

31 August 2015

**NOVO BANCO, S.A.**

**CONSOLIDATED ACTIVITY AND RESULTS  
NOVO BANCO GROUP**

**30 JUNE 2015**

(Audited financial information under IFRS as implemented by the European Union)

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## 1. NOVO BANCO

NOVO BANCO, SA was incorporated by resolution of the Bank of Portugal's Board of Directors of 3 August 2014, under the terms of article 145-G/5 of the General Law on Credit Institutions and Financial Companies (RGICSF), approved by Decree-Law no. 298/92, of 31 December, following the resolution measure applied to Banco Espírito Santo, under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF.

As determined in point two of the resolution of the Bank of Portugal's Board of Directors of 3 August 2014, drafted according to this Board of Directors' resolution of 11 August under the terms and for the purposes of article 145<sup>o</sup>-H/1 of the RGICSF, the assets, liabilities, off-balance-sheet items and assets under management of Banco Espírito Santo were transferred to NOVO BANCO, as per the criteria established in Annex 2 to said resolution.

Under Article 153-B of the RGICSF, the Resolution Fund is the sole holder of the share capital of NOVO BANCO, which is represented by 4,900 million registered shares with nominal value of EUR 1 per share, totalling EUR 4,900 million.

As a transition bank, NOVO BANCO has a limited period of two years, renewable for periods of one year under significant reasonable grounds of public interest, up to a total of 5 years (article 145<sup>o</sup>-G/12 of the RGICSF). According to the commitments undertaken by the Portuguese State before the European Commission, the sale of NOVO BANCO must occur within a maximum period of two years, counting from the date of its constitution.

NOVO BANCO's opening balance sheet, published on 3 December 2014, included the result of the confirmation performed by PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda (PwC), determined by the Bank of Portugal under the terms set out in paragraph 4 of article 145-H of the RGICSF, of the assets, liabilities, off balance sheet items and assets under management selected by the Bank of Portugal to be transferred from BES to NOVO BANCO, and notified by the Bank of Portugal in accordance with paragraph 7 of article 11 of Bank of Portugal's Notice 13/2012.

After publication of the opening balance sheet on 3 December 2014 the following changes have occurred that are relevant to the shareholders of NOVO BANCO:

- Bank of Portugal's Board of Directors resolution of 22 December 2014 determined that, the liability of Banco Espírito Santo to Oak Finance Luxembourg was not transferred to NOVO

BANCO. This decision implied the correction of the original reserves of NOVO BANCO, which led to a positive change of EUR 548.3 million;

- On 11 February 2015, Bank of Portugal's Board of Directors, in accordance with the provisions of paragraph 1 of article 145-G and paragraph 2 - a) and b) of article 145-H of the RGICSF, determined the following:

"a) For purposes of executing Bank of Portugal's resolution, it is hereby clarified that the liabilities of Banco Espírito Santo not transferred to NOVO BANCO under the terms of subparagraph i) of paragraph b) of Point 1 of Annex 2 to Bank of Portugal's Board of Directors Resolution of 3 August 2014 (20:00 hours), drafted according to this Board of Directors' resolution of 11 August 2014 (17:00 hours), include Banco Espírito Santo's liabilities for the pension for retirement and survivor and retirement and retirement and survivor pension supplements of the members of the Board of Directors of Banco Espírito Santo who were members of its Executive Committee and fall under subparagraph i) of paragraph b) of Point 1 of Annex 2 of said resolution, as defined by the Corporate Bylaws of Banco Espírito Santo and the Regulations of the General Meeting of Banco Espírito Santo, to which the bylaws refer back to, and therefore were not transferred to NOVO BANCO, without loss to the liabilities arising exclusively from employment contracts with Banco Espírito Santo.

b) NOVO BANCO and Banco Espírito Santo shall adjust their accounting records to the present resolution, taking the execution measures required for its proper application."

## FINANCIAL HIGHLIGHTS

	04-Aug-14 Pro-forma <sup>(a) (b)</sup>	31-Dec-14	30-Jun-15
<b>ACTIVITY (Eur mn)</b>			
Total Assets <sup>(1)</sup>	83 970	74 801	70 328
Net Assets	72 383	65 417	61 854
Gross Loans	41 663	40 060	39 070
Customer Deposits	24 617	26 626	28 944
Total Equity	6 100	5 410	5 010
<b>SOLVENCY<sup>(2) (3)</sup></b>			
Common Equity Tier I / RWA'S	-	9.5%	9.4%
Tier I / RWA's	-	9.5%	9.4%
Total Own Funds/ RWA's	-	9.5%	9.4%
<b>LIQUIDITY (Eur mn)</b>			
ECB funds (net) <sup>(4)</sup>	8 768	7 812	4 453
Eligible Assets for repo operations (ECB and other)	15 892	14 171	10 444
(Total Credit - Credit Provisions)/ Customer Loans <sup>(3)</sup>	140%	126%	114%
<b>ASSET QUALITY</b>			
Overdue loans > 90 days / Gross loans	7.7%	8.7%	12.1%
Overdue and Doubtful Loans / Gross Loans <sup>(3)</sup>	9.2%	9.9%	13.4%
Overdue and Doubtful Loans net of Impairments / Total Net Loans <sup>(3)</sup>	-3.0%	-3.4%	-0.3%
Credit at Risk / Gross Loans <sup>(3)</sup>	13.5%	16.5%	20.2%
Credit at Risk (net) / Net Loans <sup>(3)</sup>	1.6%	3.6%	6.5%
Credit Provisions / Overdue loans > 90 days	153.7%	147.9%	113.7%
Credit Provisions/ Gross Loans	11.9%	12.8%	13.7%
Cost of Risk <sup>(5)</sup>	-	2.3%	1.3%
<b>PROFITABILITY</b>			
Net Income (Eur mn)	-	-497.6	-251.9
Income before Taxes and Non-controlling Interests / Average Net Assets <sup>(3) (5)</sup>	-	-1.0%	-0.8%
Banking Income / Average Net Assets <sup>(3) (5)</sup>	-	2.8%	1.3%
Income Before Taxes and Non-controlling Interests / Average Equity <sup>(3) (5)</sup>	-	-11.3%	-9.8%
<b>EFFICIENCY</b>			
General Admin Costs + Depreciation / Banking Income <sup>(3)</sup>	-	45.4%	95.7%
Staff Costs / Banking Income <sup>(3)</sup>	-	22.7%	49.3%
Operating Costs / Total Assets <sup>(5)</sup>	-	1.2%	1.1%
<b>EMPLOYEES</b>			
Total	7 887	7 722	7 527
- Domestic	6 950	6 832	6 715
- International	937	890	812
<b>BRANCH NETWORK</b>			
Total	674	675	669
- Domestic	631	631	626
- International	43	44	43

(a) Information considering the Opening Balance Sheet after the resolutions of 22 December 2014 and 11 February 2015

(b) Information considering the classification of Banco Espírito Santo de Investimento as a unit being discontinued under IFRS 5

(1) Net Assets + Asset Management + Other Off-Balance Sheet liabilities + Securitised Credit

(2) Calculated according to *IRB Foundation*

(3) According to Bank of Portugal instruction no 16/2004

(4) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending

(5) Annualised data

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## Key aspects of the activity and results

- ✦ Deposits recovered by EUR 2.3 billion in 1H15, underlining the customers' confidence in Novo Banco and a return to normality.
- ✦ Assets decreased by EUR 3.6 billion, mainly due to the deleveraging of loans (-EUR 1.2 billion; -3.5%) and of the securities portfolio (-EUR 0.7 billion; -5.6%).
- ✦ Significant liquidity improvement: the loans to deposits ratio decreased to 114% (126% on 31 Dec. 2014), while funding from the ESCB was reduced by EUR 2.6 billion to EUR 5.9 billion on 30 June 2015.
- ✦ The Coverage Ratio for Overdue Loans >90 days reached 113.7% while the Coverage Ratios for Credit at Risk and for Gross Loans were 67.9% (excluding collaterals) and 13.7%, respectively. Moreover, provisions for non-current assets held for sale represent 26% of their gross value.
- ✦ On 30 June 2015 the CET 1 capital ratio was 9.4% (not reflecting the deconsolidation of BES Investimento).
- ✦ Net interest income and fees and commissions totalled EUR 214.7 million and EUR 193.2 million, respectively, with commercial banking income amounting to EUR 407.9 million.
- ✦ The financial result was negatively affected by accounting adjustments of annulment of interest, related to large transactions, amounting to EUR 103.2 million.
- ✦ Operating Costs were EUR 397.0 million.
- ✦ Net operating income amounted to EUR 17.7 million.
- ✦ Provisions amounted to EUR 271.6 million.
- ✦ The Net income for the period is negative amounting to EUR 251.9 million.

### 3. Economic Environment

The 1st half of 2015 was marked by an improvement of economic activity in the Eurozone, but also by fears around the financial instability in Greece. Although the contagion effects to the other peripheral economies were largely contained, the Greek financial crisis fed aversion to risk and volatility in the financial markets. The Eurozone stock market indices lost ground in the 2nd quarter, with the DAX retreating by 8.5%, the IBEX by 6.5% and the PSI 20 by 7.0%. The ECB maintained the rate on the main refinancing operations unchanged, at 0.05%, and initiated in March a programme of public bond purchases with a monthly target of EUR 60 billion. The 3-month Euribor decreased from 0.078% to -0.014% in the 1st half of 2015. Despite its high volatility in the period, the euro fell by 7.8% against the dollar, to EUR/USD 1.1153. Amidst an upward adjustment of growth and inflation expectations in the Eurozone, the *Bunds* yield rose from a low of 0.049% in April to a high of 1.057% in June, closing the period at 0.760%. After hitting a low of 1.509% by mid-March, the yield on the 10-year Portuguese Government Bonds (PGBs) rose to a peak of 3.390% in June, closing the 1st half of the year at 3%.

In the United States, a lacklustre start of the year was followed by a recovery of growth in the 2nd quarter, supported by private consumption, which was fuelled by the improvement of the labour and housing markets. Expectations about a shift in the monetary policy cycle drove up the 10-year Treasuries' yield, to 2.354%, and led to the appreciation of the US dollar. The Dow Jones and S&P 500 indices lost 0.9% and 0.2%, respectively, while the Nasdaq advanced by 1.8%. The price of oil (Brent) slid from a peak of USD 71.4/barrel in May to USD 62.7 at the end of June (and then to USD 49.5 at the beginning of August), driven by a stronger dollar and the perception of a subdued global demand.

China's economy grew by 7% in the 1st and 2nd quarters of 2015, slowing down compared to 2014, which led the authorities to announce new policy stimuli. The Shanghai Composite index gained 60% between January and mid-June, subsequently sustaining a sharp correction (-17% until the end of June and -29% up to the beginning of August).

In Portugal activity continued to recover during the 1st half of 2015, growing year-on-year by an estimated 1.6%, backed by the positive performance of private consumption and investment. The contribution of net external demand to growth was close to neutral, with both exports and imports growing strongly. The rate of unemployment retreated from 13.7% to 11.9% of the labour force in the 2nd quarter. Supported by positive signs at the level of economic activity and financial stabilisation, in March S&P reviewed its outlook on Portugal's sovereign rating from "stable" to "positive".

#### 4. Activity and Strategic Priorities

The circumstances behind the creation of NOVO BANCO generated a very difficult context that required the utmost effort of all employees to deal with the exceptional and complex nature of the situation resulting from the application of the resolution measure to the original financial institution.

Amongst the challenges that were faced, in terms of reach and relevance, the following should be highlighted:

- Winning back the confidence of the clients to support the stabilisation of the Bank's activity funding components;
- Balance sheet deleveraging through the selective disposal of assets viewing an improvement in liquidity and solvency levels;
- Reduction of funding from the European Central Bank (ECB) through the recovery of customer funds and the liquidity generated by the sale of assets;
- Full cooperation with the Supervision Authorities and compliance with all regulatory rulings in the context of the management of a transition bank.

NOVO BANCO has been successfully facing up to these challenges, which has enabled the steady evolution of activity and the creation of conditions for an improvement in its profitability and solvency levels.

##### 4.1 Customer confidence and recovery of customer funds

Winning customer confidence and recovering the funding provided by retail customer funds were the key strategic drivers for NOVO BANCO to be able to rely on a stable funding structure and attain a stage of operational normality. The efforts that were carried out to win back the confidence of the clients led to the recovery of customer funds and the customer deposits reached an amount of EUR 28.9 billion on 30 June 2015.



## TOTAL CUSTOMER FUNDS

	Eur million					
	04-Aug-14	31-Dec-14	31-Mar-15	30-Jun-15	Changes	
					1Q15	1HY15
<b>On-Balance Sheet Customer Funds</b>	<b>34 780</b>	<b>35 641</b>	<b>36 141</b>	<b>36 873</b>	<b>500</b>	<b>1 232</b>
Deposits	24 617	26 626	27 959	28 944	1 333	2 318
Other Customer Funds <sup>(1)</sup>	1 538	1 313	832	903	- 481	- 410
Debt Securities placed with Clients	2 030	1 861	1 824	1 513	- 37	- 348
Life Insurance Products	6 595	5 841	5 526	5 514	- 315	- 327
<b>Off-Balance Sheet Funds</b>	<b>9 227</b>	<b>7 099</b>	<b>6 787</b>	<b>6 278</b>	<b>- 312</b>	<b>- 821</b>
<b>Total Customer Funds</b>	<b>44 007</b>	<b>42 740</b>	<b>42 928</b>	<b>43 152</b>	<b>188</b>	<b>412</b>

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

Hence customer deposits reached EUR 28.9 billion in June 2015, growing by EUR 2.3 billion from the end of 2014. Since it started activity on 4 August 2014, NOVO BANCO has achieved an increase in customer deposits of EUR 4.3 billion. This reflects, on the one hand, the effects of commercial campaigns supported by a dynamic commercial franchise, offering a wide range of deposit solutions, and on the other and even more important, the recovery of customer confidence that enabled a reversal in the outflow of funds from both individual and corporate clients that occurred up to the end of the 3rd quarter of 2014.

The reduction in total customer funds reflects, on the one hand, the growth of deposits, and on the other the contraction in life insurance products (EUR -0.3 million) and off-balance sheet funds (EUR -0.8 million).

### 4.2 Deleveraging process

The implementation of the deleveraging plan aimed to shrink the balance sheet through the reduction of the loan book and securities portfolio and a selective disposal of assets.

## Customer Loans

NOVO BANCO conducted a very strict and selective lending policy, without ceasing to support the small and medium sized companies in general and the exporting companies in particular.

### CUSTOMER LOANS

	Eur million					
	04-Aug-14	31-Dec-14	31-Mar-15	30-Jun-15	Changes	
					1Q15	1HY15
<b>Corporate Lending</b>	29 308	28 009	27 787	27 313	- 222	- 696
<b>Loans to Individuals</b>	12 354	12 051	11 903	11 757	- 148	- 294
Mortgage	10 410	10 230	10 125	10 009	- 105	- 221
Other Loans	1 944	1 821	1 778	1 749	- 43	- 72
<b>Customer Loans (Gross)</b>	41 662	40 060	39 690	39 070	- 370	- 990
<b>Provisions</b>	4 945	5 131	5 287	5 368	156	237
<b>Customer Loans (Net)</b>	36 717	34 929	34 403	33 702	- 526	-1 227

Net customer loans contracted by EUR 1.2 billion in the first six months of 2015, and by EUR 3.0 billion compared to the opening balance sheet, with reductions across all segments: mortgage loans decreased by EUR 221 million (-2.2%), other loans to individuals by EUR 72 million (-4.0%) and corporate loans by EUR 696 million (-2.5%).

## Securities portfolio

The securities portfolio, besides providing the main source of eligible assets for funding operations with the ECB, was also used as a direct source of liquidity. The portfolio was thus reduced by EUR 685 million.

### SECURITIES PORTFOLIO (net of impairments)

	Eur million			
	31-Dec-14	30-Jun-15	Changes	
			absolute	%
<b>Portuguese Sovereign Debt</b>	1 948	2 395	447	23.0%
<b>Other Sovereign Debt</b>	2 600	2 709	109	4.2%
<b>Bonds</b>	3 558	2 701	- 857	-24.1%
<b>Other</b>	3 658	3 274	- 384	-10.5%
<b>Total</b>	<b>11 764</b>	<b>11 079</b>	<b>- 685</b>	<b>-5.8%</b>

**Sale of BESI**

On 8 December 2014 NOVO BANCO signed a contract with Haitong International Holdings Limited a company incorporated in Hong Kong and owned by Haitong Securities Co. Ltd. (a company with shares admitted to trading on the Shanghai Stock Exchange and on the Stock Exchange of Hong Kong) for the purchase and sale of the entire share capital of BESI for the price of Euros 379 million.

At the end of the 1st half of 2015 the transaction had been approved by all the relevant authorities - namely the European Commission, the Competition Authorities, the entities that supervise BESI's international units, and those that supervise the selling and buying entities - except for the Central Bank of Brazil, whose approval was obtained on 13 August.

All conditions to which the agreement is subject having been met, the parties are now finalising the documentation and all the necessary acts and formalities for the transfer of shares to take place during the month of September.

As a result of this operation BESI was excluded from NOVO BANCO's full consolidation scope, being accounted for in the financial statements in accordance with IFRS 5. As at 30 June 2015 the assets and liabilities of the discontinued operations totalled EUR 3.6 billion and EUR 2.6 billion, respectively.

## Non-current assets held for sale

The disposal of non-current assets held for sale was another key focus of management, as it generates liquidity and positively contributes to streamlining the balance sheet. However, despite the disposals made, the amount of real estate property held for sale increased, mainly due to the consolidation of new real estate investment funds.

### NON-CURRENT ASSETS HELD FOR SALE

	Eur million		
	31-Dec-14	30-Jun-15	Change
Property held for sale	2 768	3 709	942
Provisions	824	871	46
<i>Provisions / Property held for sale (%)</i>	<i>29.8%</i>	<i>23.5%</i>	<i>-6.3 pp</i>
<b>Property held for sale (net)</b>	<b>1 943</b>	<b>2 839</b>	<b>895</b>
Equipment and other foreclosed assets	16	36	20
Provisions	2	4	1
<b>Equipment and other foreclosed Assets (net)</b>	<b>14</b>	<b>32</b>	<b>18</b>
Assets of entities held for sale	1 192	858	- 335
Provisions	403	306	-97
<i>Provisions / Assets of entities held for sale (%)</i>	<i>33.8%</i>	<i>35.7%</i>	<i>1.9 pp</i>
<b>Assets of entities held for sale (net)</b>	<b>790</b>	<b>552</b>	<b>- 238</b>
<b>Non-current Assets held for sale</b>	<b>3 977</b>	<b>4 603</b>	<b>626</b>
Provisions	<b>1 229</b>	<b>1 180</b>	<b>-49</b>
<i>Provisions / Non-current assets held for sale (%)</i>	<i><b>30.9%</b></i>	<i><b>25.6%</b></i>	<i><b>-5.3 pp</b></i>
<b>Non-current Assets held for sale (net)</b>	<b>2 747</b>	<b>3 423</b>	<b>675</b>

Non-current assets held for sale, which include real estate received through loan foreclosures, discontinued premises and assets of entities held for sale, totalled EUR 4.6 billion, with provisions of EUR 1.2 billion, which represents a coverage of nearly 26%.

### 4.3 Liquidity improvement

The expressive increase of deposits in the first half of the year, the sale of financial assets, and the contraction of the loan book permitted to reduce funding from the ESCB and improved the loans to deposits ratio.

In line with the trend at the end of 2014, Novo Banco Group's liquidity position continued to improve during the reporting period, with customer funds increasing by EUR 2.3 billion (+EUR 4.3 billion compared to the opening balance sheet).

The recovery of customer funds has permitted to reduce exposure to the ECB and change the profile of the Bank's funding structure, where customer funds accounted for approximately 68% of total balance sheet funding at the end of the 1st half of the year. On 30 June 2015 funding from the ECB totalled EUR 5.9 billion, having decreased by EUR 2.6 billion since December 2014. Considering cash and deposits with central banks, net funding from the ECB was EUR 4.4 billion on 30 June, down by EUR 4.5 billion compared to the opening balance sheet and down by 3.4 billion compared to December 2014.

#### FUNDING FROM THE EUROPEAN SYSTEM OF CENTRAL BANKS

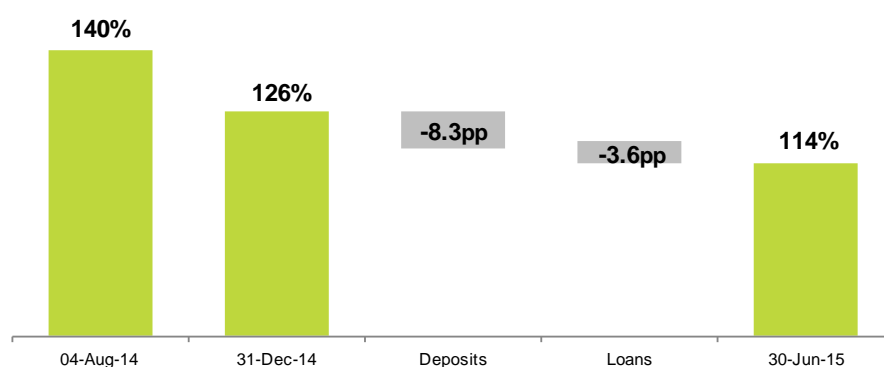
	Eur million		
	31-Dec-14	30-Jun-15	Change
Funds from ESCB	8 525	5 928	-2 597

By the end of June Novo Banco Group had reimbursed EUR 1.5 billion, which is more than half of the EUR 2.9 billion reimbursements scheduled for 2015. The reimbursements made in the 1st half of the year included a covered mortgage bond with the nominal value of EUR 1 billion.

In June 2015, the nominal value of the portfolio of securities eligible for rediscount with the ECB totalled EUR 10.4 billion. This includes EUR 1.2 billion exposure to Portuguese sovereign debt, of which EUR 0.6 billion in treasury bills and 0.6 billion in treasury bonds (excludes the position held by GNB Vida). NOVO BANCO's other peripheral European sovereign exposures totalled EUR 1.4 billion (almost entirely maturing in less than one year), including EUR 1.3 billion of Italian sovereign debt and EUR 0.1 billion of Spanish sovereign debt.

The recovery of the deposits and contraction of the loan book significantly improved the loans to deposits ratio, which decreased to 114% at the end of the 1st half of 2015, down by 12p.p. comparing with the end of 2014.

## Loans to Deposits Ratio Evolution



### 4.4 Asset Quality

The signs of improvement of the economic situation have not yet passed through to loan loss levels, with credit risk indicators actually worsening during the reporting period.

#### CREDIT RISK

	31-Dec-14	30-Jun-15	Change	
			absolute	%
Gross Loans	40 060	39 070	- 990	-2.5%
Overdue Loans	3 917	5 235	1 318	33.6%
Overdue Loans > 90 days	3 468	4 722	1 254	36.2%
Credit at Risk <sup>(1)</sup>	6 593	7 901	1 308	19.8%
Restructured Credit <sup>(2)</sup>	5 893	6 335	442	7.5%
Restructured Credit not included in Credit at Risk <sup>(2)</sup>	4 145	4 166	21	0.5%
Provisions for Credit	5 131	5 368	237	4.6%

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

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

Overdue loans increased by 33.6% and overdue loans > 90 days by 36.2%. Credit at Risk rose by 19.8%, reaching EUR 7.9 billion.

Credit Risk indicators increased compared to 31 December 2014 due, on the one hand, to the contraction of the customer loans book, and on the other, to the increase in overdue loans and credit at risk. At the end of the 1st half of 2015 the overdue loans and credit at risk ratios were 13.4% and 20.2%, respectively, while the ratio of restructured credit to total loans increased to 16.2%.

### ASSET QUALITY AND COVERAGE RATIOS

	31-Dec-14	30-Jun-15	Change (p.p.)
Overdue Loans / Gross Loans	9.8%	13.4%	3.6
Overdue Loans > 90 days / Gross Loans	8.7%	12.1%	3.4
Credit at Risk <sup>(1)</sup> / Gross Loans	16.5%	20.2%	3.7
Restructured Credit <sup>(2)</sup> / Gross Loans	14.7%	16.2%	1.5
Restructured Credit not included in Credit at Risk <sup>(2)</sup> / Gross Loans	10.3%	10.7%	0.4
Coverage of Overdue Loans	131.0%	102.6%	-28.4
Coverage of Overdue Loans > 90 days	147.9%	113.7%	-34.2
Coverage of Credit at Risk <sup>(1)</sup>	77.8%	67.9%	-9.9
Provisions for Credit / Gross Loans	12.8%	13.7%	0.9

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

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

Provisions for Credit amounted to EUR 5,368 million, representing 13.7% of the total loan book, 113.7% of overdue loans > 90 days and 67.9% of credit at risk (excluding collaterals).

#### 4.5. Capital Management

On 26 June 2013 the European Parliament and the Council approved Directive 2013/36/EU and Regulation (EU) no. 575/2013, which, as from 1 January 2014, regulate in the European Union, respectively the access to the activity of credit institutions and investment companies and the prudential requirements to be comply for by these institutions. Banco de Portugal's Notice 6/2013, of 23 December, established transitional arrangements for own funds, under said Regulation, and

laid down measures to preserve capital. The Novo Banco Group is authorised to use the Internal Ratings Based (IRB) approach to calculate credit risk weighted assets and the Standardised Approach to calculate both market risk and operational risk weighted assets.

Under the terms of the mentioned rules, the capital ratios of NOVO BANCO Group, as at 30 June 2015 and 31 December 2014, were as follows:

<b>RISK WEIGHTED ASSETS, ELIGIBLE CAPITAL AND CAPITAL RATIOS</b>			
<i>BIS III (CRD IV/CRR)</i>			
Eur million			
		<b>31-Dec-14</b>	<b>30-Jun-15</b>
Risk Weighted Assets	(A)	46 982	43 435
Own Funds			
<i>Common Equity Tier I</i>	(B)	4 442	4 089
<i>Tier I</i>	(C)	4 442	4 089
<i>Tier II</i>		0	0
Total Capital	(D)	4 442	4 089
<i>Common Equity Tier I</i>	(B/A)	9.5%	9.4%
<i>Tier I</i>	(C/A)	9.5%	9.4%
Solvency Ratio	(D/A)	9.5%	9.4%

The balance sheet deleveraging process resulted in a reduction of risk weighted assets (RWA) to EUR 43.4 billion on 30 June 2015, which is EUR 3.5 billion less than on 31 December 2014. For prudential effects, BESI (registered as assets from discontinued operations) is still being considered for RWAs.

Eligible own funds also decreased, by around EUR 354 million, mainly due to the loss reported in the period and the application of the transitional arrangements referred above.

The Regulatory Capital and RWAs at the end of the 1st half of 2015 resulted in a CET 1 ratio of 9.4%.



### Special Regime for Deferred Tax Assets

Under the terms of Law no. 61/2014, of 26 August, NOVO BANCO adhered to the special regime applicable to Deferred Tax Assets (DTAs) resulting from impairment losses in loans and employee benefits, which came into force on 1 January 2015. Under this regime, DTAs may be converted into tax credits when a taxable entity reports net losses or enters liquidation proceedings through voluntary winding up, insolvency decreed by court ruling, or, where applicable, when its license is revoked by the competent supervision authority.

## 5. Results

The performance of NOVO BANCO Group during the 1st half of 2015 was conditioned by the exceptional circumstances that led to its creation and impacted several of its areas of activity, and also by the situation in Portugal, characterised by sluggish economic activity, high unemployment and interest rates at very low levels.

### INCOME STATEMENT

	Eur million
	<b>1HY15</b>
Net Interest Income	214.7
+ Fees and Commissions	193.2
<b>= Commercial Banking Income</b>	<b>407.9</b>
+ Capital Markets and Other Results	6.7
<b>= Banking Income</b>	<b>414.6</b>
- Operating Costs	397.0
<b>= Net Operating Income</b>	<b>17.7</b>
- <b>Net Provisions</b>	<b>271.6</b>
Credit	252.3
Securities	99.1
Other	-79.8
<b>= Income before Taxes</b>	<b>-253.9</b>
- Income Tax	-28.0
- Special Tax on Banks	15.7
<b>= Income after Taxes</b>	<b>-241.6</b>
- Non-controlling Interests	10.4
<b>= Net Income</b>	<b>-251.9</b>

NOVO BANCO posted a net loss for the period of EUR 251.9 million, where the following should be highlighted:

- Commercial banking income reached EUR 407.9 million, with a contribution of EUR 214.7 million from net interest income and EUR 193.2 million from fees and commissions;
- Operating Costs were EUR 397.0 million;
- Net operating income before provisions and impairments totalled EUR 17.7 million.
- Provisions reached EUR 271.6 million, leading to negative pre-tax results of EUR 253.9 million.

Excluding non-recurrent items, the net income was negative at EUR 188.9 million.

**Non-Recurrent Income**  
(net of tax)

	Eur million
	<b>1HY15</b>
<b>Reported Net Income</b>	<b>-251.9</b>
Impairment for Pharol SGPS / Oi	55.4
Liabilities revaluation	59.4
Provision for other assets and contingencies	-59.4
Costs with Early Retirements and indemnities	7.6
<b>Recurrent Net Income</b>	<b>-188.9</b>

### Net Interest Income

The performance of net interest income was impacted by the historical lows reached by benchmark interest rates and the need to stabilise customer funding, and also reduce funding from the ESCB.

Net interest income totalled EUR 214.7 million, accounting for 52% of banking income. The annualised net interest margin was 0.87%, underpinned by an average interest rate on financial assets of 3.06% and an average rate on liabilities of 2.19%, which compare with an average 3-month Euribor in the 1<sup>st</sup> half of 2015 of 0.02%.

## NET INTEREST INCOME AND NET INTEREST MARGIN

Eur million			
	1HY15		
	Average Balance	Avg Rate (%)	NII
Interest Earnings Assets	49 231	3.09%	754
Customer Loans	39 538	2.96%	579
Money Market Placements	2 921	1.18%	17
Securities and Other Assets	6 771	4.70%	158
Other Non-Interest Earning Assets	534	-	-
<b>Interest Earning Assets &amp; Other</b>	<b>49 764</b>	<b>3.06%</b>	<b>754</b>
Interest Bearing Liabilities	49 764	2.19%	540
Due to Customers	28 082	1.43%	198
Debt Securities and Other	11 966	5.33%	316
Funds from ESCB	6 678	0.09%	3
Other Liabilities	3 039	1.47%	22
Other Non-Interest Bearing Liabilities	-	-	-
<b>Interest Bearing Liabilities &amp; Other</b>	<b>49 764</b>	<b>2.19%</b>	<b>540</b>
<b>NIM/NII</b>		<b>0.87%</b>	<b>215</b>
<b>Euribor 3 M - average</b>		<b>0.02%</b>	

The average annualised rate on customer loans, which account for 80.3% of financial assets, was 3.38%. The average balance of customer funds was EUR 28.1 billion (with an average annualised rate of 1.43%), while debt securities and other interest bearing liabilities reached EUR 12.0 billion, carrying an average rate of 5.33%.

The fact that benchmark interest rates remain close to zero or are even negative represents an unprecedented challenge to Asset / Liability Management and profitability.

## Fees and Commissions

Fees and commissions on banking services amounted to EUR 193.2 million. Breakdown of fees and commissions:

### FEES AND COMMISSIONS

	Eur million
	<b>1HY15</b>
Collections	2.6
Securities	10.6
Guarantees issued	24.6
Account management	33.2
Commissions on loans and other <sup>(1)</sup>	31.8
Documentary credit	18.6
Asset management <sup>(2)</sup>	29.0
Cards	12.5
Bancassurance	13.2
Advising, Servicing and Other <sup>(3)</sup>	17.1
<b>TOTAL</b>	<b>193.2</b>

<sup>(1)</sup> Includes commissions on loans, project finance, export financing and factoring

<sup>(2)</sup> Includes investment funds and portfolio management

<sup>(3)</sup> Includes costs with State Guarantees

In the activity of NOVO BANCO Group we stress the importance of the following:

- ✦ Support services to companies – including guarantees provided, documentary credits, and loan management and similar services (nearly 39% of the total);
- ✦ Commissions on payment services – cards (EUR 12.5 million) and payment means (EUR 33.2 million), namely cheques, transfers, payment orders, POS and ATMs, and also account management fees; and
- ✦ Cross-selling services – bancassurance and asset management products, which accounted for approximately 22% of total fees and commissions.

Fees and commissions include EUR 17.2 million paid in connection to debt securities issued guaranteed by the Portuguese State.

## Capital Markets and Other Results

In the rather complex climate lived in the European Union as a result of the Greek crisis, capital markets and other results were positive, totalling EUR 6.7 million.

### CAPITAL MARKETS AND OTHER RESULTS

	EUR million
	<b>1HY15</b>
<b>Interest Rate, Credit and FX</b>	<b>-172.3</b>
Hedging Derivatives and results from fair value option	-188.3
FX	25.7
Trading Derivatives	-9.7
<b>Equity and Debt Securities</b>	<b>163.1</b>
Trading	156.6
Dividends	6.5
<b>Other Results</b>	<b>15.9</b>
<b>TOTAL</b>	<b>6.7</b>

Securities income, essentially capital gains on equities and gains on sovereign debt securities, reached EUR 163 million.

The losses recognised in interest rate, credit and fx operations essentially translate (i) EUR 84 million losses on the revaluation of SPE liabilities whose underlying assets are NOVO BANCO bonds; and (ii) EUR 43 million losses on the CVA (credit risk of exposures originated in derivative products), mainly due to the impact of the decline in long-term interest rates.

## Operating Costs

Reducing operating costs remains a key objective, viewing the improvement of NOVO BANCO Group's efficiency levels. Operating costs totalled EUR 387.4 million in the first six months of the year; excluding non-recurrent costs, the values for the 1st and 2nd quarters were lower than in the 4th quarter of 2014.

**OPERATING COSTS**

	EUR million			
	1HY15	4Q14	1Q15	2Q15
Staff Costs	204.4	99.2	101.1	103.3
General and Administrative Costs	149.0	87.1	74.8	74.2
Depreciation	43.5	22.7	22.1	21.5
<b>TOTAL</b>	<b>397.0</b>	<b>209.0</b>	<b>198.0</b>	<b>199.0</b>
<b>Total excluding non recurrent costs <sup>(1)</sup></b>	<b>387.4</b>	<b>198.4</b>	<b>194.2</b>	<b>193.3</b>

<sup>(1)</sup> Costs with early retirements and indemnities

Staff costs, in the amount of EUR 204.4 million, include EUR 9.6 million in early retirement (36 employees) and indemnities. In the 1st half of 2015 NOVO BANCO reduced its payroll by 133 employees, on an individual basis, and by 195 at group level.

Excluding non recurrent costs, operating costs totalled EUR 193.3 million in the 2nd quarter of 2015.

**STAFF COSTS**

	EUR million
	1HY15
Wages and salaries	151.9
Pension costs, Social Security and Other Social costs	52.5
<b>Total</b>	<b>204.4</b>
<b>Total excluding non recurrent costs <sup>(1)</sup></b>	<b>194.8</b>

<sup>(1)</sup> Costs with early retirements and indemnities

The general and administrative costs, which totalled EUR 149.0 million, are broken down by nature in the table below.

### GENERAL AND ADMINISTRATIVE EXPENSES

	EUR million
	<b>1HY15</b>
Water, energy and fuel	4.6
Rental costs	24.7
Communication costs	12.2
Travelling and Representation Expenses	4.4
Advertising	9.6
Maintenance and Repair	8.8
Transportation of Valuables	2.6
Insurance	3.5
IT Services	22.8
Cleaning Services	2.9
Temporary Work	1.9
Legal Costs	9.7
Electronic Payment Systems	4.7
Consulting and Auditing	7.9
Other services	28.6
<b>TOTAL</b>	<b>149.0</b>

### Provisions

Although Portugal has been showing signs of a recovery of economic activity and financial stabilisation, these are not yet sufficiently strong to foster investment and reduce unemployment, and therefore a reversal in the curb of risk indicators and a reduction in provisions for impairments have not yet materialised.

After strongly reinforcing provisions for impairments in the 4th quarter of 2014, in 2015 the NOVO BANCO Group reduced provision charges to EUR 175 million in the 1st quarter and to EUR 96.5 million in the 2nd.

## PROVISIONS

	EUR million				
	1HY15	4Q14	1Q15	2Q15	Change 1Q15 / 2Q15
Credit	252.3	314.3	99.8	152.5	52.7
Securities	99.1	195.8	47.1	52.0	4.9
Non-Current Assets Held For Sale	-21.4	43.6	24.5	-45.9	-70.4
Other Assets and Contingencies	-58.4	29.8	3.6	-62.1	-65.7
<b>TOTAL</b>	<b>271.6</b>	<b>583.5</b>	<b>175.0</b>	<b>96.5</b>	<b>-78.5</b>

The total impairment cost was EUR 271.6 million in the 1st half of the year, with the following relevant items:

- Customer loans - EUR 252.3 million provision charge, increasing the provisioning level;
- Securities - recognition of impairments for the securities portfolio of EUR 99.1 million, mainly due to the devaluation of the stakes in Pharol, SGPS (former PT) and Oi;
- Reversal of EUR 79.8 million provisions for non-current assets held for sale and other assets and contingencies.

## 6. Main business areas (operating segments)

### 6.1 Novo Banco Group overview

The NOVO BANCO Group develops its activity supported by a set of value propositions aimed at meeting the needs of its diverse client base: companies, institutions and individual clients.

When monitoring the performance of each business area, the Group considers the following Operating Segments:

- Domestic Commercial Banking, including the sub-segments Retail, Corporate, Institutional and Private Banking



- International Commercial Banking
- Asset Management
- Life Insurance
- Markets

Each segment is directly supported by dedicated structures, as well as by Group units whose activity identify most with the above mentioned segments. Each operating unit of the Group is individually monitored (each unit is considered as an investment centre). This monitoring process is complemented by the definition of strategies and commercial programmes specific for each operational segment by the Board of Directors of NOVO BANCO.

## 6.2 Retail banking

This segment includes the activity with individuals and small businesses, most notably deposit taking, sale of saving products, account management, cards and other means of payment, insurance products, investment funds, brokerage of securities, custody services, mortgage lending, consumer credit and financing of small businesses.

### RETAIL BANKING

	Dec.14	Jun.15	Change
Eur million			
<b>BALANCE SHEET</b>			
Customer Loans (gross)	13 879	13 508	-2.7%
Customer Funds	11 797	13 225	12.1%
<b>INCOME STATEMENT *</b>			
Commercial Banking Income	211.9	166.5	
Capital Markets & Other Results	5.3	5.9	
Banking Income	217.1	172.5	
Operating Costs	149.2	172.8	
Provisions	31.8	21.9	
Income Before Tax	36.1	-22.2	

\* Dec.14 corresponds to the period from 4 August 2014 to 31 December 2014

Total retail customer funds reached EUR 13.2 billion in June, having increased by EUR 1.4 billion (+12.1%) since the start of the year. Retail's lending policy maintained its selective criteria. However, NOVO BANCO Group did not cease to support the projects of its clients in the Small

Business segment, in line with its philosophy of supporting the Portuguese business community. As a result of this strategy, new production of medium and long-term loans to these companies grew by more than 100% in the 2nd quarter, when compared to the 1st. As to credit to individual clients, new mortgage loan production also accelerated, rising by 77% between the 1st and the 2nd quarters of 2015. In June the Retail loan book totalled more than EUR 13.5 billion, having decreased by 2.7% in the 1st half of the year. In fact, the increase in production in the 2nd quarter was not yet sufficient to halt the portfolio's contraction, mainly resulting from the amortisation of mortgage credit. Highlighting the high quality of the Retail offer, insurance production increased by more than 40,000 new policies (including house, car, life risk, and health insurance). Also stressing the business recovery policy implemented, new credit cards issued registered an increase of more than 30,000. Retail's banking income totalled EUR 172.5 million, with net interest income and fees and commissions on banking services amounting to EUR 97.1 million and EUR 49.7 million, respectively.

The **Direct Channels** continued to play a key role in the relationship with the clients, providing the following: (i) access to a range of services, account enquiries and transactions which can be done remotely; (ii) sale of a range of products, namely saving and insurance products, which can be acquired directly through the internet, with the support of a phone operator, or by scheduling a meeting with the branch or account manager; (iii) integration and centralised management of the CRM platforms (branch, NBnet and NBdireto), with highly successful customised offers provided at the time the client interacts with the remote channel; (iv) new solutions adjusted to the clients' mobility needs allowing to safe, convenient and permanent access to the Bank, in any circumstance.

The number of frequent users of the internet banking service for individual clients – NBnet – reached 382 thousand, while the number of logins and transactions made through the service totalled 21.9 million and 5.6 million, respectively. The internet banking service for corporate clients - NBnetwork – reached 66 thousand frequent users, with the number of logins and transactions reaching 11.5 million and 2.9 million, respectively. Novo Banco's website was the first amongst those of the large Portuguese banks to offer a responsive platform fully adapted to a vast array of devices (desktops, mobile phones or tablets).

As regards mobile banking use, at the end of the 1st half of 2015 the number of clients using the mobile NBapp and tablet NBapp reached 74 thousand and 15 thousand, respectively.

**Banco Best** has pursued the strategy which makes it the innovation leader in the offer of financial products and services in Portugal. This included the launch of the first Touch ID app for mobile banking in Portugal, which allows clients to log in using their fingerprint instead of a password. Another innovative launch was the new version of the Best Mobile app, offering multiple functionalities, a fully renovated and simpler design, and an improved performance in all devices, for a more dynamic and interactive experience. In addition, Banco Best introduced the Selector portfolio, an interactive tool where clients may choose investment funds from within sets grouped according to frequent use categories and themes.

The Bank reinforced its financial literacy policy for investors, holding a number of seminars on trading and asset management. Finally, Banco Best also launched a new information page (Best Zoom) emphasising relevant contents about prominent financial markets and issues. The results achieved translate the good performance of the various business areas, namely with the stock of foreign investment funds growing by 16% in the first six months of the year, and the total amount in investment funds reaching EUR 1 214 million. This dynamics stresses the independent nature of the offer as well as the clients' demand for assets unrelated to domestic risk to diversify their investment portfolios. The number of clients surpassed 83 thousand. Banco Best posted a net profit of EUR 3.3 million in the 1st half of 2015.

During the reporting period **NOVO BANCO dos Açores** focused its efforts on acquiring new clients and recovering the business in terms of customer funds and customer loans. The bank thus pursued its client acquisition strategy, taking a number of steps targeting public companies, services and organisations - which namely resulted in a protocol signed with the Economics and Management Department of the Azores University - with the aim of increasing its share of this market. In addition, NOVO BANCO dos Açores also maintained its strong commercial efforts targeting agricultural companies, one of the most important pillars of economic activity in the Azores. The Bank closed the 1st half of 2015 with net assets of EUR 686 million, reporting a net profit of EUR 0.4 million. This positive performance was supported by the increase in net interest income, operating costs under control and lower provisions for customer loans.

### 6.3 Corporate and Institutional Clients

This business area includes the business with large and medium-sized companies, as well as with institutional and municipal clients. The NOVO BANCO Group holds a significant position in the Corporate and Institutional Clients segment as a result of its support to the development of the national business community, where it targets companies with a good risk profile, innovative characteristics and exports oriented.

#### CORPORATE AND INSTITUTIONAL CLIENTS

	Dec.14	Jun.15	Change
Eur million			
<b>BALANCE SHEET</b>			
Customer Loans (gross)	19 382	18 729	-3.4%
Customer Funds	7 762	7 869	1.4%
<b>INCOME STATEMENT *</b>			
Commercial Banking Income	194.8	154.5	
Capital Markets & Other Results	1.9	10.2	
Banking Income	196.8	164.7	
Operating Costs	22.3	30.5	
Provisions	262.0	223.4	
Income Before Tax	-87.5	-89.2	

\* Dec.14 corresponds to the period from 4 August 2014 to 31 December 2014

The segment of Corporate and Institutional Clients of NOVO BANCO achieved an increase in deposits, which grew by 1.4% in the 1st half of 2015, and by more than EUR 1.85 billion since September 2014.

In June the corporate loans portfolio totalled EUR 18.7 billion, having contracted by 3.4% since the start of the year. Even so, this contraction was smaller in the 2nd quarter of 2015 (-1.4%) than either in the first quarter of the year (-2.0%) and in the last quarter of 2014 (-4.5%).

The banking income reached EUR 164.7 million in the 1st half of 2015, of which EUR 77.6 million were due to net interest income and EUR 76.9 million to fees and commissions.

#### Support to Exports and Internationalisation

In the 1st half of 2015 the international bankers of NOVO BANCO supported more than 400 companies in their internationalisation processes. Opening new markets for NB's clients is a

distinctive mark of the Bank, which has permitted to maintain a high level of international business (22.4% market share in trade finance export and import). Loans granted to the Winners segment – companies that produce transactional goods, with a large weight of exports and innovation and a good risk profile – maintained a very positive performance.

In the Iberian market, client acquisition and business development are supported by strong cooperation between the domestic and Spanish commercial networks.

### **Support to Innovation and Entrepreneurship**

In 2015, NOVO BANCO Group maintained its support to Innovation and Entrepreneurship, having launched the 11th edition of the National Innovation Awards, which aim to contribute to revitalize the Portuguese productive sector, having already distinguished 50 projects (among 1 558 competitors) and awarded EUR 3.1 million in prizes. In this year's edition there are three sectors open to competition: Sea Economy; Textile, Design and Fashion Industry; and Health.

### **Support to Investment**

The various *PME Investe*, *PME Crescimento* and *Investe QREN* credit lines are all of them important tools to support the national SMEs' investment and reinforce their permanent capital. NOVO BANCO has had an important role in promoting the Credit Lines to finance the Portuguese SMEs, under which it has approved to date more than EUR 3.7 billion of loans, corresponding to a global market share of 17.1%.

NOVO BANCO has particularly fostered the growth of the *PME Crescimento 2015* line, under which it approved approximately EUR 266 million since April 2015. Thanks to its proactive approach to the business community, NOVO BANCO was market leader in the *PME Crescimento 2015* line, with a share of 21.6%.

Banking on the success of the previous lines agreed with the European Investment Bank (EIB) and the European Investment Fund (EIF), NOVO BANCO has recently entered two new agreements with these multilateral development organisations that will permit to grant credit to the national SMEs under favourable conditions. In view of the need to bolster investment and in the current context of the start of the Portugal 2020 programme, these financing instruments will help to carry forward important investment projects and back up the increase in companies' working capital requirements.

## **Support to Companies' cash management**

Through the 'NB Express Bill' the Bank remains at the forefront of financial innovation for businesses, actively promoting the dynamics of economic activity, the adoption of financial management good practices and the improvement of companies' financial health. Overall, the ca. 19 000 clients that subscribed this innovative service have a total of EUR 2 billion in facilities approved, which guarantee the advancing of payments of more than EUR 10 billion per year. By guaranteeing payments and bringing forward receipts, thus promoting business and acting as a confidence booster in business dealings, this networking solution links all companies (micro, small, medium-sized and large) and increasingly stands out from within other cash management solutions. In 2014 this solution was extended to Spain, Portugal's main client and supplier, and remains the only financial instrument offered by Iberian banks that permits to guarantee and bring forward payments between companies from the two countries, all online.

Pursuing their joint efforts to develop in Portugal the market for social benefits delivered by companies to their employees, NOVO BANCO and Edenred Portugal manage a portfolio of ca. 300 000 users of meal cards. In 2015 NOVO BANCO has so far acquired ca. 30 000 new card users, ensuring its leading position in an increasingly competitive market.

At the same time, the rising demand for new solutions aimed at improving the employees' life quality has fostered the development of Education and Childcare solutions, namely Nursery and Student cheques.

## **6.4 Private Banking**

This area is dedicated to the business with private high net worth clients, covering all products associated with these clients, notably deposits, custody services, brokerage of securities and insurance products.

**PRIVATE BANKING**

	Eur million		
	Dec.14	Jun.15	Change
<b>BALANCE SHEET</b>			
Customer Loans (gross)	574	477	-16.9%
Customer Funds	1 750	2 201	25.8%
<b>INCOME STATEMENT *</b>			
Commercial Banking Income	34.9	31.9	
Capital Markets & Other Results	1.0	1.2	
Banking Income	35.9	33.0	
Operating Costs	6.1	6.9	
Provisions	2.2	0.8	
Income Before Tax	27.6	25.3	

\* Dec.14 corresponds to the period from 4 August 2014 to 31 December 2014

In June 2015 on-balance sheet funds of private banking clients reached EUR 2.2 billion, having increased by EUR 451 million in the 1st half of the year. This increase, following the growth observed in the last quarter of 2014 (+ EUR 367 million), demonstrates the high level of confidence placed in NOVO BANCO Group by the clients of this important business area. Private Banking's loan book reached EUR 477 million, while the banking income for the period totalled EUR 33 million, mainly as a result of NII performance (EUR 24.0 million), with fees and commissions amounting to EUR 7.8 million. These results, combined with the stabilisation of operating costs, allowed the segment to post a pre-tax profit of EUR 25.3 million.

### 6.5. International Commercial Banking

This segment includes the retail units operating abroad, which develop their banking activity (excluding asset management) with both individual and corporate clients.

The 1st half of 2015 was marked by the recovery of part of the activity that had been penalised by the events that led to the resolution of BES, and also by the implementation of a set of restructuring measures in some of the international units.

These measures included closing the activity of the New York branch (at the end of June) and of the Cape Verde Off-shore Branch, maintaining the activity in this country through Banco Internacional de Cabo Verde.

Despite the adverse environment, the segment increased its commercial activity with the clients, with customer funds and customer loans growing by 4.1% and 2.9%, respectively.

## INTERNATIONAL COMMERCIAL BANKING

	Eur million		
	Dec.14	Jun.15	Change
<b>BALANCE SHEET</b>			
Customer Loans (gross)	7 265	7 479	2.9%
Customer Funds	5 423	5 643	4.1%
<b>INCOME STATEMENT *</b>			
Commercial Banking Income	123.7	103.4	
Capital Markets & Other Results	40.5	-30.3	
Banking Income	164.2	73.1	
Operating Costs	70.0	84.1	
Provisions	92.6	22.2	
Income Before Tax	1.6	-33.2	

\* Dec.14 corresponds to the period from 4 August 2014 to 31 December 2014

The activity of **NOVO BANCO Spain Branch** was characterised by the improvement of the income statement and also by the implementation of a set of measures to introduce structural changes in the operation of the Branch. Customer funds increased, with the respective interest rates gradually declining, while assets and off-balance sheet assets decreased, the overall turnover contracted (-3.8%) and the number of individual clients decreased. Main highlights in the period: (i) Banking income increased above the budget, driven by net interest income; (ii) Operating costs declined, namely through the reduction in general administrative costs; (iii) Provisions were slightly below estimates, thanks to the improvement in credit risk indicators; and (iv) the Branch posted negative pre-tax results, though with a positive deviation compared to the budget. The structural measures being implemented at the Branch, which impacted its performance in the period, were the following: (i) implementation of a new commercial model stressing greater efficiency in the relationship with the client; (ii) relaunching the commercial activity through new commercial



campaigns; (iii) simplification of the central services' organisation; (iv) deployment of an operating costs streamlining project; (v) adoption of a new credit-decision model and a new governance model in the Branch; and (vi) development of a project to increase revenues, which is expected to bear fruit still in 2015.

**NOVO BANCO London Branch (United Kingdom)** concentrates its activity in wholesale banking in the European market. In the 1st half of 2015 total assets decreased by 1% compared to the end of 2014, to ca. EUR 4.5 billion, due to the reduction in NBG's short- and medium term debt securities issuance programmes. The commercial banking income generated by the Branch in the period was EUR 11.8 million.

**Banco Internacional de Cabo Verde (Cape Verde)** focuses on local corporate banking activity, where it mainly targets public sector companies, subsidiaries of Portuguese companies with interests in Cape Verde, and the local affluent market. In the 1st half of 2015 the Bank increased assets by ca. 3% relative to the end of 2014, while pursuing the recovery of activity initiated in the last quarter of 2014.

**NOVO BANCO Asia (Macau/ People's Republic of China)** carried out some relevant investments in its organisational and functional structure, in line with the strategic plan outlined by the Group for the region. These changes will permit to differentiate and diversify the offer of products, to introduce new capabilities in the areas of Personal and Corporate Banking, and to turn the bank into NB Group's centre of RMB and trade finance expertise in Asia. The Bank's trade finance transactions (e.g. L/C Advising/Forfaiting/Discount) in connection to local trade and the trade and investment flows between China and the Portuguese-speaking countries remained strong. This business line will be developed in cooperation with the international area and other units of Novo Banco Group, and supported by the tightening of relations with the main Chinese Banks and other local economic and financial players. The growth, diversification and stability of customer funds, achieved through an adequate commercial policy, remain a key priority in the present and future context: to this end, during the 1st half of 2015 NB Asia continued to develop commercial initiatives targeting the various client segments.

The activity of **Banque Espírito Santo et de la Vénétie (France)** was likewise impacted by the events occurred with its majority shareholder, which affected its corporate image, caused a

reduction in client deposits, and undermined confidence among certain clients. The contraction of activity combined with the increase in operating costs hindered the performance of the gross operating income, notwithstanding a lower cost of risk.

**Moza Banco (Mozambique)**, in which NOVO BANCO Group holds a 49% stake, continued to deploy its commercial expansion plan, opening seven new branches that increased the network to a total of 38 units. The bank continued to see strong growth, with net assets increasing by 14%. Moza Banco has been consistently advancing its market share and is currently the 4th largest bank in Mozambique.

**NOVO BANCO Venezuela Branch** focuses its activity on two main segments, namely the Portuguese resident community and the local large companies and institutions. Activity in the reporting period was affected by the adverse economic climate in Venezuela, where inflation kept rising. Even so, it was possible to pursue the recovery of volumes initiated in the last quarter of 2014, with assets reaching EUR 496 million at the end of the 1st half of 2015 (up from EUR 307 million on 31 December 2014).

**NOVO BANCO Luxembourg Branch** has been acting as a platform for business with the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe. Commercial activity rebounded in the period, with total customer deposits increasing by 42%.

## 6.6 Asset Management

This segment includes all the asset management activities of the Group, conducted by specialised companies within Portugal and abroad. Asset Management's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and wealth management services.

### ASSET MANAGEMENT

	Eur million	
	Dec.14	Jun.15
<b>INCOME STATEMENT *</b>		
Banking Income	19.4	19.5
Operating Costs	6.4	7.7
Provisions	-0.2	0.2
Income Before Tax	13.1	11.7

\* Dec.14 corresponds to the period from 4 August 2014 to 31 December 2014

The global volume of assets under management reached ca. EUR 9.9 billion at the end of the 1st half of 2015 with the Income Before Tax amounting to EUR 11.7 million. Domestic assets under management decreased by 7.2%, to EUR 6.9 billion. This mainly resulted from the contraction of mutual funds' volume, due to the liquidation of two funds (*NB Rendimento Fixo VII* and *XII*) that had reached maturity and the volume reduction of another three (*NB Liquidez*, *NB Tesouraria Ativa* and *NB Plano Dinâmico*). Assets under management of real estate investment funds also decreased 10.3%, essentially driven by open-end funds. On the other hand, wealth management volume increased by 1.7%, with insurance companies portfolios bouncing by 12.5%. Over the same period, assets under management of pension funds remained practically flat, with an increase in open-end funds (+3%) and a retraction in close-end funds (-0.3%), compared to the end of 2014.

In the international business, assets under management totalled EUR 2.9 billion, decreasing by 13.2% compared with the end of 2014. In Luxembourg, volume decreased by 14.0% due to the liquidation of the *NB Brazil* fund and also by a general reduction in all other funds' volume. In Spain, assets under management declined by 6.5%, mainly as a result of a 10.4% contraction in mutual funds. At the end of the period the international business represented 29.7% of total assets.

## 6.7 Life Insurance

This business area comprises the activity developed by **GNB Seguros Vida**, which provides both traditional and unit-linked insurance products as well as pension plans.

### LIFE INSURANCE

	Eur million		
	Dec.14	Jun.15	Change
<b>BALANCE SHEET</b>			
Customer Funds <sup>(1)</sup>	6 883	5 698	-17.2%
<b>INCOME STATEMENT *</b>			
Banking Income	17.9	125.0	
Operating Costs	6.5	5.2	
Provisions	30.0	3.3	
Income Before Tax	-18.6	116.5	

\* Dec.14 corresponds to the period from 4 August 2014 to 31 December 2014

(1) excluding intragroup transactions

During the first six months of the year the Company's activity remained constrained by the events occurred in the previous year in connection to the creation of NOVO BANCO, which harmed not only production levels, but also the level of reimbursements and redemptions.

Production volume in Portugal totalled EUR 239.3 million in the 1st half of 2015, having fallen by 79.1% year-on-year. As regards claims volume, redemptions of financial products increased by EUR 1 047 million due to the redemption of very large amounts under specific products. All these factors combined caused a fall in mathematical provisions of ca. EUR 1 003 million, compared to the end of 2014, causing the volume of responsibilities under management to stand at EUR 6 476 million.

Despite these performances, the Life Insurance business area reported a income before tax of EUR 116.5 million in the period.

## 6.8 Markets

This segment includes the global financial management activity of the Group, namely raising and placement of funds in the financial markets, as well as investment in and risk management of credit, interest rate, FX and equity instruments, whether of a strategic nature or as part of current trading activity. It also includes activity with non-resident institutional investors, as well as any activities arising from strategic decisions impacting the entire Group. The segment posted a pre-tax loss of EUR 194.4 in the 1st half of 2015.

### MARKETS AND STRATEGIC HOLDINGS

	Eur million	
	Dec.14	Jun.15
<b>INCOME STATEMENT *</b>		
Banking Income	170.6	-173.5
Operating Costs	27.6	21.1
Provisions	280.6	-0.2
Income Before Tax	-137.6	-194.4

\* Dec.14 corresponds to the period from 4 August 2014 to 31 December 2014

**NOVO BANCO, S.A.**  
**CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2015**

in thousands of Euros

	<b>30.06.2015</b>	<b>31.12.2014</b>
<b>ASSETS</b>		
Cash and deposits with Central Banks	1 714 181	2 747 077
Deposits with banks	399 124	490 856
Financial assets held for trading	763 764	1 062 517
Other financial assets at fair value through profit or loss	1 714 823	2 230 388
Available-for-sale financial assets	9 316 557	9 478 469
Loans and advances to banks	1 170 842	1 044 286
Loans and advances to customers	33 702 253	34 929 314
Assets with Repurchase Agreement	-	-
Financial Assets held to maturity	-	-
Hedging derivatives	341 959	404 582
Non-current assets held for sale	3 422 505	2 747 168
Assets from discontinued operations	3 587 236	4 209 800
Investment property	54 997	297 133
Other tangible assets	400 119	397 088
Intangible assets	245 242	253 732
Investments in associated companies	403 099	402 289
Current tax assets	11 761	29 962
Deferred tax assets	2 588 135	2 505 608
Technical reserves of reinsurance ceded	7 781	8 038
Other assets	2 010 117	2 179 173
Debtors for direct insurance and reinsurance	19 100	1 263
Other assets	1 991 017	2 177 910
<b>TOTAL ASSETS</b>	<b>61 854 495</b>	<b>65 417 480</b>
<b>LIABILITIES</b>		
Deposits from Central Banks	5 928 209	8 611 709
Financial liabilities held for trading	804 438	1 045 648
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	3 285 686	2 623 864
Due to customers	29 846 742	27 938 053
Debt securities issued	7 348 833	9 032 956
Financial liabilities related to transferred assets	-	-
Hedging derivatives	83 307	104 140
Investment contracts	4 110 251	4 379 442
Non-current liabilities held for sale	178 823	330 903
Liabilities from discontinued operations	2 574 261	3 072 720
Provisions	186 960	409 723
Technical reserves	1 403 537	1 461 070
Current tax liabilities	40 182	34 273
Deferred tax liabilities	46 652	50 309
Equity instruments	-	-
Other subordinated debt	55 331	54 794
Other liabilities	951 041	858 063
Creditors for direct insurance and reinsurance	12 445	10 132
Other liabilities	938 596	847 931
<b>TOTAL LIABILITIES</b>	<b>56 844 253</b>	<b>60 007 667</b>
<b>EQUITY</b>		
Share capital	4 900 000	4 900 000
Share premium	-	-
Other equity instruments	-	-
Treasury stock	-	-
Revaluation Reserves	( 199 142)	( 70 255)
Other Reserves and Retained Earnings	453 368	948 267
Profit / (loss) for the period	( 251 937)	( 497 645)
Interim Dividends	-	-
Non-controlling Interest	107 953	129 446
<b>TOTAL EQUITY</b>	<b>5 010 242</b>	<b>5 409 813</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>61 854 495</b>	<b>65 417 480</b>

The Chief Accountant

The Board of Directors

NOVO BANCO, S.A.

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2015

	in thousands of Euros
	<b>30.06.2015</b>
Interest and similar income	784 572
Interest expense and similar charges	569 854
<b>Net interest income</b>	<b>214 718</b>
Dividend income	6 485
Fee and commission income	251 065
Fee and commission expenses	67 057
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	( 107 479)
Net gains / (losses) from available-for-sale financial assets	167 250
Net gains / (losses) from foreign exchange revaluation	25 706
Net gains/ (losses) from the sale of other assets	13 448
Insurance earned premiums, net of reinsurance	18 655
Claims incurred, net of reinsurance	145 527
Change in technical reserves, net of reinsurance	113 932
Other operating income and expenses	( 98 237)
<b>Operating income</b>	<b>392 959</b>
Staff costs	204 401
General and administrative expenses	149 017
Depreciation and amortisation	43 540
Provisions, net of reversals	( 77 009)
Impairment losses on loans, net of reversals and recoveries	252 340
Impairment losses on other financial assets, net of reversals and recoveries	98 304
Impairment losses on other assets, net of reversals and recoveries	( 2 066)
Negative consolidation differences	-
Results from associated companies consolidated by the equity method	5 971
<b>Profit / (loss) before income tax and non-controlling interests</b>	<b>( 269 597)</b>
Income tax	
Current tax	35 124
Deferred tax	( 63 153)
<b>Profit / (loss) after income tax and before non-controlling interests</b>	<b>( 241 568)</b>
Of which: Income after taxes from discontinued operations	10 188
Income after taxes from activities being discontinued	13 460
Non-controlling interest	10 369
<b>Net consolidated profit / (loss) for the period</b>	<b>( 251 937)</b>
The Chief Accountant	The Board of Directors