

Lisbon, 28 March 2018

NOVO BANCO GROUP ACTIVITY AND RESULTS FOR FINANCIAL YEAR 2017

(Unaudited financial information)

NOVO BANCO Group reported a positive net operating income of €341.7 million in 2017, down by €44.9 million from 2016.

Considering the income from the Contingent Capital Agreement the Bank posted an income before taxes of -€923.5 million (-€988.1 million in 2016) and a net income for the year of -€1,395.4 million (-€788.3 million in 2016).

SALE OF NOVO BANCO

The sale process of NOVO BANCO was concluded on 18 October as a result of the acquisition of a majority stake in its share capital by investment funds managed by North-American group Lone Star, through two capital increases, in the amount of €750 million and €250 million, carried out in October and December, respectively.

Prior to the sale, the Bank undertook a Liability Management Exercise (LME) on 36 bond series with a book value of circa €3 billion. The operation was successful, having achieved the purchase and redemption of bonds representing 73% of their book value, with immediate results of €209.7 million.

In line with the sale process a Contingent Capital Agreement was set up under which NOVO BANCO may be compensated up to a maximum of €3.89 billion for losses that may be recognised in some of its assets under the responsibility of the Resolution Fund, which therefore retained a 25% stake in the capital of the Bank.

NOVO BANCO ceased to be a transition bank and started to operate on a normal basis, although it is still subject to certain measures imposed by the European competition authority restricting its activity.

ACTIVITY INDICATORS

The Group's loan book was reduced by approximately €2.3 billion (-6.9%), with the main reduction occurring in non-performing loans (-€1.7 billion). The non performing loans ratio decreased to 30.5% (2016: 33.4%), with the respective impairment coverage increasing to 58.7% (2016: 49.3%).

Customer deposits increased by €4.1 billion (+16.1%) year-on-year (YoY), of which €1.8 billion resulting from the LME operation, which was reflected on a €2.2 billion reduction in bonds issued.

Net funding from the European Central Bank (ECB) was reduced by €2.3 billion, to €2.8 billion on 31 December 2017 (2016: €5.1 billion).

NOVO BANCO PERFORMANCE

Banking income totalled €890.9 million (-8.9% YoY), without considering the triggering of the Contingent Capital Agreement.

Net interest income decreased by 23.3% as a result of the deleveraging in the period, while fees and commissions increased by 17.2%.

Capital markets results increased by 45.2%, underpinned by the gains obtained on the LME operation (€209.7 million).

The ongoing cost rationalisation and optimisation policies enabled a 7.1% reduction in operating costs, with staff costs contracting by 9.1% and general and administrative costs decreasing by 6.9%.

Impairments were reinforced in the period, reaching a total of €2,056.9 million, of which €1,229.2 million for credit, €398.0 million for operations being discontinued and €134.3 million for restructuring provisions.

The €445.1 million of tax deducted to results, reflects the write-off of tax losses carried forward, which, under the terms of the current business plan do not meet the conditions for inclusion in the Bank's assets, given the revision of the business plan after the negotiations with the DG Comp.

The Contingent Capital Agreement was called in an amount of €791.7 million.

NOVO BANCO Group closed the year with a phased-in Common Equity Tier 1 ratio of 12.8% and a phased-in total capital ratio of 13.0%.

FINANCIAL HIGHLIGHTS		31-Dec-16	31-Dec-17
ACTIVITY (€million)			
Net Assets		52 333	52 055
Gross Loans		33 750	31 422
Customer Deposits		25 585	29 691
Equity		5 148	4 832
SOLVENCY⁽²⁾			
Common Equity/Tier I/Risk Weighted Assets		12.0%	12.8%
Tier I/Risk Weighted Assets		12.0%	12.8%
Total Own Funds/Risk Weighted Assets		12.0%	13.0%
LIQUIDITY (€million)			
European Central Bank Funding (net) ⁽³⁾		5 123	2 790
Eligible Assets for Repo Operations (ECB and other), net of haircut		11 587	12 706
(Total Credit - Credit Provisions)/ Customer Deposits ⁽²⁾		110%	88%
Liquidity Coverage Ratio (LCR)		107%	124%
Net Stable Funding Ratio (NSFR) ⁽¹⁾		99%	108%
ASSET QUALITY			
Overdue Loans > 90 days/ Gross Loans		17.0%	16.3%
Overdue and Doubtful Loans ⁽¹⁾ / Total Loans ⁽²⁾		18.7%	18.3%
Overdue and Doubtful Loans, net of impairments ⁽¹⁾ / Total Net Loans ⁽²⁾		2.6%	0.4%
Credit at Risk / Total Loans ⁽²⁾		25.6%	23.6%
Credit at Risk (net)/ Total Net Loans ⁽²⁾		10.9%	6.9%
Restructured Credit ⁽²⁾ / Gross Loans		23.7%	22.6%
Restructured Credit not included in Credit at Risk ⁽²⁾ / Gross Loans		11.9%	10.8%
Non-Performing Loans (NPL)/ Gross Loans		33.4%	30.5%
Credit Provisions / Overdue Loans > 90 days		97.2%	109.8%
Credit Provisions / Gross Loans		16.5%	17.9%
Cost of Risk		1.99%	3.91%
PROFITABILITY			
Net Income (€ million)		-788.3	-1 395.4
Income before Taxes and Non-Controlling Interests / Average Net Assets ⁽²⁾		-1.9%	-1.8%
Banking Income /Average Net Assets ⁽²⁾		1.8%	3.3%
Income before Taxes and Non-Controlling Interests / Average Net Assets ⁽²⁾		-17.0%	-16.8%
EFFICIENCY			
Staff Costs + General and Admin. Costs + Depreciation / Banking Income ⁽²⁾		60.4%	32.6%
Staff Costs / Banking Income ⁽²⁾		31.0%	16.4%
EMPLOYEES			
Total		6 096	5 488
- Domestic		5 687	5 156
- International		409	332
BRANCH NETWORK			
Total		537	473
- Domestic		507	448
- International		30	25

(1) Provisional data for 31 December 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

CONTINGENT CAPITAL AGREEMENT

In line with the conditions agreed in the sale process of NOVO BANCO, a Contingent Capital Agreement was set up which will be managed by the Resolution Fund.

Under this agreement, NOVO BANCO can be compensated up to a limit of €3.89 billion for losses that may be recognised in some of its problematic assets, in case its capital ratios decrease below a predefined threshold.

The capital thus managed corresponds to a previously established set of assets with an initial net book value (in June 2016) of approximately €7.9 billion. On 31 December 2017 the net value of those assets was €5.4 billion.

The loss reported in 2017 mainly resulted from the high level of impairments recognised in accordance with the requirements of the European authorities, which aim to set up the conditions for banks to regain profitability in a faster and more consistent manner.

On 31 December 2017, the above-mentioned agreement was triggered resulting in a compensation of €791.7 million, aimed at allowing the Bank to remain a financially solid institution, well capitalised and with capital ratios and levels of profitability capable of furthering its activity.

RESULTS

NOVO BANCO Group reported a negative income of €1,395.4 million in 2017, which compares with a net loss of €788.3 million in 2016.

€ million			
INCOME STATEMENT	2016	2017	% Change
Net Interest Income	514.5	394.6	-23.3%
+ Fees and Commissions	277.1	324.8	17.2%
= Commercial Banking Income	791.6	719.4	-9.1%
+ Capital Markets Results	147.6	214.3	45.2%
+ Other Operating Income	38.2	749.0
= Banking Income	977.5	1 682.6	72.1%
- Operating Costs	590.9	549.2	-7.1%
= Net Operating Income	386.6	1 133.4
- Net Impairments and Provisions	1 374.7	2 056.9	49.6%
Credit	672.6	1 229.2	82.8%
Securities	315.9	134.8	-57.3%
Other Assets and Contingencies	386.2	692.9	79.4%
= Income before Taxes	- 988.1	- 923.5	6.5%
- Corporate Income Tax	- 227.6	445.1
- Special Tax on Banks	37.0	30.8	-16.6%
= Income after Taxes	- 797.5	-1 399.5	-75.5%
- Non-Controlling Interests	- 9.1	- 4.0	56.1%
= Net Income	-788.3	-1 395.4	-77.0%

Main highlights of the activity developed in 2017:

- Commercial banking income totalled €719.4 million (-9.1% YoY), being penalised by a reduction in net interest income (-23.3%) that offset the improvement in fees and commissions (+17.2%);
- Capital market results, in the amount of €214.3 million, benefited from the impact of the LME operation;
- Operating costs decreased by 7.1% YoY, to €549.2 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 €1,133.4 million, including the triggering of the Contingent Capital Agreement (€791.7 million);
- The total provision charge of €2,056.9 million includes €1,229.2 million for credit, €134.8 million for securities, and €692.9 million for other assets and contingencies, of which €398.0 million for discontinuing operations and €134.3 million of provisions for restructuring.

- The tax amount largely reflects the write-off of tax losses carried forward, which, under the terms of the current business plan do not meet the conditions for inclusion in the Bank's assets, given the revision of the business plan after the negotiations with the DG Comp.

Not considering the triggering of the Contingent Capital Agreement, NOVO BANCO Group reported a positive net operating income of €341.7 million in 2017.

€ million			
NET OPERATING INCOME EXCLUDING CONTINGENT CAPITAL AGREEMENT	2016	2017	% Change
Net Interest Income	514.5	394.6	-23.3%
+ Fees and Commissions	277.1	324.8	17.2%
= Commercial Banking Income	791.6	719.4	-9.1%
+ Capital Markets Results	147.6	214.3	45.2%
+ Other Operating Income	38.2	- 42.7
= Banking Income	977.5	890.9	-8.9%
- Operating Costs	590.9	549.2	-7.1%
= Net Operating Income	386.6	341.7	-11.6%

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 (offset by the LME operation carried out in October) 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 23.3% year-on-year, to €394.6 million. It should be noted that the positive impact from a 34 basis points (bps) reduction in the cost of liabilities (from 1.39% in Dec.16 to 1.05% in Dec. 17) was not sufficient to offset the reduction in the interest rate on assets (-55 bps), causing the net interest margin to drop by 21 bps, to 0.89%, from 1.10% in December 2016.

The decrease in the average interest rate on deposits, from 0.91% in December 2016 to 0.86% at the end 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 the other financial assets.

NET INTEREST INCOME AND NET INTEREST MARGIN	€ million					
	2016			2017		
	Average Balance	Avg. Rate	Income / Costs	Average Balance	Avg. Rate	Income / Costs
INTEREST EARNING ASSETS	46 823	2.49%	1 166	44 347	1.94%	862
Customer Loans	34 695	2.68%	932	32 474	2.32%	752
Money Market Placements	2 480	2.31%	57	2 650	1.08%	29
Securities and Other Assets	9 647	1.84%	177	9 223	0.88%	81
OTHER NON-INTEREST EARNING ASSETS	-	-	-	-	-	-
INTEREST EARNING ASSETS AND OTHER	46 823	2.49%	1 166	44 347	1.94%	862
INTEREST BEARING LIABILITIES	43 978	1.48%	652	41 066	1.14%	467
Due to Customers	25 123	0.91%	229	26 319	0.86%	226
Money Market Funding	11 442	0.36%	41	8 985	0.36%	33
Other Liabilities	7 413	5.15%	382	5 761	3.61%	208
OTHER NON-INTEREST BEARING LIABILITIES	2 845	-	-	3 282	-	-
INTEREST BEARING LIABILITIES AND OTHER	46 823	1.39%	652	44 347	1.05%	467
NIM / NII		1.10%	514		0.89%	395

The average rate on customer loans, the main component of financial assets (73.2%), was 2.32%. As to liabilities, the average balance of deposits was €26.3 billion, with an average interest rate of 0.86%.

Fees and Commissions

Fees and commissions on banking services contributed with €324.8 million to the results, up by 17.2% from €277.1 million in December 2016. This improvement reflects the reduction in the cost of bond issues guaranteed by the Portuguese Republic, which were fully reimbursed and cancelled in early 2017, as otherwise fees and commissions would have increased by 5.4% YoY.

FEES AND COMMISSIONS	€ million				
	2016	2017	% Change	Weight	
				2016	2017
Payments and Account Management	98.6	112.4	14.0%	31.8%	34.4%
Commissions on Loans, Guarantees and Similar	128.0	123.0	-3.9%	41.3%	37.6%
Asset Management and Bancassurance	62.3	71.1	14.2%	20.1%	21.8%
Advising, Servicing and Other	21.1	20.3	-3.7%	6.8%	6.2%
SUBTOTAL	310.0	326.8	5.4%	100.0%	100.0%
Costs with Portuguese Republic Guarantees	32.9	2.0	-94.0%		
TOTAL	277.1	324.8	17.2%		

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 (37.6% of total fees and commissions);

- Commissions on payment services (34.4% 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 21.8% of total fees and commissions.

Capital Markets and Other Operating Results

Capital markets results increased by 45.2%, underpinned by the gains obtained on the sale and revaluation of sovereign debt securities and on the LME operation (€209.7 million).

The increase in other operating results mainly reflects the triggering of the Contingent Capital Agreement (€791.7 million) and also part of the capital gain on the sale of 75% of the subsidiary NB Ásia (€66.0 million), and on the negative side, the loss recorded on 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 7.1%, 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	2016	2017	% Change
Staff Costs	303.5	275.7	-9.1%
General and Administrative Costs	231.4	215.4	-6.9%
Depreciation	56.1	58.1	3.6%
TOTAL	590.9	549.2	-7.1%

Staff costs decreased by 9.1% YoY, to €275.7 million, underpinned by a headcount reduction of 608 employees since 31 December 2016. At 31 December 2017 NOVO BANCO Group had 5,488 employees (Dec. 16: 6,096).

General and administrative costs dropped by 6.9% YoY, to €215.4 million. This reduction, which occurred across most cost categories, reflects the rationalisation and streamlining policy under way. Depreciation increased by 3.6%.

The contraction in operating costs also reflects the downsizing of the distribution network in line with the new business reality. On 31 December 2017 NOVO BANCO had 473 branches, which is 64 fewer units than a year earlier.

Impairments and Provisions

The NOVO BANCO Group reinforced provisions by €2,056.9 million (+€682.2 million compared to December 2016), the bulk of which was allocated to credit (€1,229.2 million). The year's provision charge also includes €134.8 million for securities, €134.3 million for restructuring (Dec.16: €98.2 million) and €398.0 million for operations being discontinued, allocated to other assets and contingencies.

€ million			
NET IMPAIRMENTS AND PROVISIONS	2016	2017	% Change
Customer Loans	672.6	1 229.2	82.8%
Securities	315.9	134.8	-57.3%
Real Estate and Equipment	126.3	56.7	-55.1%
Other Assets and Contingencies	259.9	636.2	144.8%
TOTAL	1 374.7	2 056.9	49.6%

ACTIVITY, LIQUIDITY AND CAPITAL MANAGEMENT

Funding

On 31 December 2017 customer deposits totalled €29.7 billion, up by €3.7 billion from €26.0 billion in 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 reflects the impact of the LME operation carried out in the last quarter of 2017 (new deposits in the amount of ca. €1.8 billion).

CUSTOMER FUNDS	31-Dec-16	30-Sep-17	31-Dec-17	YoY Change		Absolute change in 4Q2017
				absolute	relative	
Deposits	25 585	25 960	29 691	4 106	16.1%	3 731
Other Customer Funds ⁽¹⁾	404	539	517	113	27.8%	- 22
Debt Securities ⁽²⁾	3 818	3 483	1 217	-2 601	-68.1%	-2 266
Sub -Total	29 807	29 981	31 425	1 617	5.4%	1 444
Life Insurance Products ⁽³⁾	4 730	4 391	-	-4 730	-100.0%	-4 391
Off-Balance Sheet Funds	5 069	4 780	4 829	- 240	-4.7%	49
Total Customer Funds	39 606	39 152	36 254	-3 352	-8.5%	-2 898

(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 NB of selling the insurance activity, developed by GNB Vida, 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 enterprises (SME) and those that incorporate innovation in their products, services or production systems. At the end of 2017 corporate loans accounted for a 63.9% share of the total loan book.

CUSTOMER LOANS	31-Dec-16	31-Dec-17	€ million	
			Change	
			absolute	relative
Corporate Lending	22 451	20 092	-2 359	-10.5%
Loans to Individuals	11 300	11 330	30	0.3%
Residential Mortgage	9 726	9 751	25	0.3%
Other Loans	1 574	1 579	5	0.3%
Customer Loans (gross)	33 750	31 422	-2 328	-6.9%
Provisions	5 566	5 631	65	1.2%
Customer Loans (net)	28 184	25 791	-2 393	-8.5%

Customer loans contracted by €2.3 billion in 2017. The stability of loans to individual clients, which remained flat at around €11.3 billion, is worth noting, with residential mortgage loans increasing by €25 million, driven by commercial innovations in the relationship with the clients. Moreover, production of both residential mortgage loans and other loans to individuals has increased when compared to 2016.

Securities Portfolio

The securities portfolio, the main source of eligible assets for funding operations with the ECB, totalled €8.5 billion on 31 December 2017 and represented 16.3% of assets.

SECURITIES PORTFOLIO	31-Dec-16	31-Dec-17	net of impairments	
			€ million	
			YoY Change	
			absolute	relative
Portuguese Sovereign Debt	3 538	3 855	317	9.0%
Other Sovereign Debt	2 971	2 113	- 859	-28.9%
Bonds	2 775	962	-1 813	-65.3%
Other	2 478	1 549	- 929	-37.5%
Total	11 762	8 479	-3 284	-27.9%

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 69.4% of the total available securities. The overall amount of the portfolio contracted by around €3.3 billion, mainly through the decrease in bonds following the transfer of GNB Vida to activities being discontinued. The securities portfolio had a positive fair value reserve of €241.6 million (Dec. 2016: €151.4 million).

Liquidity

The fourth quarter of 2017 was marked by the conclusion of the sale process of NOVO BANCO to Lone Star. As agreed between the parties as a condition precedent to the sale, the settlement of the tender offer and consent solicitation for several senior bonds issued by the NOVO BANCO Group took place on 4 October. Through this operation, NOVO BANCO purchased and early repaid bonds for a nominal value of €4.7 billion (representing approximately 57% of the total), corresponding to €2.2 billion at balance sheet book value and €2.0 billion at acquisition value. The impact of the operation on liquidity was quite low, in so far as the bondholders' acceptance of the commercial offer of deposits was highly successful.

With the conditions precedent having been met, on 18 October the Resolution Fund formally sold 75% of NOVO BANCO's share capital through a €750 million capital increase that was fully subscribed by Lone Star. Subsequently (on 21 December) Lone Star subscribed a second capital increase, in the amount of €250 million. NOVO BANCO's share capital was thus increased by €1 billion, resulting in a significant reinforcement of its liquidity position and financial strength.

The completion of the sale process also had a positive impact on customer funds, which, even if excluding the deposits made within the scope of the commercial offer to the senior bondholders, increased by €1.9 billion in the fourth quarter, which represents approximately 80% of their annual growth when comparing with 2016.

Regarding to medium and long-term customer funds, upon completion of the tender offer and consent solicitation for senior debt, NOVO BANCO reimbursed almost all bonds with shorter maturities (up to 2022). As to the longer maturity bonds, for which acceptance of the tender offer and consent solicitation was lower, approximately €3.5 billion (nominal value) of bonds were left outstanding (essentially zero-coupon bonds and four series of bonds maturing in 2043).

In this context, net funding from the ECB totalled €2.8 billion at the end of the last quarter of 2017, which is the lowest in the history of NOVO BANCO.

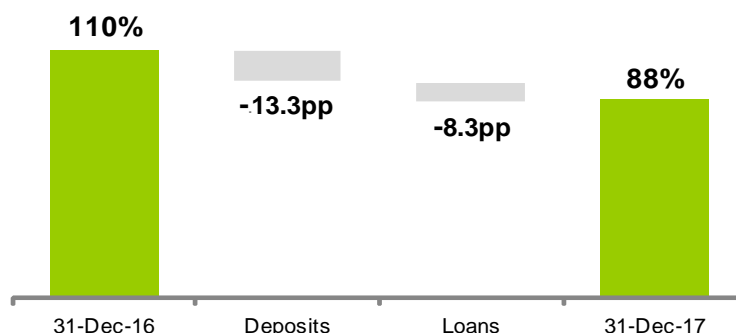
The overall amount in the portfolio of assets eligible for rediscount with the ECB increased by circa €1.1 billion, to €12.7 billion, after haircut, mostly through the reinforcement of the portfolio of sovereign debt from Euro zone countries (especially Portugal, Spain and Germany).

NOVO BANCO's sovereign debt portfolio (excluding the exposure to sovereign debt of GNB Vida) increased by around €791 million in the quarter, to €5.9 billion. This portfolio was essentially concentrated in European countries, with the exposure to Portuguese sovereign debt amounting to €3.9 billion, of which €1.2 billion in Treasury Bills and €2.7 billion in Treasury Bonds. As to other European peripheral countries, the Bank's exposure to Spanish sovereign debt increased by around €220 million, to €1.5 billion, while its exposure to Italian sovereign debt remained flat at around €330 million.

The improvement in the liquidity position is shown by the increase in the Liquidity Coverage Ratio (LCR), which at the end of 2017 reached 124%.

The loan to deposit ratio (88%) dropped by 22 pp compared to 31 December 2016 through the improvement of its two components: deposits increased and loans decreased.

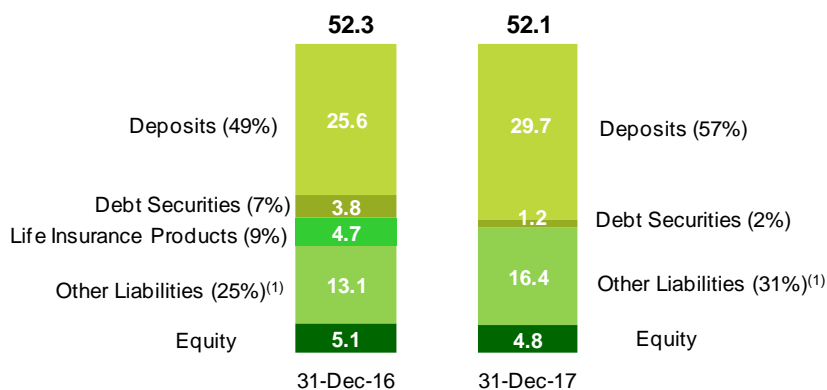
LOAN TO DEPOSIT RATIO



Customer deposits remained the main source of funding, representing 57% of total assets.

FUNDING STRUCTURE

(figures in € billion)



(1) 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. 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 31 December 2017 were as follows:

		€ million	
CAPITAL RATIOS - BIS III (CRD IV/CRR)		31-Dec-16	31-Dec-17
Risk Weighted Assets	(A)	33 627	31 740
Own Funds			
Common Equity Tier 1	(B)	4 051	4 047
Tier 1	(C)	4 051	4 047
Total Capital	(D)	4 051	4 117
Common Equity Tier 1 Ratio (Phased-in)	(B/A)	12.0%	12.8%
Tier 1 Ratio	(C/A)	12.0%	12.8%
Solvency Ratio	(D/A)	12.0%	13.0%
Common Equity Tier 1 Ratio (fully implemented)		9.8%	12.0%

The phased-in Common Equity Tier 1 (CET1) ratio for 31 December 2017 was 12.8% (12.0% under the full implementation regime applicable as from 1 January 2018).

Asset Quality

As at 31 December 2017 the main groups of credit exposures showed an improvement compared to December 2016.

CREDIT QUALITY	31-Dec-16	31-Dec-17	€ million	
			Change	
			absolute	relative
Gross Loans	33 750	31 422	-2 328	-6.9%
Overdue Loans	5 936	5 215	- 721	-12.1%
Overdue Loans > 90 days	5 728	5 127	- 601	-10.5%
Credit at Risk ⁽¹⁾	8 636	7 423	-1 213	-14.0%
Restructured Credit ⁽²⁾	8 007	7 102	- 905	-11.3%
Restructured Credit not included in Credit at Risk ⁽²⁾	4 008	3 384	- 624	-15.6%
Non-Performing Loans (NPL)	11 288	9 594	-1 694	-15.0%
Provisions for Credit	5 566	5 631	65	1.2%

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

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

The reduction in overdue and non-performing loans improved the respective asset quality ratios to 16.6% and 30.5%, respectively, at the end of December 2017.

The coverage of overdue loans by impairments (108.0%) and non-performing loans (58.7%) increased compared to the end of 2016.

Provisions for Credit amounted to €5.6 billion, representing 17.9% of the total loan book (Dec.16: 16.5%)

ASSET QUALITY AND COVERAGE RATIOS	31-Dec-16	31-Dec-17	Change (pp)
Overdue Loans / Gross Loans	17.6%	16.6%	-1.0
Overdue Loans > 90 days / Gross Loans	17.0%	16.3%	-0.7
Credit at Risk ⁽¹⁾ / Gross Loans	25.6%	23.6%	-2.0
Restructured Credit ⁽²⁾ / Gross Loans	23.7%	22.6%	-1.1
Restructured Credit not included in Credit at Risk ⁽²⁾ / Gross Loans	11.9%	10.8%	-1.1
Non-Performing Loans (NPL) / Gross Loans	33.4%	30.5%	-2.9
Provisions for Credit / Gross Loans	16.5%	17.9%	1.4
Coverage of Overdue Loans	93.8%	108.0%	14.2
Coverage of Overdue Loans > 90 days	97.2%	109.8%	12.7
Coverage of Credit at Risk ⁽¹⁾	64.5%	75.9%	11.4
Coverage of Non-Performing Loans	49.3%	58.7%	9.4

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

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

The €1.7 billion reduction in non-performing loans - from €11.3 billion in December 2016 to €9.6 billion in December 2017 - was particularly noticeable, with the respective asset quality ratio increasing by 290 bps, to 30.5%. The coverage of non-performing loans by impairments reached 58.7% (Dec.16: 49.3%).

COMMERCIAL ACTIVITY

Retail Banking

2017 was a challenging year for the Retail network. Particularly worth noting was the support provided by the network to the LME operation since July, whose success and widespread acceptance by the clients proved essential for the sale process of NOVO BANCO. This success was even more significant as it was achieved alongside a very positive dynamics in the commercial activity, at various levels, leading to a reinforcement of the Bank's accountability to its clients and in turn to higher customer confidence.

The strengthening of individual clients' confidence in NOVO BANCO drove a €984 million increase in Retail clients' deposits (excluding deposits originating from GNB bonds/preferred shares), which represented a YoY increase of 40%. Structured Deposits production, which reached €349 million, gave a significant boost to this growth. This growth of the deposits portfolio was achieved while significantly reducing its cost (-59 bps comparing with Dec. 2016).

Loans to individuals had a particularly good performance in 2017, with residential mortgage loans production growing by 59% year-on-year, driven by a differentiating offer: (i) introduction of a commitment to respond to loan requests within 24 hours; (ii) broad-based offer, with flexibility in terms of maturities, rates and amounts; (iii), extended maturities (up to 40 years); (iv) possibility to fix the interest rate at the start of the loan, or whenever it is considered opportune, according to the evolution of the Euribor; (v) favourable conditions for home exchange (Home Exchange Spread Offer); and (vi) a wide choice of NOVO BANCO properties and properties financed by the Bank under competitive conditions.

This differenced service allowed NOVO BANCO to maintain higher spreads for this portfolio than for the overall retail book.

Consumer loan production increased by 89% year-on-year, essentially driven by the growth of sales through the digital channels. Moreover, car leasing production also registered an expressive 56% increase relative to 2016.

In the segment of small businesses monitored by the Retail departments, it should be noted the contribution of the '*Capitalizar*' credit line, under which a total of 12,170 operations were concluded in 2017, corresponding to €69 million in loans. 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.

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 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 opened, which compares with 1.13 complaints reported by the institution with the largest number of complaints (8x fewer);
- Residential Mortgage Loans – 0.41 complaints per 1,000 contracts, well below the 1.12 per 1000 complaints reported by the institution that leads the ranking (3x fewer);
- Consumer Loans - 0.14 complaints per 1000 contracts, which compares with 0.61 complaints reported by the institution with the largest volume of complaints (4x fewer).

In terms of the international recognition for retail customer services, NOVO BANCO was named the best provider of Securities and Custody services in Portugal (2017) by the Global Finance international magazine. This award provides international recognition to the Bank's capabilities and performance in this important business area.

Corporate Banking

NOVO BANCO maintained its commitment to support the Portuguese companies, placing a particular focus on companies presenting better risk, the SMEs and the exporting and innovative companies that compete in the global markets, which make it one of the main players in the financing of companies in Portugal.

Within this segment, production of medium and long-term loans reached €1.5 billion in 2017, upholding NOVO BANCO's reference role in supporting the development of companies and economic activity in Portugal. Moreover, production also increased under the 'NB FEI Inovação III' (under a partnership with the European Investment Fund), 'PME Crescimento', 'IFD 2016-2020', 'Linha Capitalizar', and 'Linha NB Empresas Prime' Lines, under which new loans reached €601.4 million between January and December 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 it should be highlighted the projects approved under the Portugal 2020 programme.

As regards the day-to-day support provided to companies, through Treasury Solutions, NOVO BANCO boasts a complete and innovative offer tailored to the needs of each client, which includes factoring solutions, the management of payments to suppliers and the NB Express Bill, which increased by 19.8%, or €137 million YoY.

In terms of customer funds, deposits increased by approximately €1.05 billion in 2017 (+26% YoY).

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 stood at 21% at the end of 2017.

NOVO BANCO DOS AÇORES

NOVO BANCO dos Açores continues to be the only bank headquartered in the Autonomous Region of the Azores. In line with its client acquisition strategy NB Açores undertook several initiatives addressed to companies and public services and entities, as a result of which it acquired 1,492 new clients in 2017. The bank also pursued several activities aimed at promoting deposit taking and loan granting, and at reinforcing its market share, while continuing to improve the quality and safety of the products and services made available to its clients. In 2017 both customer loans and customer funds decreased (by 1.7% and 2.4%, respectively), however, the average monthly balance of customer deposits increased by 3.6%. Credit impairments totalled €23.2 million, with overdue loans decreasing by €1.4 million compared to 2016, to €17.5 million. The Bank closed the year with assets of €538.6 million, reporting a net profit of €1.96 million.

Banco Electrónico de Serviço Total

In 2017 Banco Best strongly advanced its leadership in digital banking and in innovation in the offer of financial products and services in Portugal, having introduced a fully digital account opening process by video call, using a smartphone or computer and with no need for the client to go to a branch. The client is identified by video call, the documents are digitally signed, and the client himself decides when to start and end the process. This is a current account in euros, with no management or maintenance fees and requiring no mandatory minimum balances.

During the year, several other initiatives supported Banco Best's position as innovation leader: (i) introduction of 'Best Voice' in Best's APP, featuring a series of speech recognition user-controlled commands; (ii) facial recognition login - made available at the same time as it was launched in iPhone X; (iii) launch in Portugal of the *Allianz Global Artificial Intelligence Fund*, the first artificial intelligence fund in Europe; (iv) launch of the ACATIS AI Global Equities fund in Portugal, the first artificial intelligence managed investment fund, where decisions are taken by a robot, with no intervention of the fund manager; and (v) at the same time, Banco Best also promoted financial literacy amongst investors, having organised 5 seminars in Lisbon and Oporto on robotics and artificial intelligence in the context of investment.

Banco Best is 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. Assets under management reached €2.1 billion at year-end, increasing by 5% YoY in B2B. Banco Best also reported good economic and financial indicators, posting a net profit for the year of €3 million (+9.8 YoY).

Asset Management

GNB - Gestão de Ativos, which mainly operates in Portugal, Luxembourg and Spain, closed the year with a total of €10.8 billion in assets under management, which represents a 9.3% reduction relative to 2016. This reduction was mainly driven by decreases in mutual funds (in Luxembourg and Spain) and in the area of wealth management, but on the positive side, pension funds registered an increase of around 2.6% in 2017 (+4.6% in Portugal).

Operating costs fell by 21.3% in 2017 (from €14.7 million to €11.5 million) as a result of the implementation of the reorganisation and restructuring plan. The company posted a net profit for the year of €8.0 million, a year-on-year increase of 2.3%.

International Commercial Banking

In line with the pre-established strategy, in July 2017 a promissory agreement was signed to sell 90% of the share capital of Banco Internacional de Cabo Verde to IIBG HOLDINGS BSC. On 28 February 2018 NOVO BANCO completed the sale of the assets and liabilities of its branch in Venezuela to BANCAMIGA, Banco Universal, C.A. and ceased to have any banking activity in Venezuela.

During the year the restructuring and operational streamlining plan for the Spain, London and Luxembourg branches was pursued.

In **Spain**, the Branch carried out a business reorganisation during the year that entailed the downsizing of its commercial network. Business volume decreased by 5.9%, with both loans and deposits contracting, but assets under managements increased by €33 million. Operating costs were up by 6%, mainly on the back of higher administrative costs and depreciation.

The London Branch (**United Kingdom**) focused its activity on the management of its portfolio, with total assets decreasing by €2.5 billion, mainly as a result of the LME operation and the sale of some loans. Total assets amounted to €1.3 billion at the end of the year, with the loan book accounting for 87% of the total. The Branch posted net operating income for the period of €3.6 million.

Similarly to the London Branch, the **Luxembourg** Branch focused its activity in 2017 on the management of its portfolio, while its assets were equally impacted by the LME operation, totalling €1.8 billion at year-end. The Branch posted a net operating income for the year of €18.9 million.

MAIN EVENTS IN 2017

Sale of NOVO BANCO

On 18 October, with the completion of the sale process and following a set of capitalisation operations that entailed a significant change in its shareholder structure, NOVO BANCO closed its life cycle as a transition bank.

On that date Nani Holdings, SGPS (an entity held by investment funds of Lone Star) fully subscribed and paid a €750 million capital increase that reinforced the Bank's capital and created a new shareholder structure where Nani Holdings, SGPS holds 75% of the share capital and the Resolution Fund the remaining 25%. With this operation NOVO BANCO's share capital increased from €4,900 million to €5,650 million, represented by 9,799,999,996 registered nominative shares, with no par value, fully subscribed and paid up.

Also on 18 October the Bank held a General Meeting of Shareholders that approved an amendment to the Bylaws and the appointment of the Corporate Bodies. The amendments to the Bylaws 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 Bylaws, consequent reorganisation of the Company's corporate structure, and resignation 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 mandate 2017-2020. The General and Supervisory Board in turn appointed the members of the Executive Board of Directors for the same 4-year mandate.

At the end of December NOVO BANCO made a new capital increase, which was fully subscribed and paid up by the shareholder Nani Holdings, SGPS. through new cash inflows in the amount of €250 million. This operation increased NOVO BANCO' share capital to €5,900 million, represented by 9,799,999,997 registered nominative shares with no par value, fully subscribed and paid up and held at 75% by Nani Holdings, SGPS and at 25% by the Resolution Fund.

Debt Reimbursement

The Liability Management Exercise (LME) concluded on 4 October last, was one of the conditions precedent for the completion of the sale of NOVO BANCO to Lone Star under the terms of the purchase and sale agreement announced on 31 March 2017.

The LME was a tender offer launched on several senior debt securities issued directly and indirectly by NOVO BANCO, with the objective of strengthening its shareholder's equity. It ran between 25 July and 2 October 2017, with financial settlement on 4 October. The offer targeted the purchase of all bonds under 36 issues of NOVO BANCO, against a cash consideration, providing the bondholders with a price that was in line with the market price; the offer was combined with a consent solicitation for early reimbursement (the consent solicitation). The option for the cash consideration made this a simpler and more perceptible solution as well one that was better adjusted to institutional and retail investors. The operation concerned 36

bond series, maturing between 2019 and 2052, whose nominal global value of €8.3 billion corresponded to around €3 billion in book value.

The LME involved the purchase and early redemption of €4,743 million of 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 process. The transaction allowed the fulfilment of the objectives in terms of capital increase (Core Tier 1) and gross equivalent gains, including interest savings. The success of the transaction was due to the fact that the offer allowed for the purchase and early reimbursement of bonds representing 73% of the book value.

Bank clients who opted for selling or who were reimbursed were offered term deposits with specific conditions.

Process of Divestment of Non-Strategic Assets

The strategy of focusing on the domestic banking business involved the identification, for sale, of assets considered non-strategic for NOVO BANCO's activity, of which the following are highlighted:

- Sale to BANCAMIGA, Banco Universal, CA (Venezuela) of the assets and liabilities of NOVO BANCO's Branch in this country. With the completion of this transaction NOVO BANCO ceased to have any banking activity in Venezuela.
- Sale of the 36.65% stake held in Vortal SGPS, SA, an electronic procurement platform, to Vallis Sustainable Investments I, SCA, SICAR fund.
- Launch of an organised process to sell up to 100% of the share capital of GNB Companhia de Seguros de Vida, S.A. (GNB Vida). 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.
- Signature of 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.
- Sale to Amkor Technology, Inc. of a 41.06% stake in the share capital and credits of Nanium, SA - a world-class firm in the semiconductors sector, namely supplying 'wafer-level fan-out' (WLFO) packaging solutions.
- Sale of 75% of the share capital of NOVO BANCO Ásia to a group of investors led by Well Link Group Holdings Limited, a company incorporated in Hong Kong, for €145.8 million. The sale agreement provides for a set of put and call options, under conditions already agreed, for the remaining 25%. These options can be exercised within a period of up to 5 years, making up a total price for the 100% holding of €183 million. Maintaining an equity holding in NOVO BANCO Asia during the next five years will enable NOVO BANCO to develop its strategic pillar of support to the exporting activity and internationalisation of

Portuguese companies in such an important geographical area, in particular through its trade finance activity.

- The indirect subsidiary ES Concessions International Holding BV completed the sale of a 22.21% stake in Empark–Aparcamientos y Servicios SA to ASSIP, Asesoría y Estudios de Mercado SA and ESIF I, BV.

Cultural and Artistic Heritage

On 29 January 2018 NOVO BANCO and the Portuguese State, through the Ministry of Culture, assumed the commitment to make available to the public the cultural and artistic heritage of NOVO BANCO through partnerships with public and private entities, such as museums and universities, at national and regional level. This commitment involves the creation of the NB Cultura brand which gathers under a single concept all the Bank's collections - paintings, contemporary photography, humanities studies and numismatics.

ECONOMIC ENVIRONMENT

2017 experienced an acceleration of economic activity across both developed and emerging economies, for the first time since 2010. In the US and China, GDP grew by 2.3% and 6.9%, respectively. The Euro zone economy expanded by 2.3%, up from 1.8% in 2016. However, even in this context of accelerating growth, and despite a 20.6% increase in the price of oil (Brent), to USD 66.8/barrel, inflationary pressures remained contained in the main economic areas.

In the US and the Euro zone, year-on-year inflation closed the year at 2.1% and 1.4%, respectively (with core inflation at 1.8% and 0.9%). The main Central Banks thus pursued a gradual movement of monetary policy normalisation. In the US, the Fed raised interest rates in March, June and December, leaving the fed funds target rate at 1.25%-1.5%, and initiated a gradual reduction of its balance sheet in the 4th quarter. In the Euro zone, the ECB left the policy interest rates unchanged (deposit facility rate at -0.4%), signalling that they would remain at this level for a long period of time. The 3-month Euribor thus retreated from -0.319% to -0.329%. However the ECB abandoned the easing bias monetary policy, tapering the asset acquisition programme in April from €80 billion to €60 billion per month. An additional reduction to €30 billion per month was announced for the start of 2018. In this context, the yield on the 10-year *Bunds* rose from 0.208% to 0.427% (with an annual peak of 0.6% in July). In the foreign exchange market, the euro gained almost 14% against the US dollar in 2017, closing the year at EUR/USD 1.2022. The growth of economic activity, low interest rates, improved earnings and the strong performance of the technology sector drove significant gains in the equity markets, notwithstanding the existence of some geopolitical risks. The Nasdaq advanced by 28.2% in the year, while the Dow Jones and S&P 500 registered gains of 25.1% and 19.4%. In Japan, the Nikkei climbed by 19.1%, while in Europe the DAX, CAC 40 and IBEX gained 12.5%, 9.3% and 7.4%, respectively. In the emerging markets, the main achievers were the Sensex and Bovespa indices, which surged by 27.9% and 26.9%, respectively.

In Portugal, GDP expanded by 2.7% in 2017 (+1.6% in 2016), supported by an increase in the contribution of domestic demand. Due to the acceleration of imports, net external demand gave a negative contribution to GDP, notwithstanding the strong performance of exports, with tourism stressing the already buoyant performance of the previous years. The unemployment rate retreated from 11.1% to 8.9% of the labour force, while inflation rose from 0.6% to 1.4%. Housing prices increased 10.5% year-on-year in the 4th quarter. Reflecting the reduction of the public deficit and the upgrades of the Portuguese sovereign ratings by S&P and Fitch (to BBB- and BBB, respectively) the yield on the 10-year Treasury Bonds retreated from a 2-year peak of 4.3% in March to 1.9% at the end of the year, while their spread against the German *Bund* shrank from a high of 387 bps in February to 152 bps in December. The PSI-20 index gained 15.2% in 2017.

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2016 AND AS AT 31 DECEMBER 2017

	€ thousand	
	31.12.2017	31.12.2016
Interest and similar income	888 313	1 193 354
Interest expense and similar charges	493 743	678 870
Net Interest Income	394 570	514 484
Dividend Income	6 156	37 832
Fee and Commission income	387 245	378 370
Fee and Commission expense	71 792	113 003
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	(56 571)	22 905
Net gains / (losses) from available-for-sale financial assets	57 245	116 429
Net gains / (losses) from foreign exchange revaluation	26 387	(6 576)
Net gains / (losses) from the sale of other assets	(39 159)	(51 736)
Insurance earned premiums, net of reinsurance	-	49 201
Claims incurred net of reinsurance	-	167 744
Change in technical reserves, net of reinsurance	-	105 345
Other operating income and expenses	860 754	37 041
Operating Revenues	1 564 835	922 548
Staff Costs	275 740	303 463
General and Administrative Costs	215 409	231 352
Depreciation and amortisation	58 057	56 061
Provisions, net of reversals	190 931	52 319
Impairment losses on loans, net of reversals and recoveries	1 229 205	672 578
Impairment losses on other financial assets, net of reversals	134 787	365 883
Impairment losses on other assets, net of reversals	501 984	283 929
Operating Costs	2 606 113	1 965 585
Sale of subsidiaries and associates	3 806	24 325
Results from associated companies consolidated by the equity method	8 377	4 074
Income before income tax and non-controlling interests	(1 029 095)	(1 014 638)
Corporate income tax		
Current tax	14 373	16 330
Deferred tax	430 773	(243 924)
	445 146	(227 594)
Income from continuing activities	(1 474 241)	(787 044)
Income from discontinued operations	74 779	(10 427)
Net Income for the period	(1 399 462)	(797 471)
Attributable to shareholders of the Bank	(1 395 447)	(788 330)
Attributable to Non-controlling interests	(4 015)	(9 141)
	(1 399 462)	(797 471)

NOVO BANCO, S.A.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016 AND AS AT 31 DECEMBER 2017

	€ thousand	
	31.12.2017	31.12.2016
ASSETS		
Cash and deposits with Central Banks	3 788 027	1 469 259
Deposits with other banks	380 601	370 918
Financial assets held for trading	577 520	656 722
Other financial assets at fair value through profit or loss	30 183	1 203 807
Available-for-sale financial assets	8 448 245	10 557 972
Loans and advances to banks	581 901	724 167
Loans and advances to customers	25 790 943	28 184 426
Derivatives held for risk management purposes	170 588	222 769
Non-current assets held for sale	5 448	7 764
Non-current assets held for sale - discontinued operations	5 130 956	1 217 371
Investment properties	1 144 432	1 206 355
Other tangible assets	157 497	206 459
Intangible assets	8 682	44 663
Investments in associated companies	146 251	158 650
Current tax assets	6 014	30 620
Deferred tax assets	1 964 017	2 603 979
Technical reserves of reinsurance ceded	-	6 355
Other assets	3 723 544	3 460 416
TOTAL ASSETS	52 054 849	52 332 672
LIABILITIES		
Deposits from Central Banks	6 410 123	6 410 033
Financial liabilities held for trading	559 765	632 831
Deposits from other banks	2 015 044	3 577 914
Due to customers	30 208 071	25 989 719
Debt securities issued	1 216 780	3 817 801
Derivatives held for risk management purposes	76 212	108 265
Investment contracts	-	3 396 425
Non-current liabilities held for sale	3 277	1 821
Non-current liabilities held for sale - discontinued operations	5 525 962	748 807
Provisions	416 670	364 615
Technical reserves	-	1 333 567
Current tax liabilities	13 887	16 972
Deferred tax liabilities	6 193	19 301
Other subordinated debt	-	48 100
Other liabilities	770 690	718 548
TOTAL LIABILITIES	47 222 674	47 184 719
EQUITY		
Share Capital	5 900 000	4 900 000
Reserves, retained earnings and other comprehensive income	248 410	954 946
Net Income for the period attributable to the shareholders of the Bank	(1 395 447)	(788 330)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK	4 752 963	5 066 616
Non-controlling interests	79 212	81 337
TOTAL EQUITY	4 832 175	5 147 953
TOTAL LIABILITIES AND EQUITY	52 054 849	52 332 672

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 portfolios of financial assets held for trading, other financial assets at fair value through profit or loss and available-for-sale financial assets.
Due to customers Banco de Portugal Instruction n. 16/2004	Sums booked under the following balance sheet accounting headings: [#400 - #34120 + #52020 + #53100]
Net ECB funding	Difference between the funding obtained from the 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 and Doubtful Loans ratio 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.
Overdue and Doubtful Loans ratio, net 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.
Credit at risk ratio 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 reinforcement of collateral or full repayment of overdue interest and other overdue 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.
Credit at risk ratio, net 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.
Restructured credit ratio Banco de Portugal Instruction n. 32/2013	Ratio of restructured credit due to financial difficulties of the client to total credit
Restructured credit not included in credit at risk ratio Banco de Portugal Instruction n. 32/2013	Ratio of restructured credit not included in credit at risk 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
Credit at risk coverage ratio	Ratio of accumulated impairment on customer loans (on balance sheet) to credit at risk.
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.

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 and amortisation) 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.

This report is a free translation into English of the original Portuguese version.

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