Announcement

Lisbon, 23 August 2018

NOVO BANCO GROUP ACTIVITY AND RESULTS

1st Half 2018

(Unaudited financial information)

NOVO BANCO 1H2018 Results of -€231.2 million show 20% improvement compared with same period in 2017

Non-Performing Loans (NPLs) Ratio declines in June 2018 by 3.4% compared with June 2017

Corporate Loans account more than 62% of Total Loan Book

NOVO BANCO Group reported a net loss of €231.2 million in the 1st half of 2018, which compares with a net loss of €290.3 million in the same period of 2017, an improvement of around 20%.

Core Operating Income (excluding Capital Markets and Other Operating Income) increased by 14.8% YoY to €116.9 million versus €101.8 million in the same period of 2017.

In this quarter, NOVO BANCO successfully completed the issuance of Tier 2 subordinated bonds amounting to €400 million, which allowed for the increase of the provisional total capital ratio to 14.7% at the end of June 2018.

This bond issue was carried out in conjunction with Tender and Exchange Offers, which enabled the repurchase and cancelation of €1,036 million in nominal value, circa 30% of the senior bonds that were still outstanding in the market, which will contribute to an improvement in the net interest margin. However, the Tender and Exchange Offers had a negative effect in the results for the period in an amount of -€79.0 million.

The 1st half 2018 results also had the negative impact of the write-off of €31.0 million of tax losses carried forward, registered as deferred tax assets (DTAs), taking into consideration that, under the terms of the current business plan, these DTAs do not meet the conditions for inclusion in the Bank's assets.

Excluding these two effects, NOVO BANCO Group would have reported a €121.2 million net loss in the 1st half 2018.

The commercial banking income stood at €361.1 million, almost identical to the amount registered in the same period of the previous year, with a reduction of 7.9% in the operating costs.

In the 1st half of the year, the NPLs (non-performing loans) continued to decline, and the ratio continued to improve, standing at 28.7% (-3.4% compared to the same period last year), with 63.0% coverage (+11.8% than in the same period in 2017). The NPLs net of impairments ratio declined from 15.7% in June 2017 to 10.6% in the 1st half of 2018, a decrease of about 33%.

ACTIVITY

The Group's loan book contracted by approximately €0.7 billion (-2.2%) comparing to December 2017 and -4.7% year-on-year (YoY). The reduction registered in the 1st half 2018 had a special impact on non-performing loans (-€0.8 billion).

The non-performing loans ratio decreased to 28.7% (30-Jun-2017: 32.1%; 31-Dec-2017: 30.5%), with the respective impairment coverage increasing to 63.0% (30-Jun-2017: 51.2%; 31-Dec-2017: 58.7%)

Customer deposits increased by €3.9 billion (+15.2%) year-on-year, of which €1.8 billion was a result of the LME (Liability Management Exercise) concluded in October 2017. Compared to December 2017, deposits were down by €0.5 billion.

Net funding from the European Central Bank (ECB) was €4.5 billion on 30 June 2018 (30-Jun-2017: €5.7 billion; 31-Dec-2017: €2.8 billion).

Within the divestment strategy of non-core assets, whilst focusing in its core domestic and Iberian banking activity, in the 1st quarter of 2018 NOVO BANCO Group completed the sale of the branch in Venezuela, and in June 2018 signed an agreement to sell 87.5% of the share capital of Banque Espírito Santo et de la Vénétie, S.A. (BESV). In July 2018, NOVO BANCO Group completed the sale of 90% of the share capital of Banco Internacional de Cabo Verde, S.A..

It is worth noting that, previously, NOVO BANCO had closed branches in New York, Nassau, and Cape Verde, and sold NOVO BANCO Asia, in Macau, and is expected to close the London branch until the end of the year.

Also included in the divestment strategy, NOVO BANCO has underway the preparation of sales operations of a portfolio of non-strategic real estate assets and a portfolio of non-performing loans. It is estimated that these sales operations may be formalized by the end of the year.

PERFORMANCE

Net interest income decreased by 4.1% as a result of the deleveraging in the period, while fees and commissions increased by 1.7%.

The evolution of capital markets results, which were negative at €6.3 million in the 1st half of 2018, reflects the absorption of gains in this area from the Tender and Exchange Offers carried out at the end of the second quarter of 2018 (-€79.0 million).

Taking into account the new business environment and as an element for cost reduction, NOVO BANCO also proceeded to anticipate the adjustment of the size of the commercial network to approach 400 branches by the end of the year.

The ongoing cost rationalisation and optimisation policies enabled a 7.9% reduction in operating costs, with staff costs contracting by 6.2% and general and administrative costs decreasing by 1.8%.

Impairments totalled €248.4 million in the 1st half of 2018, which compares with €413.1 million in the 1st half of 2017. Credit impairments amounted to €199.6 million, comparing with €258.3 million a year earlier.

NOVO BANCO has its Common Equity Tier 1 (CET1) and Tier 1 ratios protected up to the amounts of losses already recorded on the assets protected by the Contingent Capital Agreement. The compensation amount to be requested for 2018 will take into account any losses (already incurred or to be incurred) on the assets protected by the Contingent Capital Agreement, as well as the regulatory requirements defined for the period.

The provisional CET1 ratio was 13.5% and the provisional total capital ratio was 14.7%.

As at 30 June 2018, NOVO BANCO complies with all capital ratios required by the European Central Bank (ECB) under the Supervisory Review and Evaluation Process (SREP). NOVO BANCO anticipates that mandatory capital level requirements under SREP will be re-assessed by the ECB in the second half of 2018.

MAIN HIGHLIGHTS	30-Jun-17	31-Dec-17	30-Jun-18
ACTIVITY (mn€)			
Net Assets	50 085	52 055	51 495
Gross Loans	32 229	31 422	30 720
Customer Deposits	25 381	29 691	29 240
Equity	4 954	4 832	4 954
SOLVENCY (1)			
Common EquityTier I/Risk Weighted Assets	10.9%	12.8%	13.5%
Tier I/Risk Weighted Assets	10.9%	12.8%	13.5%
Total Own Funds/Risk Weighted Assets	11.1%	13.0%	14.7%
LIQUIDITY (mn€)			
European Central Bank Funding (net) (3)	5 741	2 790	4 499
Eligible Assets for Repo Operations (ECB and other), net of haircut	11 679	12 706	14 114
(Total Credit - Credit Provisions)/ Customer Deposits (2)	106%	88%	87%
Liquidity Coverage Ratio (LCR)	104%	124%	138%
Net Stable Funding Ratio (NSFR)(1)	103%	108%	110%
ASSET QUALITY			
Overdue Loans > 90 days / Gross Loans	17.7%	16.3%	16.0%
Non-Performing Loans (NPL) / Gross Loans	32.1%	30.5%	28.7%
Credit Provisions / Overdue Loans > 90 days	93.0%	109.8%	113.1%
Credit Provisions / Gross Loans	16.5%	17.9%	18.1%
Cost of Risk	1.60%	3.91%	1.30%
PROFITABILITY			
Net Income (mn€) (4)	-290.3	-2 187.1	-231.2
Income before Taxes and Non-Controlling Interests / Average Net Assets (2) (4)	-1.1%	-3.4%	-1.1%
Banking Income / Average Net Assets (2) (4)	1.7%	1.7%	1.4%
Income before Taxes and Non-Controlling Interests / Average Net Equity (2) (4)	-10.4%	-30.9%	-10.4%
EFFICIENCY			
Operating Costs / Banking Income (2) (4)	60.7%	61.6%	70.6%
Staff Costs / Banking Income (2) (4)	32.7%	30.9%	38.7%
EMPLOYEES (No.)			
Total	5 706	5 488	5 340
- Domestic	5 321	5 156	5 017
- International	385	332	323
BRANCH NETWORK (No.)			
Total	475	473	443
- Domestic	449	448	418
- International	26	25	25

mn€: millions of euro
(1) Provisional data for 30 June 2018
(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
(4) Data as of 31 December 2017 was restated with the amount of the triggering of the Contingent Capital Agreement accounted in Reserves

RESULTS

NOVO BANCO Group reported in the 1st half of 2018 a net loss of €231.2 million, which compares with a net loss of €290.3 million in the 1st half of 2017, resulting in a reduction of €169.1 million in net losses when excluding the following two extraordinary effects registered in this semester: the negative effect of the Tender and Exchange Offers (-€79.0 million) and the write-off of tax losses carried forward (-€31.0 million).

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INCOME STATEMENT	1H2017	1H2018	% Change
Net Interest Income	210.6	202.0	-4.1%
+ Fees and Commissions	156.3	159.0	1.7%
= **Commercial Banking Income**	**367.0**	**361.1**	**-1.6%**
+ Capital Markets Results	65.3	- 6.3	...
+ Other Operating Income	4.3	- 8.9	...
= **Banking Income**	**436.6**	**345.8**	**-20.8%**
- Operating Costs	265.2	244.2	-7.9%
= **Net Operating Income**	**171.5**	**101.7**	**-40.7%**
- **Net Impairments and Provisions**	**413.1**	**248.4**	**-39.9%**
Credit	258.3	199.6	-22.7%
Securities	44.8	10.5	-76.5%
Other Assets and Contingencies	109.9	38.3	-65.2%
= **Income before Taxes**	**- 241.6**	**- 146.8**	**39.3%**
- Corporate Income Tax	18.3	57.0	...
- Special Tax on Banks	30.9	27.3	-11.6%
= **Income after Taxes**	**- 290.8**	**- 231.0**	**20.6%**
- Non-Controlling Interests	- 0.4	0.2	...
= **Net Income**	**- 290.3**	**- 231.2**	**20.4%**

Main highlights of the activity developed in the 1st half of 2018:

- commercial banking income totalled €361.1 million (-1.6% YoY), being penalised by a reduction in net interest income (-4.1%) that fully offset the improvement in fees and commissions (+1.7%);
- negative capital market results, in the amount of €6.3 million, reflecting the negative impact of the Tender and Exchange Offers (-€79.0 million);
- operating costs decreased by 7.9% YoY, to €244.2 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;

- the provision charge in the period totalled €248.4 million, includes credit impairments amounting to €199.6 million, €10.5 million for securities and €38.3 million for other assets and contingencies that include provisions for real estate assets.
- The tax amount reflects the write-off of tax losses carried forward in an amount of -€31.0 million, which, under the terms of the current business plan, do not meet the conditions for inclusion in the Bank's assets.
- Core Operating Income (excluding Capital Markets and Other Operating Income) increased by 14.8% YoY to €116.9 million versus €101.8 million in the same period of 2017.

Net Interest Income

The performance of net interest income continued to be impacted by the fact that benchmark interest rates remained on negative ground and by the high cost of debt securities (offset by the LME operation concluded in October 2017).

Due to these constraints and also the ongoing deleveraging process, net interest income contracted by 4.1% year-on-year, to €202.0 million. It should be noted that the positive impact from a 46 basis points (bps) reduction in the cost of liabilities (from 1.28% in Jun-17 to 0.82% in Jun-18) was sufficient to offset the reduction in the interest rate on assets (-39 bps), causing the net interest margin to increase by 7 bps, to 1.02%, from 0.95% in June 2017 (31-Dec-17: 0.89%).

The LME concluded in October 2017 led to a worsening of the cost of deposits from 0.81% in June 2017 to the current 0.90%, and on the other hand led to a reduction in the rate of remuneration of debt securities issued.

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NET INTEREST INCOME AND NET INTEREST MARGIN	1H2017			2017			1H2018		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	44 886	2.23%	496	44 347	1.94%	862	42 276	1.84%	385
Customer Loans	33 050	2.40%	393	32 474	2.32%	752	31 089	2.16%	333
Money Market Placements	2 352	1.39%	16	2 650	1.08%	29	2 658	0.95%	12
Securities and Other Assets	9 484	1.82%	86	9 223	0.88%	81	8 529	0.93%	39
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-	-	-	-
INTEREST EARNING ASSETS AND OTHER	**44 886**	**2.23%**	**496**	**44 347**	**1.94%**	**862**	**42 276**	**1.84%**	**385**
INTEREST BEARING LIABILITIES	41 669	1.38%	285	41 066	1.14%	467	38 248	0.90%	171
Due to Customers	25 327	0.81%	101	26 319	0.86%	226	28 844	0.90%	128
Money Market Funding	9 466	0.34%	16	8 985	0.36%	33	8 322	0.25%	10
Other Liabilities	6 875	4.92%	168	5 761	3.61%	208	1 082	5.05%	27
OTHER NON-INTEREST BEARING LIABILITIES	3 217	-	-	3 282	-	-	4 027	-	6
INTEREST BEARING LIABILITIES AND OTHER	**44 886**	**1.28%**	**285**	**44 347**	**1.05%**	**467**	**42 276**	**0.82%**	**171**
NIM / NII (without the stage 3 impairment adjustment)		**0.95%**	**211**		**0.89%**	**395**		**1.02%**	**214**
Stage 3 Impairment									**- 12**
NIM / NII								**0.96%**	**202**

The average rate on customer loans, the main component of financial assets (73.5%), was 2.16%. As to liabilities, the average balance of deposits was €28.8 billion, with an average interest rate of 0.90%.

Fees and Commissions

Fees and commissions on banking services contributed with €159.0 million to the results, up by 1.7% from €156.3 million in June 2017.

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FEES AND COMMISSIONS	1H2017	1H2018	% Change	Weight	
				1H2017	1H2018
Payments and Account Management	53.4	57.9	8.4%	34.2%	36.4%
Commissions on Loans, Guarantees and Similar	58.6	58.5	-0.2%	37.5%	36.8%
Asset Management and Bancassurance	31.5	32.6	3.7%	20.1%	20.5%
Advising, Servicing and Other	12.9	10.0	-22.2%	8.2%	6.3%
TOTAL	**156.3**	**159.0**	**1.7%**	**100.0%**	**100.0%**

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

- Support services to companies, including income from guarantees provided, documentary credits, and services related to loan management and other (representing 36.8% of total fees and commissions);
- Commissions on payment services (36.4% of total fees and commissions) – cards and payment processing, including cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- Asset management and *bancassurance* products that represent 20.5% of total fees and commissions.

Capital Markets Results and Other Operating Income

The evolution of Capital Market results (-€6.3 million) reflects, on the one hand, the gains realized from the sale and revaluation of sovereign debt securities, which were absorbed in their entirety by the negative impact of the Tender and Exchange Offers (-€79.0 million).

Other operating income includes the cost of contributions to the Single Resolution Fund (€20.7 million) and to the Portuguese Resolution Fund (€11.0 million).

Operating Costs

Operating costs show a YoY reduction of 7.9%, reflecting the implementation of restructuring measures that involved the continued downsizing of the distribution network and the simplification and scaling down of the organisational structure and processes, with the consequent reduction of the workforce.

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OPERATING COSTS	1H2017	1H2018	% Change
Staff Costs	142.8	133.9	-6.2%
General and Administrative Costs	101.0	99.1	-1.8%
Depreciation	21.4	11.2	-47.7%
TOTAL	**265.2**	**244.2**	**-7.9%**

Staff costs decreased by 6.2% YoY, to €133.9 million, underpinned by a headcount reduction of 148 employees since 31 December 2017. As at 30 June 2018, NOVO BANCO Group had 5,340 employees (Dec-17: 5,488).

General and administrative costs dropped by 1.8% YoY, to €99.1 million. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy underway. Depreciation decreased by a significant 47.7%.

The contraction in operating costs also reflects the downsizing of the distribution network in line with the new business reality. On 30 June 2018, NOVO BANCO had 443 branches, which is 30 fewer units than at the end of 2017.

Impairments and Provisions

NOVO BANCO Group reinforced impairments by €248.4 million (€164.7 million less than in the 1st half of 2017), with credit provisions being the most significant component (€199.6 million). Total provisions in the 1st half of 2018 also include €10.5 million for securities and €38.3 million from provisions for other assets and contingencies (notably real estate assets).

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NET IMPAIRMENTS AND PROVISIONS	1H2017	1H2018	% Change
Customer Loans	258.3	199.6	-22.7%
Securities	44.8	10.5	-76.5%
Other Assets and Contingencies	109.9	38.3	-65.2%
TOTAL	**413.1**	**248.4**	**-39.9%**

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

Funding

On 30 June 2018 customer deposits totalled €29.2 billion, up by €3.9 billion from June 2017. In addition to the consolidation of the relationship with the clients alongside the resumption of normal operating conditions and the recovery of funding, this increase also reflects the impact of the LME completed in the last quarter of 2017 (new deposits in the amount of ca. €1.8 billion).

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TOTAL FUNDS	30-Jun-17	31-Dec-17	31-Mar-18	30-Jun-18	YoY Change		Absolute change in 2Q2018
					absolute	relative	
Deposits	25 381	29 691	28 576	29 240	3 859	15.2%	664
Other Customer Funds (1)	513	517	300	521	9	1.7%	221
Debt Securities (2)	882	1 217	1 006	719	- 162	-18.4%	- 286
Subordinated Debt	0	0	0	400	400	...	400
Sub -Total	**26 775**	**31 425**	**29 882**	**30 880**	**4 105**	**15.3%**	**998**
Life Insurance Products (3)	4 440	0	0	0	-4 440	-100.0%	0
Off-Balance Sheet Funds	4 876	4 829	4 922	5 062	187	3.8%	140
Total Funds	**36 090**	**36 254**	**34 805**	**35 943**	**- 148**	**-0.4%**	**1 138**

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

(2) Includes funds associated to consolidated securitisation operations

(3) Taking into account the intention of NOVO BANCO of selling the insurance activity, developed by GNB Vida, the company has been allocated to discontinuing activities during 4Q2017

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. At the end of the 1st half of 2018, corporate loans accounted for 62.9% share of the total loan book.

CUSTOMER LOANS	30-Jun-17	31-Dec-17	31-Mar-18	30-Jun-18	YoY Change		Absolute change in 2Q2018
					absolute	relative	
Corporate Lending	**20 929**	**20 092**	**19 979**	**19 334**	**-1 595**	**-7.6%**	**- 646**
Loans to Individuals	**11 300**	**11 330**	**11 314**	**11 387**	**86**	**0.8%**	**73**
Residential Mortgage	9 715	9 751	9 710	9 761	46	0.5%	51
Other Loans	1 585	1 579	1 604	1 626	40	2.6%	21
Customer Loans (gross)	**32 229**	**31 422**	**31 293**	**30 720**	**-1 509**	**-4.7%**	**- 573**
Provisions	5 308	5 631	5 754	5 551	243	4.6%	- 203
Customer Loans (net)	**26 921**	**25 791**	**25 539**	**25 169**	**-1 752**	**-6.5%**	**- 370**

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Customer loans contracted by €1.5 billion compared to the 1st half of 2017. The stability of loans to individual clients, which remained flat at €11.4 billion, is worth noting. The reduction registered in corporate lending in the first half of the year had a special impact on non-performing loans (-€0.8 billion).

Securities portfolio

On 30 June 2018, the securities portfolio amounted to €10.4 billion and stands as the main source of assets eligible for financing operations with the European Central Bank (ECB).

net of impairments

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SECURITIES PORTFOLIO	30-Jun-17	31-Dec-17	30-Jun-18	YoY Change		Absolute change in 1H2018
				absolute	relative	
Portuguese Sovereign Debt	4 386	3 855	4 795	408	9.3%	939
Other Sovereign Debt	2 239	2 113	2 761	522	23.3%	648
Bonds	2 809	962	1 337	-1 472	-52.4%	375
Other	2 443	1 549	1 552	- 891	-36.5%	3
Total	**11 877**	**8 479**	**10 444**	**-1 433**	**-12.1%**	**1 965**

The evolution of the composition of the securities portfolio reflects a management focus on lower risk and higher liquidity securities, namely sovereign debt securities of Eurozone countries. The overall portfolio decreased by around €1.4 billion, mainly due to the transfer of GNB Vida to discontinued operations.

Liquidity

Following the completion of the NOVO BANCO sale process, including the subsequent stabilization of customer funds, the Bank's liquidity position improved significantly. Customer deposits, which represent the largest component of customer funds, improved favourably in the second quarter of the year, recovering to levels close to those recorded at the end of 2017, especially in the corporate and institutional segment.

At the level of market financing, NOVO BANCO issued €400 million of subordinated debt instruments, marking the Bank's return to the international financial markets. The issue was placed on 29 June, the last day of the first half of the year, and its financial settlement occurred on 6 July.

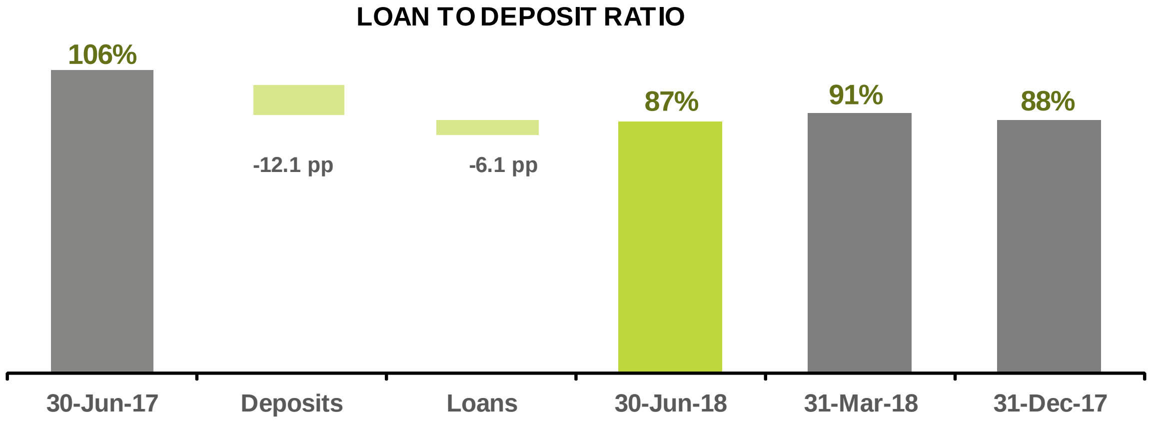
This debt issue was made in conjunction with Tender and Exchange Offers addressed to senior bondholders of NOVO BANCO, prioritizing the allocation of the new Tier 2 issue to investors participating in the Exchange Offer (65%), to the allocation to new investors (35%). The Tender and Exchange Offers allowed the cancelation of €1,036 million of senior debt securities in nominal value. This liability restructuring will enable the achievement of significant capital savings in the future through the cancelation of expensive and long-term senior debt. The liquidity impact of this operation was moderately positive.

Net borrowing from the ECB (borrowings from the ECB net of placements with this institution) at the end of the second quarter of 2018 was approximately €4.5 billion, a decrease of c. €750 million from the 1st quarter of 2018. This variation essentially reflects the increase in deposits as well as the injection of €792 million by the Resolution Fund on 24 May under the Contingent Capital Agreement.

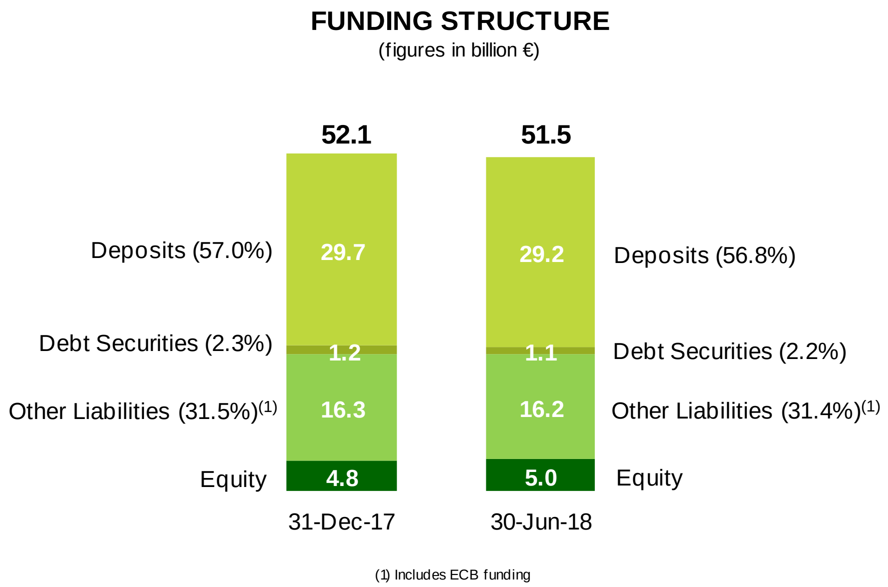
In addition, NOVO BANCO also maintains its strategy of optimizing its portfolio of assets eligible for rediscount, with a special focus on eligible assets with the European Central Bank. In the second quarter of 2018, NOVO BANCO registered a slight increase in its portfolio of eligible assets for a total of €14.1 billion, compared with €14.0 billion at the end of the 1st quarter of 2018 (€12.7 billion at the end of 2017). This increase is mainly due to the increase in the European sovereign debt portfolio.

Thus, at the end of the 1st half of 2018, the Liquidity Coverage Ratio (LCR) was 138%, reflecting the improvement in the liquidity position (a 15 p.p. increase over the 1st quarter of 2018).

The loan to deposit ratio (87%) decreased by 19 p.p. compared to 30 June 2017, as a result of the positive evolution of its components - deposit growth and credit reduction.



Customer deposits accounted for 57% of the assets, continuing to be the main source of funding.



Capital Management

NOVO BANCO complies with all capital ratios required by the European Central Bank (ECB) under the Supervisory Review and Evaluation Process (SREP) as of 30 June 2018. NOVO BANCO anticipates that mandatory capital level requirements under SREP will be re-assessed by the ECB in the second half of 2018.

NOVO BANCO has its Common Equity Tier 1 (CET 1) and Tier 1 ratios protected up to the amounts of losses already recorded on the assets protected by the Contingent Capital Agreement. The compensation amount to be requested for 2018 will take into account any losses (already incurred or to be incurred) on the assets protected by the Contingent Capital Agreement, as well as the regulatory requirements defined for the period.

On 30 June 2018 the provisional CET1 ratio was 13.5% (31-Dec-2017: 12.8%; 30-Jun-2017: 10.9%). The issuance at the end of June of Tier 2 subordinated bonds amounting to €400 million was reflected in the increase of the provisional total capital ratio to 14.7% on 30 June 2018 comparing with 13.0% on 31 December 2017 and 11.1% on 30 June 2017.

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CAPITAL RATIOS - BIS III (CRD IV/CRR)		30-Jun-17	31-Dec-17	30-Jun-18 (1)
Risk Weighted Assets	(A)	31 968	31 740	32 287
Own Funds				
Common Equity Tier 1	(B)	3 477	4 047	4 355
Tier 1	(C)	3 477	4 047	4 359
Total Capital	(D)	3 537	4 117	4 748
Common Equity Tier 1 Ratio	(B/A)	10.9%	12.8%	13.5%
Tier 1 Ratio	(C/A)	10.9%	12.8%	13.5%
Solvency Ratio	(D/A)	11.1%	13.0%	14.7%

(1) Provisional data

Asset Quality

As at 30 June 2018, the main groups of credit exposures showed an improvement compared to December 2017.

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CREDIT QUALITY	30-Jun-17	31-Dec-17	30-Jun-18	Change in 1H2018	
				absolute	relative
Gross Loans	32 229	31 422	30 720	- 702	-2.2%
Overdue Loans	5 881	5 215	5 146	- 69	-1.3%
Overdue Loans > 90 days	5 708	5 127	4 910	- 217	-4.2%
Restructured Credit	7 534	7 102	5 957	-1 145	-16.1%
Non-Performing Loans (NPL)	10 359	9 594	8 810	- 784	-8.2%
Provisions for Credit	5 308	5 631	5 551	- 80	-1.4%

The reduction in overdue loans and in non-performing loans improved the asset quality ratios to 16.8% and 28.7%, respectively, at the end of June 2018. The coverage by impairments of overdue loans (107.9%) and non-performing loans (63.0%) increased compared to the 1st half of 2017.

Provisions for credit amounted to €5.6 billion, representing 18.1% of the total loan book (Dec-17: 17.9%).

ASSET QUALITY AND COVERAGE RATIOS	30-Jun-17	31-Dec-17	30-Jun-18	Change in 1H2018 (pp)
Overdue Loans / Gross Loans	18.2%	16.6%	16.8%	0.2
Overdue Loans > 90 days / Gross Loans	17.7%	16.3%	16.0%	-0.3
Restructured Credit / Gross Loans	23.4%	22.6%	19.4%	-3.2
Non-Performing Loans (NPL) / Gross Loans	32.1%	30.5%	28.7%	-1.9
Provisions for Credit / Gross Loans	16.5%	17.9%	18.1%	0.1
Coverage of Overdue Loans	90.3%	108.0%	107.9%	-0.1
Coverage of Overdue Loans > 90 days	93.0%	109.8%	113.1%	3.2
Coverage of Non-Performing Loans	51.2%	58.7%	63.0%	4.3

The €1.5 billion reduction in non-performing loans – from €10.4 billion in June 2017 to €8.8 billion in June 2018 – was particularly noticeable, with the respective asset quality ratio improving by 340bps, to 28.7%. The coverage of non-performing loans by impairments reached 63.0% (Dec-17: 58.7%).

ECONOMIC ENVIRONMENT

The 1st half of 2018 was marked by the extension of the cycle of expansion of global economic activity. However, there was a divergent performance between the US and the other economies. After growing 2.2% in the first quarter, US GDP grew 4.1% in the second quarter (annualized), with domestic demand benefiting from significant fiscal stimulus. In the Euro Zone, GDP slowed in the 1st half of 2018, with quarterly GDP changes of 0.4% in the 1st and 2nd quarters (or about 1.6% in annualized terms). In the US, rising energy prices and greater economic activity reflected a rise in inflation, from 2.1% to 2.9% YoY, or from 1.8% to 2.3% YoY core inflation. The Federal Reserve thus accentuated the monetary policy normalization process, raising the fed funds target rate by 50 bps to 1.75% (-2%) and projecting two additional increases by the end of the year. In the Euro Zone, core inflation remained at 1% YoY in June, the same as in January. The ECB kept the refinancing rate at 0% and the deposit facility rate at -0.4% and, although announcing the end of the asset purchase program for December 2018, signalled the maintenance of the reference interest rate until at least the summer of 2019. In this context, the 10-year Bund yield fell from an annual high of 0.76% in February to 0.302% in June. The 3-month Euribor remained relatively stable, reaching -0.321% at the end of the 1st half of 2018. The 10-year Treasury yield rose from 2.41% to 2.86% in the 1st half of 2018. Divergences between the US and the Eurozone, accentuated by some political uncertainty in Europe, contributed to a 2.9% depreciation of the euro against the dollar to EUR / USD 1.168.

Although supported by economic growth and low interest rates, fiscal stimulus in the US, and positive corporate earnings, the stock market experienced an increase in volatility in the 1st half of 2018. The main indices were penalized by the announcement by the US of various protectionist measures and by the retaliations announced by the affected economies. The moderation of growth prospects and political uncertainty penalized European indices. And rising dollar and US interest rates penalized stocks in emerging markets. For the 1st half of the year, the Dow Jones, S&P 500 and Nasdaq indices recorded changes of 1.8%, 1.67% and 8.8%, respectively. In emerging markets, the Shanghai Composite fell 13.9% and the MSCI Emerging Markets depreciated 7.9%. In Europe, DAX, CAC 40 and IBEX recorded changes of -4.7%, 0.2% and -4.2%, respectively.

In Portugal, after a slowdown in the 1st quarter (0.4% QoQ and 2.1% YoY), GDP growth has recovered slightly in the 2nd quarter, with changes of 0.5% QoQ and 2.3% YoY. The unemployment rate fell from 7.9% to 6.7% of the active population in the 2nd quarter and the inflation rate remained contained (1.5% YoY in June). The 10-year TB yield fell from 1.9% to 1.78% and the spread on the German Bund at that maturity narrowed from 152 to 149 basis points. The PSI-20 appreciated 2.6% in the 1st half 2018.

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2018 AND AS AT 30 JUNE 2017

thousand€

	30.06.2018	30.06.2017
Interest and similar income	382 562	511 870
Interest expense and similar charges	180 557	301 257
Net Interest Income	**202 005**	**210 613**
Dividend Income	8 025	10 094
Fee and Commission income	184 319	189 609
Fee and Commission expense	30 706	39 507
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(55 026)	15 070
Net gains / (losses) from assets at fair value through profit or loss mandatory	24 833	-
Net gains / (losses) from financial assets at fair value through other comprehensive income	31 091	49 762
Net gains / (losses) from foreign exchange revaluation	22 489	(5 105)
Net gains / (losses) from the sale of other assets	4 171	(33 504)
Insurance earned premiums, net of reinsurance	-	28 323
Claims incurred net of reinsurance	-	126 050
Change in technical reserves, net of reinsurance	-	90 481
Other operating income and expenses	(77 946)	(60 930)
Operating Revenues	**313 255**	**328 856**
Staff Costs	133 867	142 756
General and Administrative Costs	99 095	100 955
Depreciation and amortisation	11 217	21 441
Provisions, net of reversals	(23 352)	38 599
Impairment losses on loans, net of reversals and recoveries	199 562	258 329
Impairment losses on other financial assets, net of reversals and recoveries	5 260	44 807
Impairment losses on other assets, net of reversals and recoveries	66 940	71 341
Operating Costs	**492 589**	**678 228**
Sale of subsidiaries and associates	1 026	764
Results from associated companies consolidated by the equity method	3 468	3 752
Income before income tax and non-controlling interests	**(174 840)**	**(344 856)**
Corporate income tax		
Current tax	6 444	5 868
Deferred tax	50 518	12 432
	56 962	18 300
Income from continuing activities	**(231 802)**	**(363 156)**
Income from discontinued operations	813	72 398
Net Income for the period	**(230 989)**	**(290 758)**
Attributable to shareholders of the Bank	**(231 234)**	**(290 318)**
Attributable to Non-controlling interests	245	(440)
	(230 989)	(290 758)

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2018 AND AS AT 31 DECEMBER 2017

		thousand€
	30.06.2018	**31.12.2017 ***
ASSETS		
Cash and deposits with Central Banks	2 121 981	3 788 027
Deposits with other banks	281 153	380 601
Securities held for trading	2	367
Derivatives held for trading	526 109	577 153
Loans and advances to banks	614 965	581 901
Loans and advances to customers	25 169 274	25 790 943
Securities portfolio	10 444 118	8 478 428
Derivatives held for risk management purposes	180 313	170 588
Non-current assets held for sale	2 912	5 448
Assets of discontinued operations	5 137 425	5 130 956
Investment properties	1 114 942	1 144 432
Other tangible assets	149 644	157 497
Intangible assets	8 780	8 682
Investments in associated companies and affiliates excluded from consolidation	128 648	146 251
Current tax assets	7 618	6 014
Deferred tax assets	1 777 458	1 964 017
Other assets	3 829 634	3 723 544
TOTAL ASSETS	**51 494 976**	**52 054 849**
LIABILITIES		
Deposits from Central Banks	6 476 362	6 410 123
Financial liabilities held for trading	511 445	559 765
Deposits from other banks	1 770 224	2 015 044
Due to customers	29 760 946	30 208 071
Debt securities issued	719 409	1 216 780
Derivatives held for risk management purposes	38 082	76 212
Non-current liabilities held for sale	3 567	3 277
Liabilities of discontinued operations	5 535 877	5 525 962
Provisions	342 071	416 670
Current tax liabilities	14 885	13 887
Deferred tax liabilities	6 415	6 193
Subordinated Debt	400 000	-
Other liabilities	961 838	770 690
TOTAL LIABILITIES	**46 541 121**	**47 222 674**
EQUITY		
Share Capital	5 900 000	5 900 000
Reserves and retained earnings	(789 282)	1 040 105
Net Income for the period attributable to the shareholders of the Bank	(231 234)	(2 187 142)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	4 879 484	4 752 963
Non-controlling interests	74 371	79 212
TOTAL EQUITY	**4 953 855**	**4 832 175**
TOTAL LIABILITIES AND EQUITY	**51 494 976**	**52 054 849**

* - restated with the amount of the triggering of the Contigent Capital Agreement accounted in Reserves

GLOSSARY

Income Statement

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

Balance Sheet / Liquidity

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

Asset Quality and Coverage

Overdue Loans ratio	Ratio of overdue loans to total credit.
Overdue Loans > 90 days ratio	Ratio of overdue loans > 90 days to total credit.
Overdue Loans coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans.
Overdue Loans > 90 days coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to overdue loans > 90 days.
Coverage ratio of customer loans	Ratio of impairment on customer loans (on balance sheet) to gross loans.
Cost of Risk	Ratio of credit impairment charges accounted in the period to gross customer loans.
Non-performing loans	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.
Non-performing loans ratio	Ratio of non-performing loans and customer loans.
Non-performing loans coverage ratio	Ratio of impairment on customer loans (on balance sheet) to non-performing loans.

GLOSSARY

Efficiency and Profitability Ratios

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