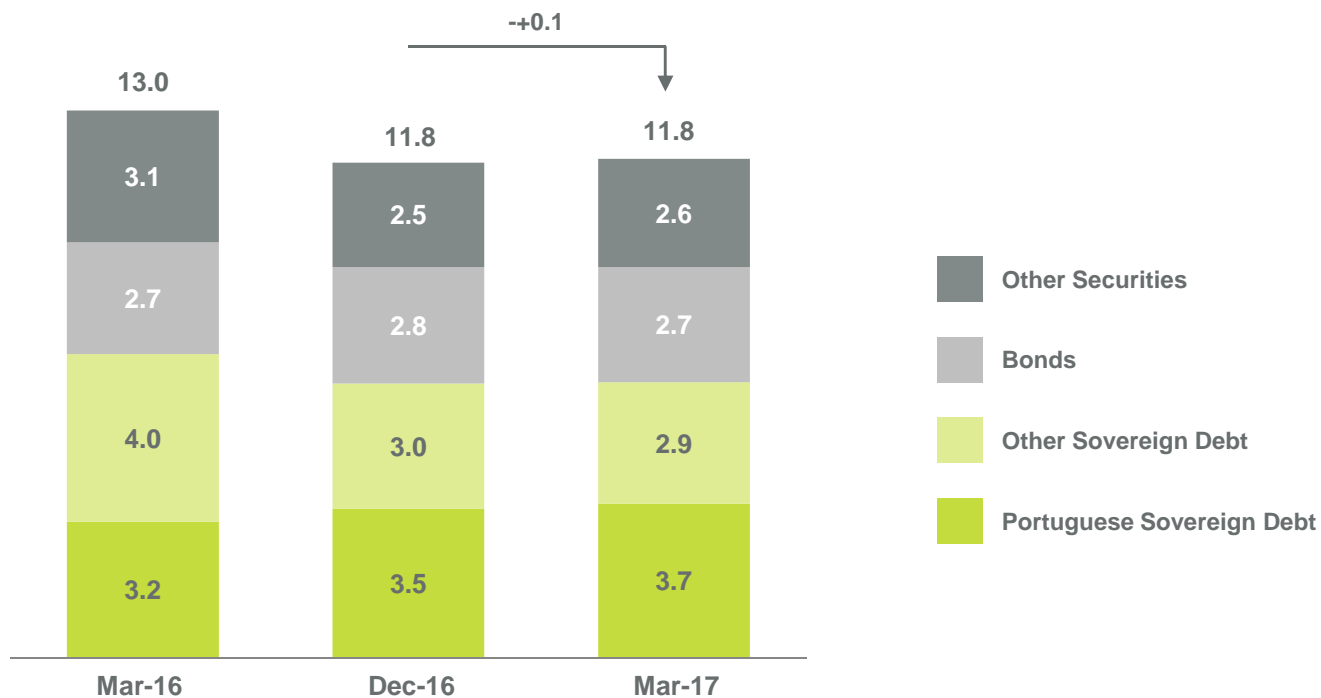
**Eligible Assets** (€ billion)



- Stability in the portfolio of securities available for rediscount (+€0.1 billion in the quarter).

# Securities portfolio based in securities with lower risk and higher liquidity

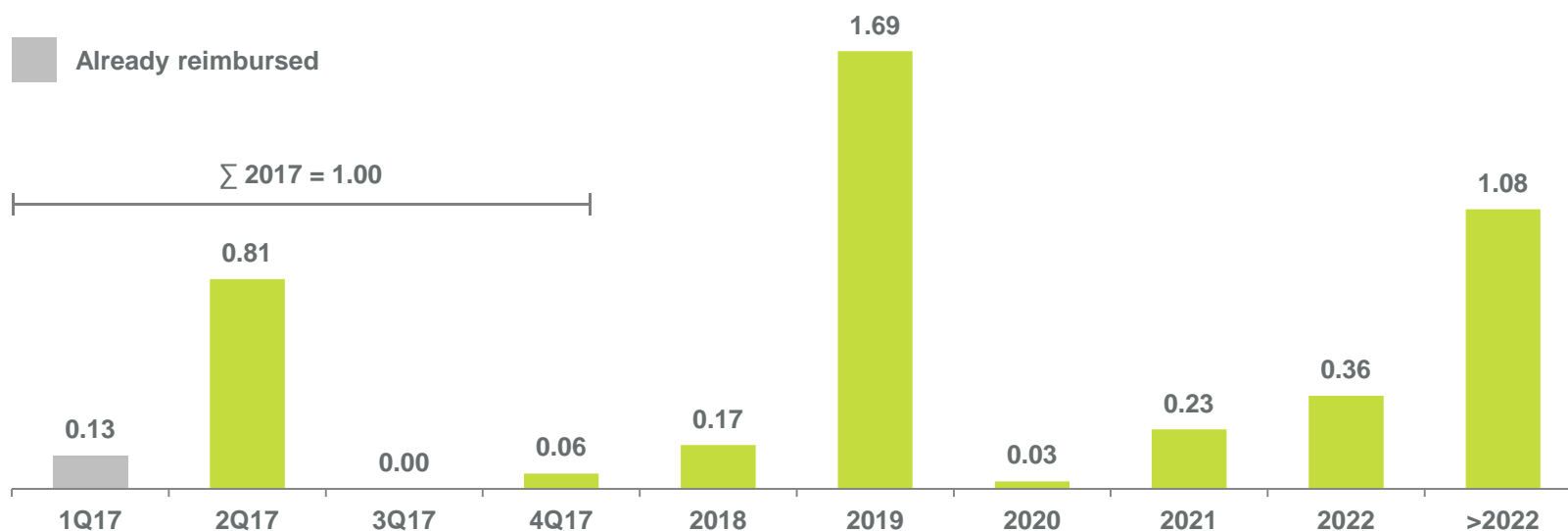
Evolution of Securities Portfolio (€ billion)



- Sovereign Bonds from Euro Zone countries account for 55% of total securities portfolio. Weight of Portuguese Sovereign Debt increased to 31% of total Securities Portfolio.
- Positive fair value reserve of €195 million (Dec-15: €151 million).

## In 2017 planned wholesale MLT debt reimbursements amount to €1.0 billion\*

### Wholesale MLT\* Funding (€ billion)



- In 2017 planned reimbursements amount to circa €1.0 billion.
- All the debt guaranteed by the Portuguese Republic was cancelled (€1.7 billion in Nov. and Dec. 2016) or repaid (€1.8 billion in Jan. and Feb. 2017).
- In the 1Q2017 **NOVO BANCO** redeemed €40 million in covered bonds, which were placed in the market in 2010.

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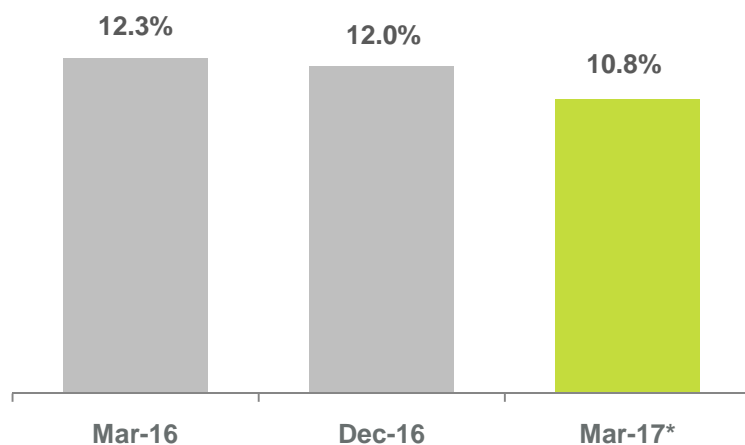
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Appendix: Balance Sheet and Income Statement



# Estimated CET1 phased-in ratio of 10.8% in Mar-2017

## CET1 phased-in ratio evolution



## Capital Ratios (phased-in)

BIS III (CRD IV / CRR)

€ million	Mar-16	Dec-16	Mar-17*
<b>Risk Weighted Assets (A)</b>	<b>36,282</b>	<b>33,627</b>	<b>33,512</b>
<b>Own Funds</b>			
CET1 (B)	4,471	4,051	3,620
Tier1 (C)	4,471	4,051	3,620
Total (D)	4,471	4,051	3,675
<b>CET1 phased-in Ratio (B/A)</b>	<b>12.3%</b>	<b>12.0%</b>	<b>10.8%</b>
Tier1 Ratio (C/A)	12.3%	12.0%	10.8%
Solvency Ratio (D/A)	12.3%	12.0%	11.0%
<b>CET1 fully implemented Ratio</b>	<b>10.7%</b>	<b>9.8%</b>	<b>9.6%</b>

- Estimated CET1 phased-in ratio of 10.8% in Mar-17.
- Estimated CET1 fully implemented ratio of 9.6% in Mar-17.

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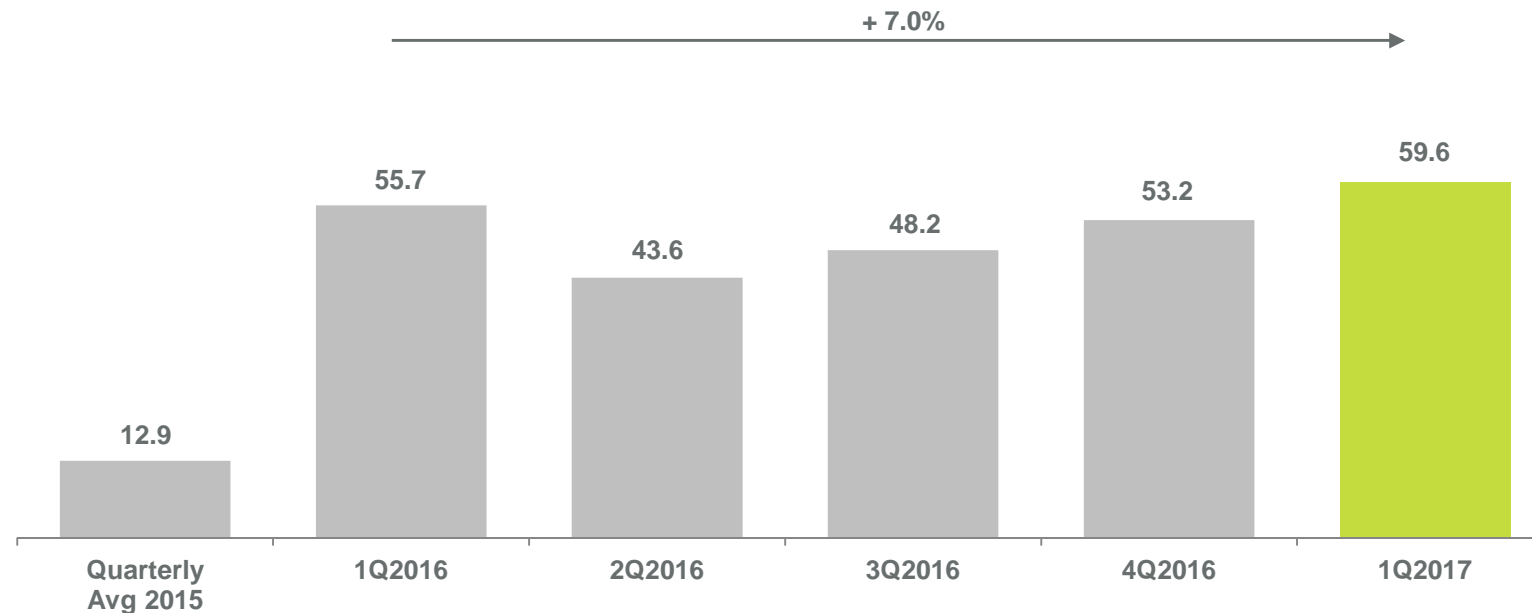
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# Sustainable recovery in Core Operating Income\* in the last quarters

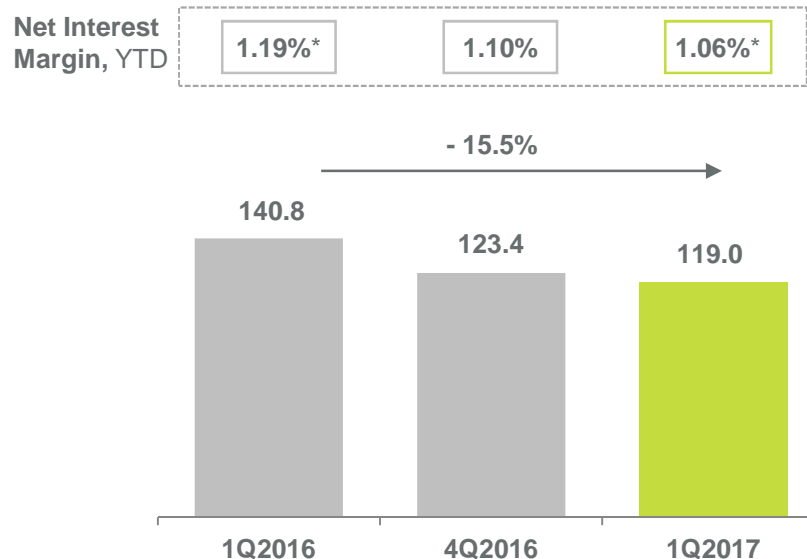
**Quarterly Evolution of Core Operating Income**  
(Commercial Banking Income – Operating Costs, € million)



- Sustainable recovery in Core Operating Income\* in the last quarters, based on the normalization of commercial banking income and on the operating costs' reduction.

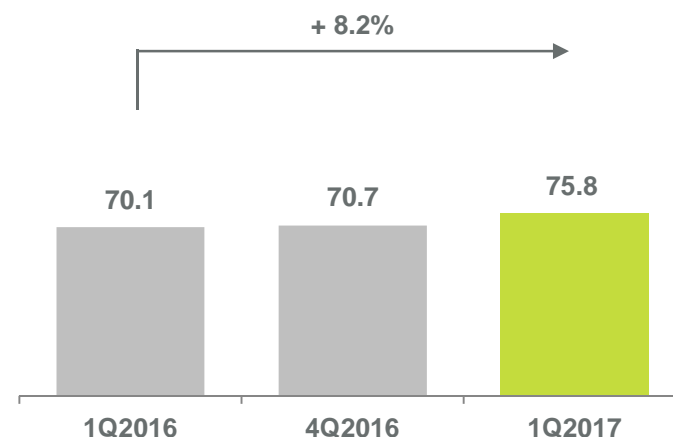
# Net Interest Income with a 15.5% decrease vs 1Q2016, but slightly below the 4Q2016. Fees and Commissions increase +8.2% YoY

## Net Interest Income (€ million)



- NII dropped by 15.5% YoY, 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).

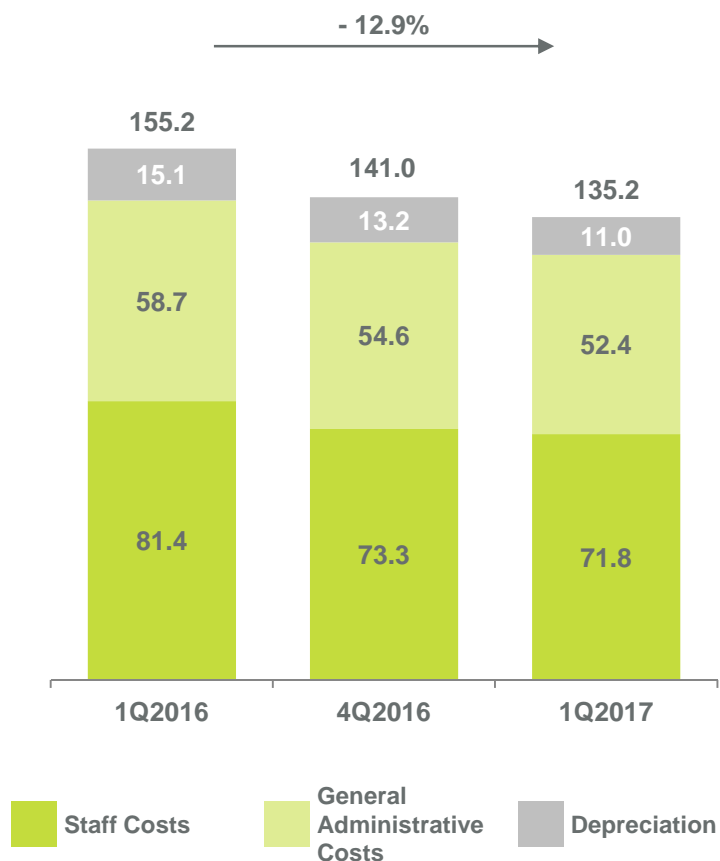
## Fees and Commissions (€ million)



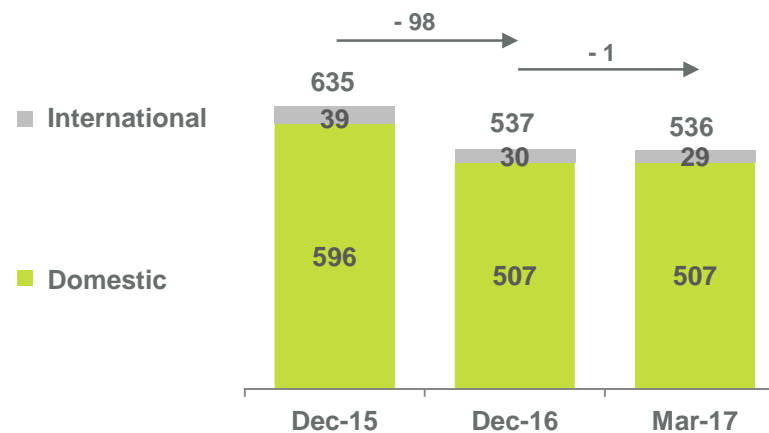
- Fees and Commissions increased 8.2% YoY, benefiting from the reduction in the fees paid related to the debt securities guaranteed by the Republic of Portugal (€2.0 million in 1Q2017 vs €8.6 million in 1Q2016).

# Operating Costs decreased by 12.9% in the 1Q2017, reflecting the implementation of the restructuring measures

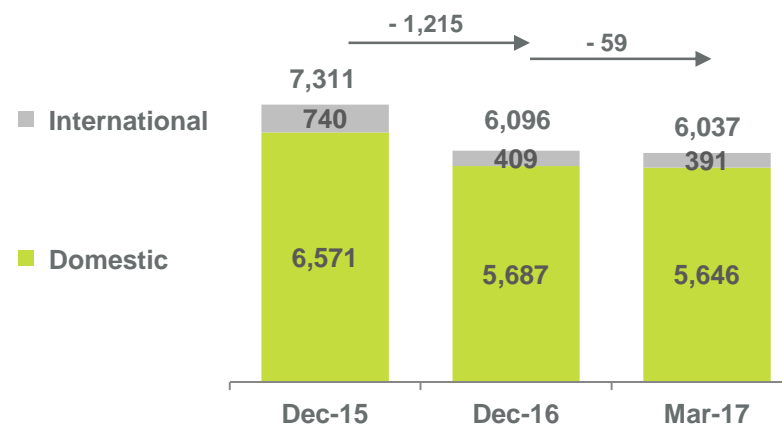
## Operating Costs (€ million)



## Branch Network

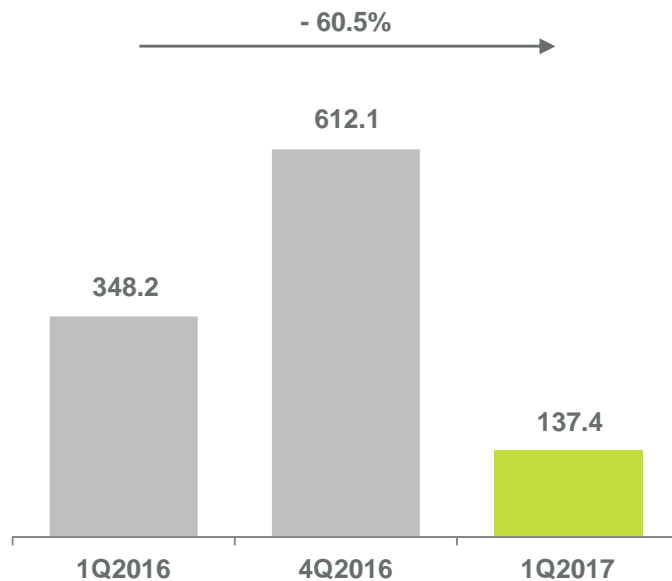


## Employees



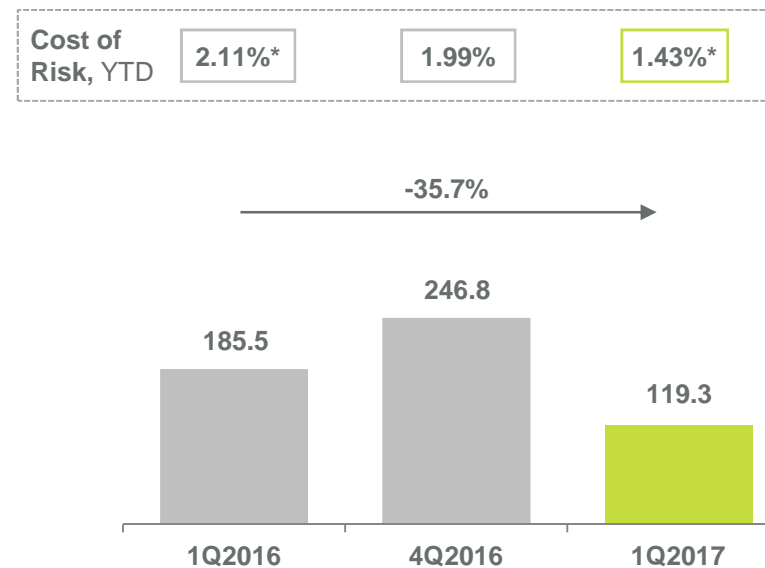
# Provisions of €137.4 million in 1Q2017 (-€ 210.8 million vs 1Q2016), with cost of risk reduction to 143 bps

**Total Provisions** (€ million)



- 1Q2017 provisions of €137.4 million (-€210.8 million vs 1Q2016)
- Provision for the costs of the restructuring process (€109.6 million) in the 1Q2016

**Credit Provisions** (€ million)

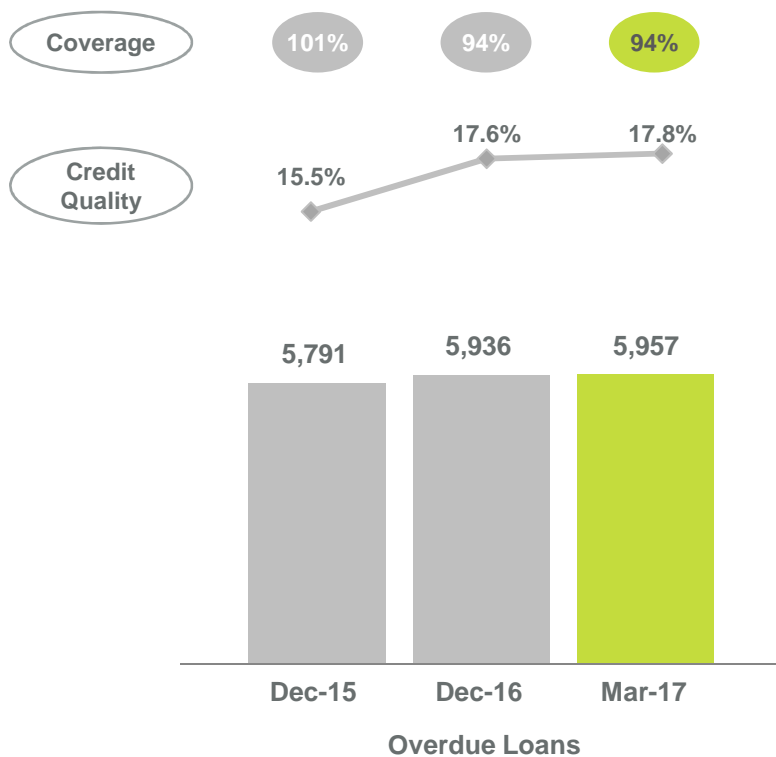


- Credit provisions with a 35.7% YoY reduction.
- Cost of risk of 143 bps (vs 211 bps in the 1Q2016 and 199 bps in in 2016).

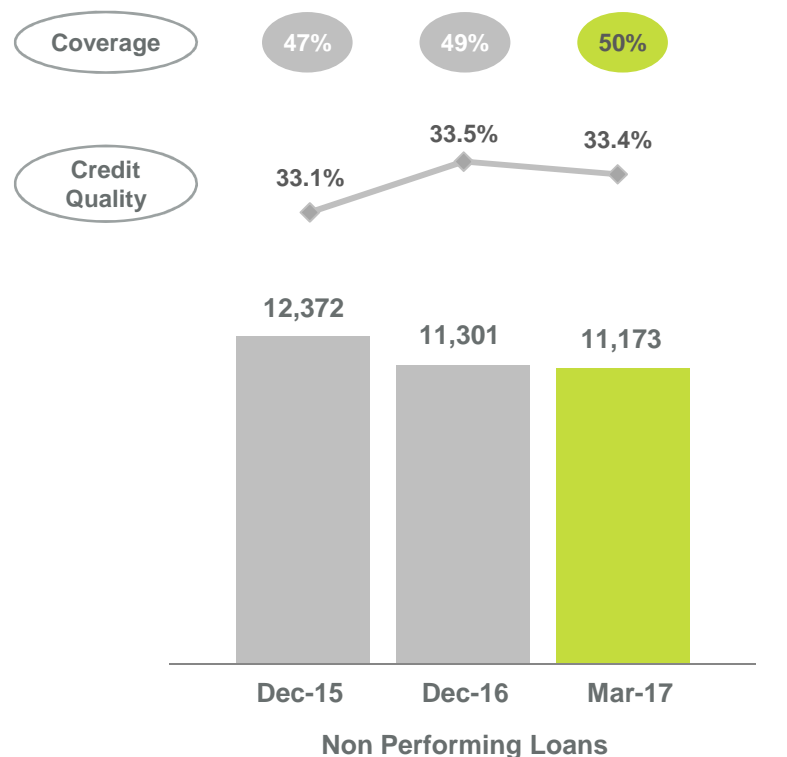
\* Annualized figures

# Credit Risk Indicators

## Overdue Loans (€ million)



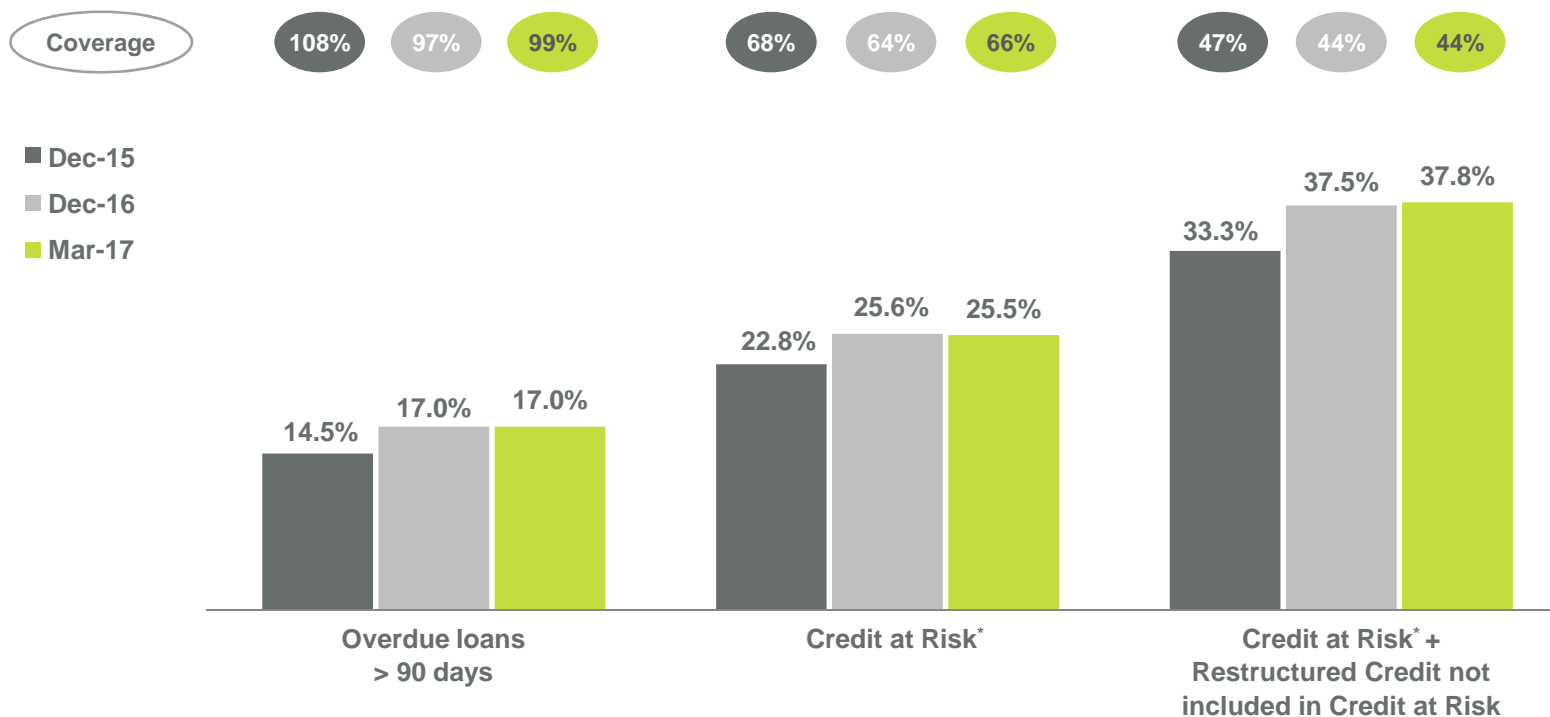
## Non Performing Loans\* (€ million)



- Decrease in Non Performing Loans stock of €128 million, with a 10 bps reduction in the Credit Quality ratio and an increase in coverage to 50%

# Credit Risk Indicators

## Credit Quality and Coverage



- Credit Risk ratio with a 10 bps decrease in the 1Q2017, with a €110 million reduction in the stock and an increase in the coverage to 66%.



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# NOVO BANCO is a reference Bank in Portugal

## NOVO BANCO's Profile

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### Strong Business Model

- **NOVO BANCO is a reference institution in the Portuguese financial sector, with net assets of €51.1 billion (3<sup>rd</sup> largest bank in Portugal).**
- **Reference bank in Corporate segment**, 83% of Large Corporate and 79% 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. 491 thousand frequent digital clients (+7% YoY), with a strong adherence to the *mobile channel* (193 thousand frequent clients, +66% YoY).

### Indicators

- **Net Loans of €27.9 billion in Mar-17.**
- **Deposits of €25.2 billion in Mar-17.**
- **Loan to Deposit ratio of 110% in Mar-17.**
- Estimated capital ratios in Mar-17: **CET1 phased-in of 10.8%** and **CET1 fully implemented of 9.6%**.

## Awards in Several Areas

**Best financial app**  
*Apple Store*  
*e Google Play*

App	Apple Store	Google Play	Average
<b>NOVO BANCO</b>	4.4	4.5	4.5
Bank B	3.5	4.2	4.1
Bank C	2.9	4.1	4.1
Bank D	3.3	4.1	4.0
Bank E	3.5	3.5	3.5



**Best Trade Bank in Portugal 2016**  
 Trade & Forfating Review



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# Consolidated Balance Sheet

(€ million)	31 Dec. 16	31 Mar. 17
Cash and deposits with central banks	1,469	734
Deposits with banks	371	338
Financial assets held for trading	657	642
Financial assets at fair value through profit and loss	1,204	1,141
Available for sale financial assets	10,558	10,707
Loans and advances to banks	724	756
Loans and advances to customers	28,184	27,882
Derivatives held for risk management purposes	223	223
Non current assets held for sale	8	8
Non current assets held for sale: - discontinued operations	1,217	1,135
Investment properties	1,206	1,196
Other tangible assets	206	200
Intangible assets	45	42
Investments in associated companies	159	160
Current tax assets	31	31
Deferred tax assets	2,604	2,588
Technical reserves of reinsurance ceded	6	6
Other assets	3,460	3,333
<b>Total Assets</b>	<b>52,333</b>	<b>51,124</b>

(€ million)	31 dez. 16	31 Mar. 17
Deposits from central banks	6,410	6,610
Financial liabilities held for trading	633	613
Deposits from banks	3,578	2,999
Due to customers	25,990	25,577
Debt securities issued	3,818	3,632
Derivatives held for risk management purposes	108	113
Investment contracts	3,396	3,236
Non current liabilities held for sale	2	2
Non current liabilities held for sale: - discontinued operations	749	731
Provisions	365	348
Technical reserves	1,334	1,281
Current tax liabilities	17	17
Deferred tax liabilities	19	17
Other subordinated debt	48	49
Other liabilities	719	852
<b>Total Liabilities</b>	<b>47,185</b>	<b>46,085</b>
Share capital	4,900	4,900
Revaluation reserves, other reserves and retained earnings	955	199
Net income for the period	(788)	(131)
Non-controlling interests	81	81
<b>Total Equity</b>	<b>5,148</b>	<b>5,049</b>
<b>Total Liabilities + Equity</b>	<b>52,333</b>	<b>51,124</b>

# Consolidated Income Statement

<i>(€ million)</i>	<b>1Q2016</b>	<b>1Q2017</b>
<b>Net Interest Income</b>	<b>140.8</b>	<b>119.0</b>
Dividend income	17.7	1.5
Fee and Commission income	92.9	93.9
Fee and Commission expense	(27.9)	(21.8)
Net gains / (losses) from financial assets at fair value through profit or loss	11.2	(24.3)
Net gains / (losses) from available-for-sale financial assets	15.9	17.1
Net gains / (losses) from foreign exchange revaluation	(9.7)	2.8
Net gains / (losses) from sale of other assets	(0.8)	(4.8)
Insurance earned premiums, net of reinsurance	11.1	11.5
Claims incurred, net of reinsurance	(63.4)	(75.4)
Change of the technical provision, net of reinsurance	48.8	60.7
Other operating income and expense	(32.6)	(33.8)
<b>Operating Income</b>	<b>203.9</b>	<b>146.4</b>
Staff costs	(81.4)	(71.8)
General and administrative costs	(58.7)	(52.4)
Depreciation and amortisation	(15.1)	(11.0)
Provisions and impairments	(348.2)	(137.4)
Sale of subsidiaries and associates	3.6	-
Results from associated companies consolidated by equity method	(0.0)	1.7
<b>Income before taxes</b>	<b>(295.8)</b>	<b>(124.5)</b>
Income tax		
Current	0.4	(2.1)
Deferred	49.5	(4.1)
<b>Income from continuing activities</b>	<b>(245.9)</b>	<b>(130.7)</b>
Income from discontinued activities	(10.4)	(0.5)
<b>Net income for the period</b>	<b>(256.3)</b>	<b>(131.2)</b>
Non-controlling interests	(7.0)	(0.3)
<b>Net income attributable to the shareholders</b>	<b>(249.4)</b>	<b>(130.9)</b>

## **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.

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This document contains unaudited information for 2016.



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