

**NOVO BANCO GROUP ACTIVITY AND RESULTS****AS AT 30 SEPTEMBER 2017**

(Unaudited financial information)

NOVO BANCO Group reported a negative Income before tax of €355.6 million in the 9M2017, an improvement of 34.7% over the same period in 2016. However, the decision not to record additional deferred taxes led to a negative net income of €419.2 million in the first nine months of 2017, which is 8.9% worse than a year earlier.

Net operating income, at €207.6 million, was slightly below the €217.7 million obtained in the same period in 2016.

This result reflects, on the negative side, the decrease in net interest income due to the ongoing deleveraging (-26.9%), and on the positive side the increase in fees and commissions (+12%).

During the period the Group reduced its loan book by €2.1 billion (-6.3%), with a special focus on NPLs (Non-Performing Loans), which contracted by €1.6 billion.

It should be noted that in the 9M2017 the Group increased impairments by €563.2 million, which even so is roughly €200 million less than in the 9M2016. Impairments for NPLs were thus up by 3.8 pp, to 51.9%.

Deposits increased by 5.3%, or €1.3 billion year-on-year (YoY). Total customer funds reached €36.6 billion, growing by 1.6% YoY.

Through its continuing restructuring process, the Group slashed operating costs by 12.4%, and in particular general and administrative costs, which contracted by 13.7%.

NOVO BANCO Group ended the third quarter with a CET1 ratio of 10.9% and a solvency ratio of 11.1% (9.7% and 10.1%, respectively, if fully implemented).

## **After balance sheet date events**

The present accounts are the last reported by NOVO BANCO as a bridge bank. As of 18 October this status was withdrawn upon the successful completion of several capitalisation transactions involving a major change in the shareholder structure.

Thus, on 4 October, the Bank successfully undertook a *Liability Management Exercise* (LME) with no equity dilution, which permitted an estimated upfront capital increase of €217 million, and on 18 October made a €750 million capital increase subscribed by Nani Holdings (which will be reinforced by a further €250 million until the end of the year). These operations, whereby Nani Holdings currently holds 75% of the share capital and the Resolution Fund the remaining 25%, significantly strengthened the Bank's capital.

Finally, following the General Meeting's approval on 18 October of an amendment to NOVO BANCO's Articles of Association, the Bank now has a General and Supervisory Board and an Executive Board of Directors.

<b>FINANCIAL HIGHLIGHTS</b>	<b>30-Sep-16*</b>	<b>31-Dec-16</b>	<b>30-Sep-17</b>
<b>ACTIVITY (€ million)</b>			
Net Assets	52 630	52 333	50 491
Gross Loans	34 145	33 750	32 010
Customer Deposits	24 657	25 585	25 960
Equity	5 508	5 148	4 886
<b>SOLVENCY <sup>(1)(2)</sup></b>			
Common Equity Tier I / RWAs	12.3%	12.0%	10.9%
Tier I / RWAs	12.3%	12.0%	10.9%
Total Own Funds / RWAs	12.3%	12.0%	11.1%
<b>LIQUIDITY (€ million)</b>			
ECB Funding (net) <sup>(3)</sup>	6 205	5 123	5 121
Eligible Assets for Repo Operations (ECB and other), net of haircut	11 838	11 587	11 893
(Total Credit - Credit Provisions) / Customer Deposits <sup>(2)</sup>	115%	110%	103%
Liquidity Coverage Ratio (LCR) <sup>(1)</sup>	105%	107%	99%
Net Stable Funding Ratio (NSFR) <sup>(1)</sup>	97%	99%	104%
<b>ASSET QUALITY</b>			
Overdue Loans > 90 days / Gross Loans	16.8%	17.0%	16.9%
Overdue and Doubtful Loans <sup>(1)</sup> / Total Loans <sup>(2)</sup>	18.6%	18.7%	19.8%
Overdue and Doubtful Loans, net of impairments <sup>(1)</sup> / Total Net Loans <sup>(2)</sup>	2.5%	2.6%	4.2%
Credit at Risk / Total Loans <sup>(2)</sup>	24.8%	25.6%	25.2%
Credit at Risk (net) / Total Net Loans <sup>(2)</sup>	10.0%	10.9%	10.6%
Restructured Credit <sup>(2)</sup> / Gross Loans	19.8%	23.7%	23.3%
Restructured Credit not included in Credit at Risk <sup>(2)</sup> / Gross Loans	10.4%	11.9%	10.8%
Non-Performing Loans (NPL) / Gross Loans	34.3%	33.4%	31.5%
Credit Provisions / Overdue Loans > 90 days	98.3%	97.2%	96.4%
Credit Provisions / Gross Loans	16.5%	16.5%	16.3%
Cost of Risk	1.66%	1.99%	1.45%
<b>PROFITABILITY</b>			
Net Income (€ million)	-384.8	-788.3	-419.2
Income before Taxes and Non-controlling Interests / Average Net Assets <sup>(2)</sup>	-1.3%	-1.9%	-1.0%
Banking Income / Average Net Assets <sup>(2)</sup>	1.6%	1.8%	1.6%
Income before Taxes and Non-controlling Interests / Average Net Equity <sup>(2)</sup>	-12.0%	-17.0%	-9.8%
<b>EFFICIENCY</b>			
Staff Costs + General and Admin. Costs + Depreciation / Banking Income <sup>(2)</sup>	67.4%	60.4%	65.5%
Staff Costs / Banking Income <sup>(2)</sup>	34.5%	31.0%	35.0%
<b>EMPLOYEES</b>			
Total	6 132	6 096	5 675
- Domestic	5 714	5 687	5 297
- International	418	409	378
<b>BRANCH NETWORK</b>			
Total	586	537	475
- Domestic	556	507	449
- International	30	30	26

(1) Provisional data for 30 September 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

\* restated figures

## **SALE OF NOVO BANCO**

On 18 October 2017 Banco de Portugal issued the following press release on the conclusion of the sale of NOVO BANCO:

*"Banco de Portugal and the Resolution Fund concluded today the sale of Novo Banco to Lone Star, with an injection by the new shareholder of €750 million, which will be followed by a further injection of €250 million to be delivered by the end of 2017.*

*The conclusion of this operation brings to a close a complex negotiation process with the new shareholder, European institutions and other domestic institutions, in close cooperation with the Government.*

*The completion of the sale announced on 31 March brings about a very significant increase in the share capital of Novo Banco and terminates the bank's bridge bank status that has applied since its setting up.*

*As of this date, Novo Banco will be held by Lone Star and the Resolution Fund, which will hold 75% and 25% of the share capital respectively. It will be endowed with the necessary means for the implementation of a plan ensuring that the bank will continue to play its key role in the financing of the Portuguese economy.*

*This will also make it possible to strengthen the internal and external perception of the Portuguese banking sector, as a result of the successful outcome of an open, transparent and competitive sale process of international concern, which met the requirements of the European Central Bank and the European Commission, and allowed for the entry of new investors into the financial system, diversifying its funding sources.*

*With the conclusion of this sale, the purposes underlying the resolution of Banco Espírito Santo (BES) are fully met. Even though BES faced irreparable financial imbalance and the imminent suspension of business in 2014, it was possible (i) to ensure the continuity of most of the business in one of the most significant financial institutions of the Portuguese economy; (ii) to protect depositors, who did not undergo any losses; (iii) to maintain also the capacity for financing enterprises and households; (iv) to minimise the burden on public funds and the banking sector, as far as was permitted by the reconciliation of the different goals. In other words, the stability of the financial system was safeguarded at all times.*

*For all these reasons, the sale of Novo Banco was a decisive step towards strengthening the stabilisation of the domestic banking sector.*

*In the wake of the measures taken to strengthen the capital levels of the sector's main institutions, and the initiatives under way in the financial system to tackle the challenges posed by non-performing exposures, the domestic banking sector is today better prepared to provide the necessary funds for the development of the Portuguese economy.*

*The Board of Directors of Banco de Portugal is grateful to all those involved, especially the technical teams, for their dedication and commitment in the sale process of Novo Banco."*

With the conclusion of the sale process, the share capital of NOVO BANCO was increased by a cash inflow of €750 million, fully subscribed by the shareholder, Nani Holdings, SGPS. This operation increased NOVO BANCO' share capital to €5,650 million, represented by 9,799,999,996 registered nominative shares with no par value, held at 75% by Nani Holdings, SGPS and at 25% by the Resolution Fund.

On the same date the Bank held a General Meeting of Shareholders that approved an amendment to the Articles of Association and the appointment of the corporate bodies. The amendments to the Articles of Association concerned changes in the management and supervisory structure, which is now composed of a General and Supervisory Board, an Executive Board of Directors and a Statutory Auditor.

Following the above mentioned resolution on the amendment of the Articles of Association, consequent reorganisation of the Bank's corporate structure, and resignation of the former members of its corporate bodies, the new members of the General and Supervisory Board and of the Board of the General Meeting were appointed for the 2017-2020 term of office.

The General and Supervisory Board in turn appointed the members of the Executive Board of Directors for the 2017-2020 term of office.

## RESULTS

NOVO BANCO Group reported a net loss of €419.2 million in the first nine months of 2017, which compares with a net loss of €384.8 million in the same period of 2016.

€ million			
INCOME STATEMENT	9M2016*	9M2017	% Change
Net Interest Income	391.1	285.9	-26.9%
+ Fees and Commissions	206.4	231.1	12.0%
<b>= Commercial Banking Income</b>	<b>597.4</b>	<b>516.9</b>	<b>-13.5%</b>
+ Capital Markets Results	48.0	70.8	47.6%
+ Other Operating Income	22.3	14.1	-36.6%
<b>= Banking Income</b>	<b>667.7</b>	<b>601.9</b>	<b>-9.9%</b>
- Operating Costs	449.9	394.2	-12.4%
<b>= Net Operating Income</b>	<b>217.7</b>	<b>207.6</b>	<b>-4.6%</b>
<b>- Net Impairments and Provisions</b>	<b>762.6</b>	<b>563.2</b>	<b>-26.1%</b>
Credit	425.8	347.7	-18.3%
Securities	113.7	85.9	-24.5%
Other Assets and Contingencies	223.1	129.6	-41.9%
<b>= Income before Tax</b>	<b>- 544.9</b>	<b>- 355.6</b>	<b>-34.7%</b>
- Corporate Income Tax	- 186.6	33.6	....
- Special Tax on Banks	37.0	30.8	-16.5%
<b>= Income after Taxes</b>	<b>- 395.2</b>	<b>- 420.0</b>	<b>-5.9%</b>
- Non-Controlling Interests	- 10.4	- 0.8	-91.9%
<b>= Net Income</b>	<b>- 384.8</b>	<b>- 419.2</b>	<b>-8.9%</b>

\* restated figures

Main highlights of the activity developed in the first nine months of 2017:

- commercial banking income totalled €516.9 million (-13.5% year-on-year, YoY), being penalised by a reduction in net interest income (-26.9%) that offset the improvement in fees and commissions (+12.0%);
- operating costs decreased by 12.4% YoY, to €394,2 million, underpinned by the improvements made in terms of simplifying processes and streamlining the structure, with the consequent reduction in the number of branches and employees;
- net operating income (before impairments and taxes) was positive, at €207.6 million (-4,6% YoY); and
- the period's total provision charge of €563.2 million includes €347.7 million for credit, €85.9 million for securities, and €129.6 million for other assets and contingencies, of which €42.5 million for discontinuing operations and €39.3 million of provisions for restructuring.

## Net Interest Income

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

Due to these constraints and also the ongoing deleveraging process, net interest income contracted by 26.9% year-on-year, to €285.9 million. It should be noted that the positive impact from a 13 basis points (bps) reduction in the cost of liabilities (from 1.41% in Sep.16 to 1.28% in Sep. 17) was not sufficient to offset the reduction in the interest rate on assets (-38bps), causing the net interest margin to drop by 24 bps, to 0.86%, from 1.10% in September 2016.

The decrease in the interest rate on deposits, from 0.94% in September 2016 to 0.79% at the end of the third quarter of 2017, contributed to lower the rate of liabilities. On the side of interest earning assets, there was a reduction in income not only from customer loans but also from money market placements.

NET INTEREST INCOME AND NET INTEREST MARGIN	9M2016			2016			9M2017		
	Average Balance	Avg Rate	Income / Costs	Average Balance	Avg Rate	Income / Costs	Average Balance	Avg Rate	Income / Costs
INTEREST EARNING ASSETS	47 218	2.52%	892	46 823	2.49%	1 166	44 577	2.14%	712
Customer Loans	34 972	2.70%	710	34 695	2.68%	932	32 729	2.32%	568
Money Market Placements	2 558	2.49%	48	2 480	2.31%	57	2 330	1.34%	23
Securities and Other Assets	9 688	1.85%	134	9 647	1.84%	177	9 518	1.70%	121
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-	-	-	-
<b>INTEREST EARNING ASSETS &amp; OTHER</b>	<b>47 218</b>	<b>2.52%</b>	<b>892</b>	<b>46 823</b>	<b>2.49%</b>	<b>1 166</b>	<b>44 577</b>	<b>2.14%</b>	<b>712</b>
INTEREST BEARING LIABILITIES	44 487	1.50%	500	43 978	1.48%	652	41 413	1.38%	426
Due to Customers	25 141	0.94%	177	25 123	0.91%	229	25 445	0.79%	151
Money Market Funding	11 835	0.36%	32	11 442	0.36%	41	9 168	0.34%	24
Other Liabilities	7 511	5.21%	292	7 413	5.15%	382	6 801	4.95%	252
OTHER NON-INTEREST BEARING LIABILITIES	2 731	-	-	2 845	-	-	3 164	-	-
<b>INTEREST BEARING LIABILITIES &amp; OTHER</b>	<b>47 218</b>	<b>1.41%</b>	<b>500</b>	<b>46 823</b>	<b>1.39%</b>	<b>652</b>	<b>44 577</b>	<b>1.28%</b>	<b>426</b>
<b>NIM / NII</b>		<b>1.10%</b>	<b>391</b>		<b>1.10%</b>	<b>514</b>		<b>0.86%</b>	<b>286</b>

The average rate on customer loans, the main component of financial assets (73.4%), was 2.32%. As to liabilities, the average balance of deposits was €25.4 billion, with an average interest rate of 0.79%.

## Fees and Commissions

Fees and commissions on banking services contributed with €231.1 million to the results, up by 12.0% from €206.4 million in September 2016. This improvement reflects the reduction in the cost of bond issues guaranteed by the Portuguese Republic, as otherwise fees and commissions would have remained flat year-on-year, notwithstanding the deleveraging process under way.

FEES AND COMMISSIONS	9M2016	9M2017	% Change	€ million	
				Weight	
				30-Sep-16	30-Sep-17
Payments and Account Management	73.0	81.5	11.8%	31.4%	35.0%
Commissions on Loans, Guarantees and Similar	95.3	86.9	-8.8%	41.1%	37.3%
Asset Management and Bancassurance	45.4	46.6	2.8%	19.5%	20.0%
Advising, Servicing and Other	18.4	18.0	-2.4%	7.9%	7.7%
<b>SUBTOTAL</b>	<b>232.1</b>	<b>233.1</b>	<b>0.4%</b>	<b>100.0%</b>	<b>100.0%</b>
Costs with Portuguese Republic Guarantees	-25.8	-2.0	-92.3%		
<b>TOTAL</b>	<b>206.4</b>	<b>231.1</b>	<b>12.0%</b>		

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

- Support services to companies – including income from guarantees provided, documentary credits, and services related to loan management and other (37.3% of the total fees and commissions);
- Commissions on payment services (35.0% of the total) – cards and payment processing, including cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- Asset management and bancassurance products, which accounted for 20.0% of total fees and commissions.

## Capital Markets and Other Operating Results

In line with the performance in the first half of the year, the period's capital market results reflect the gains obtained in foreign exchange and sovereign debt instruments.

In Other operating results, it is worth highlighting the positive contribution from the sale of 75% of the subsidiary NB Ásia, which originated a €103.1 million capital gain. In terms of negative contributions, we note the sale of international loans (-€30.9 million) and the cost of the contributions to the Single Resolution Fund (-€19.7 million) and to the Portuguese Resolution Fund (-€7.8 million).

## Operating Costs

Operating costs show a YoY reduction of 12.4%, 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	9M2016	9M2017	% Change
Staff Costs	230.2	210.4	-8.6%
General and Administrative Costs	176.8	152.7	-13.7%
Depreciation	42.9	31.2	-27.2%
<b>TOTAL</b>	<b>449.9</b>	<b>394.2</b>	<b>-12.4%</b>

Staff costs decreased by 8.6% YoY, to €210.4 million, underpinned by a headcount reduction of 457 employees since September 2016. As at 30 September 2017 NOVO BANCO Group had 5,675 employees (Sep. 16: 6,132).

General and administrative costs dropped by 13.7% YoY, to €152.7 million. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy under way.

Depreciation decreased by 27.2% relative to 30 September 2016, the result of greater selectivity in IT investment, the rationalisation of equipment and the closure of facilities.

The contraction in operating costs also reflected the downsizing of the distribution network in line with the new business reality. On 30 September 2017 NOVO BANCO had 475 branches, which is 111 fewer units than a year earlier (of these 62 were closed in 2017).

## Impairments and Provisions

In the first nine months of 2017 the NOVO BANCO Group reinforced provisions by €563.2 million (-€199.4 million compared to September 2016), the bulk of which was allocated to credit (€347.7 million). The period's provision charge also includes €85.9 million for securities, €39.3 million for restructuring (Sep-16: €110.6 million) and €42.5 million for operations being discontinued, allocated to other assets and contingencies.

€ million			
IMPAIRMENTS AND PROVISIONS	9M2016	9M2017	% Change
Customer Loans	425.8	347.7	-18.3%
Securities	113.7	85.9	-24.5%
Real Estate and Equipment	104.5	36.6	-65.0%
Other Assets and Contingencies	118.6	93.0	-21.6%
<b>TOTAL</b>	<b>762.6</b>	<b>563.2</b>	<b>-26.1%</b>

## ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

### Funding

On 30 September 2017 customer deposits totalled €26.0 billion, up by €0.6 billion from €25.4 billion in June 2017. This reduction reveals the consolidation of the relationship with the clients achieved alongside the resumption of normal operating conditions and the recovery of funding.

CUSTOMER FUNDS	30-Sep-16	31-Dec-16	30-Jun-17	30-Sep-17	YoY Change		Absolute change in 3Q2017
					absolute	relative	
					€ million		
Deposits	24 657	25 585	25 381	25 960	1 303	5.3%	579
Other Customer Funds <sup>(1)</sup>	302	404	513	539	237	78.3%	26
Debt Securities placed with Customers	998	996	882	882	- 116	-11.7%	0
Life Insurance Products	4 895	4 730	4 440	4 391	- 504	-10.3%	- 49
Off-Balance Sheet Funds	5 121	5 069	4 876	4 780	- 341	-6.7%	- 96
<b>Total Customer Funds</b>	<b>35 975</b>	<b>36 784</b>	<b>36 090</b>	<b>36 551</b>	<b>578</b>	<b>1.6%</b>	<b>459</b>

(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 64.5% share of the total loan book.

CUSTOMER LOANS	30-Sep-16	31-Dec-16	30-Jun-17	30-Sep-17	YoY Change		Absolute change in 3Q2017
					absolute	relative	
					€ million		
Corporate Lending	22 830	22 451	20 929	20 646	-2 184	-9.6%	- 283
Loans to Individuals	11 315	11 300	11 300	11 364	49	0.4%	64
Residential Mortgage	9 742	9 726	9 715	9 773	31	0.3%	58
Other Loans	1 573	1 574	1 585	1 591	18	1.1%	6
<b>Customer Loans (gross)</b>	<b>34 145</b>	<b>33 750</b>	<b>32 229</b>	<b>32 010</b>	<b>-2 135</b>	<b>-6.3%</b>	<b>- 219</b>
Provisions	5 630	5 566	5 308	5 229	- 401	-7.1%	- 79
<b>Customer Loans (net)</b>	<b>28 515</b>	<b>28 184</b>	<b>26 921</b>	<b>26 780</b>	<b>-1 735</b>	<b>-6.1%</b>	<b>- 141</b>

Customer loans were down by €219 million relative to June 2017, which is in line with the deleveraging process under way. It should be noted the stability of loans to individual clients, which remained at around €11.4 billion, with mortgage loans increasing by €53 million. Moreover, production of both mortgage loans and other loans to individuals has increased when compared to the first nine months of 2016.

## Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the European Central Bank (ECB), totalled €11.9 billion on 30 September 2017 and represented 23.6% of assets.

SECURITIES PORTFOLIO	net of impairments				YoY Change		€ million
	30-Sep-16	31-Dec-16	30-Jun-17	30-Sep-17	absolute	relative	Absolute change in 3Q2017
	<b>Portuguese Sovereign Debt</b>	2 945	3 538	4 386	5 133	2 188	74.3%
<b>Other Sovereign Debt</b>	3 430	2 971	2 239	1 650	-1 780	-51.9%	- 589
<b>Bonds</b>	2 748	2 775	2 809	2 689	- 59	-2.2%	- 120
<b>Other</b>	2 729	2 478	2 443	2 421	- 308	-11.3%	- 22
<b>Total</b>	<b>11 852</b>	<b>11 762</b>	<b>11 877</b>	<b>11 893</b>	<b>41</b>	<b>0.3%</b>	<b>16</b>

The breakdown of the securities portfolio reflects a portfolio management approach based on securities with lower risk and higher liquidity, namely sovereign debt of Euro zone countries, which account for 57.0% of the total available securities. The overall amount of the portfolio increased by €130 million in the first nine months of the year due to the increase in its Portuguese sovereign debt component. The securities portfolio had a positive fair value reserve of €366.3 million (Dec. 2016: €151.4 million)

## Liquidity

The third quarter of 2017 was marked by the launch on 25 July of a tender offer and consent solicitation for several senior bonds issued by the NOVO BANCO Group. This transaction, which aimed at strengthening the Bank's capital, was intended to satisfy a condition precedent to the sale of NOVO BANCO to Lone Star, announced on 31 March. The transaction, concluded in early October, allowed NOVO BANCO to purchase and early repay bonds for a total nominal value of €4,743 million (57% of the nominal value of the bonds subject to the offer), for a total amount of €1,988 million. The impact of the transaction on liquidity was quite low, in so far as the bondholders' acceptance of the commercial offer of deposits was highly successful.

Customer funds, which do not yet reflect the effect of the tender offer and consent solicitation that was only concluded in October, increased by approximately €580 million, with a positive impact on liquidity.

In this context, net funding from the European Central Bank decreased in the quarter by roughly €620 million, totalling €5.1 billion at the end of September.

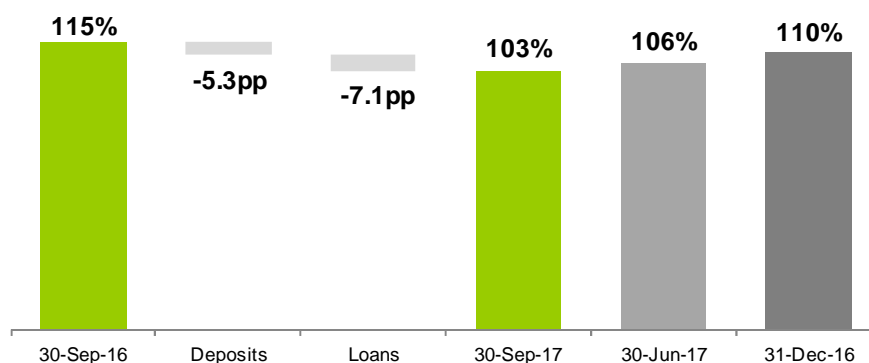
The overall amount in the portfolio of assets eligible for rediscount with the European Central Bank increased by circa €200 million, to €11.9 billion, after haircuts, mostly thanks to Standard & Poor's upgrade of Portugal's sovereign debt rating to investment grade (BBB-) on 15 September.

The Bank's sovereign debt portfolio (excluding the exposure to public debt of GNB Vida) increased by around €171 million in the quarter, to €5.1 billion. Forestalling the improvement in Portugal's rating, NOVO BANCO reinforced its Portuguese sovereign debt portfolio, extending its average duration by increasing the investment in treasury bonds. This portfolio is therefore essentially concentrated in European countries, with the exposure to Portuguese sovereign debt amounting to €3.5 billion, of which €1.3 billion in treasury bills and €2.2 billion in treasury bonds. The exposure to other European peripheral countries decreased again, reaching €1.5 billion, of which €1.3 billion in Spanish sovereign debt and €0.3 billion in Italian sovereign debt.

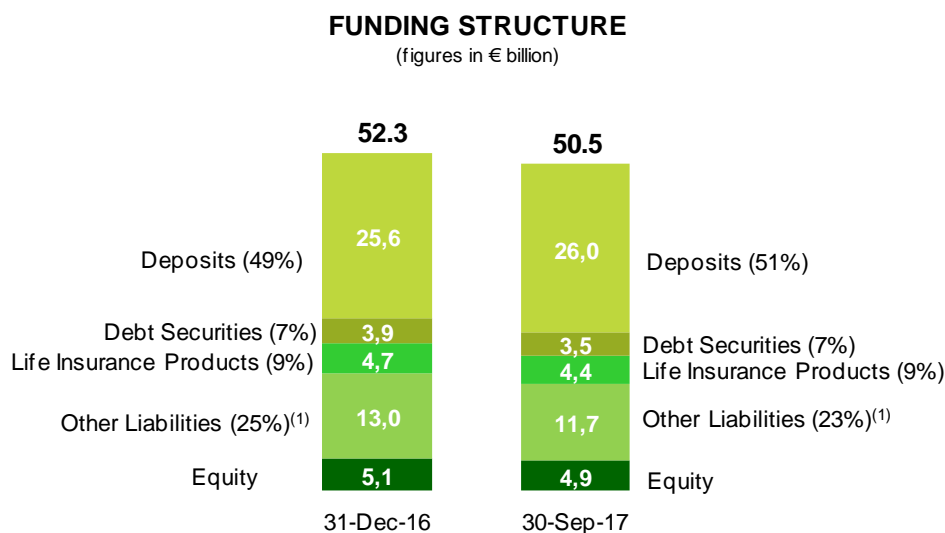
The Liquidity Coverage Ratio (LCR) stood at 99% in September. This ratio was penalised by the projected impact of the purchase and early redemption of bonds in the context of the tender offer, but does not reflect the bondholders' acceptance of the commercial solution, which largely mitigates the impact in the Bank's liquidity ratio.

The loan to deposit ratio (103%) improved compared with the first nine months of 2016 (115%), December 2016 (110%) and June 2017 (106%).

## LOAN TO DEPOSIT RATIO



Customer deposits remained the main source of funding, representing 51.4% of total assets.



(<sup>1</sup>) 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. The NOVO BANCO Group is authorised to use the Internal Ratings Based (IRB) approach to calculate credit risk weighted assets and the Standardised Approach to calculate both market risk and operational risk weighted assets. Under the terms of said rules, the solvency ratios of NOVO BANCO Group as at 30 September 2017 were as follows:

€ million				
CAPITAL RATIOS - BIS III (CRD IV/CRR)		31-Dec-16	30-Jun-17	30-Sep-17 <sup>(1)</sup>
Risk Weighted Assets	(A)	33 627	31 968	31 316
Own Funds				
Common Equity Tier 1	(B)	4 051	3 477	3 422
Tier 1	(C)	4 051	3 477	3 422
Total Capital	(D)	4 051	3 537	3 477
Common Equity Tier 1 Ratio (Phased-in)	(B/A)	12.0%	10.9%	10.9%
Tier 1 Ratio	(C/A)	12.0%	10.9%	10.9%
Solvency Ratio	(D/A)	12.0%	11.1%	11.1%
Common Equity Tier 1 Ratio (full implementation)		9.8%	9.6%	9.7%

<sup>(1)</sup> Provisional data

The phased-in Common Equity Tier 1 (CET1) ratio for 30 September 2017 was 10.9% (9.7% under the full implementation regime applicable as from 1 January 2018).

If the equity reinforcement operations carried out during October 2017 were considered, namely the purchase and early reimbursement of debt (Liability Management Exercise) and the €750 million capital increase, the Bank has increased significantly its Capital.

## Asset Quality

As at 30 September 2017 the main groups of credit exposures showed an improvement compared to December 2016.

CREDIT QUALITY	30-Sep-16	31-Dec-16	30-Jun-17	30-Sep-17	€ million	
					Change vs. Dec. 2016	
					absolute	relative
Gross Loans	34 145	33 750	32 229	32 010	-1 741	-5.2%
Overdue Loans	5 933	5 936	5 881	5 526	- 410	-6.9%
Overdue Loans > 90 days	5 726	5 728	5 708	5 425	- 303	-5.3%
Credit at Risk <sup>(1)</sup>	8 480	8 636	8 338	8 078	- 558	-6.5%
Restructured Credit <sup>(2)</sup>	6 754	8 007	7 534	7 449	- 558	-7.0%
Restructured Credit not included in Credit at Risk <sup>(2)</sup>	3 565	4 008	3 490	3 448	- 560	-14.0%
Non-Performing Loans (NPL)	11 702	11 288	10 359	10 067	-1 221	-10.8%
Provisions for Credit	5 630	5 566	5 308	5 229	- 337	-6.0%

<sup>(1)</sup> According to Banco de Portugal instruction n.23/2011.

<sup>(2)</sup> According to Banco de Portugal instruction n.32/2013.

The reduction in overdue and non-performing loans improved the respective asset quality ratios to 17.3% and 31.5%, respectively, at the end of September 2017.

The coverage ratios of overdue loans (94.6%) and non-performing loans (51.9%) increased compared to the end of 2016.

Provisions for credit amounted to €5.2 billion, representing 16.3% of the total loan book (Dec.16: 16.5%)

ASSET QUALITY AND COVERAGE RATIOS	30-Sep-16	31-Dec-16	30-Jun-17	30-Sep-17	Change vs. Dec. 2016 (pp)
Overdue Loans / Gross Loans	17.4%	17.6%	18.2%	17.3%	-0.3
Overdue Loans > 90 days / Gross Loans	16.8%	17.0%	17.7%	16.9%	0.0
Credit at Risk <sup>(1)</sup> / Gross Loans	24.8%	25.6%	25.9%	25.2%	-0.4
Restructured Credit <sup>(2)</sup> / Gross Loans	19.8%	23.7%	23.4%	23.3%	-0.5
Restructured Credit not included in Credit at Risk <sup>(2)</sup> / Gross Loans	10.4%	11.9%	10.8%	10.8%	-1.1
Non-Performing Loans (NPL) / Gross Loans	34.3%	33.4%	32.1%	31.5%	-2.0
Provisions for Credit / Gross Loans	16.5%	16.5%	16.5%	16.3%	-0.2
Coverage of Overdue Loans	94.9%	93.8%	90.3%	94.6%	0.9
Coverage of Overdue Loans > 90 days	98.3%	97.2%	93.0%	96.4%	-0.8
Coverage of Credit at Risk <sup>(1)</sup>	66.4%	64.5%	63.7%	64.7%	0.3
Coverage of Non-Performing Loans	48.1%	49.3%	51.2%	51.9%	2.6

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

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

The €1.2 billion reduction in non-performing loans - from €11.3 billion in December 2016 to €10.1 billion in September 2017 - was particularly noticeable, with the respective asset quality ratio improving by 200 bps, to 31.5%. The coverage ratio of non-performing loans reached 51.9% (Dec.16: 49.3%).

## COMMERCIAL ACTIVITY

### Retail Banking

During the third quarter, NOVO BANCO continued to focus on innovative solutions aimed at facilitating the daily life of its current and potential clients and their interactions with the Bank. To this end, the Bank launched the “*Um banco que faz o meu dia-a-dia render*” campaign (“A bank that enhances my day-to-day income”), to promote the following products and services :

- 👉 **NB Micro Cartão Contactless** (*NB Micro Contactless Card*), a card that lets one go shopping without taking the wallet;
- 👉 **Cartão Branco** (*White Card*), the only credit card with zero percent interest;
- 👉 **NB smart app**, with fingerprint access, enabling all common transactions with much fewer clicks;
- 👉 **Crédito Ordenado online** (*Online Salary Advance*), online request for salary advance to deal with any unexpected expenses;
- 👉 **Poupança por Objetivos** (*Saving by Objectives*), a solution exclusive to the NB smart app, where the customer can customise different goals for its savings, define whether or not to make regular deposits

and for how long to save to reach its objective, and monitor the evolution of its savings in an intuitive and attractive interface; and

- **Online request to open an account**, in just four steps, a fast, convenient and innovative way to trigger the account opening process.

The NB Micro Contactless Card is a micro debit card, unique in Portugal, that can be pasted on the mobile phone or any other object, and used for payments worldwide with a simple touch at a point of sale (POS) terminal, with the same security as traditional bank cards using contactless technology. This technology is already widely spread in Europe and in Portugal is already available in more than 45 thousand terminals. This innovation bias in the offer of products and services underpins the positive indicators of retail activity during the third quarter of the year and fuelled the growth of the digital channels: for the first time the number of users of NOVO BANCO's digital channels surpassed the 500 thousand mark, with frequent users of the NB smart app increasing by 31% since the start of the year, to 229 thousand.

In terms of commercial results, loans to individuals accelerated, mainly through the essential contribution of online credit, which at the end to the quarter represented 20% of mortgage and consumer loans production. The market share of residential mortgage loan production registered an expressive increase (13.8% in July and August), reflecting increases in the average monthly production of 78% until July (compared to 2016 monthly average) and of 31% in the third quarter of 2017, compared to the first half of the year. Moreover, the average spread was higher than the overall residential mortgage loan book's average spread. The service model established by NOVO BANCO, which guarantees a response to all credit applications within a maximum period of 24 hours, continues to be a factor of differentiation as well as being highly valued by the clients. Another important factor was the expansion of partnerships with real estate agents networks, which saw a YoY increase of 96%. Production of Other loans to individuals registered an expressive 71% increase relative to 2016, with the stock of clients resorting to Salary Advance loans growing by 28% YoY. In the segment of small businesses monitored by the Retail Area, we note the contribution of the 'Capitalizar' credit line, under which a total of 1595 operations were concluded until the end of September 2017. The active support provided to the clients in the preparation and submission of credit applications gave NOVO BANCO the 2nd place in the ranking of the sub-line for small and micro companies.

In terms of customer funds, deposits registered a strong 4.9% increase since the start of the year, bolstered by the recovering trend of customer confidence. Such results reward NOVO BANCO's commitment to the regular launch of new products, notably through the savings campaign launched in September that features a "menu" of innovative deposits under a common concept, the "*Pouparia*", where the branches act as shops specialising in tailor-made saving products:

- "*Poupança por Objectivos*" (target savings), where, through the NB smart app, the Client may easily define how much and for how long he wants to save;
- DP NB Viagem (*Deposit NB Travel*): a deposit whose subscribers may win a weekly prize draw of a travel; and



↳ DP NB Aniversário: (*NB birthday deposit*) a term deposit paying an interest rate that varies according to the age of the client.

The results obtained by NOVO BANCO continue to reflect rigour, professionalism and quality in the provision of banking services and products, as reflected in the fact that it receives fewer complaints than the average for the financial system. This was the conclusion reached by the Banking Conduct Supervision report recently published by Banco de Portugal, which analyses the complaints made by bank clients during the first half of 2017. According to this report, NOVO BANCO received the following number of complaints per product:

- ↳ Deposits – 0.13 complaints per 1,000 sight deposit accounts, which compares with 1.13 complaints reported by the institution with the largest number of complaints (8x fewer);
- ↳ Mortgage Loans – 0.41 complaints per 1,000 contracts, well below the 1.12 per 1,000 complaints reported by the institution that leads the ranking (3x fewer);
- ↳ Consumer Credit - 0.14 complaints per 1,000 contracts, which compares with 0.61 reported by the institution with the largest volume of complaints (4x fewer).

These very positive results are even more significant considering the support which the Retail network provided to the LME operation since July, whose success and widespread acceptance by the clients concerned proved essential for the sale of the Bank.

## **Corporate Banking**

In the Corporate Banking segment (medium-sized and large companies), the volume of deposits increased by €320.9 million, 8.6% in average balances terms, in the first nine months of the year.

Within this segment, production of medium and long-term loans reached €913.1 million, in the first nine months of the year, 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', 'IFD 2016-2020', 'NB FEI Inovação III' (under a partnership with the European Investment Fund), 'Linha Capitalizar' and 'NB Empresas Prime' Lines, under which new lending disbursements reached €479.1 million between January and September 2017. This set of instruments has proven an important pillar of support to SMEs, namely in terms of investment and reinforcement of permanent capital, where we note the projects approved under the Portugal 2020 programme. As regards the Bank's support to short-term treasury needs, the factoring and confirming portfolio grew by 8.5% in the nine months to September 2017 (+€80.7 million in average balances).

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 stands at around 21%.

NOVO BANCO also developed initiatives addressed to small and medium-sized companies and promoted the visibility of economic sectors, regions and outstanding companies, namely through the following: (i) International Business cycles; (ii) support to the Grape Harvest Festival, in Viseu; (iii) awards to the best tourism companies, through Publituris - Portugal's Travel Awards; (iv) regional conference on "The Iberian Centrality of the Hinterland - Business Opportunities and Challenges", held in Viseu and awards to companies with a record of success in the trade between Portugal and France, through the latest edition of the Trophies of the French-Portuguese Chamber of Commerce and Industry.

Moreover, another three initiatives in key areas for the development of the Portuguese economy are already scheduled to take place in the fourth quarter of 2017: Innovation, through National Innovation Awards, and Export and Internationalisation, through the 'Portugal Exporter Forum' and the Export and Internationalisation Awards.

### **NOVO BANCO dos Açores**

During the third quarter of 2017 NB Açores continued to deploy its client acquisition strategy, for which it developed several actions addressed to companies, services and public entities, with the aim of increasing its market share. Moreover the bank took a number of initiatives to promote deposit taking and lending. In this context, customer funds increased by +1.7% relative to December 2016 while customer loans decreased by 1.2%. It should be noted in particular the reduction achieved in operating costs (-7.1%), and the increase in the period's net income, to €2.7 million (vs. €0.6 million in September 2016).

### **Banco Electrónico de Serviço Total**

Banco Best maintained its strategy as innovation leader in the offer of financial products and services in Portugal while at the same time promoting financial literacy among investors. In this area, it should be noted the following initiatives taken in the third quarter: the launch of 'Best Voice', your bank at the command of your voice, one of the improvements added to Banco Best's app; enhancement of the offer of ETFs through the inclusion of the offer of Vanguard, a renowned asset management company; and organisation of a Best Trading Pro seminar, held on 26 September in Lisbon, under the subject "How to invest in stocks and indexes", open and free of charge for clients and non-clients. Banco Best remained the diversity leader in the offer of investment funds in Portugal, with more than 3,000 funds from over 50 domestic and international asset management companies. Total volume under management of non institutional clients increased considerably, exceeding by 214% the objectives set for the year. Assets under management increased by 4% YoY, to €2.1 billion (outside B2B). Banco Best posted a result of €2.7 million in the nine months to September 2017.

### **Asset Management**

GNB - Gestão de Ativos, which mainly operates in Portugal, Luxembourg and Spain, closed the third quarter of 2017 with a total of €10.7 billion in assets under management, which represents a 10% reduction relative

to the end of 2016. This reduction was mainly driven by decreases in mutual funds (in Luxembourg) and in the area of wealth management, but on the positive side, pension funds registered an increase of around 1% in 2017. At the end of the third quarter the international activity accounted for 11.6% of GNB's total activity, with total assets under management reaching €1.2 billion. Operating costs were reduced by 17.8% YoY through the implementation of the reorganisation and cost restructuring plan. GNB - Gestão de Ativos posted a net income of €7.7 million in the nine months to September 2017.

## International Commercial Banking

In line with the Bank's strategy of divesting from non-strategic assets, in July 2017 it entered a promissory sale/purchase agreement to sell 90% of the share capital of Banco Internacional de Cabo Verde to IIBG HOLDINGS. The conclusion of the transaction is now pending the necessary approvals, namely from Banco de Cabo Verde.

The Branch in **Spain** registered a 6.5% decrease in business volume in the first nine months of 2017, with a reduction in customer loans, deposits and the number of clients. Assets under management increased by +2.3%, underpinned by the good performance of private banking, which grew by 6.1%. Operating costs maintained the downward trend seen in 2016, falling by 17% YoY, mainly on the back of lower staff costs and depreciation. Income before tax, a loss of €5.6 million, was nevertheless €24.6 million better than in the same period of 2016.

The London Branch (**United Kingdom**) focused its activity on the management of its portfolio, with total assets decreasing by around 10%, mainly through the sale of loans. Total assets thus amounted to €3.4 billion at the end of the third quarter, with the loan book accounting for 36% of the total. The branch posted a result of €4.2 million for the nine months to September 2017.

The **Luxembourg** Branch also focused on the management of its portfolio, reporting total assets of €1.7 billion and a positive net operating profit of €3.5 million at the end of September.

## RELEVANT EVENTS

- On 23 October NOVO BANCO informed the market that the rating agency Dagong Global had taken a rating action on NOVO BANCO. Dagong Global upgraded the long-term credit rating to "CCC+" from "SD" and the short-term credit rating to "C" from "SD". The ratings outlook is Positive. This rating action followed the approval and execution on 18 October 2017 of the sale to Lone Star.
- On 19 October NOVO BANCO announced that the rating agency Dagong Europe had taken a rating action on NOVO BANCO and expected "to re-assess" NOVO BANCO's "financial profile and rating as soon as the sale and capital injection are executed". Following the publication of the terms and conditions of the tender offers and proposals (LME) to 36 bond series of securities, on 27 July 2017 Dagong Europe

downgraded and placed on watch 'Negative' the Bank's ratings and, after completion of the LME, decided to downgrade the long-term credit rating of NOVO BANCO and branches to 'SD' from 'C' and also downgraded the short-term credit rating to "SD" from "C".

- On 18 October NOVO BANCO announced it had held a General Meeting of Shareholders that approved the amendment of the Company's Articles of Association and the appointment of the corporate bodies. The amendments to the Articles of Association included changes in the management and supervisory structure, which is now composed of a General and Supervisory Board, an Executive Board of Directors and a Statutory Auditor. Following the above mentioned resolution on the amendment of the Articles of Association, consequent reorganisation of the Company's corporate structure, and resignation on the same date of the former members of the Bank's corporate bodies, the new members of the General and Supervisory Board and of the Board of the General Meeting were appointed for the 2017-2020 term of office. NOVO BANCO further announced the resolution of the General and Supervisory Board to appoint the members of the Executive Board of Directors for the 2017-2020 term of office.
- On 18 October NOVO BANCO announced the conclusion of the sale process of NOVO BANCO to Nani Holdings, S.G.P.S.. NOVO BANCO further informed on the completion of a share capital increase by new cash inflows, fully subscribed by the shareholder Nani Holdings, S.G.P.S., in the amount of €750 million. This operation increased NOVO BANCO' share capital to €5,650 million, represented by 9,799,999,996 registered nominative shares with no par value, held at 75% by Nani Holdings, SGPS and at 25% by the Resolution Fund.
- On 17 October the rating agency DBRS took several rating actions on NOVO BANCO, following the announcement on 4 October 2017 of the results of the senior debt liability management exercise (LME). DBRS has thus placed the Bank's Long and Short-Term Issuer, Debt and Deposit ratings Under Review with Positive Implications. The CCC (high) Long-Term Deposits rating, the R-5 Short-Term Deposits, Short-Term Deposits, Short-Term Debt and Short-Term Issuer ratings were confirmed as these ratings were not affected by the LME. DBRS also confirmed the Critical Obligations Rating at BB (low) / R-4, with a Stable Trend. These actions by DBRS included the downgrade, in an initial stage, of the Long-Term Senior Debt ratings to Default (D) and the Long-Term Issuer ratings to Selective Default (SD) and the subsequent withdrawal of these ratings. Subsequently DBRS assigned to NOVO BANCO a new CCC (high) Long-Term Issuer rating and a new CCC (high) Long-Term Senior Debt rating and placed both ratings in Under Review Positive. All of NOVO BANCO's senior ratings are now at the same level as they were prior to the announcement of the LME.
- On 16 October NOVO BANCO announced it had held on that day a General Meeting that resolved on the elimination of the nominal value of the NOVO BANCO shares, with the share capital now being represented by shares without nominal value, and also on a capital increase in the amount of €750 million (from €4,900 million to €5,650 million), by new cash inflows, to be made in the following days.

- On 6 October the rating agency Moody's took a rating decision on NOVO BANCO. This rating action followed NOVO BANCO' announcement on 4 October 2017 of the outcome of the liability management exercise (LME) on the Bank's senior debt. Moody's upgraded the NOVO BANCO's baseline credit assessment (BCA) to caa2 from ca. The outlook on the long-term senior debt ratings was moved to Positive, from Ratings under Review. Moody's also confirmed the Bank's long-term senior unsecured debt ratings of Caa2, and confirmed the long-term Counterparty Risk Assessment (CR Assessment) of B3(cr). The long-term deposit ratings of Caa1 remain on review for downgrade. NOVO BANCO's short-term deposit and programme ratings of Not-Prime and the Bank's short-term CR Assessment of Not-Prime(cr) were unaffected by this rating action.
- On 4 October NOVO BANCO announced it has carried out the purchase and early redemption of €4,743 million bonds representing 57% of the nominal value for a total amount of €1,988 million in the context of the tender offer and consent solicitation operation concluded on 2 October 2017. The transaction will allow the fulfilment of the objectives in terms of capital increase (Core Tier 1) and gross equivalent gains including interest savings in excess of €500 million. The success of the transaction was due to the fact that the offer has allowed for the purchase and reimbursement of bonds representing 73% of the book value. The conclusion of the sale of NOVO BANCO to Lone Star was expected to take place shortly after the formal authorisation by the European Commission.
- On 29 September NOVO BANCO announced the results of the meetings held on that day for holders of the securities of each Series to vote in respect of the extraordinary resolutions as set out in the Tender Offer and Solicitation Memorandum dated 24 July 2017.
- On 28 September NOVO BANCO, Caixa Geral de Depósitos and Banco Comercial Português signed a memorandum of understanding for the creation of a "Plataforma de Gestão de Créditos Bancários, ACE" (the "Platform"), an instrument that will allow for an enhanced co-ordination among lenders, aiming to increase the effectiveness and speed of credit restructuring and corporate restructuring. Under this memorandum, the three parties involved have stated their intention to create the Platform, with the purpose of setting an integrated management of a set of credits, which they hold on common debtors and are classified as Non Performing Exposures (these include credits marked as "Non Performing Loans"). In an initial phase, the Platform will manage credits whose aggregate nominal value, per each eligible debtor, is, as a rule, equal to or greater than €5 million. The assets managed by the Platform will remain in each of the banks' balance sheets. The Platform will allow other credit institutions or financial companies, creditors of debtors common to the other members, to join in on a voluntary basis in the future.
- On 11 September NOVO BANCO announced the results of the meetings held on 8 September for holders of the securities of each Series to vote in respect of the extraordinary resolutions as set out in the Tender Offer and Solicitation Memorandum dated 24 July 2017.

- On 15 August NOVO BANCO informed the market about the terms and conditions of the fixed-term deposit accounts that the Bank will offer to beneficial owners of the securities whose securities are tendered and accepted for purchase pursuant to the offers or redeemed pursuant to the issuer early redemption.
- On 3 August NOVO BANCO, S.A. announced it had launched an organised process to sell up to 100% of the share capital of GNB Companhia de Seguros de Vida, S.A. (GNB Vida). GNB Vida will support the shareholder NOVO BANCO in the sale process as an information provider and in the clarification of doubts to potential interested parties. The agreement on the long-term distribution, on an exclusive basis, of GNB Vida insurance products through the branch network of NOVO BANCO will also be assessed within the scope of the sale process. The organized sale process is expected to result in an agreement to sell GNB Vida during the last quarter of 2017.
- On 2 August NOVO BANCO informed the market it had entered a sale and purchase agreement with IIBG Holdings B.S.C., a company incorporated in the Kingdom of Bahrain, in respect of 90% of the share capital of Banco Internacional de Cabo Verde, S.A. The completion of this transaction is pending the necessary authorisations, namely from the Banco de Cabo Verde.
- On 27 July the rating agency Dagong Europe took a rating action on NOVO BANCO. The rating action followed the announcement by NOVO BANCO on 24 July 2017 of information related to the “Tender Offers and Proposals” concerning the Tender Offers of 36 series of securities issued by NB Finance Ltd., by NOVO BANCO, S.A. through its Luxembourg Branch, and by NOVO BANCO, S.A. through its London Branch and the Proposals related to the same securities. Dagong Europe decided to downgrade the long-term credit rating of NOVO BANCO, S.A. and branches from ‘CCC+’ to ‘C’ and the watch was changed from ‘Evolving’ to ‘Negative’. The short term credit rating was maintained at ‘C’.
- 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. The offer foresees the purchase of all bonds under 36 issues of NOVO BANCO, against a cash consideration, and it will provide the bondholders with a price that is in line with the market; the offer is combined with a solicitation of consent for early reimbursement (the consent solicitation). The option for the cash consideration makes this a simpler and more perceptible solution as well being better adjusted to institutional and retail investors. Bank clients who opt for selling or who are reimbursed will be offered term deposits with specific conditions. The transaction considers market prices, slightly above the average value in the last year. The offer will run from 25 July to 2 October 2017, with settlement scheduled for 4 October 2017. To ensure the success of the operation, NOVO BANCO must secure the participation of bondholders such as that it will permit to reinforce its own funds by at least €500 million, either through savings on interest expenses or through capital gains. The operation concerns 36 bond series, maturing between 2019 and 2052, whose nominal global value of €8.3 billion corresponds to around €3 billion in book value. We remind that in 2016 the Group's debt for senior bonds represented less than 10% of NOVO BANCO's liabilities but accounted for around 40% of its financial liabilities' interest and costs. The operation is one of the conditions precedent



for the completion of the sale to Lone Star, which, under the terms of the purchase and sale agreement, will inject a total of €1 billion into NOVO BANCO (of which €750 million at the time of conclusion of the operation and another €250 million within up to three years). Lone Star will acquire 75% of NOVO BANCO's share capital, with the Resolution Fund maintaining the remaining 25%.

## ECONOMIC ENVIRONMENT

In the first nine months of 2017, the world saw a synchronized cycle of economic activity expansion. In the US GDP grew by 3.1% in the 2nd quarter (in annualised QoQ terms) and is estimated to have grown by 3% in the 3rd quarter. In the Euro Zone the economy expanded by 0.7% QoQ in the 2nd quarter (2.8% in annualised terms), having decelerated only marginally, to 0.6%, in the 3rd quarter. In China GDP registered 6.8% YoY growth in the period of July to September. In this context, the price of oil (Brent) and copper increased by 17% and 12%, respectively, in the 3rd quarter, and by 2% and 20% since the start of the year. Nonetheless inflationary pressures remained subdued in the main economies, due to moderation in wage increases. Between July and September the core inflation rate remained flat in the US, at 1.7%, declining in the Euro Zone from 1.2% to 1.1%.

In the Euro Zone the ECB kept the monetary policy unchanged during 2017, abandoning its easing bias but advocating the need to keep an expansionary posture. The 3-month Euribor rate remained stable during the 3rd quarter, at around -0.33% (-0.32% at the start of the year). In the US the Federal Reserve announced the winding down of its balance sheet as from the 4th quarter of 2017, suggesting a rise of the fed funds rate in four 25 bps movements until the end of 2018 (following a 25 bps hike in March 2017, to 1%-1.25%). However, in a context of low inflation expectations, the yield on the 10-year Treasuries inched up by 3 bps only in the 3rd quarter, to 2.33% (having retreated by 11 bps since the beginning of the year). On the other hand, the yield on the 10-year *Bunds* rose by 26 bps from January to September, stabilising at around 0.46% between the 2nd and the 3rd quarters.

Growing economic activity, low interest rates and better earnings led to gains in the stock market, notwithstanding some geopolitical tensions (e.g. North Korea). In the US, the Dow Jones, S&P500 and Nasdaq indices gained 13.4%, 12.5% and 20.7%, respectively, since the start of the year. In Europe, the DAX, CAC40 and IBEX indices rose by 11.7%, 9.6% and 11%. In this context, the euro gained 11.9% against the dollar, to EUR/USD 1.1803, and 3.4% against the pound, to EUR/GBP 0.881.

In Portugal, GDP grew by 0.3% in the 2nd quarter and by 3% year-on-year, underpinned by a higher contribution from investment, and is estimated to have grown by 2.5% YoY (0.5% QoQ) in the 3rd quarter. The persisting cycle of economic activity expansion supported a reduction in the rate of unemployment (from 10.1% to 8.6% of the labour force between January and September) as well as a buoyant real estate market

(housing prices rose by 8% YoY in the 2nd quarter). An improved outlook and the reduction of the public deficit led S&P to raise Portugal's sovereign rating in September, to BBB-, from BB +, thus allowing the country to regain investment grade status. From January to September, the 10-year sovereign bonds' spread against the German *Bunds* shrank by 160 bps, to 192 bps. In the first nine months of 2017 the yield on the 10-year Treasury Bonds decreased from 3.764% to 2.32%. Over the same period, the PSI-20 index gained 15.6%.



NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 SEPTEMBER 2016 AND AS AT 30 SEPTEMBER 2017

€ thousand

	30.09.2017	30.09.2016*
Interest and similar income	733 558	911 409
Interest expense and similar charges	447 689	520 350
<b>Net Interest Income</b>	<b>285 869</b>	<b>391 059</b>
Dividend income	11 326	35 066
Fee and Commission income	280 057	280 849
Fee and Commission expense	57 075	85 153
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	23 386	( 66 618)
Net gains / (losses) from available-for-sale financial assets	56 126	108 551
Net gains / (losses) from foreign exchange revaluation	( 9 412)	( 11 235)
Net gains/ (losses) from the sale of other assets	( 29 390)	( 16 457)
Insurance earned premiums, net of reinsurance	38 832	33 181
Claims incurred, net of reinsurance	156 268	132 590
Change in technical reserves, net of reinsurance	107 776	89 298
Other operating income and expenses	( 66 905)	( 6 161)
<b>Operating Income</b>	<b>484 322</b>	<b>619 790</b>
Staff costs	210 358	230 236
General and administrative costs	152 660	176 832
Depreciation and amortisation	31 202	42 863
Provisions, net of reversals	43 029	52 684
Impairment losses on loans, net of reversals and recoveries	347 688	475 846
Impairment losses on other financial assets, net of reversals and recoveries	85 884	113 683
Impairment losses on other assets, net of reversals and recoveries	86 619	120 392
<b>Operating Costs</b>	<b>957 440</b>	<b>1 212 536</b>
Sale of subsidiaries and associates	3 806	3 648
Results from associated companies consolidated by the equity method	6 296	6 386
<b>Income before income tax and non-controlling interests</b>	<b>( 463 016)</b>	<b>( 582 712)</b>
Corporate income tax		
Current tax	9 496	11 497
Deferred tax	24 088	( 198 139)
	33 584	( 186 642)
<b>Income from continuing activities</b>	<b>( 496 600)</b>	<b>( 396 070)</b>
Income from discontinued operations	76 596	884
<b>Net Income for the period</b>	<b>( 420 004)</b>	<b>( 395 186)</b>
<b>Attributable to shareholders of the Bank</b>	<b>( 419 163)</b>	<b>( 384 828)</b>
Attributable to Non-controlling interests	( 841)	( 10 358)
	( 420 004)	( 395 186)

\* Restated figures

**NOVO BANCO, S.A.**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016 AND AS AT 30 SEPTEMBER 2017**

€ thousand

	<b>30.09.2017</b>	<b>31.12.2016</b>
<b>ASSETS</b>		
Cash and deposits with Central Banks	1 442 074	1 469 259
Deposits with other banks	306 406	370 918
Financial assets held for trading	622 608	656 722
Other financial assets at fair value through profit or loss	1 104 586	1 203 807
Available-for-sale financial assets	10 787 617	10 557 972
Loans and advances to banks	720 582	724 167
Loans and advances to customers	26 780 171	28 184 426
Derivatives held for risk management purposes	194 890	222 769
Non-current assets held for sale	10 407	7 764
Non-current assets held for sale - Discontinued operations	1 073 906	1 217 371
Investment properties	1 262 645	1 206 355
Other tangible assets	173 656	206 459
Intangible assets	38 112	44 663
Investments in associated companies	157 855	158 650
Current tax assets	23 854	30 620
Deferred tax assets	2 404 726	2 603 979
Technical reserves of reinsurance ceded	7 299	6 355
Other assets	3 379 592	3 460 416
Debtors for direct and indirect insurance	763	1 086
Other assets	3 378 829	3 459 330
<b>TOTAL ASSETS</b>	<b>50 490 986</b>	<b>52 332 672</b>
<b>LIABILITIES</b>		
Deposits from Central Banks	6 410 034	6 410 033
Financial liabilities held for trading	546 320	632 831
Deposits from other banks	2 066 250	3 577 914
Due to customers	26 498 521	25 989 719
Debt securities issued	3 482 538	3 817 801
Derivatives held for risk management purposes	119 361	108 265
Investment contracts	3 152 089	3 396 425
Non-current liabilities held for sale	3 277	1 821
Non-current liabilities held for sale - Discontinued operations	906 864	748 807
Provisions	335 840	364 615
Technical reserves	1 238 784	1 333 567
Current tax liabilities	19 863	16 972
Deferred tax liabilities	9 394	19 301
Other subordinated debt	49 516	48 100
Other liabilities	766 013	718 548
Creditors for direct and indirect insurance	9 687	10 945
Other liabilities	756 326	707 603
<b>TOTAL LIABILITIES</b>	<b>45 604 664</b>	<b>47 184 719</b>
<b>EQUITY</b>		
Share Capital	4 900 000	4 900 000
Reserves, retained earnings and other comprehensive income	325 618	954 946
Net income for the period attributable to shareholders of the Bank	( 419 163)	( 788 330)
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK</b>	<b>4 806 455</b>	<b>5 066 616</b>
Non-controlling interests	79 867	81 337
<b>TOTAL EQUITY</b>	<b>4 886 322</b>	<b>5 147 953</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>50 490 986</b>	<b>52 332 672</b>

## GLOSSARY

### **Income Statement**

<b>Fees and Commissions</b>	Fee and commission income less fee and commission expense
<b>Commercial Banking Income</b>	Net interest income and fees and commissions
<b>Capital Markets Results</b>	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
<b>Other Operating Results</b>	Other operating income and expenses, disposal of subsidiaries and associated companies, and income/loss of equity accounted associated companies
<b>Banking Income</b>	Net interest income, fees and commissions, capital markets results and other results
<b>Operating Costs</b>	Staff costs, general and administrative expenses and depreciation and amortisation
<b>Net Operating Income</b>	Banking Income - operating costs
<b>Net Provisions</b>	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**

<b>Assets eligible as collateral for rediscount operations with the ECB</b>	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.
<b>Securities portfolio</b>	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.
<b>Due to customers</b> Banco de Portugal Instruction n. 16/2004	Sums booked under the following balance sheet accounting headings: [#400 - #34120 + #52020 + #53100]
<b>Net ECB funding</b>	Difference between the amount of funding obtained from the ECB and the amount of loans and advances to the ECB
<b>On-balance sheet customer funds</b>	Deposits, other customer funds, debt securities placed with clients and life insurance products
<b>Retail customer funds</b>	On-balance sheet funds of retail clients
<b>Off-Balance Sheet Funds</b>	Off-balance sheet funds managed by Group companies, including mutual funds, real estate investment funds, pension funds, bancassurance, portfolio management and discretionary management.
<b>Total Customer Funds</b>	On- and off- balance sheet customer funds.
<b>Loan to deposit ratio</b> 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**

<b>Overdue Loans ratio</b>	Ratio of overdue loans to total credit
<b>Overdue Loans &gt; 90 days ratio</b>	Ratio of overdue loans > 90 days to total credit
<b>Overdue and Doubtful Loans ratio</b> 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.
<b>Overdue and Doubtful Loans ratio, net</b> 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.
<b>Credit at risk ratio</b> 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.
<b>Credit at risk ratio, net</b> 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.
<b>Restructured credit ratio</b> Banco de Portugal Instruction n. 32/2013	Ratio of restructured credit due to financial difficulties of the client to total credit
<b>Restructured credit not included in credit at risk ratio</b> Banco de Portugal Instruction n. 32/2013	Ratio of restructured credit not included in credit at risk to total credit
<b>Overdue Loans coverage ratio</b>	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans.
<b>Overdue Loans &gt; 90 days coverage ratio</b>	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans > 90 days
<b>Credit at risk coverage ratio</b>	Ratio of accumulated impairment on customer loans (on balance sheet) to credit at risk.
<b>Coverage ratio of customer loans</b>	Ratio of impairment on customer loans (on balance sheet) to gross loans.
<b>Cost of Risk</b>	Ratio of credit impairment charges accounted in the period to gross customer loans
<b>Non-performing loans</b>	Total balance of the contracts identified as: (i) in default (internal definition in line with article 178 of Capital Requirement Regulation, i.e., contracts with material overdue above 90 days and contracts identified as unlikely to pay, in accordance with qualitative criteria); and (ii) with specific impairment.

---

## GLOSSARY

---

### **Efficiency and Profitability Ratios**

<b>Efficiency</b> 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).
<b>Efficiency</b> 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).
<b>Cost to Income</b>	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)
<b>Profitability</b> 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.
<b>Return on average net assets</b> Banco de Portugal Instruction n. 16/2004	Ratio of income before tax and non-controlling interests to average net assets.
<b>Return on average equity</b> Banco de Portugal Instruction n. 16/2004	Ratio of income 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.