NOVO BANCO

Announcement

Lisbon, 30 November 2018

NOVO BANCO GROUP ACTIVITY AND RESULTS

30 SEPTEMBER 2018

(Unaudited financial information)

NOVO BANCO 9M2018 Results of -€419.6 million are in line with the 9M2017 results

Core operating income (commercial banking income - operating costs) increases by 41.5%, from €122.7 million to €173.7 million.

- NOVO BANCO Group reported a net loss of €419.6 million in the nine months to September 2018, which compares with a net loss of €419.2 million in the same period of 2017, continuing the ongoing restructuring of its balance sheet, according to its strategic plan.
- Regarding to core business, for the first time in its history, NOVO BANCO posted a growth of 5.2% in the net interest income and of 3.9% in commercial banking income (+€20.3 million).
- Operating costs continued to decrease 7.8% YoY, which enabled a 41.5% growth in core operating income.

The following operations carried out in the period are worth noting:

- the simultaneous Debt Tender and Exchange Offers, carried out in conjunction with a €400 million issue of Tier 2 subordinated bonds, which, despite contributing to the improvement of net interest margin in the future, had a negative impact of -€81.8 million in the period's results;

- the signature of a promissory agreement to sell a portfolio of real estate assets, with a -€159.0 million impact on the Group's results.

Excluding the effect of these operations and the impact in the 2nd quarter of the year of the write-off of tax losses carried forward in the amount of -€31.0 million, NOVO BANCO Group would have posted a net loss of €147.8 million in the first nine months of 2018.

Commercial banking income totalled €537.2 million, having increased by 3.9% year-on-year (YoY).

Operating costs were reduced by 7.8%.

The NPLs (non-performing loans) ratio decreased by 3.8 pp relative to September 2017 to 27.7%, thanks to the steady reduction in non-performing loans, with the respective coverage ratio reaching 63.5% (+11.6pp year-on-year). The NPLs net of impairments ratio declined by around 5.8pp, to 12.3%, from 18.1% in September 2017.

ACTIVITY

Concerning activity the portfolio of loans to individuals increased by €122 million. However, while continuing with its deleverage policy, the Group's loan book contracted by approximately €0.9 billion (-2.9%) relative to December 2017, with the main reduction occurring in non-performing loans (-€1.1 billion).

The non-performing loans ratio decreased to 27.7% (30-Sep-2017: 31.5%; 31-Dec-2017: 30.5%), with the respective impairment coverage increasing to 63.5% (30-Sep-2017: 51.9%; 31-Dec-2017: 58.7%).

Customer deposits increased by €3.6 billion (+13.7% YoY), of which €1.8 billion as a result of the Liability Management Exercise (LME) carried out in October 2017.

Net funding from the European Central Bank (ECB) decreased to €3.5 billion at 30 September 2018, from €5.1 billion on 30 September 2017.

In the context of the divestment strategy of non-core assets, whilst focusing in its core domestic and Iberian banking activity, NOVO BANCO Group (i) completed the sale of the branch in Venezuela in the first quarter of 2018, (ii) in June, signed an agreement to sell 87.5% of the share capital of Banque Espírito Santo et de la Vénétie, S.A. (BESV); (iii) in July, completed the sale of 90% of the share capital of Banco Internacional de Cabo Verde, S.A.; and (iv) in September entered an agreement to sell the entire share capital of its subsidiary GNB Vida.

Note that, before these transactions, NOVO BANCO had already closed its branches in New York, Nassau and Cape Verde and sold NOVO BANCO Ásia in Macau, and is currently in the process of closing its London branch.

Also in the context of the divestment strategy, on 9 October 2018 NOVO BANCO Group entered into a promissory agreement to sell a portfolio of real estate assets comprising approximately nine thousand properties (Project Viriato). The impact of this operation on the valuation of the assets to be sold, a loss of €159.0 million, is already reflected in the financial statements for 30 September 2018. This amount may still be adjusted upon completion of the operation.

PERFORMANCE

Net interest income grew by 5.2% YoY, to €300.7 million, while fees and commissions increased by 2.4%, to €236.6 million.

Capital Market results, which reached €7.8 million on 30 September 2018, were penalised by the results of the Debt Tender and Exchange Offers carried out at the end of the 2nd quarter of 2018 (-€81.8 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 403 branches.

Moreover, the ongoing cost rationalisation and optimisation policies enabled a 7.8% reduction in operating costs, with staff costs contracting by 5.2% and general and administrative costs decreasing by 3.1%.

Core operating income (commercial banking income - operating costs) increased by 41.5%, from €122.7 million to €173.7 million.

In the first nine months of 2018 impairments totalled €456.2 million, which compares with €563.2 million in the first nine months of 2017. Loan impairments amounted to €232.6 million, down from €347.7 million a year earlier, while other provisions, in the amount of €208.4 million, reflect the impact of the promissory agreement to sell a portfolio of real estate assets (Project Viriato).

NOVO BANCO's Common Equity Tier 1 (CET1) and Tier 1 ratios are protected up to the amount 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 CET1 ratio was 13.5% and the total capital ratio was 15.2%.

As at 30 September 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 requirements under SREP will be re-assessed by the ECB in the fourth quarter of 2018.

MAIN HIGHLIGHTS	30-Sep-17	31-Dec-17	30-Sep-18
ACTIVITY (mn€)			
Net Assets	50 491	52 055	52 616
Customer Loans (gross)	32 010	31 422	30 504
Customer Deposits	25 960	29 691	29 529
Equity	4 886	4 832	4 805
SOLVENCY			
Common Equity Tier 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%	15.2%
LIQUIDITY (mn€)			
European Central Bank Funding (net) [2]	5 121	2 790	3 469
Eligible Assets for Repo Operations (ECB and other), net of haircut	11 893	12 706	14 714
(Total Credit - Credit Provisions) / Customer Deposits [1]	103%	88%	86%
Liquidity Coverage Ratio (LCR)	99%	124%	128%
Net Stable Funding Ratio (NSFR)	104%	108%	109%
ASSET QUALITY			
Overdue Loans > 90 days / Customer Loans (gross)	16.9%	16.3%	16.0%
Non-Performing Loans (NPL) / Customer Loans (gross)	31.5%	30.5%	27.7%
Credit Provisions / Overdue Loans > 90 days	96.4%	109.8%	109.6%
Credit Provisions / Customer Loans (gross)	16.3%	17.9%	17.6%
Cost of Risk	1.45%	3.91%	1.02%
PROFITABILITY			
Net Income (mn€) [3]	-419.2	-2187.1	-419.6
Income before Taxes and Non-Controlling Interests / Average Net Assets [1] [3]	-1.0%	-3.4%	-0.8%
Banking Income / Average Net Assets [1] [3]	1.6%	1.7%	1.4%
Income before Taxes and Non-Controlling Interests / Average Equity [1] [3]	-9.8%	-30.9%	-8.4%
EFFICIENCY			
Operating Costs / Banking Income [1] [3]	65.5%	61.6%	68.9%
Staff Costs / Banking Income [1] [3]	35.0%	30.9%	37.8%
EMPLOYEES (No.)			
Total	5 675	5 488	5 165
- Domestic	5 297	5 156	4 862
- International	378	332	303
BRANCH NETWORK (No.)			
Total	475	473	403
- Domestic	449	448	382
- International	26	25	21

mn€: millions of euro
(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force
(2) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending
(3) Data as at 31 December 2017 was restated with the amount of the triggering of the Contingent Capital Agreement accounted in Reserves

RESULTS

NOVO BANCO Group reported a net loss of €419.6 million in September 2018, which is in line with the results reported for the same period in 2017 (a net loss of €419.2 million). Excluding the extraordinary effects that negatively impacted the first nine months of 2018 – Debt Tender and Exchange Offers (-€81.8 million), write-off of tax losses carried forward (-€31.0 million), and revaluation of real estate assets (-€159.0 million), – the results of the period would be a net loss of €147.8 million.

mn€

INCOME STATEMENT	9M2017	9M2018	% Change
Net Interest Income	285.9	300.7	5.2%
+ Fees and Commissions	231.1	236.6	2.4%
= **Commercial Banking Income**	**516.9**	**537.2**	**3.9%**
+ Capital Markets Results	70.8	7.8	-89.0%
+ Other Operating Results	14.1	- 17.7	...
= **Banking Income**	**601.9**	**527.3**	**-12.4%**
- Operating Costs	394.2	363.5	-7.8%
= **Net Operating Income**	**207.6**	**163.7**	**-21.2%**
- **Net Impairments and Provisions**	**563.2**	**456.2**	**-19.0%**
Credit	347.7	232.6	-33.1%
Securities	85.9	15.2	-82.4%
Other Assets and Contingencies	129.6	208.4	60.8%
= **Income before Tax**	**- 355.6**	**- 292.5**	**17.7%**
- Corporate Income Tax	33.6	98.8	...
- Special Tax on Banks	30.8	27.3	-11.6%
= **Income after Taxes**	**- 420.0**	**- 418.6**	**0.3%**
- Non-Controlling Interests	- 0.8	1.0	...
= **Net Income**	**- 419.2**	**- 419.6**	**-0.1%**

Main highlights of the activity developed in the first nine months of 2018:

- commercial banking income reached €537.2 million (+3.9% YoY), supported by the increase in net interest income (+5.2%) and the improvement in fees and commissions (+2.4%);
- capital markets results, positive in the amount of €7.8 million, in spite of the negative impact of the Debt Tender and Exchange Offers amounting to -€81.8 million;
- operating costs decreased by 7.8% YoY, to €363.5 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;
- core operating income (commercial banking income - operating costs) increased by 41.5%, from €122.7 million to €173.7 million;

- the period's total provision charge of €456.2 million includes €232.6 million for credit, €15.2 million for securities, and €208.4 million for other assets and contingencies, namely provisions for real estate as a result of the signature of the promissory agreement on the sale of a portfolio of real estate assets (Project Viriato).
- Income before Tax of -€292.5 million represents an improvement of 17.7% compared with the same period of the previous year.

Net Interest Income

The performance of net interest income was impacted by the fact that benchmark interest rates remained on negative ground and by the high cost of liabilities, albeit being offset by the LME operation carried out in October 2017.

Reflecting these factors and also the ongoing deleveraging process, net interest income increased by 5.2% year-on-year, to €300.7 million. It should be noted that the positive impact from a 49 basis points (bps) reduction in the cost of liabilities (from 1.28% in Sep.17 to 0.79% in Sep. 18) offset the reduction in the interest rate on assets (-37 bps), driving a 12 bps YoY increase in the net interest margin, to 0.98%, from 0.86% in September 2017 (31-Dec-17: 0.89%).

The LME concluded in October 2017 drove up the cost of deposits from 0.79% in September 2017 to the current 0.85%, but on the other hand, together with the impact of the debt exchange operation in the first half 2018, reduced the cost of other liabilities, including debt securities issued, from €252 million in September 2017 to €45 million in September 2018.

mn€

NET INTEREST INCOME AND NET INTEREST MARGIN	9M2017			2017			9M2018		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	44 577	2.14%	712	44 347	1.94%	862	42 488	1.77%	571
Customer Loans	32 729	2.32%	568	32 474	2.32%	752	30 917	2.09%	491
Money Market Placements	2 330	1.34%	23	2 650	1.08%	29	2 743	0.85%	18
Securities and Other Assets	9 518	1.70%	121	9 223	0.88%	81	8 828	0.93%	62
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-	-	-	-
INTEREST EARNING ASSETS AND OTHER	**44 577**	**2.14%**	**712**	**44 347**	**1.94%**	**862**	**42 488**	**1.77%**	**571**
INTEREST BEARING LIABILITIES	41 413	1.38%	426	41 066	1.14%	467	38 429	0.87%	254
Customers Deposits	25 445	0.79%	151	26 319	0.86%	226	28 865	0.85%	187
Money Market Funding	9 168	0.34%	24	8 985	0.36%	33	8 459	0.35%	22
Other Liabilities	6 801	4.95%	252	5 761	3.61%	208	1 105	5.39%	45
OTHER NON-INTEREST BEARING LIABILITIES	3 164	-	-	3 282	-	-	4 059	-	-
INTEREST BEARING LIABILITIES AND OTHER	**44 577**	**1.28%**	**426**	**44 347**	**1.05%**	**467**	**42 488**	**0.79%**	**254**
NIM / NII (without the stage 3 Impairment adjustment)		**0.86%**	**286**		**0.89%**	**395**		**0.98%**	**317**
Stage 3 Impairment									**- 16**
NIM / NII								**0.93%**	**301**

The average rate on customer loans, the main component of financial assets (72.8%), was 2.09%. As to liabilities, the average balance of deposits was €28.9 billion, with an average interest rate of 0.85%.

Fees and Commissions

Fees and commissions on banking services contributed with €236.6 million to the period's results, up by 2.4% from €231.1 million in September 2017.

mn€

FEES AND COMMISSIONS	9M2017	9M2018	% Change	Weight	
				30-Sep-17	30-Sep-18
Payments and Account Management	81.5	88.9	9.0%	35.3%	37.6%
Commissions on Loans, Guarantees and Similar	88.9	83.7	-5.8%	38.5%	35.4%
Asset Management and Bancassurance	46.6	49.5	6.2%	20.2%	20.9%
Advising, Servicing and Other	14.0	14.5	3.1%	6.1%	6.1%
TOTAL	**231.1**	**236.6**	**2.4%**	**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 (35.4% of total fees and commissions);
- commissions on payment services (37.6% 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 20.9% of total fees and commissions.

Capital Markets and Other Operating Results

Capital markets results (€7.8 million) mainly reflect the gains on the sale and revaluation of sovereign debt securities that were partly absorbed by the negative impact of the debt tender and exchange offers (-€81.8 million).

The other operating results include the costs with the 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 7.8%, reflecting the implementation of 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.

mn€

OPERATING COSTS	9M2017	9M2018	% Change
Staff Costs	210.4	199.5	-5.2%
General and Administrative Costs	152.7	147.9	-3.1%
Depreciation	31.2	16.2	-48.1%
TOTAL	**394.2**	**363.5**	**-7.8%**

Staff costs decreased by 5.2% YoY, to €199.5 million, underpinned by a headcount reduction of 510 employees since 30 September 2017. On 30 September 2018, NOVO BANCO Group had 5,165 employees (Sep 17: 5,675; Dec.17: 5,488).

General and administrative costs dropped by -3.1% YoY, to €147.9 million. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy under way. Depreciation decreased by a significant 48.1%.

The contraction in operating costs also reflects the downsizing of the distribution network in line with the new business environment. On 30 September 2018, NOVO BANCO had 403 branches, which is 70 fewer units than at the end of 2017.

Impairments and Provisions

The NOVO BANCO Group reinforced impairments by €456.2 million (€107.0 million less than in the 9M2017), the largest share of which was allocated to credit provisions (€232.6 million). Total provisions in the period also include €15.2 million for securities and €208.4 million for other assets and contingencies, the latter reflecting the impact of the sale of real estate.

mn€

NET IMPAIRMENTS AND PROVISIONS	9M2017	9M2018	% Change
Customer Loans	347.7	232.6	-33.1%
Securities	85.9	15.2	-82.4%
Other Assets and Contingencies	129.6	208.4	60.8%
TOTAL	**563.2**	**456.2**	**-19.0%**

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

Funding

On 30 September 2018 customer deposits totalled €29.5 billion, having increased by €3.6 billion since September 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 operation carried out in the last quarter of 2017, which resulted in new deposits in the amount of ca. €1.8 billion on that date.

mn€

TOTAL FUNDS	30-Sep-17	31-Dec-17	30-Jun-18	30-Sep-18	YoY Change		Absolute change in 3Q2018
					absolute	relative	
Deposits	25 960	29 691	29 240	29 529	3 569	13.7%	289
Other Customer Funds (1)	539	517	521	757	218	40.5%	236
Debt Securities (2)	3 483	1 217	719	693	-2 790	-80.1%	- 27
Subordinated Debt	0	0	400	406	406	...	6
Sub -Total	**29 982**	**31 425**	**30 880**	**31 385**	**1 404**	**4.7%**	**505**
Life Insurance Products (3)	4 391	0	0	0	-4 391	-100.0%	0
Off-Balance Sheet Funds	4 780	4 829	5 062	4 982	202	4.2%	- 80
Total Funds	**39 152**	**36 254**	**35 943**	**36 367**	**-2 785**	**-7.1%**	**425**

(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 to sell the insurance activity, developed by GNB Vida, in the 4Q2017 the company has been allocated to discontinuing activities.

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. On 30 September 2018, corporate loans accounted for a 62.5% share of the total loan book.

CUSTOMER LOANS	30-Sep-17	31-Dec-17	30-Sep-18	YoY Change		Change vs. 31-Dec-17
				absolute	relative	
Corporate Lending	**20 646**	**20 092**	**19 053**	**-1 593**	**-7.7%**	**-1 040**
Loans to Individuals	**11 364**	**11 330**	**11 452**	**88**	**0.8%**	**122**
Residential Mortgage	9 773	9 751	9 806	33	0.3%	55
Other Loans	1 591	1 579	1 646	55	3.5%	67
Customer Loans (gross)	**32 010**	**31 422**	**30 504**	**-1 505**	**-4.7%**	**- 918**
Provisions	5 229	5 631	5 366	136	2.6%	- 266
Customer Loans (net)	**26 780**	**25 791**	**25 139**	**-1 642**	**-6.1%**	**- 652**

mn€

Gross customer loans contracted by €1.5 billion YoY, however loans to individuals increased to €11.5 billion. The reduction in corporate loans was mainly focused on non-performing loans, which decreased by €1.6 billion.

Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the European Central Bank (ECB), totalled €10.9 billion on 30 September 2018.

net of impairments

mn€

SECURITIES PORTFOLIO	30-Sep-17	31-Dec-17	30-Sep-18	YoY Change		Change vs. 31-Dec-17
				absolute	relative	
Portuguese Sovereign Debt	5 133	3 855	4 681	- 452	-8.8%	826
Other Sovereign Debt	1 650	2 113	2 936	1 286	77.9%	823
Bonds	2 689	962	1 689	-1 000	-37.2%	727
Other	2 421	1 549	1 569	- 852	-35.2%	20
Total	**11 893**	**8 479**	**10 876**	**-1 017**	**-8.6%**	**2 397**

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 contracted by around €1.0 billion compared to the end of September 2017, mainly due to the transfer of GNB Vida to discontinued operations.

Liquidity

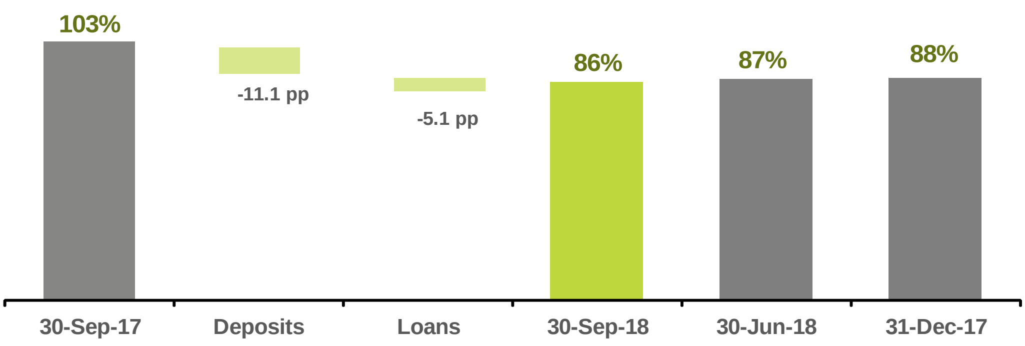
Following the completion of the NOVO BANCO sale process, the Bank's liquidity position improved significantly, with the regulatory liquidity ratio (LCR - Liquidity Coverage Ratio) increasing by 4 p.p. relative to December 2017, to 128%.

Net funding from the ECB (borrowings from the ECB net of placements with this institution) at the end of the third quarter of 2018 was approximately €3.5 billion, a decrease of ca. €1.0 billion from June 2018 and €1.7 billion from September 2017.

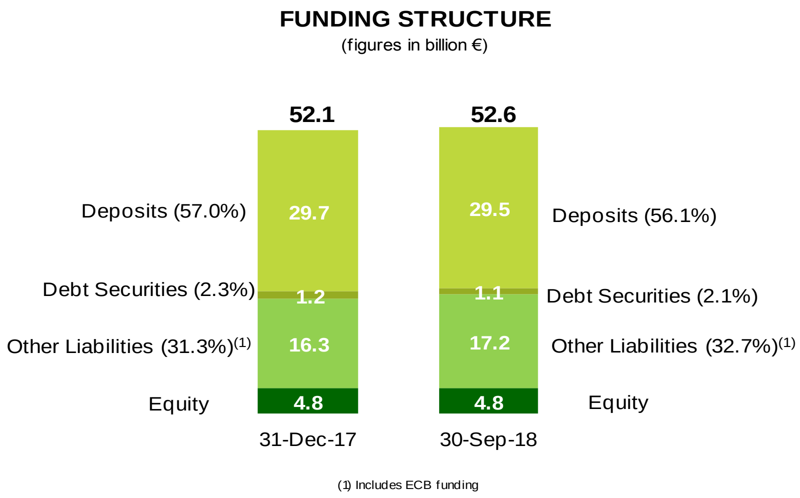
In addition, NOVO BANCO maintains its strategy of optimising its portfolio of assets eligible for rediscount, with a special focus on eligible assets with the European Central Bank. In the third quarter of 2018, NOVO BANCO registered an increase in its portfolio of eligible assets, which reached a total of €14.7 billion. This compares with €14.1 billion at the end of the second quarter of 2018 and €12.7 billion at the end of 2017. This increase was mainly due to the increase in the portfolio of high-quality liquid assets (HQLA). Along the same lines, NOVO BANCO extended the maturity of its PTNOBAOE0012 covered bond issue, with nominal value of €1,000 million, for a period of 3 years, to 7 October 2021.

The loan to deposit ratio (86%) dropped by 17 p.p. compared to 30 September 2017 through the improvement of its two components: deposits increased and loans decreased.

LOAN TO DEPOSIT RATIO



Customer deposits continue to represent the main funding source of the balance sheet, accounting for 61.8% of the total liabilities or 56% of the total assets.



Capital Management

As at 30 September 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 requirements under SREP will be re-assessed by the ECB in the fourth quarter of 2018.

NOVO BANCO's Common Equity Tier 1 (CET1) and Tier 1 ratios are protected up to the amount of losses already recorded on the assets protected by the Contingent Capital Agreement. The compensation amount to be requested for 2018 will only be definitely set at the end of the year, taking 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 September 2018 the CET1 ratio was 13.5% (31-Dec-2017: 12.8%), and the total capital ratio was 15.2% (31-Dec-2017: 13.0%).

mn€

CAPITAL RATIOS - BIS III (CRD IV/CRR)		30-Sep-17	31-Dec-17	30-Sep-18
Risk Weighted Assets	(A)	31 316	31 740	31 314
Own Funds				
Common Equity Tier 1	(B)	3 422	4 047	4 224
Tier 1	(C)	3 422	4 047	4 227
Total Capital	(D)	3 477	4 117	4 751
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%	15.2%

Asset Quality

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

CREDIT QUALITY	30-Sep-17	31-Dec-17	30-Sep-18	Change vs. 31-Dec-17	
				absolute	relative
Customer Loans (gross)	32 010	31 422	30 504	- 918	-2.9%
Overdue Loans	5 526	5 215	5 165	- 50	-1.0%
Overdue Loans > 90 days	5 425	5 127	4 896	- 231	-4.5%
Restructured Credit	7 449	7 102	5 780	-1 322	-18.6%
Non-Performing Loans (NPL)	10 067	9 594	8 455	-1 139	-11.9%
Credit Provisions	5 229	5 631	5 366	- 266	-4.7%

mn€

The reduction in overdue loans by more than 90 days and in non-performing loans improved the respective asset quality ratios to 16.0% and 27.7%, respectively, at the end of September 2018.

Provisions for credit amounted to €5.4 billion, representing 17.6% of the total loan book (Dec.17: 17.9%).

ASSET QUALITY AND COVERAGE RATIOS	30-Sep-17	31-Dec-17	30-Sep-18	Change vs. 31-Dec-17 (pp)
Overdue Loans / Customer Loans (gross)	17.3%	16.6%	16.9%	0.3
Overdue Loans > 90 days / Customer Loans (gross)	16.9%	16.3%	16.0%	-0.3
Restructured Credit / Customer Loans (gross)	23.3%	22.6%	18.9%	-3.7
Non-Performing Loans (NPL) / Customer Loans (gross)	31.5%	30.5%	27.7%	-2.8
Credit Provisions / Customer Loans	16.3%	17.9%	17.6%	-0.3
Coverage of Overdue Loans	94.6%	108.0%	103.9%	-4.1
Coverage of Overdue Loans > 90 days	96.4%	109.8%	109.6%	-0.2
Coverage of Non-Performing Loans	51.9%	58.7%	63.5%	4.8

The €1.6 billion reduction in non-performing loans from €10.1 billion in September 2017 to €8.5 billion in September 2018 - was particularly noticeable, with the respective asset quality ratio improving by 380 bps, to 27.7%. The coverage of non-performing loans by impairments reached 63.5% (Sep.17: 51.9%).

ECONOMIC ENVIRONMENT

The first 9 months 2018 were 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 and greater focus on the negative risks for the outlook. After growing by 4.2% in the second quarter, the US GDP grew by 3.5% in the third quarter (annualised), with domestic demand still benefiting from significant fiscal stimulus. In the Eurozone, GDP growth was more subdued, and relatively stable, at 0.4% in both the 2nd and the 3rd quarters (or +1.6% annualised). In China, the year-on-year growth rate of GDP retreated from 6.7% to 6.5%, the lowest on record since the start of 2009. In view of the increased vigour of the US economic activity and corresponding intensification of wage-related inflationary pressures, the Federal Reserve raised the fed funds target rate by 75 bps, to 2%-2.25%, and projects another hike before the end of the year and another three in 2019. In the Euro Area, core inflation remained relatively stable, at 0.9% YoY in September (1% in January), far from the price stability target. The ECB kept the main 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 that the policy interest rates would remain unchanged at least until the summer of 2019. In this context, the 3-month Euribor remained relatively stable, reaching -0.318% at the end of September. The 10-year Bund yield fell from an annual high of 0.76% in February to 0.47% in September. The 10-year Treasury yield rose from 2.41% to 3.062% in the first nine months of 2018. Divergences between the US and the Euro Area, enhanced by political uncertainty around the budgetary process in Italy, contributed to a 3.4% depreciation of the euro against the dollar, to EUR/USD 1.1614.

The stock market saw an increase in volatility, mainly resulting from the rise in interest rates in the US, mounting protectionist strains between the US and China, and instability in certain emerging economies (in particular Turkey and Argentina). In Europe the main stock market indices were penalised by fears around Brexit and around budgetary tensions between the Italian Government and the European Commission. From January to September, the Euro Stoxx 600, DAX, FTSE 100 and IBEX indices registered falls of 1.5%, 5.2%, 2.3% and 6.5%, respectively. In the US, the S&P 500 and Nasdaq climbed by 8.99% and 16.56%, driven by economic growth, rising corporate earnings and the buoyancy of the technology sector. In emerging markets, the Shanghai Composite fell by 14.7% and the MSCI Emerging Markets index lost 9.5%.

In Portugal, after slowing down in the 1st quarter, GDP growth slightly picked up in the 2nd quarter, rising by 0.5% QoQ and 2.3% YoY, and should have followed a slightly accelerating trend during the 3rd quarter. The unemployment rate in August retreated to 6.8% of the labour force, while inflation remained contained (1.4% YoY in September). The 10-year PGB yield fell from 1.9% to 1.878%, with its spread to the German Bund of the same maturity narrowing from 152 to 149 basis points, on the back of a better outlook for sovereign rating. The PSI-20 index retreated by 0.54% in the period.

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 SEPTEMBER 2018 AND 2017

thousand€

	30.09.2018	30.09.2017
Interest and similar income	570 127	733 558
Interest expense and similar charges	269 447	447 689
Net Interest Income	**300 680**	**285 869**
Dividend Income	8 860	11 326
Fee and Commission income	273 627	280 057
Fee and Commission expense	43 999	57 075
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(51 703)	23 386
Net gains / (losses) from assets at fair value through profit or loss mandatory	29 542	-
Net gains / (losses) from financial assets at fair value through other comprehensive income	34 472	56 126
Net gains / (losses) from foreign exchange revaluation	27 927	(9 412)
Net gains / (losses) from the sale of other assets	24 036	(29 390)
Insurance earned premiums, net of reinsurance	-	38 832
Claims incurred net of reinsurance	-	156 268
Change in technical reserves, net of reinsurance	-	107 776
Other operating income and expenses	(79 546)	(66 905)
Operating Revenues	**523 896**	**484 322**
Staff Costs	199 461	210 358
General and Administrative Costs	147 871	152 660
Depreciation and amortisation	16 207	31 202
Provisions, net of reversals	15 535	43 029
Impairment losses on loans, net of reversals	232 604	347 688
Impairment losses on other financial assets, net of reversals	8 255	85 884
Impairment losses on other assets, net of reversals	199 806	86 619
Operating Costs	**819 739**	**957 440**
Sale of subsidiaries and associates	1 026	3 806
Results from associated companies consolidated by the equity method	4 923	6 296
Income before income tax and non-controlling interests	**(289 894)**	**(463 016)**
Corporate income tax		
Current tax	6 066	9 496
Deferred tax	92 759	24 088
	98 825	33 584
Income from continuing activities	**(388 719)**	**(496 600)**
Income from discontinued operations	(29 860)	76 596
Net Income for the period	**(418 579)**	**(420 004)**
Attributable to shareholders of the Bank	**(419 626)**	**(419 163)**
Attributable to Non-controlling interests	1 047	(841)
	(418 579)	(420 004)

NOVO BANCO, S.A.

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

thousand€

	30.09.2018	31.12.2017 *
ASSETS		
Cash and deposits with central banks	3 077 496	3 788 027
Deposits with other banks	613 959	380 601
Securities held for trading	526 322	367
Derivatives held for trading	514 132	577 153
Loans and advances to banks	392 710	581 901
Loans and advances to customers	25 138 546	25 790 943
Securities portfolio	10 349 180	8 478 428
Derivatives held for risk management purposes	171 355	170 588
Non-current assets held for sale	5 308	5 448
Non-current assets held for sale - discontinued operations	5 209 331	5 130 956
Investment properties	1 151 232	1 144 432
Other tangible assets	138 004	157 497
Intangible assets	9 062	8 682
Investments in associated companies	128 832	146 251
Current tax assets	4 351	6 014
Deferred tax assets	1 751 811	1 964 017
Other assets	3 433 925	3 723 544
TOTAL ASSETS	**52 615 556**	**52 054 849**
LIABILITIES		
Deposits from central banks	6 410 392	6 410 123
Financial liabilities held for trading	481 655	559 765
Deposits from other banks	2 785 569	2 015 044
Due to customers	30 285 945	30 208 071
Debt securities issued	692 771	1 216 780
Derivatives held for risk management purposes	31 528	76 212
Non-current liabilities held for sale	3 567	3 277
Non-current liabilities held for sale - discontinued operations	5 537 779	5 525 962
Provisions	363 196	416 670
Current tax liabilities	11 779	13 887
Deferred tax liabilities	6 405	6 193
Subordinated debt	406 484	-
Other liabilities	793 817	770 690
TOTAL LIABILITIES	**47 810 887**	**47 222 674**
CAPITAL		
Share Capital	5 900 000	5 900 000
Other reserves and retained earnings	(749 115)	1 040 105
Net Income for the period attributable to the shareholders of the Bank	(419 626)	(2 187 142)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	4 731 259	4 752 963
Non-controlling interests	73 410	79 212
TOTAL EQUITY	**4 804 669**	**4 832 175**
TOTAL LIABILITIES AND EQUITY	**52 615 556**	**52 054 849**

* - restated with the amount of the triggering of the Contingent Capital Agreement accounted in Other reserves and retained earnings

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.
Total Customer Funds	On- and off- balance sheet customer funds.
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.
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 customer 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 to total credit.
Non-performing loans coverage ratio	Ratio of impairment on customer loans (on balance sheet) to non-performing loans.

GLOSSARY

Efficiency and Profitability Ratios

Efficiency (Staff Costs / Banking Income) 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 (Operating Costs / Banking Income) 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).
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.

€ thousand: thousand of euro

€ million or mn€: million euro

€ billion or bn€: billion euro

pp: percentage points

This announcement is a free translation into English from the original version in Portuguese.

In case of doubt or misinterpretation the Portuguese version will prevail.