

# NOVO BANCO<sup>L</sup>



## Results Presentation 2Q2017

Unaudited financial information

28 July 2017

# Agenda

## Portuguese Economy

**Highlights**

**Liquidity**

**Capital**

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**Appendix: Balance Sheet and Income Statement**

# Portuguese Economy – Highlights

Note prepared in July 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 falling (9.4% in May). External demand for tourism services remains very strong.
- The improvement in the economic outlook and in public accounts, and lower political risks in the Euro Area, have translated into lower sovereign PGB yields and spreads. The 10Y yield fell from a year high of 4.3% in March to 2.96% in July, with the spread vs. Bund falling from 385 to 241 bps.

## OUTLOOK

- After 1.4% in 2016, GDP should grow around 2.3% in 2017, with upside risks. Activity should have increased 2.5%-3% YoY in Q2 2017, with stronger private consumption and investment.
- Better than expected growth in Europe, domestic political stability, a stabilisation of the banking sector, improving financing conditions, strong growth in tourism and stronger public and private investment should support activity growth. The probability of an upgrade in the sovereign rating between end-2017 and H1 2018 has increased.
- 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

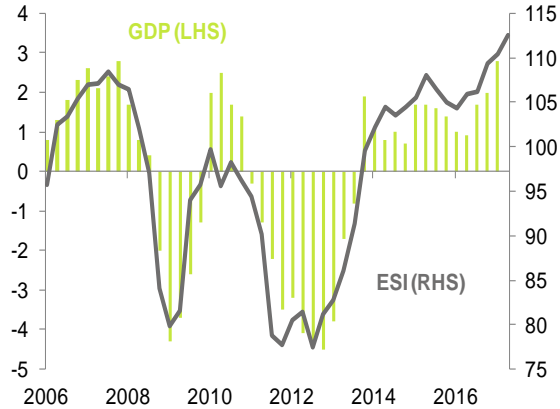
- The budget deficit fell to 2% of GDP in 2016, from 4.4% in 2015 (3.1% excluding one-offs), below target. The primary balance improved from 0.2% to 2.2% of GDP. The 2017 Budget points to a deficit of 1.5% of GDP.
- Public debt increased from 129% to 130.4% of GDP in 2016 (close to 122% excluding Central Government deposits) and it should reach around 128% of GDP in 2017. By July, Portugal had covered 65% of its PGB financing needs for 2017.
- In June, Portugal left the EC's Excessive Deficit Procedure and Fitch revised the outlook for its BB+ rating from "stable" to "positive". The external balance reached a surplus of 1.5% of GDP in 2016 (i.e. net financing capacity).

## MAIN RISKS

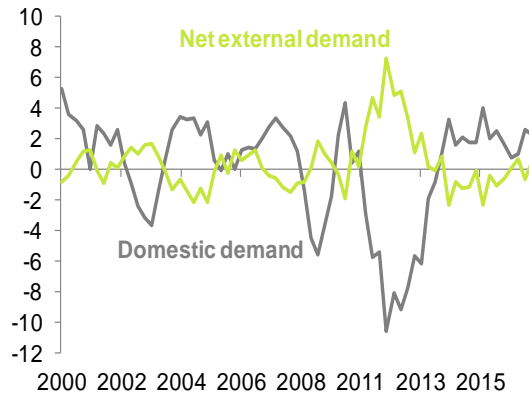
- Deterioration of investor sentiment associated with global political and financial market uncertainty (e.g. low inflation, tapering of Fed and ECB asset purchases, US economic and foreign policies, tensions with Russia and North Korea).
- Economic and fiscal impacts of the ongoing adjustments in the 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

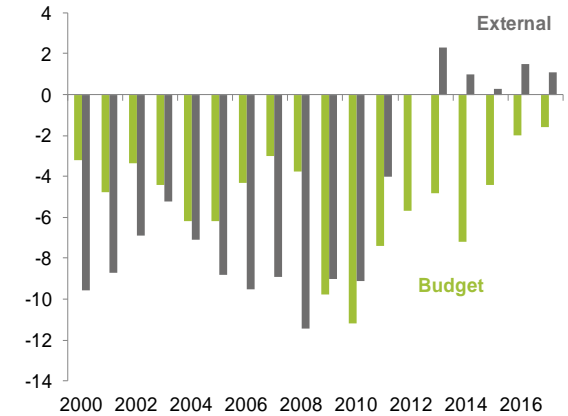
**Economic Sentiment Indicator vs. GDP growth (% YoY).**



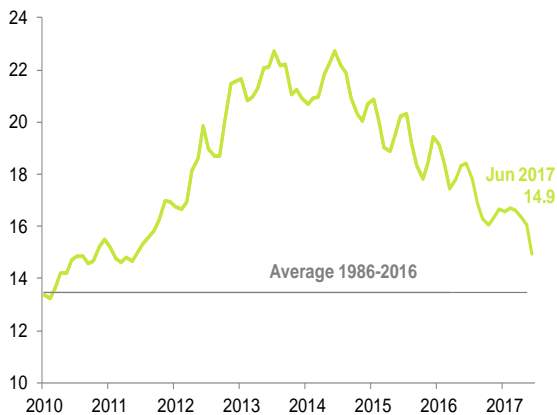
**Contributions of domestic and net external demand to GDP growth (p.p.).**



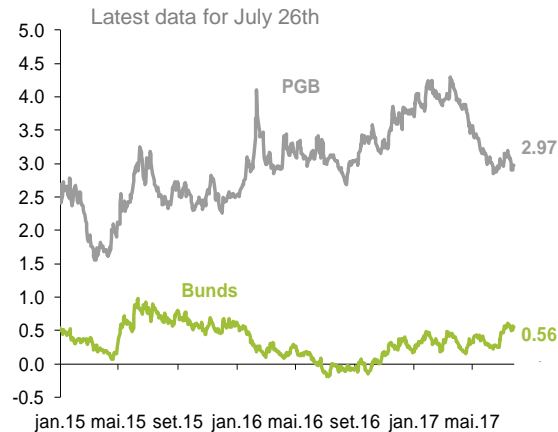
**Budget and external balances (% GDP).**



**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 2011-2018

Annual growth rates (%), except where indicated	2011	2012	2013	2014	2015	2016	2017 <sup>F</sup>	2018 <sup>F</sup>
GDP	-1.8	-4.0	-1.1	0.9	1.6	1.4	2.3	2.0
Private Consumption	-3.6	-5.5	-1.2	2.3	2.6	2.3	2.1	1.8
Public Consumption	-3.8	-3.3	-2.0	-0.5	0.8	0.5	0.3	0.6
Investment	-14.0	-18.1	-5.1	5.1	4.6	-0.6	6.2	5.3
Exports	7.0	3.4	7.0	4.3	6.1	4.4	6.6	5.6
Imports	-5.8	-6.3	4.7	7.8	8.2	4.5	6.7	5.5
Inflation (%)	3.7	2.8	0.3	-0.3	0.5	0.6	1.3	1.2
Budget balance (% GDP)	-7.4	-5.7	-4.8	-7.2*	-4.4**	-2.0***	-1.5	-1.2
Public debt (% GDP)	111.4	126.2	129.0	130.6	129.0	130.4	127.9	125.1
Unemployment (% labour force)	12.7	15.6	16.2	13.9	12.4	11.1	9.5	8.4
Balance of Current and Capital Accounts (% GDP)	-4.0	0.0	2.3	1.0	0.3	1.4	1.3	1.5

\* Excluding one-off operations (e.g. Recapitalisation of Novo Banco (€4.9 billion), 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 one-offs (e.g. recapitalisation of Banif), the deficit reached 3.1% of GDP. \*\*\* Includes one-off measures.

F: Forecast.

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

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# Highlights

## Results

- **NOVO BANCO Group net Income in the 1H17 was a loss of €290.3 million**, a decrease of 19.9% comparing with the 1H2016 (-€362.6 million), impacted by the still high provisioning level.
- **Positive net operating income** (before provisions and taxes) of €171.5 million, up by 20.5% YoY, underlines **NOVO BANCO Group's** income-generating capacity.
- **Fees and commissions performed well, contributing with €156.3 million** to the results.
- **Operating costs were reduced by €39.0 million YoY (-12.8%), to €265.2 million**, confirming the downward trend observed since the creation of **NOVO BANCO**.
- **Provision charge of €413.1 million, €163.6 million lower than in the 1H2016** (-28.4% YoY).

## Income Statement (€ million)

	1H2016	1H2017	Change %
Net Interest Income	262.0	210.6	(19.6%)
+ Fees and Commissions	141.5	156.3	10.5%
<b>= Commercial Banking Income</b>	<b>403.5</b>	<b>367.0</b>	<b>(9.1%)</b>
+ Capital Markets and Other Results	43.0	69.6	61.9%
<b>= Banking Income</b>	<b>446.5</b>	<b>436.6</b>	<b>(2.2%)</b>
- Operating Costs	304.2	265.2	(12.8%)
<b>= Net Operating Income</b>	<b>142.3</b>	<b>171.5</b>	<b>20.5%</b>
(= Core Operating Income*)	99.3	101.8	2.5%
- Net Provisions	576.7	413.1	(28.4%)
<b>= Income Before Taxes</b>	<b>(434.4)</b>	<b>(241.6)</b>	<b>44.4%</b>
- Taxes and Non-controlling interest	(71.8)	48.7	-
<b>= Net Income</b>	<b>(362.6)</b>	<b>(290.3)</b>	<b>19.9%</b>

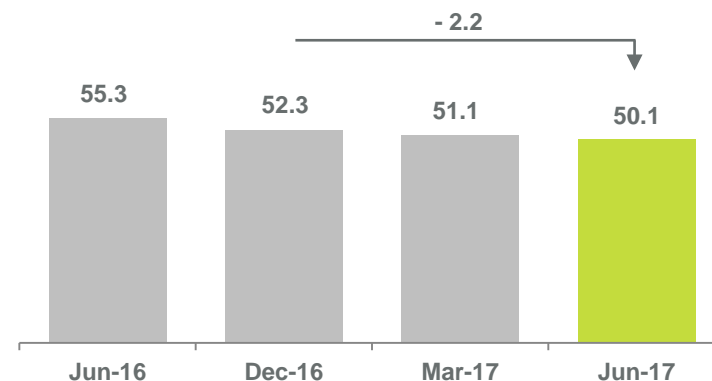
\* Commercial Banking Income – Operating Costs

# Highlights

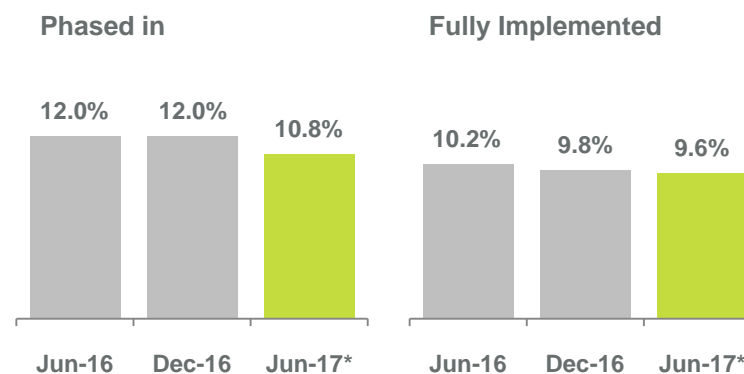
## Activity and Capital

- Customer loans were down by €1.3 billion in the 2Q2017, in line with the deleveraging process still under way.
- Customer deposits increased by €0.2 billion relative to the 1Q2017, to €25.4 billion
- Loan to deposit ratio improving to 106%, from 110% in Mar-17.
- The Non Performing Loans stock reduced materially by €0.9 billion to €10.4 billion in Jun-17 (€11.3 billion in Dec-16), with a coverage ratio of 50% (Dec-2016: 48%). The Non Performing Loans ratio decreased 130 bps in the first half of 2017 to 32.1%.
- Estimated CET1 phased-in ratio of 10.8% and CET1 under the full implementation regime at 9.6%.

## Assets (€ billion)



## CET1 Ratios



\* Estimated figures for Jun-17



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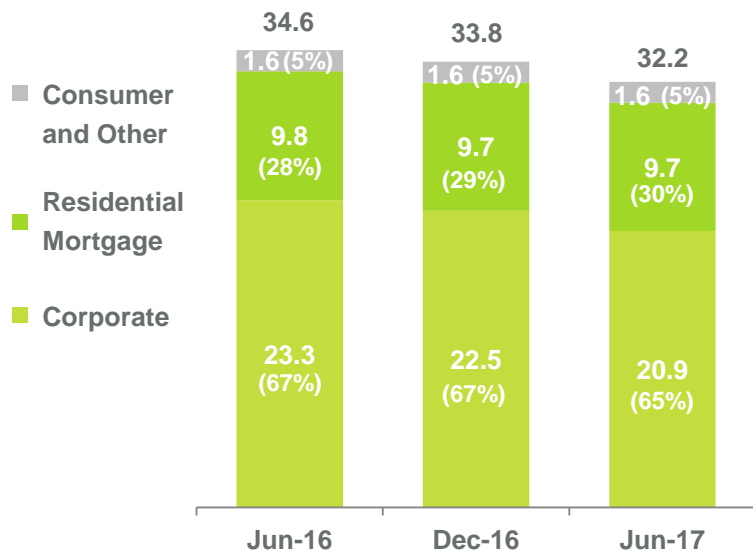
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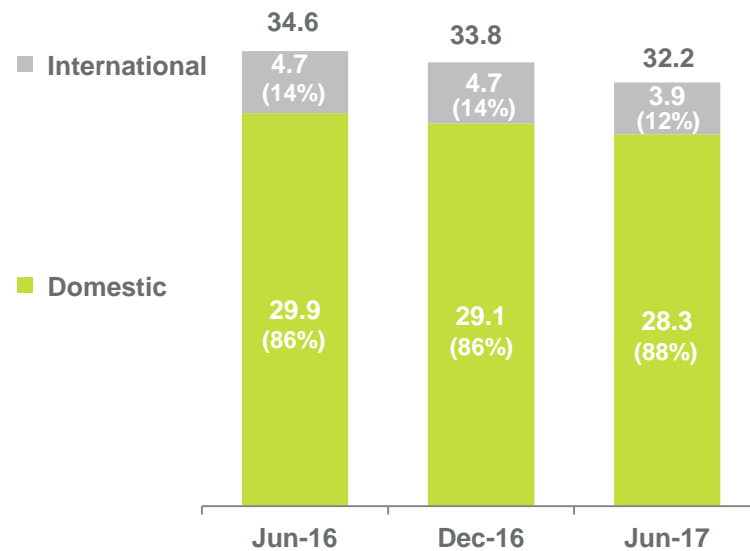
Appendix: Balance Sheet and Income Statement

# 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)

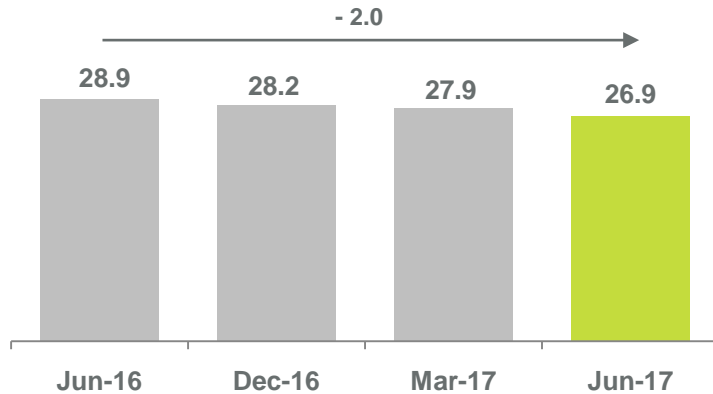


- Customer loans were down by €1.3 billion in the 2Q2017 (-€2.3 billion YoY), which is in line with the deleveraging process still under way.
- Corporate loans represent 65% of total loan portfolio.

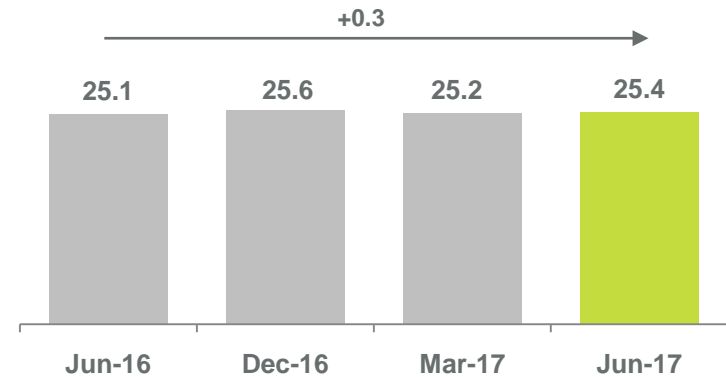
- Residential Mortgage Loans and Consumer Loans with strong growth in production (+35% and +60%, compared with 2016 average).
- Stock of Residential Mortgage Loans and Consumer and Other Loans to Individuals stable comparing with Jun-16.

# Stability in Customer Deposits and positive evolution of the loan to deposit ratio to 106%

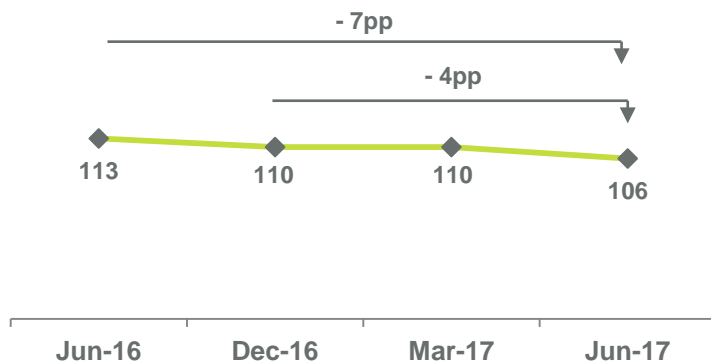
Net Loans (€ billion)



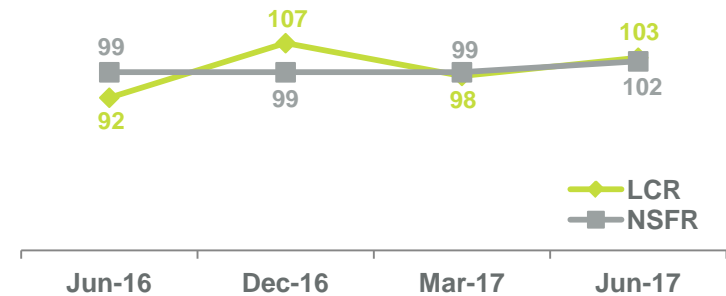
Customer Deposits (€ billion)



Loan to Deposit Ratio (%)

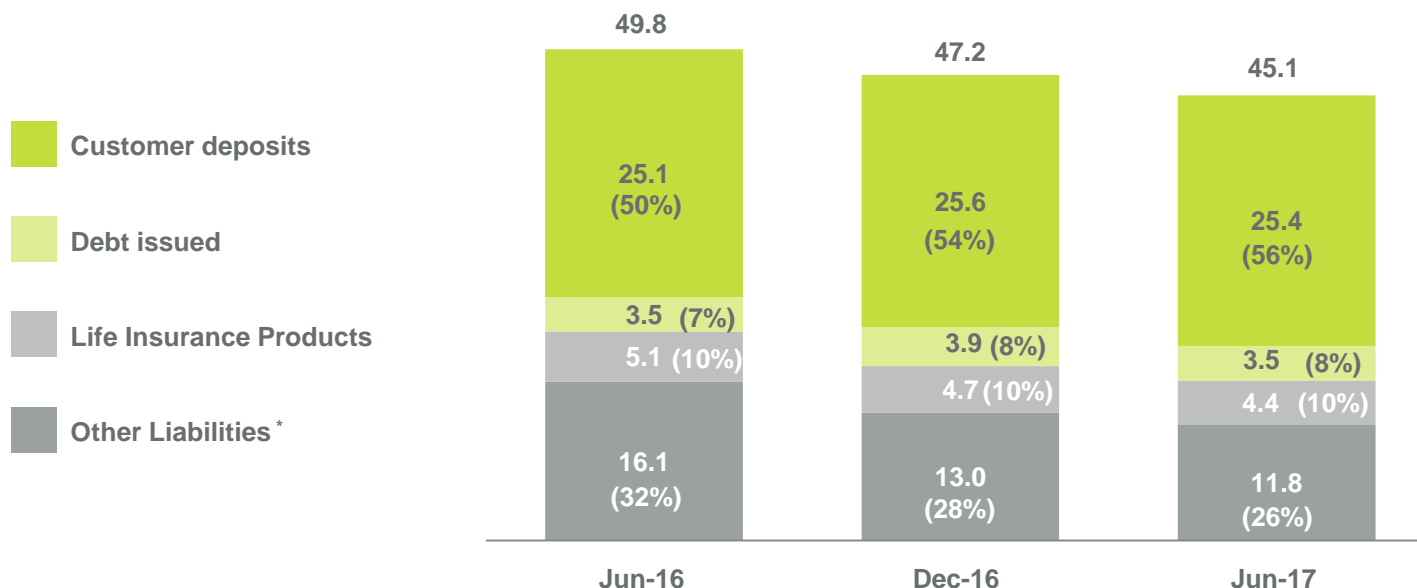


Liquidity Ratios (%)



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

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

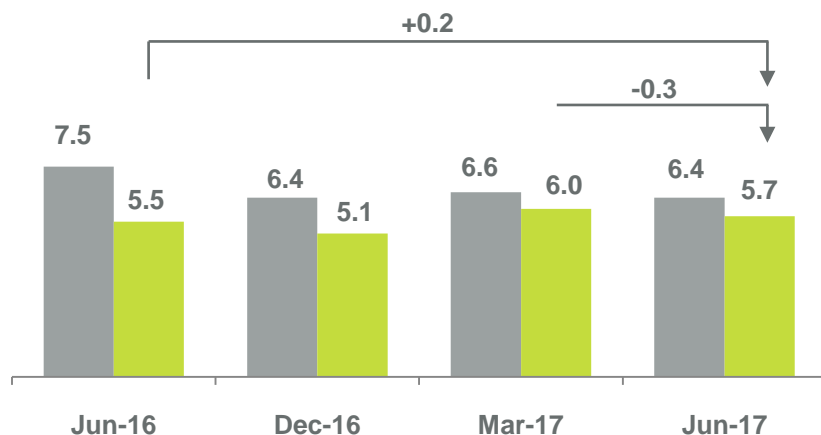


- Customer deposits increase its weight as the main funding source (56% vs 50% in Jun-2016).
- In Feb-2017 matured the last bond issuance guaranteed by the Portuguese Republic of €1,500 million (initial amount of the 3 debt issues: €3,500 million already cancelled and/or reimbursed).
- On 25 July the market was informed of the tender offer launched on several senior debt securities issued directly and indirectly by **NOVO BANCO**, with the objective of strengthening its equity and concluding the sale process to Lone Star announced on 31 March.

# Decrease of net ESCB\* funding in €0.3 billion in the 2Q2017, with stable eligible assets portfolio

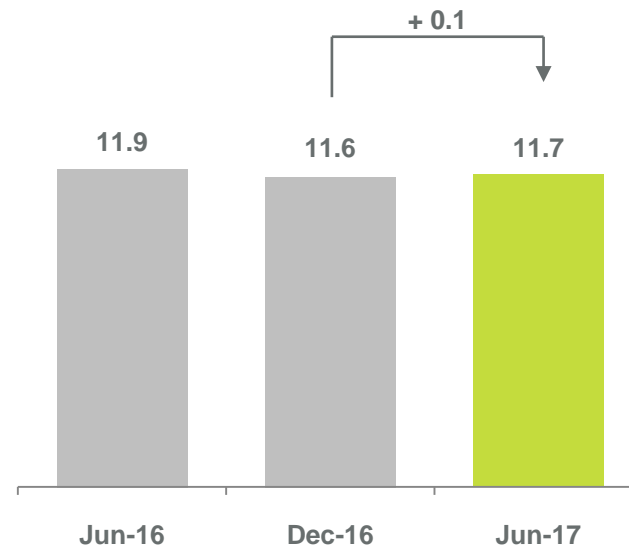
## ESCB Funding (€ billion)

- Gross Central Banks Funding
- Net Central Banks Funding



- Net Funding with the ECB decreased by €0.3 billion in the 2Q2017 to €5.7 billion, €0.2 billion above Jun-16 figures.

## Eligible Assets (net of haircut, € billion)



- Stability in the portfolio of assets available for rediscount with the ECB, net of haircut (+€0.1 billion in the semester).

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

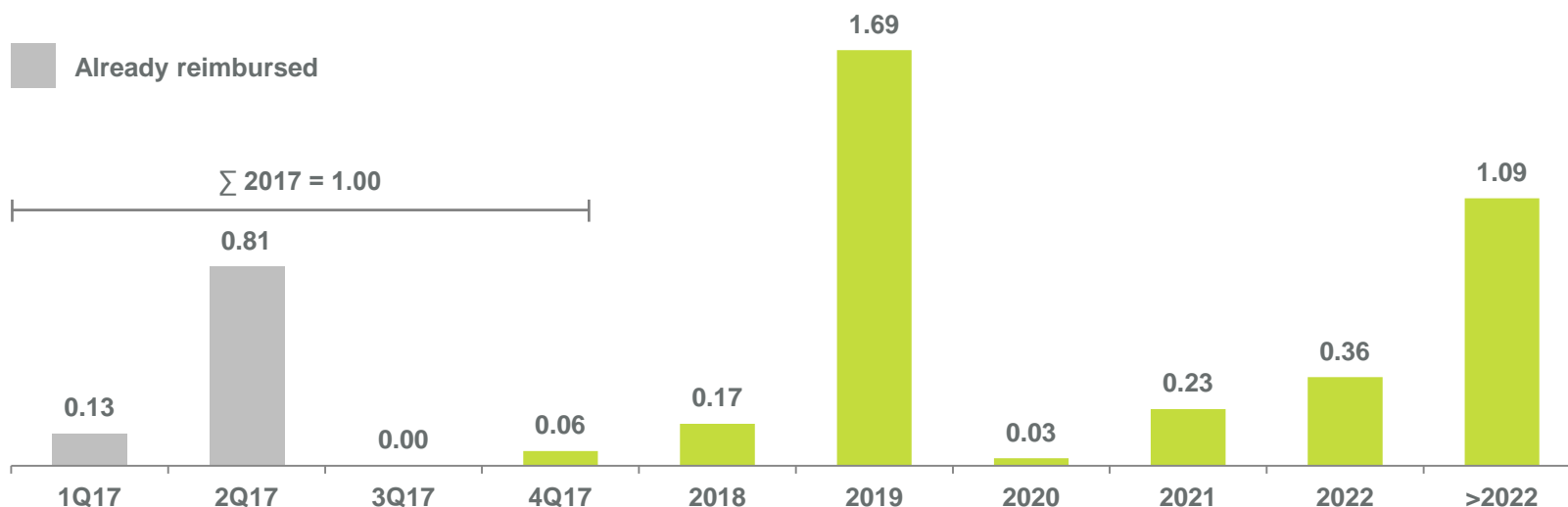
Evolution of Securities Portfolio (€ billion)



- Sovereign Bonds from Euro Zone countries account for 56% of total securities portfolio. Weight of Portuguese Sovereign Debt increased to 37% of total Securities Portfolio.
- Positive fair value reserve of €275 million (Dec-16: €151 million).

# Planned wholesale MLT funding reimbursements in 2017 amount to €1.0 billion\*, of which 94% already redeemed in the 1H2017

## Wholesale MLT\* Funding (€ billion)



- €940 million of wholesale MLT funding were already reimbursed in the first half of the year (i.e. 94% of the total reimbursements planned for the year of around €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).
- On 25 July the market was informed of the tender offer launched on several senior debt securities issued directly and indirectly by **NOVO BANCO**, with the objective of strengthening its equity and concluding the sale process to Lone Star announced on 31 March.

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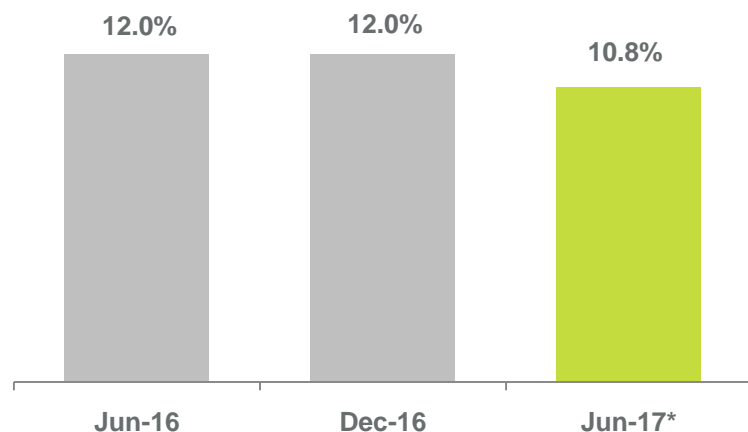
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# Estimated CET1 phased-in ratio of 10.8% in Jun-2017

## CET1 phased-in ratio evolution



## Capital Ratios (phased-in)

BIS III (CRD IV / CRR)

€ million	Jun-16	Dec-16	Jun-17*
<b>Risk Weighted Assets (A)</b>	<b>36,105</b>	<b>33,627</b>	<b>32,111</b>
<b>Own Funds</b>			
CET1 (B)	4,332	4,051	3,477
Tier1 (C)	4,332	4,051	3,477
Total (D)	4,343	4,051	3,538
<b>CET1 phased-in Ratio (B/A)</b>	<b>12.0%</b>	<b>12.0%</b>	<b>10.8%</b>
Tier1 Ratio (C/A)	12.0%	12.0%	10.8%
Solvency Ratio (D/A)	12.0%	12.0%	11.0%
<b>CET1 fully implemented Ratio</b>	<b>10.2%</b>	<b>9.8%</b>	<b>9.6%</b>

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

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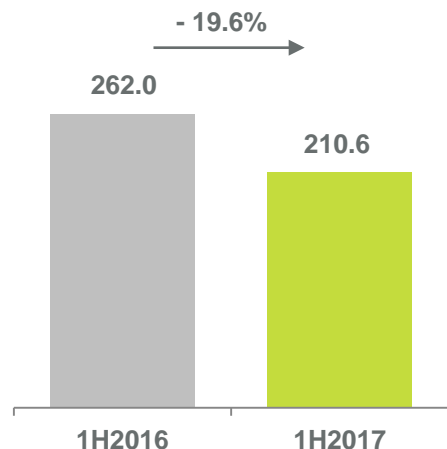
**Summary**

**Appendix: Balance Sheet and Income Statement**

# Net Interest Income with a 19.6% YoY decrease, partially compensated by Fees and Commissions and Other Results

## Net Interest Income

(NII, € million)



Net Interest Margin\*

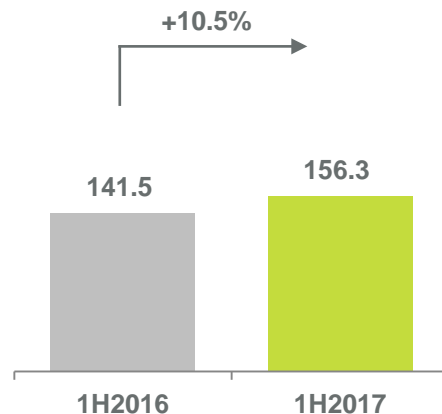
1.10%

0.95%

- NII contracted by 19.6% YoY, with the positive impact from a 17 bps reduction in the cost of liabilities (from 1.45% in Jun-16 to 1.28% in Jun-17) not sufficient to offset the reduction in the interest rate on assets (32bps).

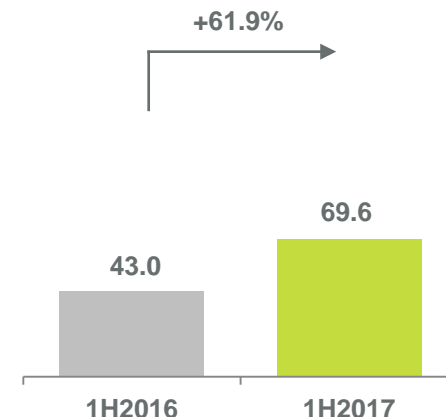
## Fees and Commissions

(€ million)



- Fees and commissions increased 10.5% YoY, reflecting the reduction in the cost of bond issues guaranteed by the Republic of Portugal (€2.0 million in the 1H2017 vs €17.1M in the 1H2016).

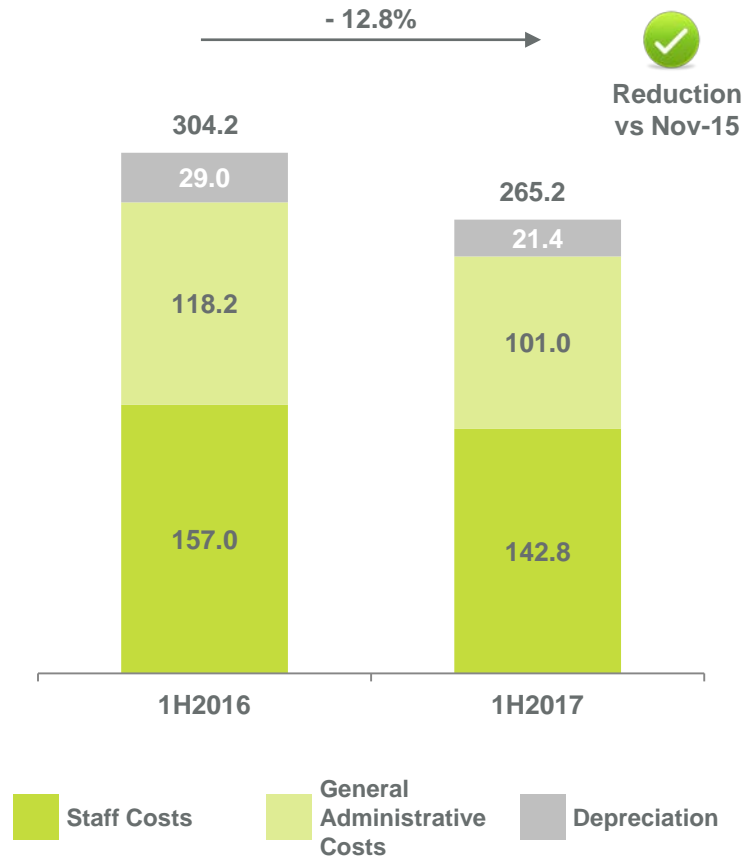
## Capital Markets and Other Results (€ million)



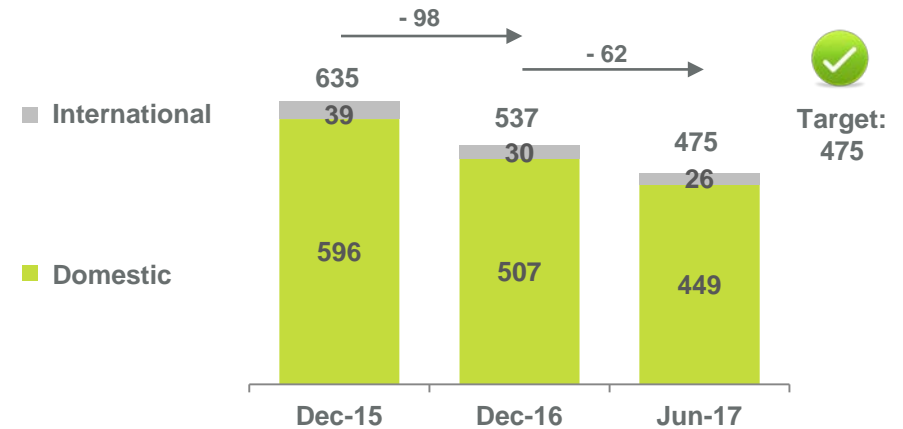
- Includes a capital gain of €103.1 million on the sale of a 75% stake in NB Ásia, sale of international credits (-€30.9 million) and contributions to the Single Resolution Fund and Portuguese Resolution Fund (-€27.5 million).

# Operating Costs decreased by 12.8% in the 1H2017, reflecting the implementation of the restructuring measures

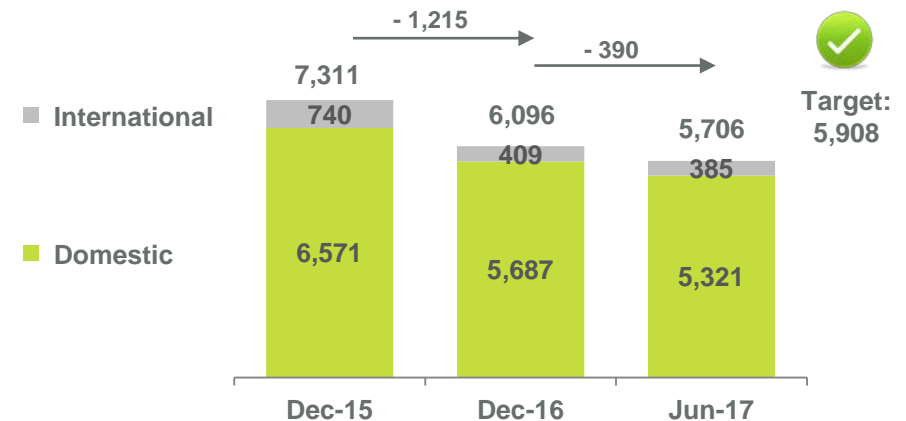
## Operating Costs (€ million)



## Branch Network



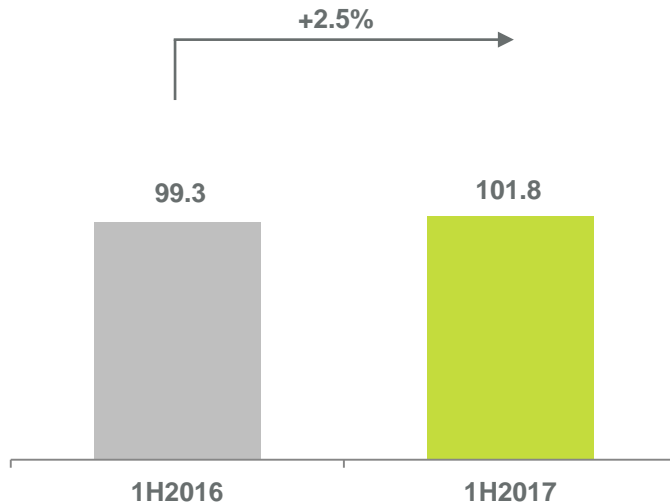
## Employees



# Net Operating Income grew by 20.5% YoY

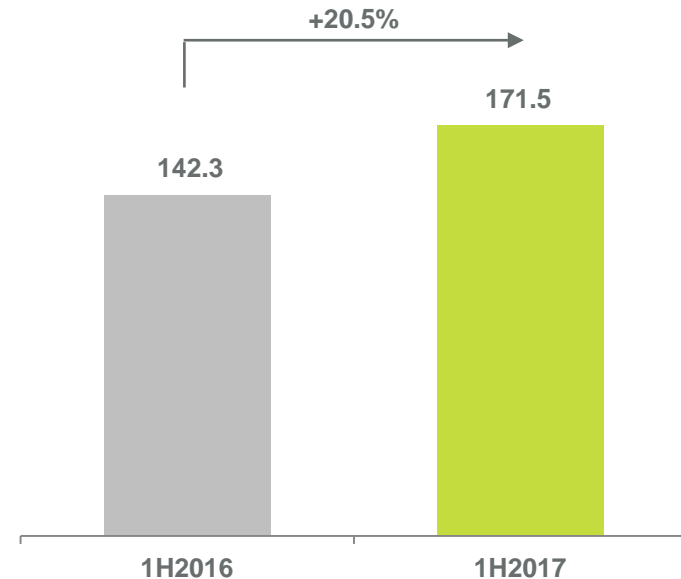
## Core Operating Income

(Commercial Banking Income – Operating Costs, € million)



## Net Operating Income

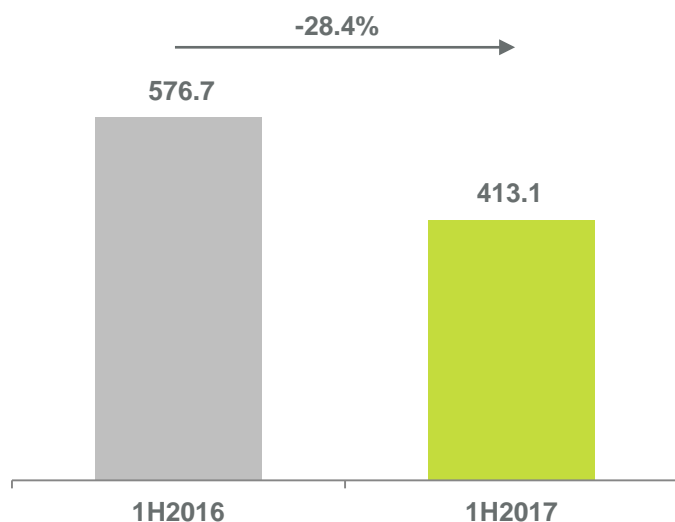
(Banking Income – Operating Costs, € million)



- Positive net operating income (before provisions and taxes) of €171.5 million, up by 20.5% YoY, underlines **NOVO BANCO Group's** income-generating capacity.

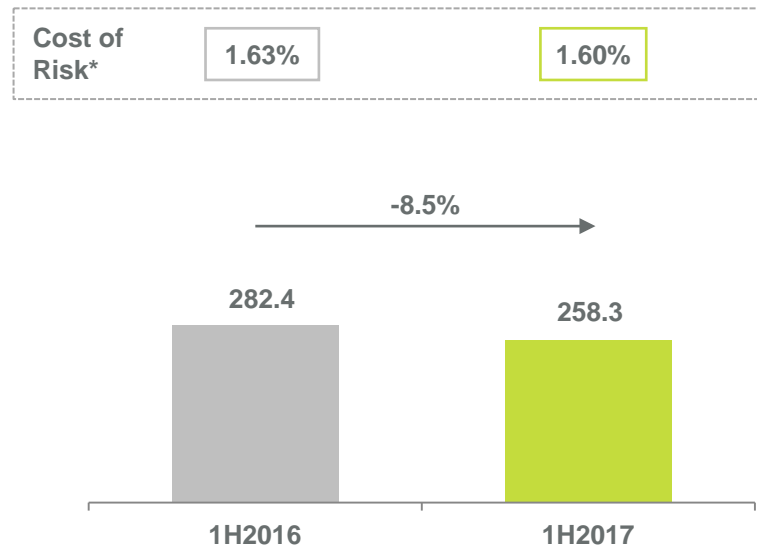
# Provisions of €413.1 million in the 1H2017 (-28.4% YoY), with cost of risk of 160 bps

## Total Provisions (€ million)



- Provision charge of €413.1 million (-28.4%), including €44.8 million for securities, €40.0 million for activities being discontinued and €39.1 million (1H2016: €109.6 million) for restructuring.

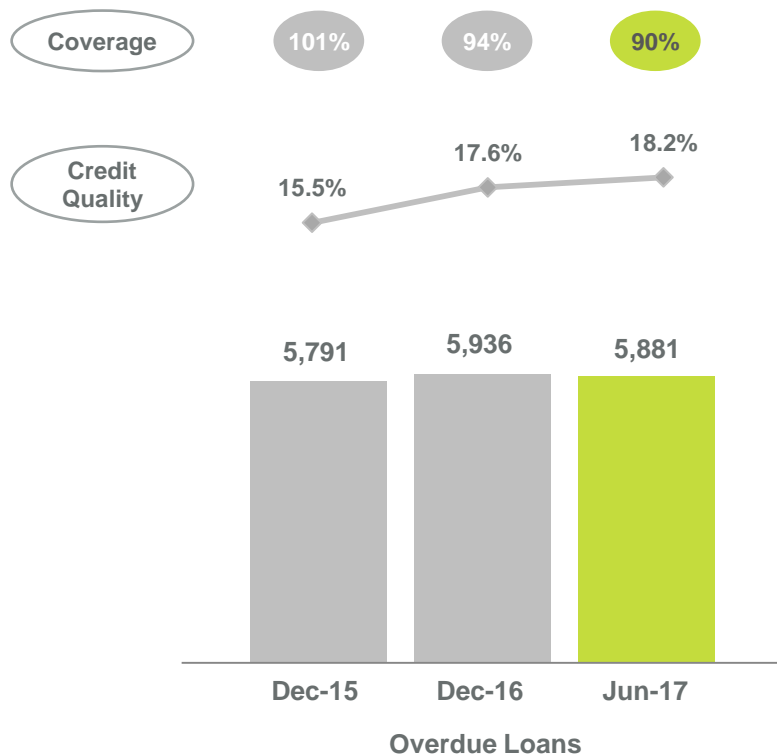
## Credit Provisions (€ million)



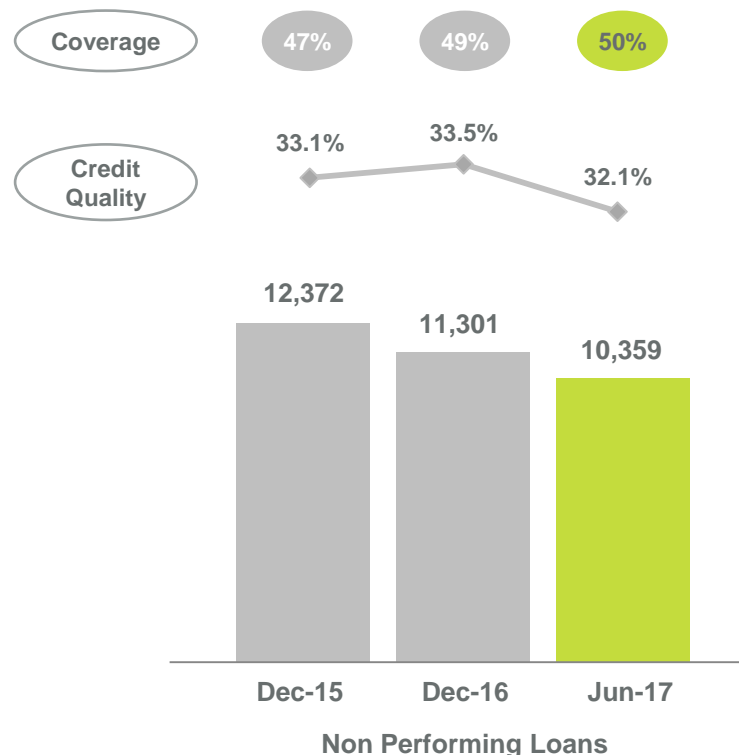
- Credit provision charge totalled €258.3 million (-8.5% YoY).
- Cost of risk of 160 bps (vs 163 bps in the 1H2016 and 199 bps in FY2016).

# Credit Risk Indicators

## Overdue Loans (€ million)



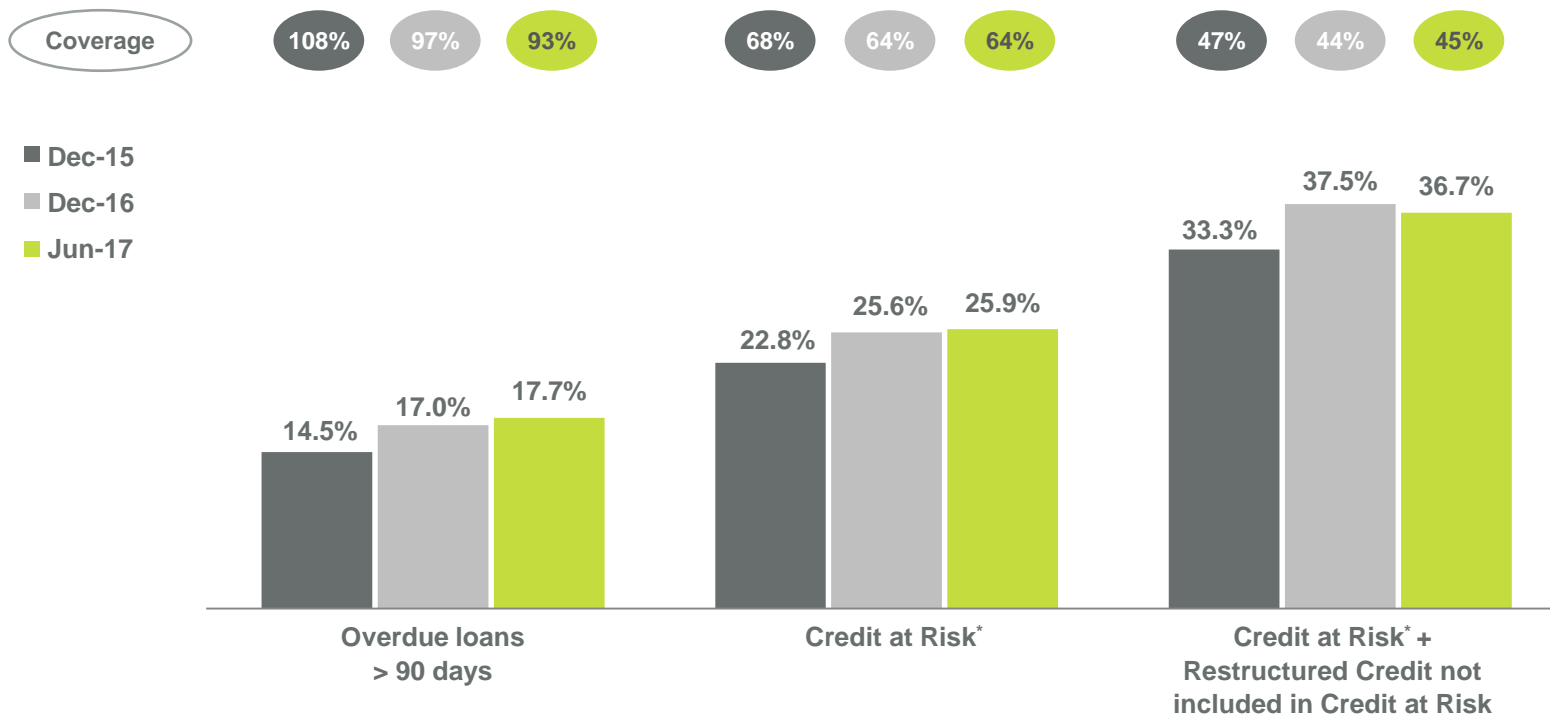
## Non Performing Loans\* (€ million)



- The Non Performing Loans stock reduced materially by €0.9 billion to €10.4 billion in Jun-17 (€11.3 billion in Dec-16), with a coverage ratio of 50% (Dec-16: 48%). The Non Performing Loans ratio decreased 130 bps in the 1H2017 to 32.1%.

# Credit Risk Indicators

## Credit Quality and Coverage



- Credit Risk ratio with a 30 bps increase in the 1H2017, although there was a reduction in the stock of Credit Risk of 3.5% (-€0.3 billion) there was a reduction of 4.5% in the total loan portfolio amount.



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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 €50.1 billion.
- 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. 497 thousand frequent digital clients (+6% YoY), with the number of frequent users of the NB Smart App has surpassing the 200,000 mark (+19% YTD).

***Indicators***

- Net Loans of €26.9 billion in Jun-17.
- Deposits of €25.4 billion in Jun-17.
- Loan to Deposit ratio of 106% in Jun-17.
- Estimated capital ratios in Jun-17: CET1 phased-in of 10.8% and fully implemented 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	3.3	3.3	3.3



### Best Trade Finance Bank Award 2016



### Best Securities Services Provider Award 2016



### 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

(€ million)	31 Dec. 16	30 Jun. 17
Cash and deposits with central banks	1,469	813
Deposits with banks	371	322
Financial assets held for trading	657	634
Financial assets at fair value through profit and loss	1,204	1,132
Available for sale financial assets	10,558	10,745
Loans and advances to banks	724	816
Loans and advances to customers	28,184	26,921
Derivatives held for risk management purposes	223	206
Non current assets held for sale	8	9
Non current assets held for sale: - discontinued operations	1,217	1,075
Investment properties	1,206	1,309
Other tangible assets	206	182
Intangible assets	45	39
Investments in associated companies	159	156
Current tax assets	31	25
Deferred tax assets	2,604	2,435
Technical reserves of reinsurance ceded	6	8
Other assets	3,460	3,259
<b>Total Assets</b>	<b>52,333</b>	<b>50,085</b>

(€ million)	31 dez. 16	30 Jun. 17
Deposits from central banks	6,410	6,410
Financial liabilities held for trading	633	567
Deposits from banks	3,578	2,225
Due to customers	25,990	25,894
Debt securities issued	3,818	3,464
Derivatives held for risk management purposes	108	113
Investment contracts	3,396	3,187
Non current liabilities held for sale	2	3
Non current liabilities held for sale: - discontinued operations	749	759
Provisions	365	338
Technical reserves	1,334	1,253
Current tax liabilities	17	20
Deferred tax liabilities	19	17
Other subordinated debt	48	49
Other liabilities	719	832
<b>Total Liabilities</b>	<b>47,185</b>	<b>45,130</b>
Share capital	4,900	4,900
Revaluation reserves, other reserves and retained earnings	955	264
Net income for the period	(788)	(290)
Non-controlling interests	81	80
<b>Total Equity</b>	<b>5,148</b>	<b>4,954</b>
<b>Total Liabilities + Equity</b>	<b>52,333</b>	<b>50,085</b>

# Consolidated Income Statement

<i>(€ million)</i>	<b>1H2016</b>	<b>1H2017</b>
<b>Net Interest Income</b>	<b>262.0</b>	<b>210.6</b>
Dividend income	31.8	10.1
Fee and Commission income	189.1	189.6
Fee and Commission expense	(55.7)	(39.5)
Net gains / (losses) from financial assets at fair value through profit or loss	(28.4)	15.1
Net gains / (losses) from available-for-sale financial assets	76.1	49.8
Net gains / (losses) from foreign exchange revaluation	(8.7)	(5.1)
Net gains / (losses) from sale of other assets	(4.5)	(33.5)
Insurance earned premiums, net of reinsurance	22.1	28.3
Claims incurred, net of reinsurance	(95.8)	(126.1)
Change of the technical provision, net of reinsurance	65.6	90.5
Other operating income and expense	(37.6)	(60.9)
<b>Operating Income</b>	<b>416.0</b>	<b>328.9</b>
Staff costs	(157.0)	(142.8)
General and administrative costs	(118.2)	(101.0)
Depreciation and amortisation	(29.0)	(21.4)
Provisions and impairments	(576.7)	(413.1)
Sale of subsidiaries and associates	3.6	0.8
Results from associated companies consolidated by equity method	2.7	3.8
<b>Income before taxes</b>	<b>(458.5)</b>	<b>(344.9)</b>
Income tax		
Current	(6.3)	(5.9)
Deferred	107.0	(12.4)
<b>Income from continuing activities</b>	<b>(357.8)</b>	<b>(363.2)</b>
Income from discontinued activities	(12.8)	72.4
<b>Net income for the period</b>	<b>(370.6)</b>	<b>(290.8)</b>
Non-controlling interests	(8.0)	(0.4)
<b>Net income attributable to the shareholders</b>	<b>(362.6)</b>	<b>(290.3)</b>

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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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