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Results Presentation 2018

Unaudited financial information

1 March 2019

NOVO BANCO GROUP ACTIVITY AND RESULTS FOR FINANCIAL YEAR 2018

- **NOVO BANCO** will request a compensation of €1,149 million under the Contingent Capital Agreement (CCA).
- 69% of the amount results from the losses incurred on the assets included in the CCA and 31% due to regulatory requirements for capital increase in the adjustment of the transitional period of capital ratios and to the impact of IFRS9.

2018	Due to regulatory requirements *	Due to Losses on the CCA Assets *
Amount to request under the Contingent Capital Agreement		
€1,149mn	€354mn	€795mn

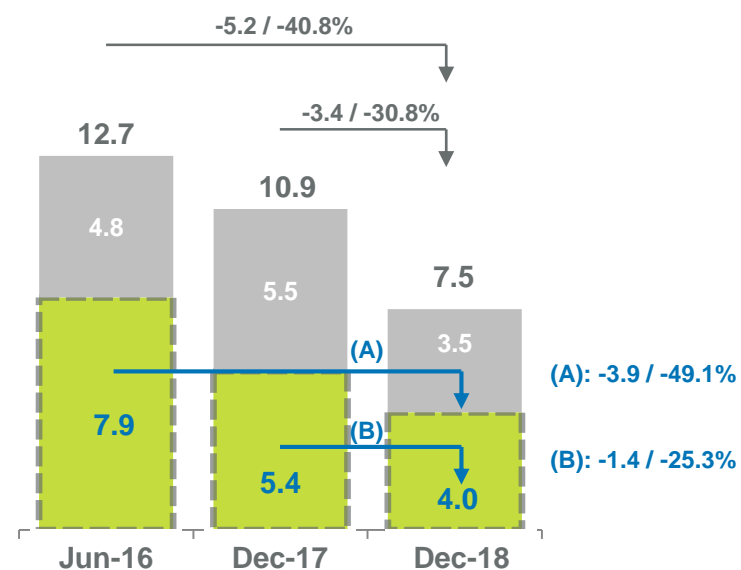
* provisional amounts

Contingent Capital Agreement (CCA)

CCA Net assets decreased 49.1% since June 2016

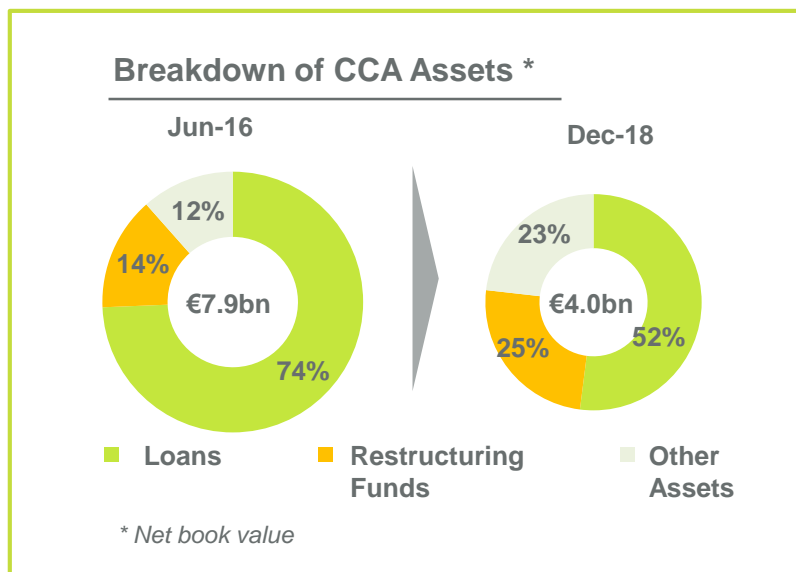
- As agreed during the sale process of **NOVO BANCO**, a **Contingent Capital Agreement (“CCA”)** was entered into between **the Resolution Fund and NOVO BANCO**.
- NOVO BANCO is to be compensated up to €3.89bn** for losses recognised in a predefined portfolio of assets (“**CCA Assets**”) and other CCA covered losses (the “**CCA Losses**”) in case the capital ratios decrease below a pre-defined threshold (“**Minimum Capital Condition**”).
- The Minimum Capital Condition :
 - CET1 or Tier 1 < CET1 or Tier 1 SREP requirement Plus a buffer for the first 3 years (2017 - 2019)
 - CET1 < 12%
- Duration of the mechanism is set at approx. 8 years, until 31 December 2025 (the “**CCA Maturity Date**”), which date can be extended by one additional year should the net book value of the CCA Assets not fall below an agreed level.

Assets included in the CCA (€bn)



¹ Deducting provisions for undrawn exposures, the CCA asset would amount to €7.8bn and €5.3bn and €3.9bn in Jun-16, Dec-17 and Dec-18, respectively.

Contingent Capital Agreement (CCA)



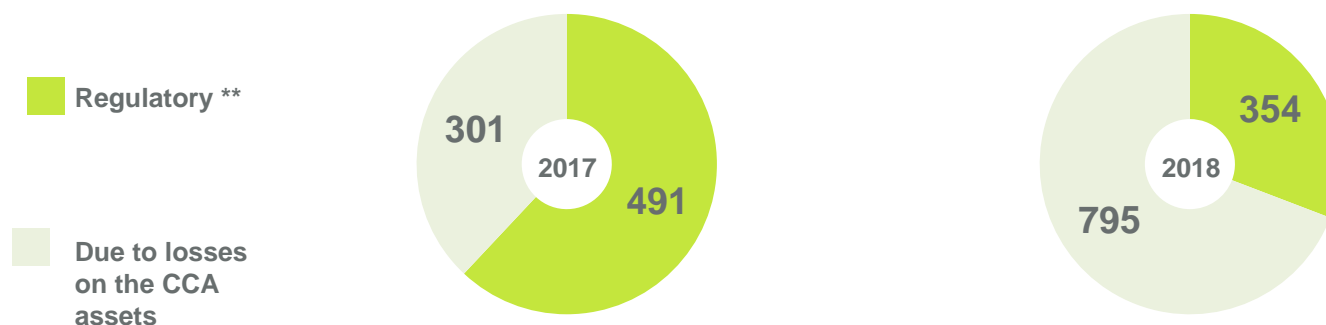
	mn€		
CCA Net Losses evolution *	From Jun-16 to Dec-17	From Jan-18 to Dec-18	Total
Loans losses (net of recoveries)	1,268	345	1,613
Securities and other assets losses	558	61	620
Real estate	7	70	78
Funding costs	199	86	286
Other	78	-13	65
Total	2,111	551	2,662

* provisional amounts

Capital increases:

- ✓ Share capital increased in 2017 by the shareholder Lone Star*: ■ €1,000mn
- ✓ Tier 2 subordinated debt issued in Jun-18: ■ €400mn
- ✓ Compensation under the
Contingent Capital Agreement:
 - ✓ Dec-17 ■ €792mn
 - ✓ Dec-18 ■ €1,149mn

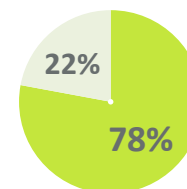
Capital requirements (€mn):



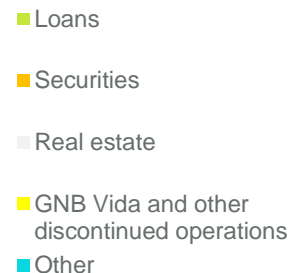
NOVO BANCO “Recurrent” and NB “Legacy”

- Given the specifics of the context in which **NOVO BANCO** was created, the Bank decided, following other international examples, to report the activity of the **NOVO BANCO** “Recurrent” separately from the NB “Legacy” activity.

NOVO BANCO Recurrent represents 78% of the Consolidated Assets (2018)



- NOVO BANCO “Legacy” (“NB Legacy”):
 - customer loans:** loans included in the CCA (approximately 92% of the total NB Legacy loan book), and other loans;
 - securities;**
 - real estate (*non-yielding*);**
 - GNB Vida and other discontinued operations**



NOVO BANCO – “Recurrent”:

Customer loans increased by 2.4% in 2018

Assets (€mn)	2017	2018	Change %
Loans and advances to banks	4,285	1,102	(74.3%)
Customer loans	21,940	22,465	2.4%
Securities	7,043	9,380	33.2%
Real estate	211	374	77.1%
Discontinued operations	-	-	-
Other assets	3,839	4,295	11.9%
Total	37,318	37,616	0.8%



- **NOVO BANCO** leads *Linha de Crédito Capitalizar 2018* with a market share of 21.7%.¹

- **Assets increased by €298mn (+0.8%). Net customer loans grew by 2.4%.**
- **The non-performing loans ratio² was 5.4% and the respective coverage ratio was 46.8%.**
- **Cost of risk was 17bps.**

NOVO BANCO – “Recurrent”: Income before Taxes amounts to €2.2mn

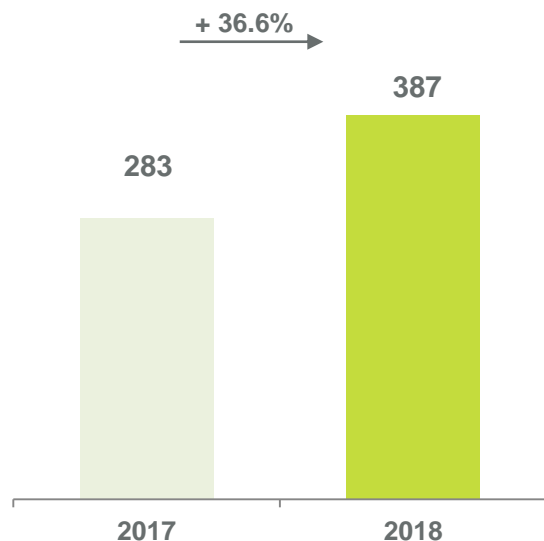
- **Positive Income before Taxes of +€2.2mn**, which highlights the recovery achieved from the loss reported in 2017 (-€311.4mn).
- **Net Interest Income presents an increase of +36.6%** driven by the optimisation measures implemented, namely those related to the reduction in the cost of funding.
- **Commercial Banking Income amounts to €696.4mn, +15,6% than in 2017.**
- **Capital Markets Results were positive in €30.4mn** reflecting the gains on the sale and revaluation of securities (sovereign debt) that more than offset the losses recognised on the tender and exchange offer of existing bonds carried out in conjunction with the issue of new Tier 2 bonds.
- **Operating Costs show a year-on-year (YoY) reduction of 9.9%**, reflecting the implemented restructuring measures.
- **Net Operating Income increased 186.3%.**

Income Statement (€mn)	2017	2018	Change %
Net Interest Income	283.4	387.2	36.6%
+ Fees and Commissions	319.2	309.2	(3.1%)
= Commercial Banking Income	602.6	696.4	15.6%
+ Capital Markets Results	35.5	30.4	(14.5%)
+ Other Operating Results	(33.5)	(6.6)	80.2%
= Banking Income	604.6	720.1	19.1%
- Operating Costs	515.3	464.3	(9.9%)
= Net Operating Income	89.3	255.8	186.3%
- Net Impairments and Provisions	400.8	253.6	(36.7%)
= Income before Taxes	(311.4)	2.2	-

NOVO BANCO – “Recurrent”:

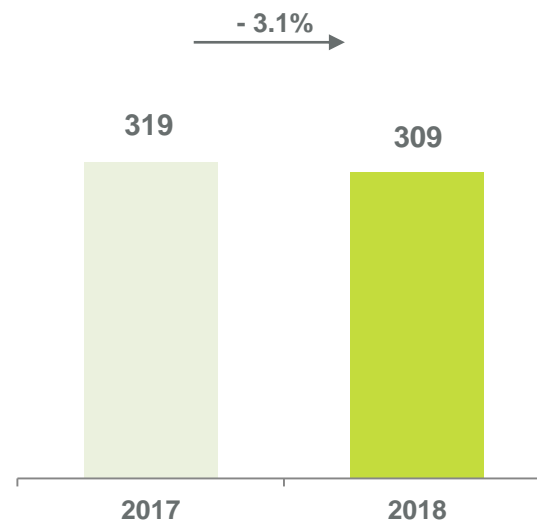
Net interest Income increases 36.6% YoY

Net Interest Income (NII, €mn)



- In 2018, NII increased by 36.6% reflecting the optimisation measures implemented in 2018, namely those related to the reduction in the cost of funding.

Fees and Commissions (€mn)



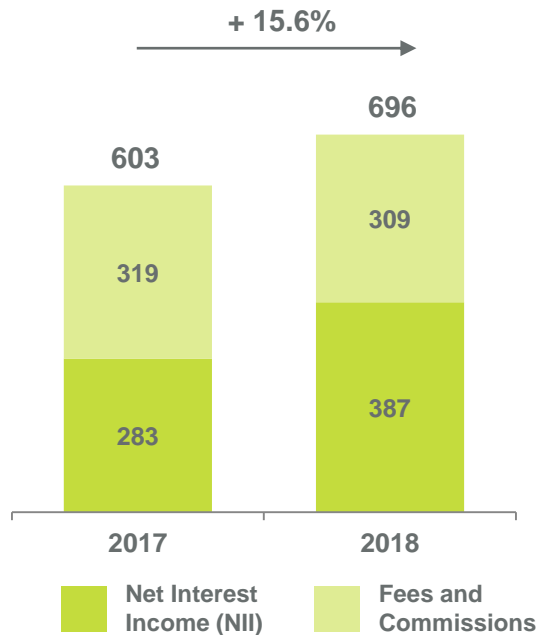
- Fees and Commissions on banking services contributed €309.2 million to the results (down by 3.1% from 2017).

NOVO BANCO – “Recurrent”:

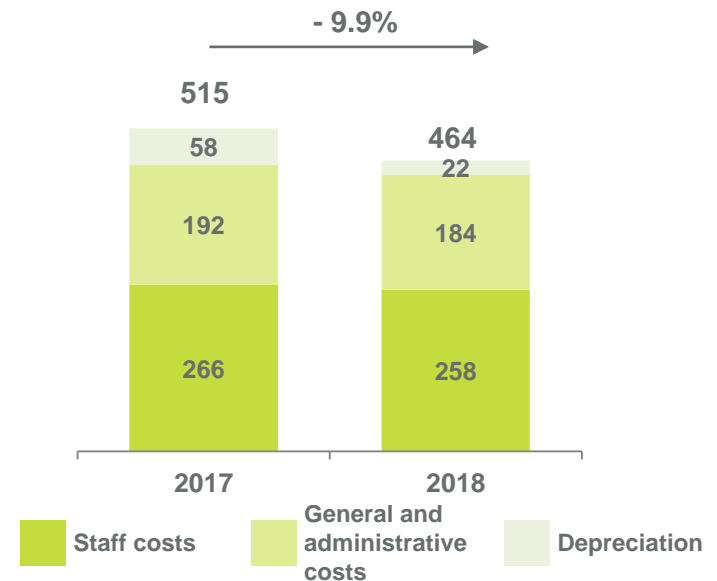
Commercial Banking Income increases 15.6%

Operating Costs decreased 9.9% reflecting the implemented restructuring

Commercial Banking Income (€mn)



Operating Costs (€mn)

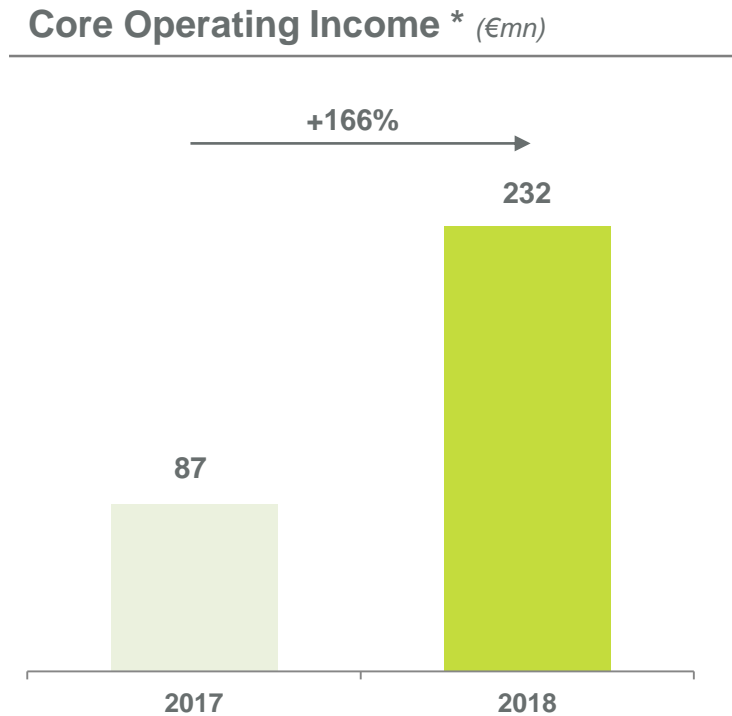


- Commercial Banking Income increased 15.6% with NII increasing 36.6% reflecting the optimisation measures implemented in 2018, namely those related to the reduction in the cost of funding.

- Operating Costs show a YoY reduction of 9.9%, reflecting the restructuring measures associated with the downsizing of the distribution network.

NOVO BANCO – “Recurrent”:

Core Operating Income* increased 166% comparing with 2017



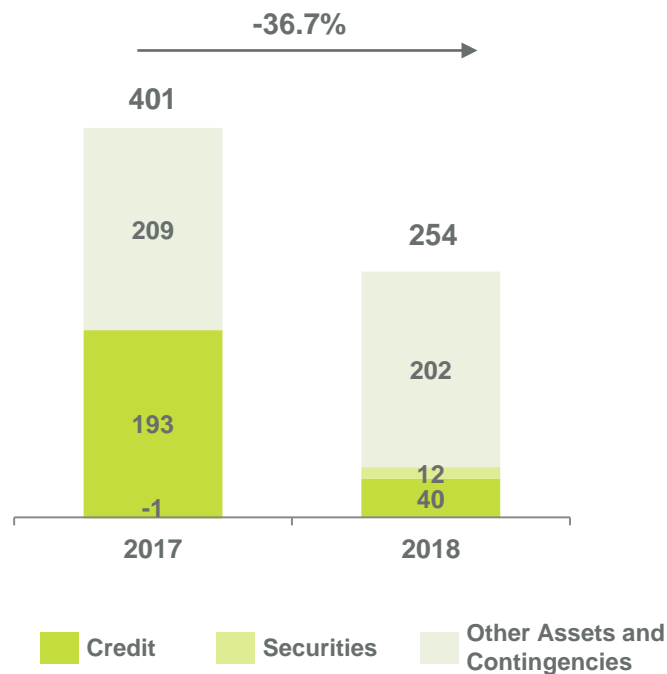
- **Core operating income** (Commercial banking income – Operating costs) **increased by 166%** (€145mn) compared to 2017, with the Commercial Banking Income (+15.6% YoY) and Operating Costs (-9.9% YoY) to contribute to this growth.

NOVO BANCO – “Recurrent”:

Provisions decreased 36.7% YoY

Cost of Risk of 17bps

Provisions (€mn)

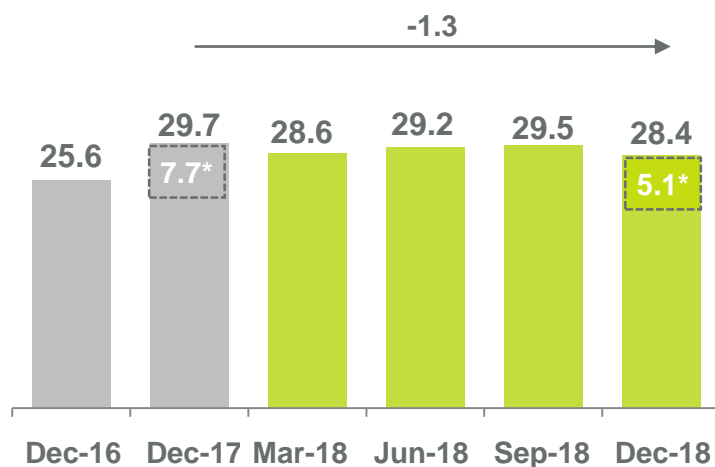


- Reinforcement of the Credit Provisions by €40mn (-79.5% YoY).
- Provisions for Other Assets and Contingencies of €202mn (-3.4% YoY), include circa €155mn programme of early reimbursement of high-rate liabilities.
- Cost of Risk in 2018 of 17bps.

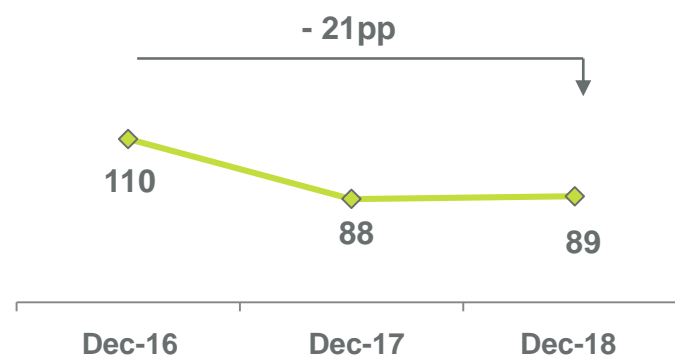
NOVO BANCO – “Recurrent”:

Deposits reflect strategic decisions

Deposits¹ (€bn)



Loan to deposit ratio¹ (%)



* Funding considered in NB Legacy:

the legacy activity does not have liabilities directly related to it, so the liabilities are allocated based on the need to finance the assets at each balance sheet date.

NB “Legacy”:

Legacy assets reduced by 27.7% in 2018

Assets (€mn)	2017	2018	Change %
Loans and advances to banks	466	299	(35.8%)
Customer loans	3,851	2,289	(40.6%)
Securities	1,581	1,613	2.0%
Real estate	2,279	1,661	(27.1%)
Discontinued operations	5,131	4,090	(20.3%)
Other assets	1,429	706	(50.6%)
Total	14,737	10,658	(27.7%)

- NB Legacy assets reduced by 27.7% (-€4,079 million in net terms) in 2018, with a primary focus on the reduction of non-productive assets.
- The completion of the sale of BES Vénétie contributed €974 million to the reduction in total assets.
- Customer loans portfolio (net) decreased by €1,562mn (-40.6%) compared to 2017.
- The non-performing loans ratio* was 90.3%, with the respective coverage ratio by impairments standing at 63.0%.
- Cost of risk in 2018 of 397bps.

NB “Legacy”:

Divestment of non-strategic assets

In connection to the process of divestment of non-strategic assets and focus on the domestic and Iberian banking business (strategic reorganisation), **NOVO BANCO Group** carried out the following operations in 2018:

- ✓ **Sales:**
 - ✓ assets and liabilities of the branch in Venezuela;
 - ✓ Banco Internacional de Cabo Verde;
 - ✓ BES Vénétie;
 - ✓ **Closure** of the activity of the London branch;
 - ✓ Signing of a **sale agreement** for the entire share capital of GNB Vida;
 - ✓ Signing of an agreement to **sell and consequent de-recognition** of a portfolio of real estate assets (**Project Viriato**);
 - ✓ Signing of an **agreement to sell and consequent de-recognition** of a non-performing loans portfolio (NPLs) and related assets (**Project Nata**).
-

NB “Legacy”:

Income Statement reflects the process of deleveraging non-strategic assets

- **The Income before Taxes was negative by €715.2mn**, influenced by the impact of:
 - (i) **sales of non-performing loans (Project Nata) and real estate (Project Viriato)**, which together contributed with a loss of approximately €234mn,
 - (ii) **additional impairments** that had to be reinforced during the year for **legacy customers** (€224mn);
 - (iii) **provision for the early repayment of high-rate liabilities** of €27.6mn.
- **Income before taxes reflects a recovery of 52.8% compared to 2017 (-€1,514.6mn)**. A major factor to this improvement was the reduction of impairments and provisions by €1,199.7mn compared to 2017.

Income Statement (€mn)	2017	2018	Change %
Net Interest Income	120.3	67.2	(44.2%)
+ Fees and Commissions	5.6	4.6	(16.7%)
= Commercial Banking Income	125.9	71.8	(42.9%)
+ Capital Markets Results	58.8	(70.7)	-
+ Other Operating Results	(9.2)	(237.0)	-
= Banking Income	175.4	(235.9)	-
- Operating Costs	33.9	22.9	(32.4%)
= Net Operating Income	141.5	(258.8)	-
- Net Impairments and Provisions	1,656.1	456.4	(72.4%)
= Income before Taxes	(1,514.6)	(715.2)	52.8%

NOVO BANCO combined 2018 Consolidated Results

- **Net loss of €1,412.6mn in 2018**, which compares with a net loss of €2,298.0 million in 2017:
 - In 2017 the compensation received under the CCA amounting to €792mn, initially registered as income, was restated to Reserves because CCA became a compensation to the Capital and not to the Results;
- **Income before taxes of -€713.0mn, reflect an improvement of 61.0%** relative to the previous year:
 - The amount of taxes of €667.7mn in 2018 is explained by the annulment of DTAs and by the strategy of divesting from non-productive assets that leads to the annulment of deferred taxes due to the Bank's reporting of tax losses.

Income Statement (€mn)

	2017*	2018	Change %
Commercial Banking Income	728,5	768,2	5,5%
+ Capital Markets Results and Other Op. Results	51,6	(284,0)	-
= Banking Income	780,0	484,2	(37,9%)
- Operating Costs	549,2	487,3	(11,3%)
= Net Operating Income	230,8	(3,0)	-
<i>Core Operating Income **</i>	179,3	280,9	56,7%
- Net Impairments and Provisions	2,056.9	710,0	(65,5%)
= Income before Taxes	(1,826.1)	(713.0)	61.0%
- Corporate Income Tax	445.1	667.7	50.0%
- Special Tax on Banks and Non-Controlling Interests	26.8	32.0	-
= Net Income	(2,298.0)	(1,412.6)	38.5%

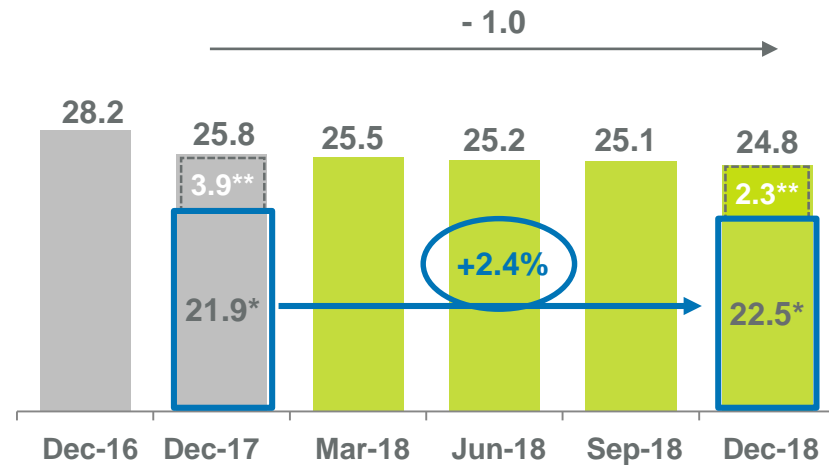
Note: NOVO BANCO consolidated data.

* Data as at 31 December 2017 was restated to reflect in Other reserves and retained earnings the triggering of the Contingent Capital Agreement, and the change of the initial recognition of liabilities related to the LME operation concluded in the last quarter of 2017.

** Commercial Banking Income minus Operating Costs.

NOVO BANCO combined Customer Loans (Net) evolution reflects the strategic decisions

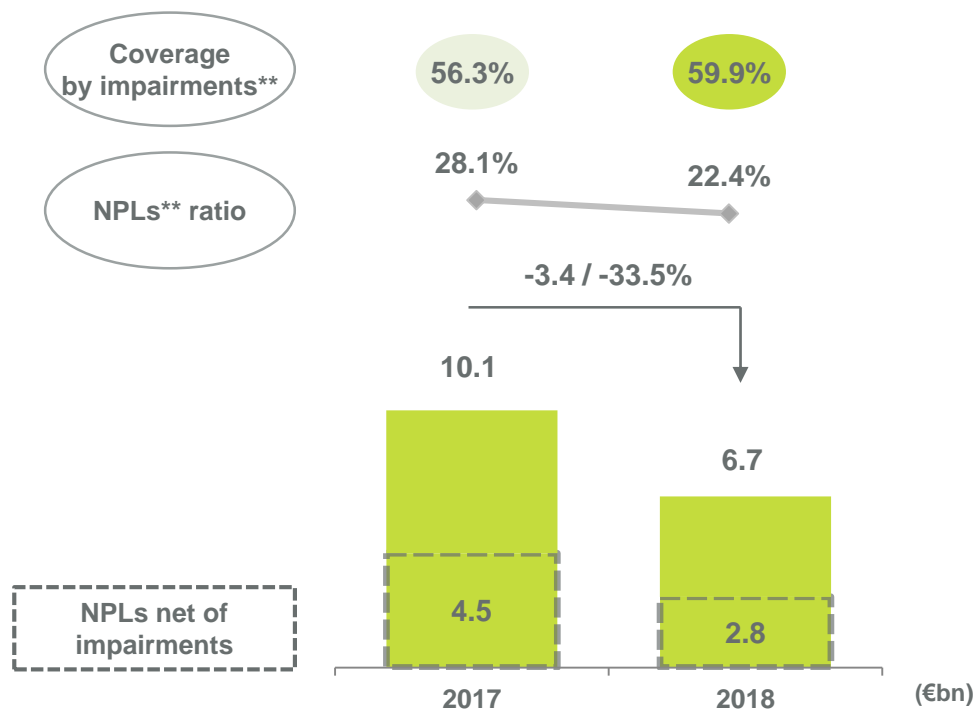
Customer Loans (Net) ¹ (€bn)



* Customer Loans (net) at NOVO BANCO Recurrent

** Customer Loans (net) in NB "Legacy".

NOVO BANCO combined Non-Performing Loans * considering NB Legacy and NOVO BANCO “Recurrent” activities



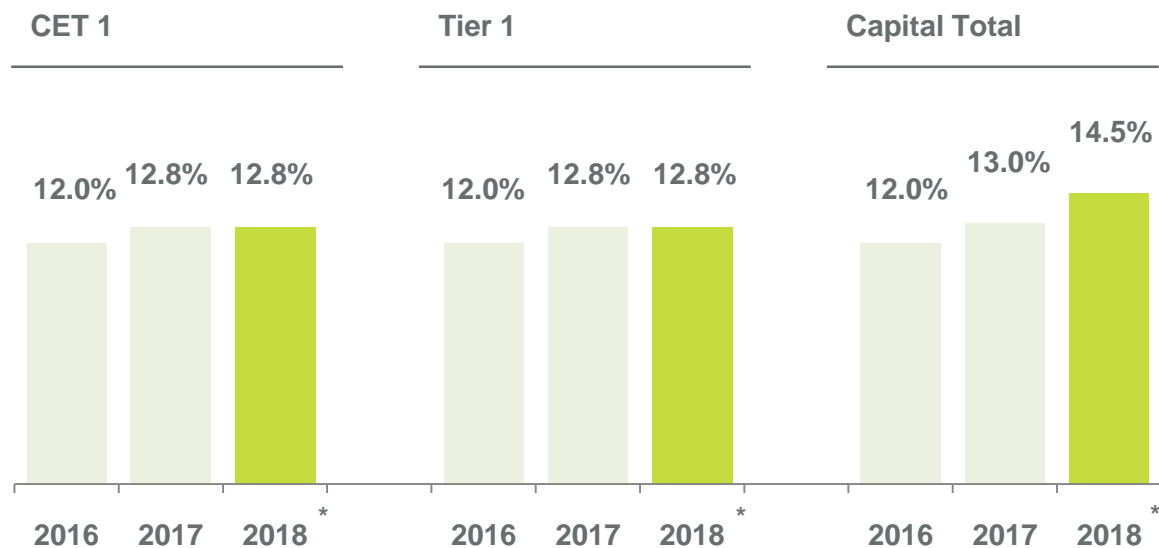
- €3.4bn reduction in *Non-Performing Loans* (NPLs*) from €10.1bn in Dec-2017 to €6.7bn in Dec-2018, and with a coverage of NPLs * by impairments of 59.9% (+3.6pp than in 2017).
- NPLs* ratio improved 5.6pp from 2017 to 22.4%.

Note: NOVO BANCO consolidated data

* including cash and deposits with banks and loans and advances to banks. *NPLs as 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.*

** Coverage by impairments: coverage of the NPLs (gross) by impairments. NPLs Ratio: NPLs (gross) / Customer Loans (gross) + Cash and deposits with banks and loans and advances to banks (gross)

NOVO BANCO combined Capital Ratios evolution



- As at 31 December 2018, **NOVO BANCO** complied with all capital ratios required by the European Central Bank (ECB) under the Supervisory Review and Evaluation Process (SREP).
- **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 included in the Contingent Capital Agreement (CCA).

2018 Main Highlights:

- ✓ **Commercial Banking Income “Recurrent” increases by 15.6% to €696mn;**
 - ✓ **Operating Costs “Recurrent” decreases 9.9%;**
 - ✓ **Core Operating Income “Recurrent” increases by 166% to €232mn;**
 - ✓ **Consolidated Net Income on a comparable basis improved 38.5%;**
 - ✓ **Deposits decrease 4.5%** reflecting the effort made to reprice the offer of deposits and the early reimbursement of the higher interest rate liabilities;
 - ✓ **€400mn Tier 2 subordinated bonds issue;**
 - ✓ **NPLs* ratio of NOVO BANCO “Recurrent” of 5.4%;**
 - ✓ **Total Capital Ratio of 14.5% compared to 13.0% in 2017;**
 - ✓ **402 branches at the end of 2018 (-71 than in 2017);**
 - ✓ **5,096 employees at the end of 2018 (-392 than in 2017).**
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Disclaimer

This document may include some statements related to the NOVO BANCO Group that do not constitute a statement of financial results or other historical information. These statements, which may include forward-looking statements, targets, objectives, forecasts, estimates, projections, expected cost savings, statements regarding possible future developments or results of operations, and any forward-looking statement that includes statements such as "believes", "expects", "aims or intends", "may" or similar expressions, constitute or may constitute forward-looking statements.

By their nature, forward-looking statements are inherently predictive, speculative, and involve risk and uncertainty. There are many factors that can lead to results and developments that differ materially from those expressed or implied in forward-looking statements. These factors include, but are not limited to, changes in economic conditions in countries where the NOVO BANCO Group has operations, tax or other policies adopted by various governments or regulatory entities in Portugal and in other jurisdictions, levels of competition from other banks or financial entities, and future exchange rates and interest rate levels.

NOVO BANCO expressly disclaims any obligation or commitment to make any forward-looking review included in this document to reflect any event or change in future circumstances occurring after the date hereof

This document contains unaudited information for 2017 and 2018.

Additional note: The following definitions are applied in this document:

€mn: million of euro; €bn: billion of euro; pp: percentage points; bps: basis points; YoY: year-on-year.



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