

OVERVIEW OF THE PORTUGUESE BANKING SECTOR

SNAPSHOT

The Portuguese economy: most important developments - I

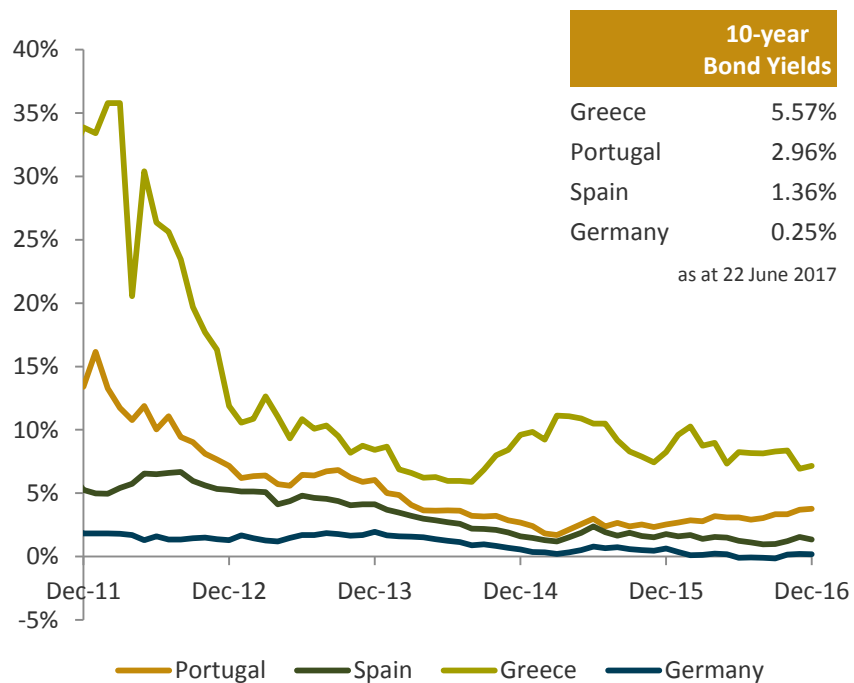
- The Economic and Financial Adjustment Programme (EFAP) ended in May 2014.
 - Total funding for the Portuguese State amounted to EUR 78 bn, EUR 12 bn of which went to the banking sector (EUR 5.6 bn used during the programme).
- After three years of contraction, the Portuguese economy started to show positive signs of growth from Q3 2013 onwards.
- In June, Banco de Portugal revised the forecasts for GDP growth rate up for 2017-2019. Economic activity is now expected to grow at 2.5% in 2017, 2% in 2018 and 1.8% in 2019.
- In 2019 Portuguese GDP is expected to be higher than that before the international crisis.
- Portugal exited the Excessive Deficit Procedure (EDP) in May 2017.

	2011	2014	2015	2016	2017F
Real GDP and components (% change)					
Real GDP	-1.8	0.9	1.6	1.4	2.5
Private consumption	-3.6	2.3	2.6	2.3	2.3
Public consumption	-3.8	-0.5	0.8	0.8	0.4
Investment (GFCF)	-14.0	5.1	4.6	-0.9	8.8
Exports	7.0	4.3	6.1	4.4	9.6
Imports	-5.8	7.8	8.2	4.4	9.5
Contribution to growth (p.p.)					
Domestic demand	-6.2	2.2	2.6	1.5	0.8
Net foreign demand	4.6	-1.4	-1.0	-0.1	1.8
External sector (% GDP)					
Net lending	-4.0	1.0	0.3	1.5	2.1
Labour market (% change)					
Employment	-3.2	1.6	1.1	1.2	2.4
Unemployment rate (%)	12.9	14.1	12.6	11.2	9.4
Prices					
HCPI	3.6	-0.2	0.5	0.6	1.6
Public finances (% GDP)					
Budget balance	-7.4	-7.2	-4.4	-2.0	-1.8
Gross public debt	111.4	130.6	129.0	130.4	128.5

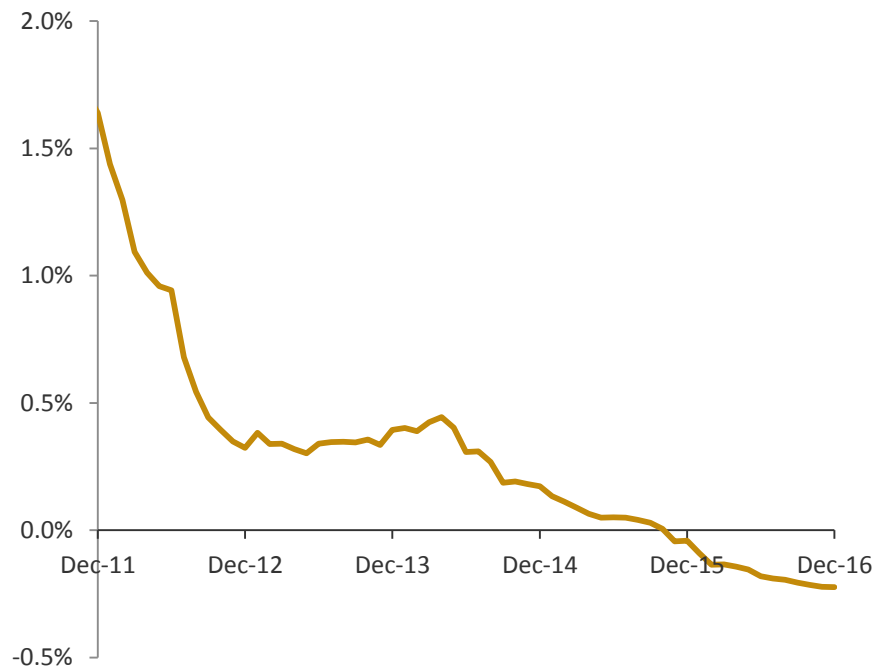
Source: AMECO. INE. 2017 forecasts based on Banco de Portugal and European Commission data.

The Portuguese economy: most important developments - II

10-year Government Bond Yields

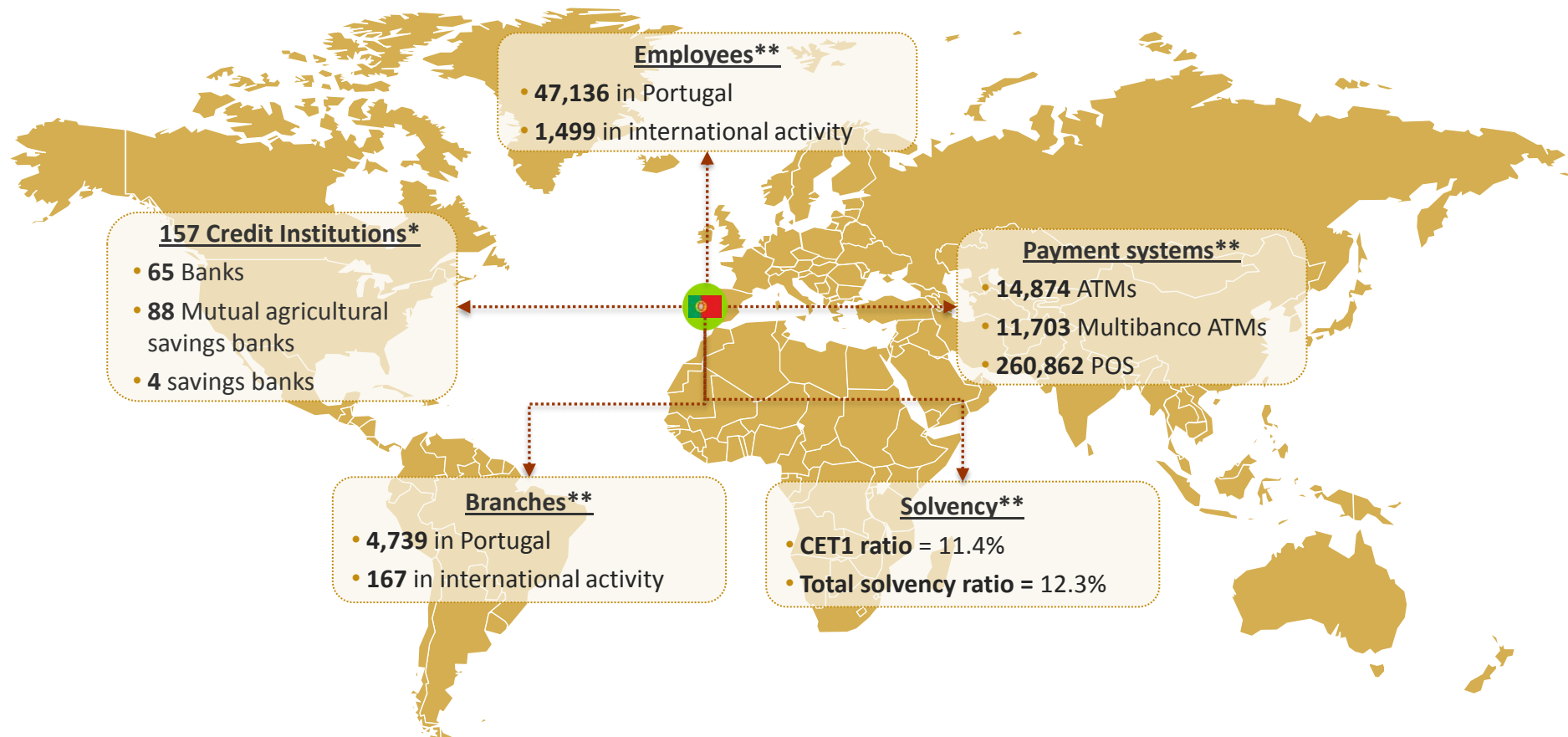


Euribor (6m)



Source: Reuters.

The Portuguese banking sector

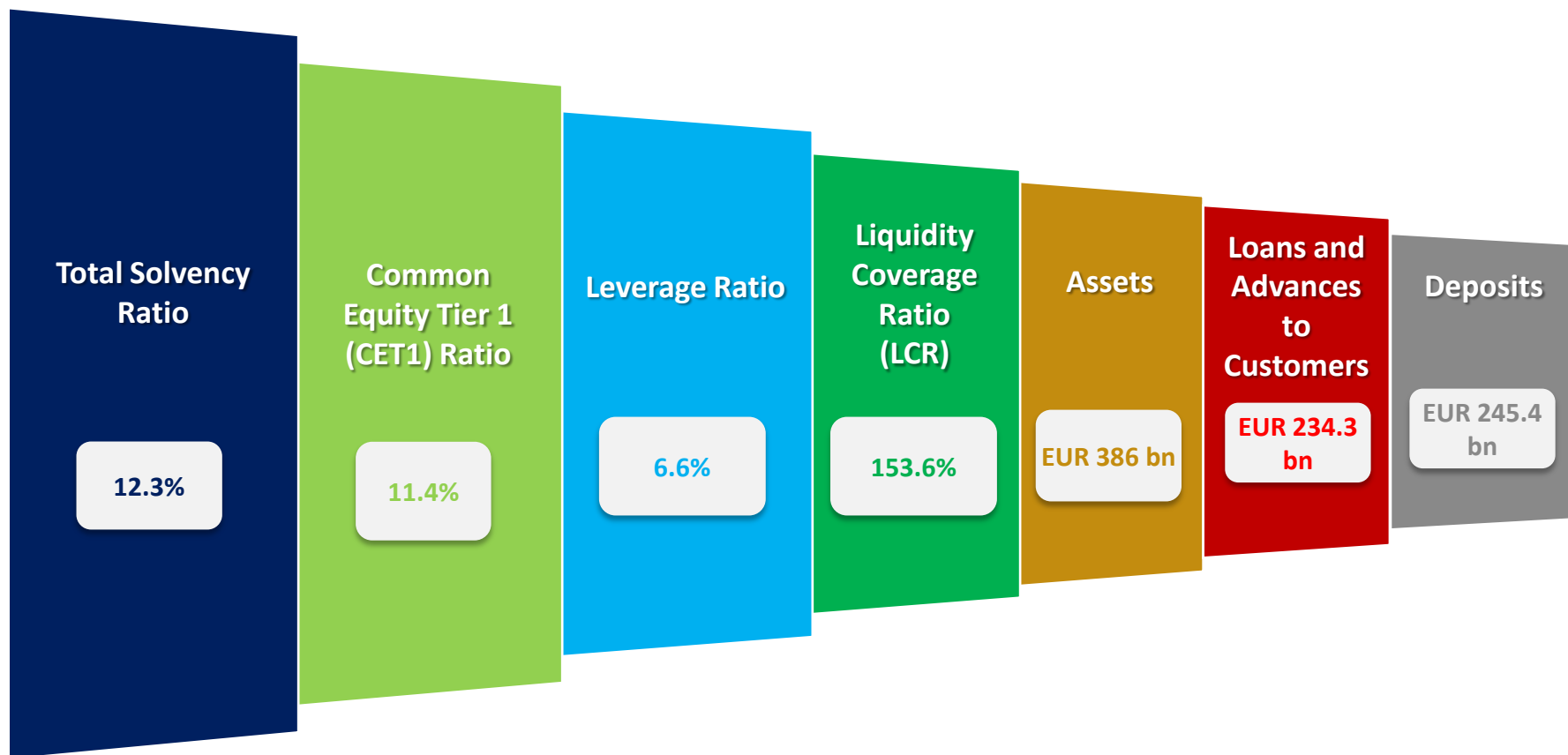


* Data as at April 2017.

** Data as at December 2016.

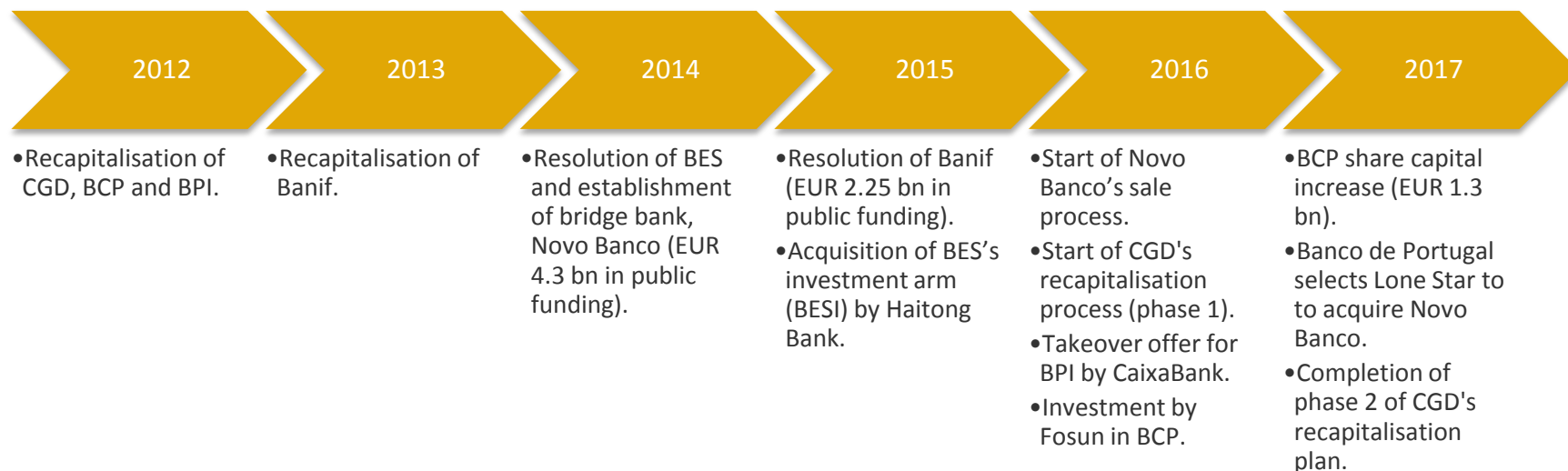
Source: APB. Banco de Portugal.

The Portuguese banking sector: main financial indicators



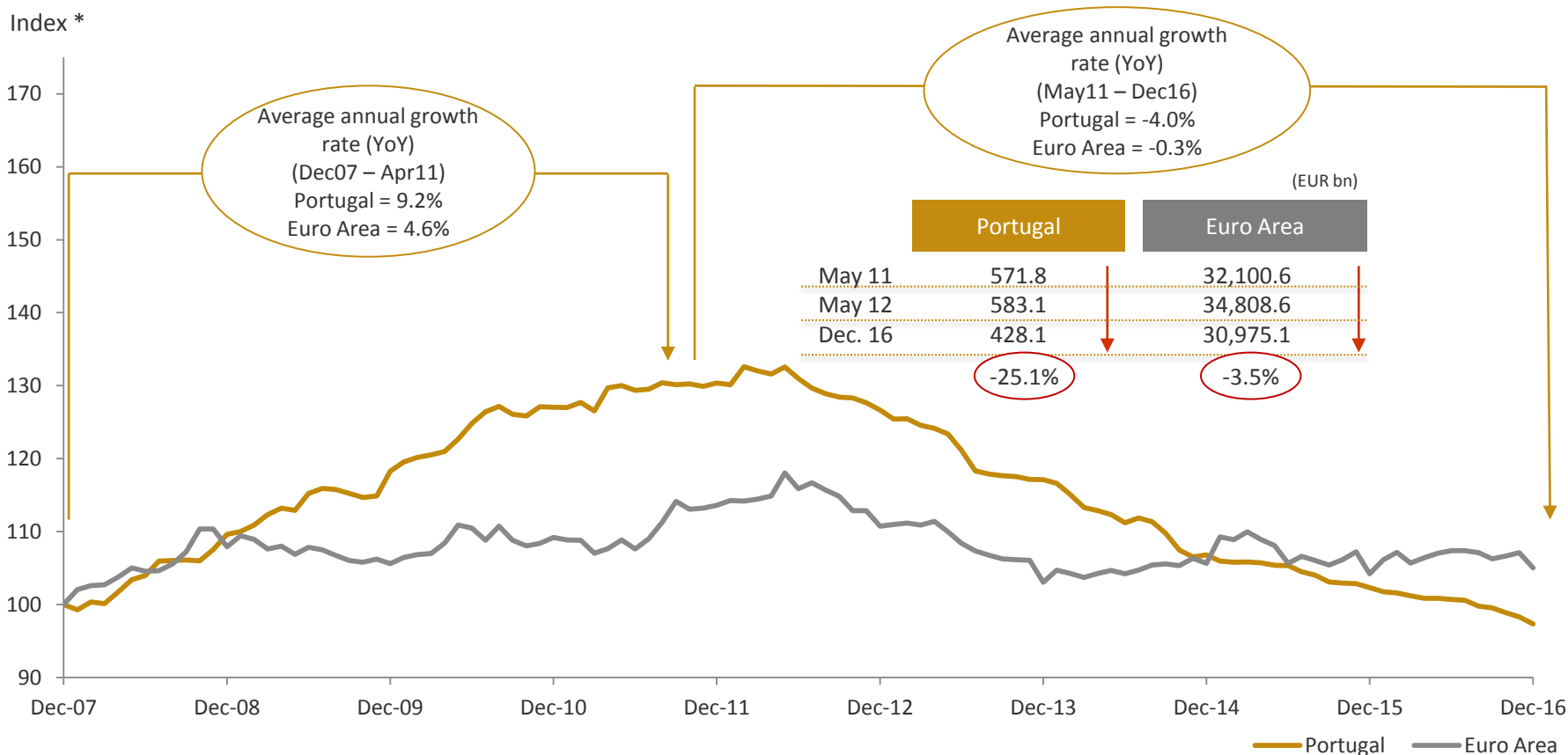
Source: Banco de Portugal – Sistema Bancário Português. Data as at December 2016.

The Portuguese banking sector: landmarks



Total assets

Unlike in the Euro Area, deleveraging in the Portuguese banking sector only began after the EFAP (H1 2011).

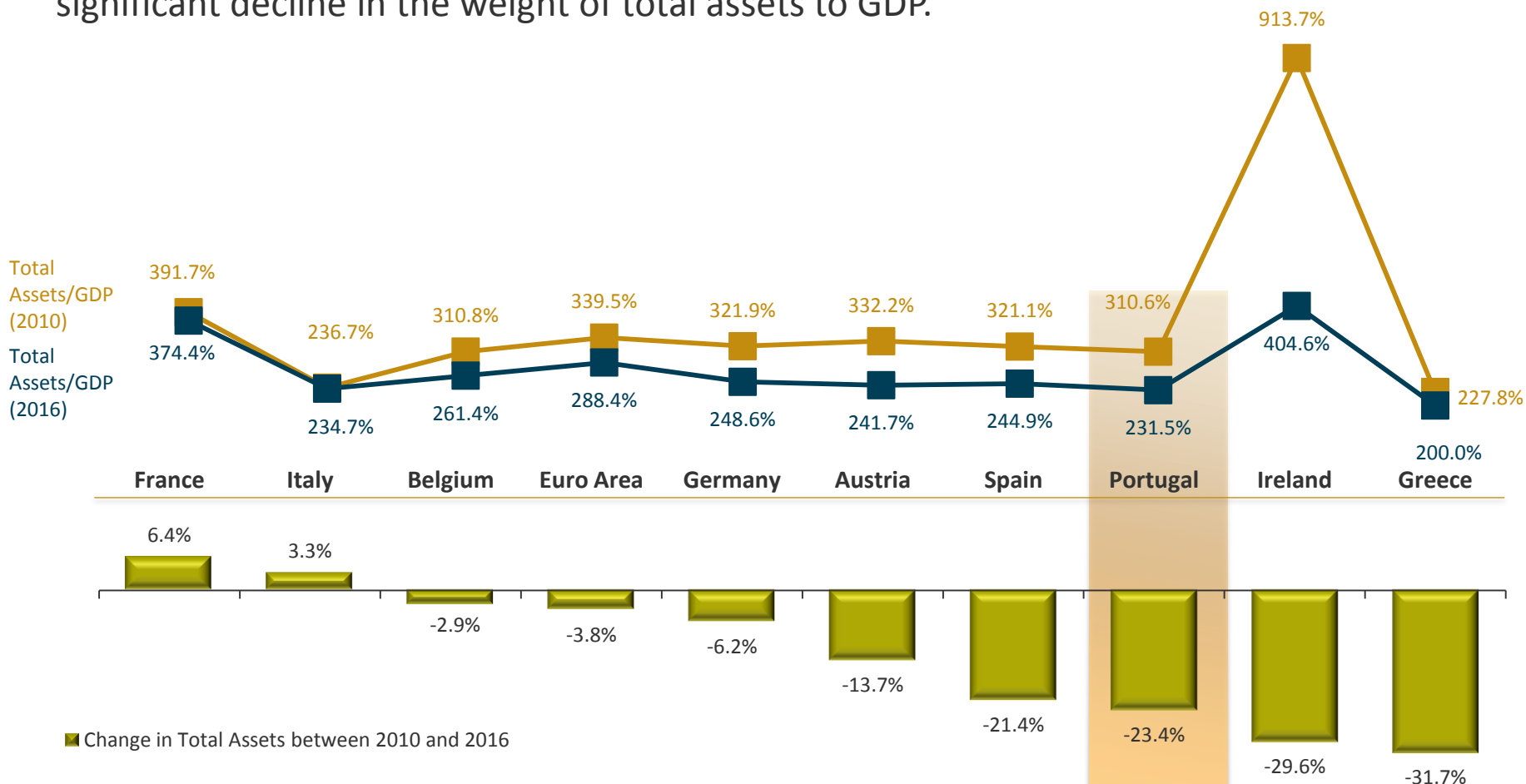


* Dec 2007 = 100.

Source: ECB – MFI Balance Sheet Items Statistics.

Total assets over GDP*

The substantial resizing of the banking sector in most Euro Area countries contributed to a significant decline in the weight of total assets to GDP.

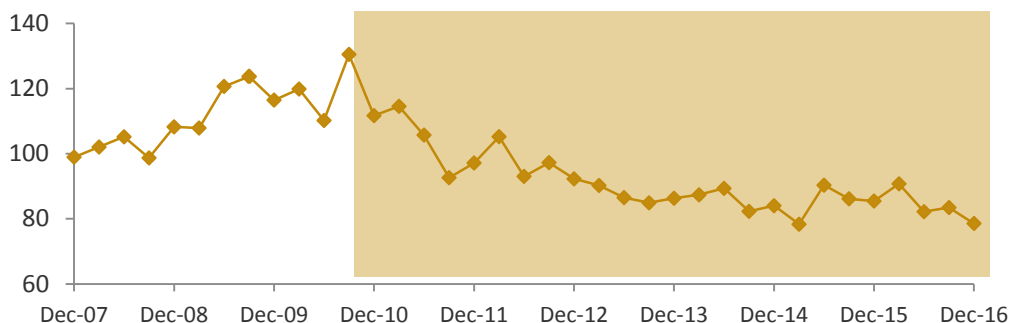


* Gross Domestic Product (nominal).

Source: ECB – MFI Balance Sheet Items Statistics. Eurostat.

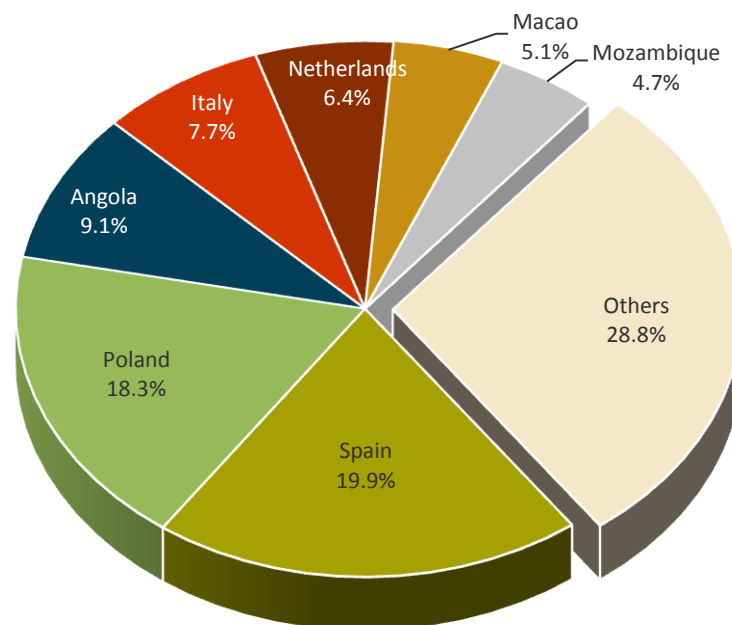
International exposure*

Loans, advances and liabilities of the Portuguese banking sector in relation to international entities (EUR billions)

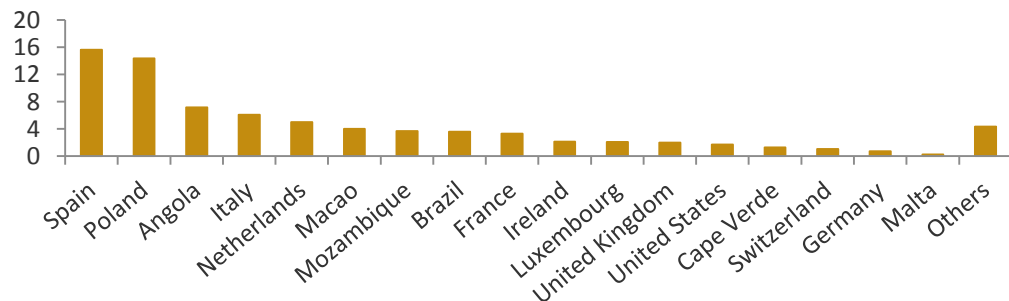


The Portuguese banks' international exposure declined as a result of the deleveraging process.

Exposure by country (December 2016)



Exposure by country: EUR billion (December 2016)



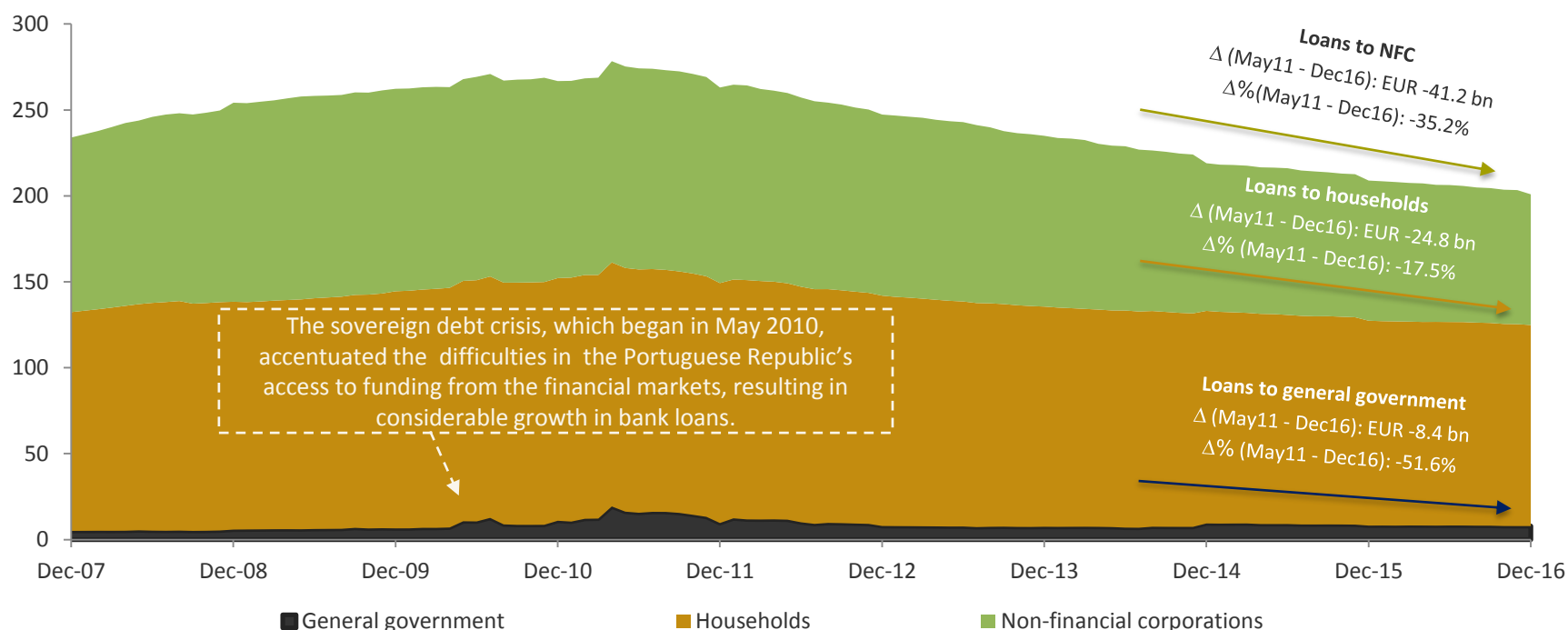
* Measured by outstanding loans, advances and liabilities of Portuguese banking groups on a consolidated basis, excluding intra-group exposure in relation to international entities, but including loans, advances and deposits with other banks, loans and advances to non-banking entities and debt securities. It excludes derivatives and other risk-transfer instruments.

Source: Bank for International Settlements.

Loans and advances* per institutional sector

The stock of loans to the economy has shown a downward trend since 2011, with greater emphasis on the non-financial corporations** (NFC) segment when compared to households.

EUR billion



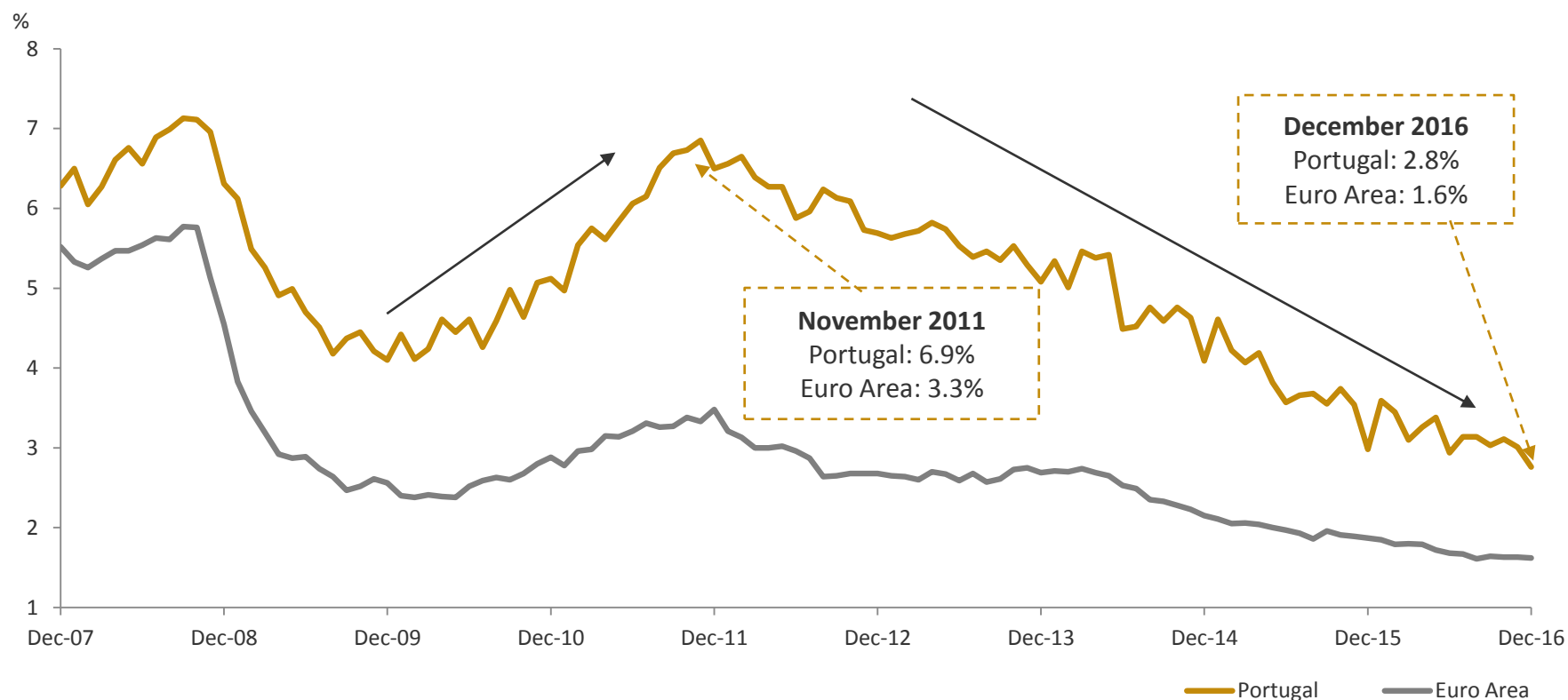
* This refers to loans granted by resident other monetary financial institutions to the resident non-monetary sector. Gross figures.

** Non-financial corporations include state-owned corporations.

Source: Banco de Portugal – Estatísticas Monetárias e Financeiras.

Average interest rate on new loans

Loan conditions improved. The average interest rate on new loans to NFC has been steadily decreasing since 2011, reaching its lowest level in December 2016.



Source: ECB – MFI Interest Rate Statistics.

NPL and NPE: Portugal vs. other EU countries

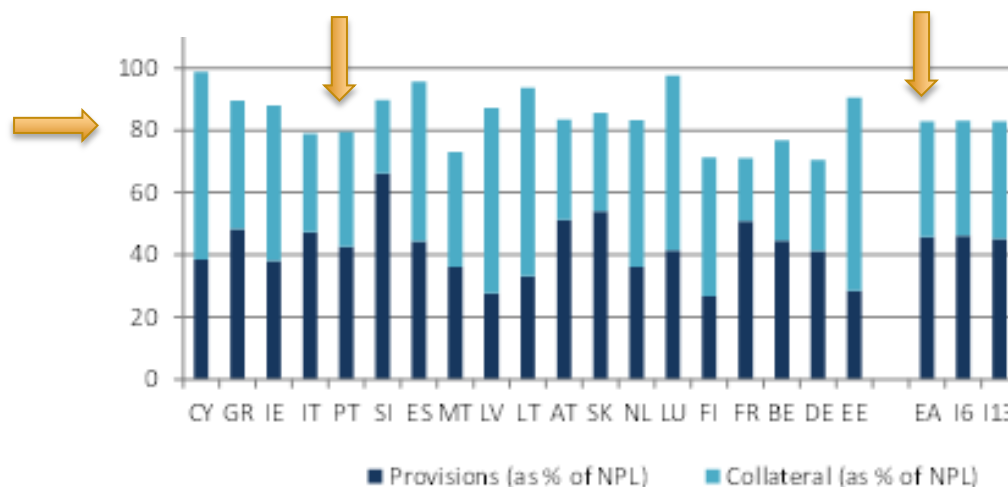
The NPL coverage ratio in Portugal is broadly in line with the Euro Area average. It increased from 40.8% at the end of 2015 to 45% at the end of 2016.

NPE ratio evolution

	Dec-14	Jun-16	Dec-16
CY	45.4%	44.8%	42.5%
GR	33.9%	38.3%	38.5%
PT	14.8%	16.6%	16.4%
IT	14.0%	13.4%	12.6%
IE	16.6%	11.7%	11.0%
EU	5.5%	4.7%	4.4%
AT	6.6%	4.9%	4.3%
FR	3.7%	3.4%	3.2%
BE	3.1%	2.7%	2.5%
NL	2.9%	2.4%	2.3%
DE	3.1%	2.2%	2.2%

Source: EBA (Portugal data based on 6 banks: BPI, BCP, CCCAM, Montepio, CGD and Novo Banco).

NPLs: Provisioning and collateral

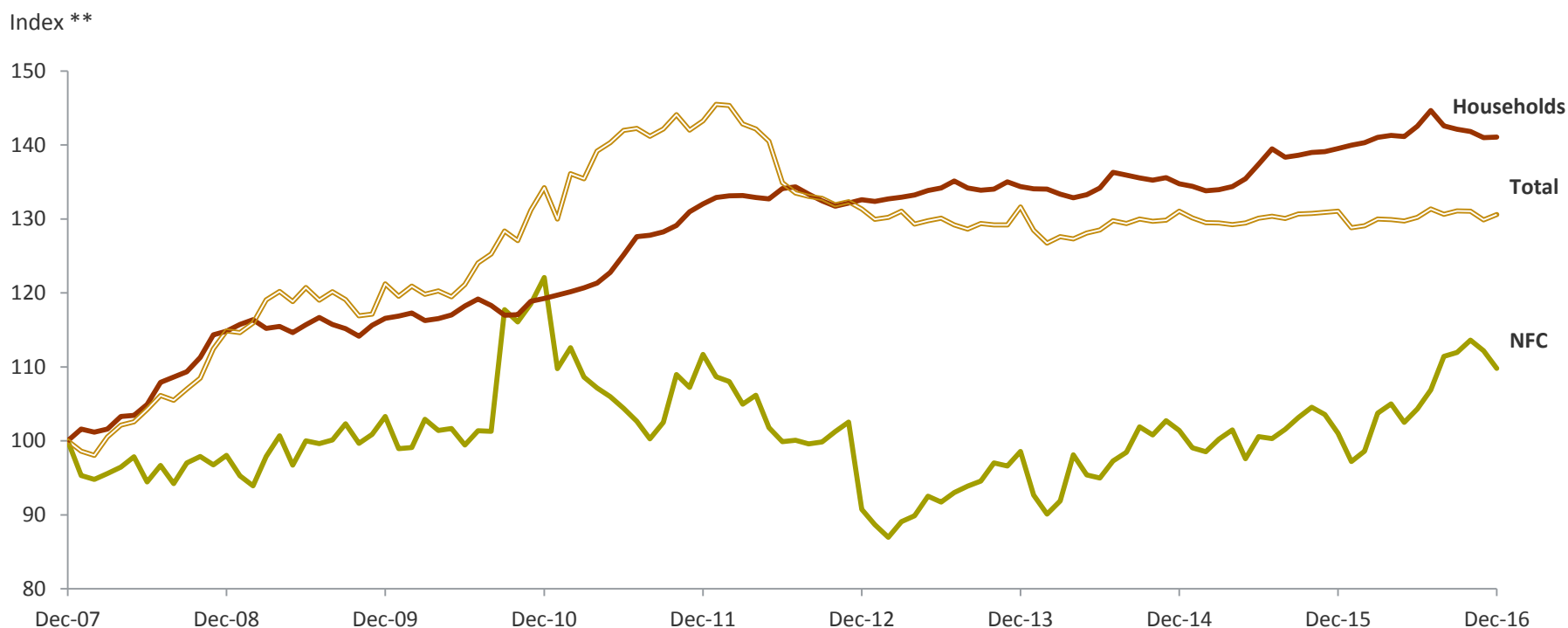


Data as at December 2016.

Source: ECB Supervisory and Prudential Statistics.

Deposits* by Institutional sector

Despite the austerity programme imposed by the EFAP, households' deposits increased, reaching their highest level ever in July 2016.



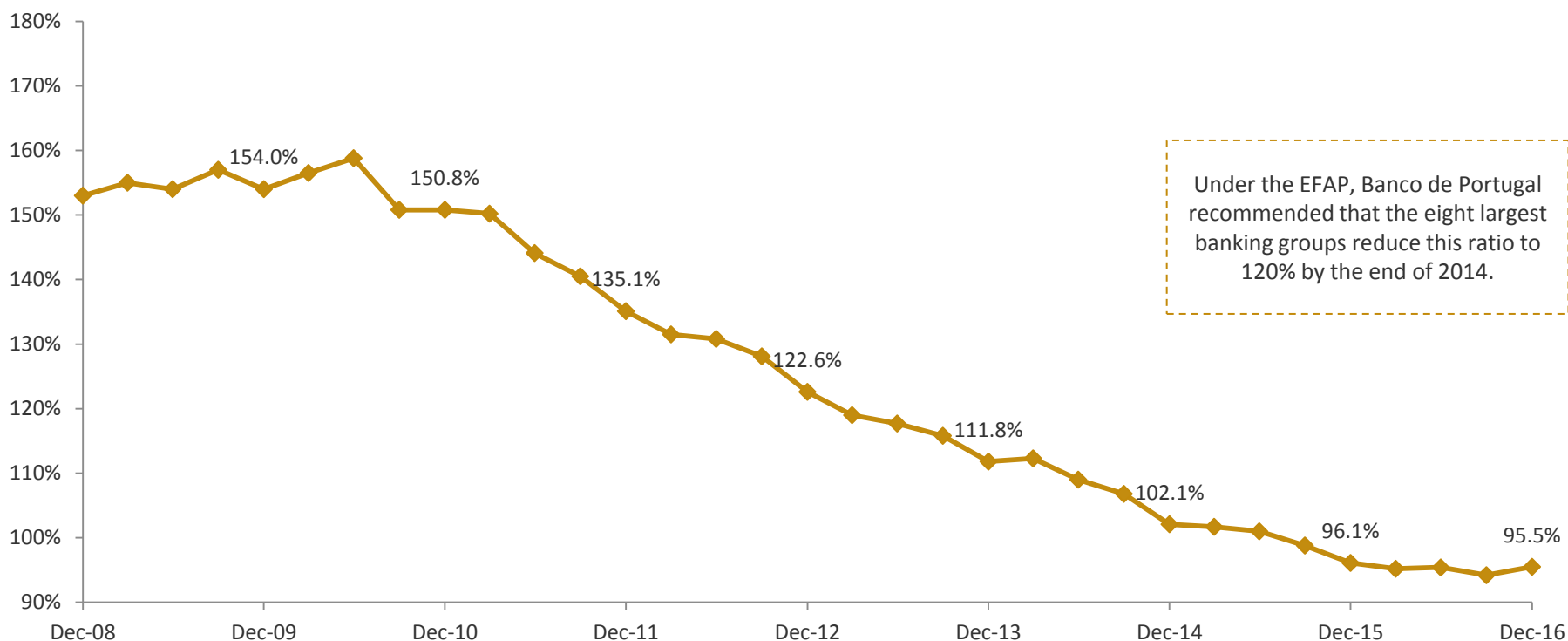
* Deposits from the non-monetary sector, end of period balances.

** Dec 2007 = 100.

Source: Banco de Portugal – Estatísticas Monetárias e Financeiras.

Loan-to-deposit ratio*

The decline in the loan-to-deposit ratio mainly reflects the deleveraging process in the banking sector.

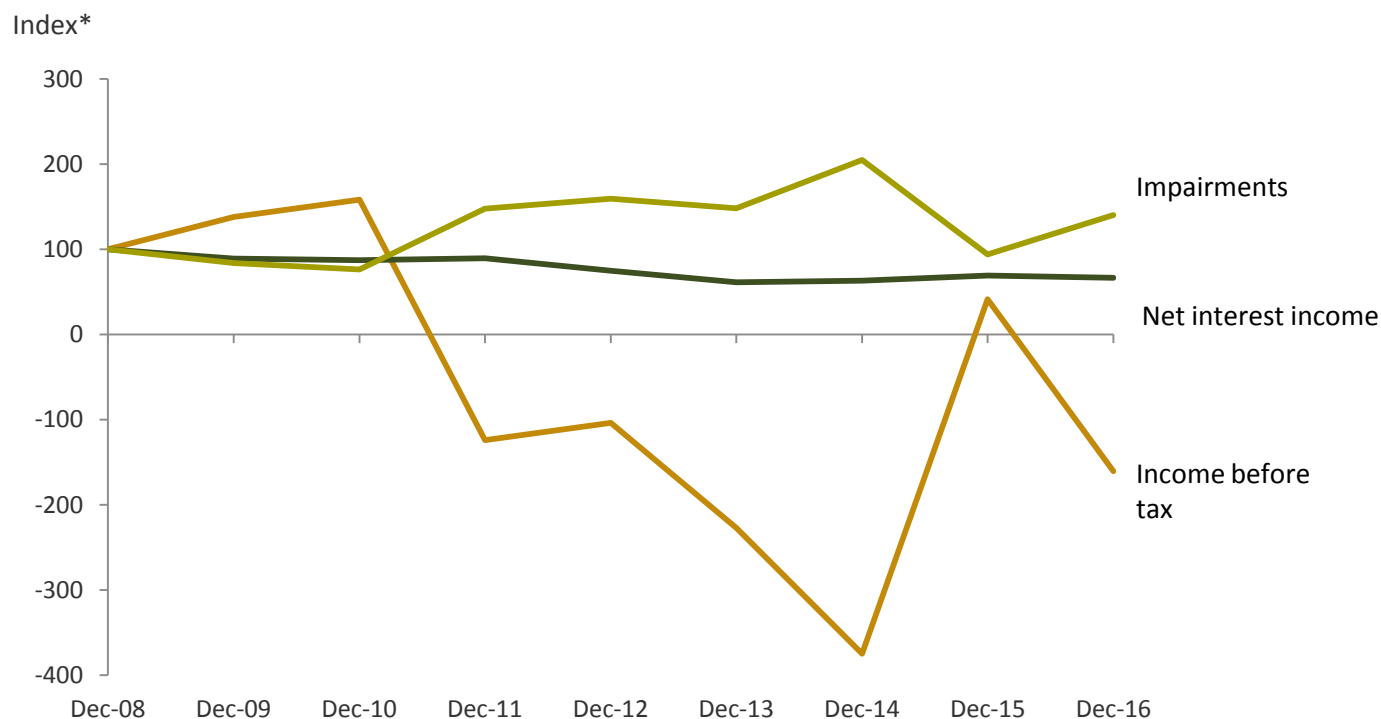


* Loans and advances net of impairments, end of period balances.

Source: Banco de Portugal – Sistema Bancário Português. From 2008 onwards the loan-to-deposit ratio has reflected the new data requirements set out in the Implementing Technical Standards on Supervisory Reporting.

Net interest income, impairments and income before tax

Since 2013 onwards, net interest income has stabilised and cost-to-income has improved. However, impairments have continued to affect the sector's profitability.



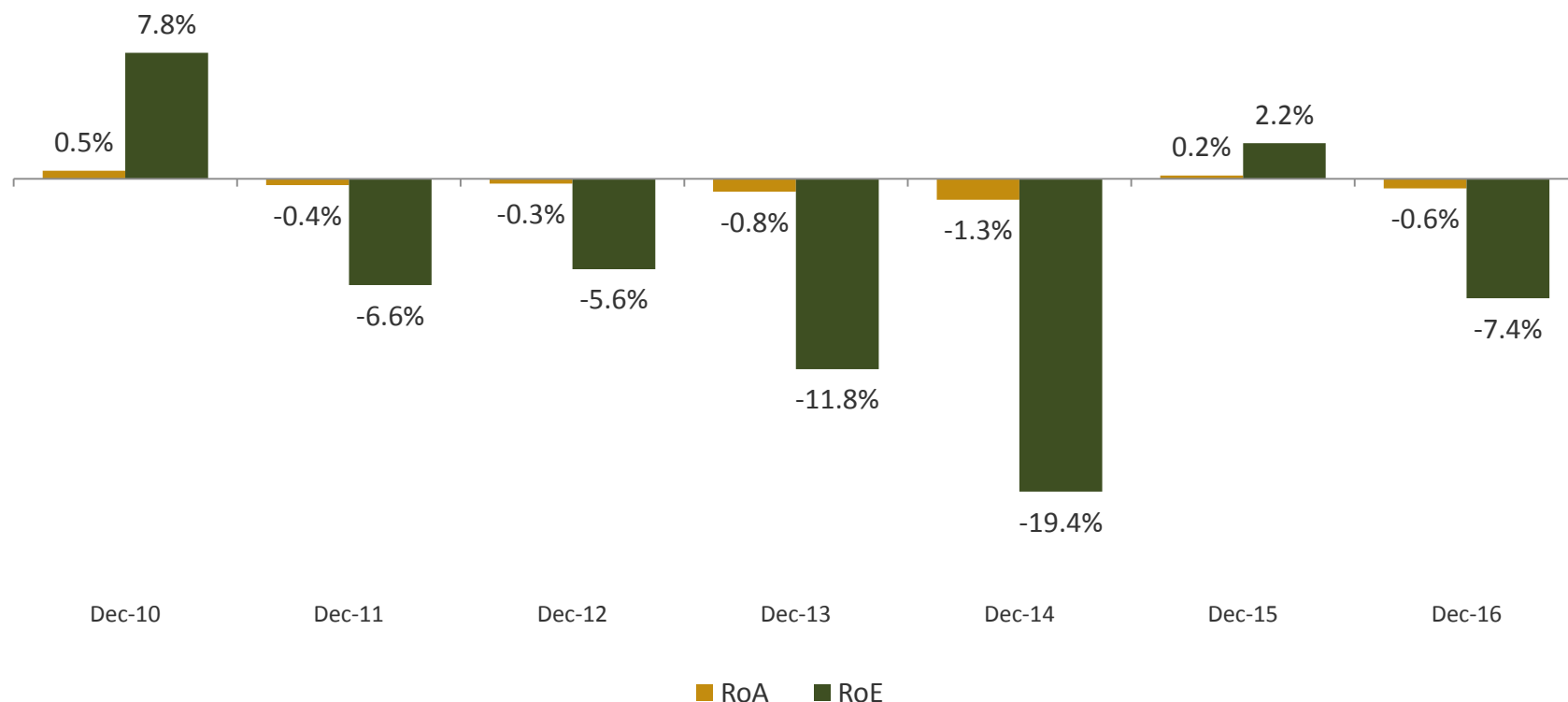
<i>Cost-to-income ratio</i>	
2011	61.7%
2014	65.8%
2015	60.0%
2016	59.8%

* Dec 2008 = 100.

Source: Banco de Portugal – BPstat.

Profitability: RoE and RoA

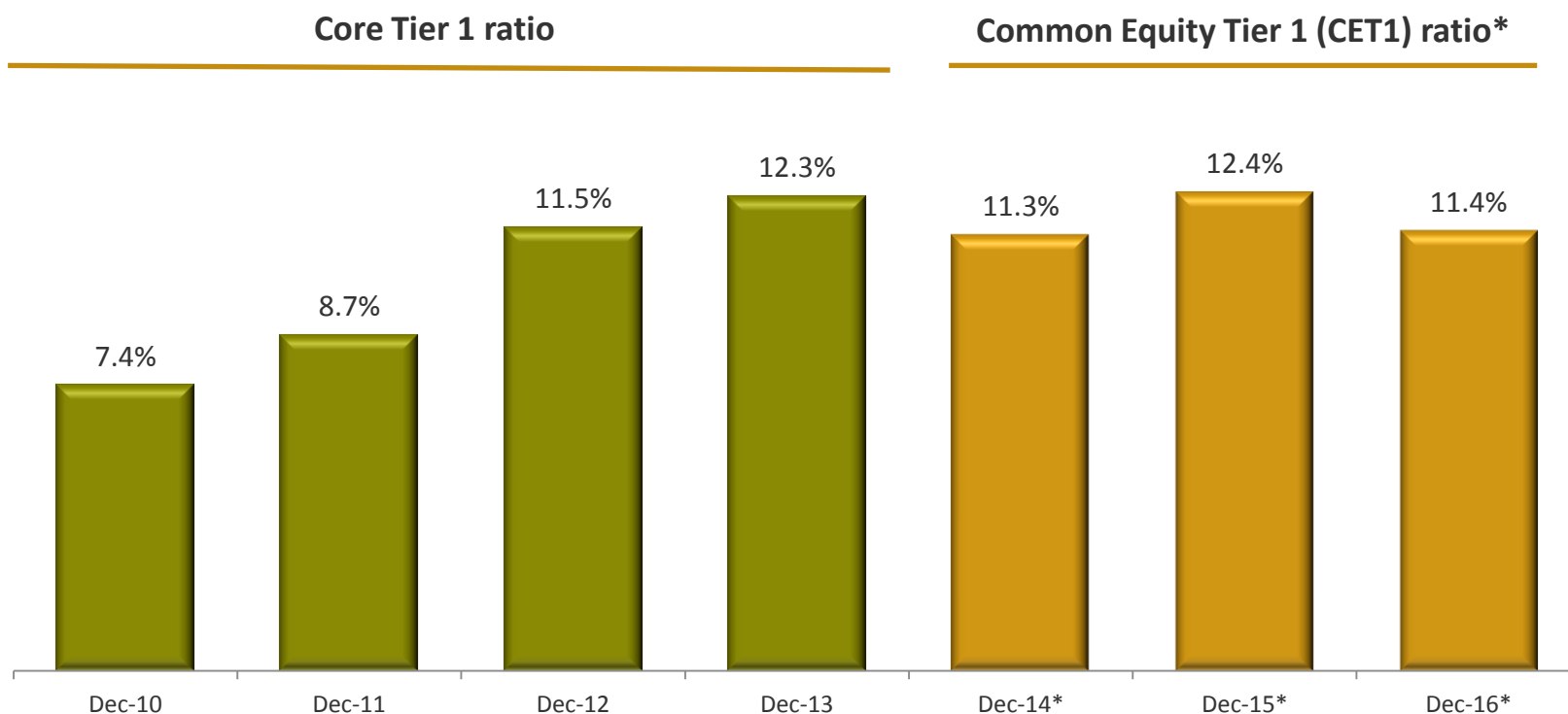
The substantial impairments accounted for in Q4 2016 together with a reduction in income from financial operations were the major contributors to bank losses in 2016.



Source: Banco de Portugal – Sistema Bancário Português.

Solvency

The Portuguese banks' solvency has improved substantially since 2011.



* CET 1 ratio calculated in accordance with the new CRR/CRD IV transitional arrangement.

Source: Banco de Portugal – Sistema Bancário Português.

The Portuguese banking sector: major highlights in 2016

- Following a 1.4% GDP growth rate in 2016 and a 2.8% YoY increase in Q1 2017, prospects for the Portuguese economy have improved.
- Total assets continued a downward trend, decreasing by 5% in 2016, mainly driven by a 4% fall in outstanding loans. Loan conditions have been improving steadily over time with the average interest rate on new loans to non-financial corporations reaching their lowest level in December 2016.
- The NPL ratio remained high despite some positive developments across all segments. The NPL coverage ratio is broadly in line with the Euro Area average (45%).
- Deposits decreased slightly but reinforced their position as the main source of banks' funding. The loan-to-deposit ratio stood at 95,5%, in December 2016 (vs. the 158.8% peak reached in June 2010).
- Substantial impairments accounted for in Q4 2016 together with a reduction in income from financial operations were the main drivers affecting bank profitability in 2016.
- The Common Equity Tier 1 ratio and the total solvency ratio stood at 11.4% and 12.3% respectively, at the end of 2016. The leverage ratio was 6.6%, with all Portuguese financial institutions standing above 3.0% which corresponds to the expected minimum requirement in the future.

Main indicators* | comparison of 2007, 2011 and 2014 – 2016

	2007	2011	2014	2015	2016
Balance sheet data (EUR M)					
Total assets	443,458	510,316	425,697	407,589	385,894
Δ%		15.1%	-16.6%	-4.3%	-5.3%
Total loans	313,190	330,346	257,332	244,472	234,294
Δ%		5.5%	-22.1%	-5.0%	-4.2%
Loans to non-financial corporations**	101,610	113,808	85,920	81,535	76,037
Δ%		12.0%	-24.5%	-5.1%	-6.7%
Loans to households**	127,278	139,605	123,685	119,224	116,995
Δ%		9.7%	-11.4%	-3.6%	-1.9%
Liabilities	415,185	484,429	394,961	374,618	355,992
Δ%		16.7%	-18.5%	-5.2%	-5.0%
Deposits	195,604	244,431	252,129	254,421	245,443
Δ%		25.0%	3.1%	0.9%	-3.5%
Capital	28,273	25,687	30,736	32,971	29,902
Δ%		-9.1%	19.7%	7.3%	-9.3%
Credit quality data (%)					
NPL ratio	n.a.	n.a.	n.a.	17.5%	17.2%
NPL coverage ratio	n.a.	n.a.	n.a.	40.8%	45.0%
Credit at risk ratio	3.6%	7.7%	11.9%	12.0%	11.8%
Credit at risk coverage ratio	n.a.	54.6%	64.0%	68.1%	69.0%
Funding risk indicators (% & EUR M)					
Loan to deposit ratio	160.1%	135.1%	102.1%	96.8%	95.5%
Funding gap	117,586	85,915	5,203	-8,106	-11,149
Δ%		-26.9%	-93.9%	-255.8%	-37.5%
Resources from central banks	5,731	50,723	33,717	28,545	24,655
Δ%		785.1%	-33.5%	-15.3%	-13.6%
of which: from BdP	2,464	46,002	31,191	26,161	22,400
Δ%		1,767.0%	-32.2%	-16.1%	-14.4%

Source: Banco de Portugal – BPstat and Sistema Bancário Português.

Main indicators* | comparison of 2007, 2011 and 2014 – 2016

	2007	2011	2014	2015	2016
Income statement data (% & EUR M)					
Income before taxes	4,801	-1,975	-5,961	656	-2,343
Δ%		-141.1%	-201.8%	111.0%	-438.0%
Net interest income	8,164	7,933	5,594	5,948	5,886
Δ%		1.2%	-18.3%	6.3%	-1.0%
Gross income	13,778	12,871	10,192	10,728	9,468
Δ%		-2.8%	-20.8%	5.2%	-11.7%
Net interest income over gross income	59.3%	61.6%	54.9%	55.4%	62.2%
Cost-to-income ratio	55.6%	61.7%	65.8%	60.8%	59.2%
Profitability ratios (%)					
ROE	17.7%	-6.6%	-19.4%	2.2%	-7.4%
ROA	1.1%	-0.4%	-1.3%	0.2%	-0.6%
Leverage & solvency indicators (% & EUR M)					
Core Tier 1 ratio	n.a.	8.7%	-	-	-
Common Equity Tier 1 ratio (CET1)	n.a.	n.a.	11.3%	12.4%	11.4%
Total solvency ratio	10.4%	9.8%	12.3%	13.3%	12.3%
RWAs	296,741	302,776	240,653	233,238	215,400
RWAs / Total assets	66.9%	59.3%	56.5%	57.2%	55.8%
Leverage ratio	-	-	-	-	6.6%

* Consolidated data as at end of period, except if otherwise stated.

** Data on an individual basis.

Source: Banco de Portugal – BPstat and Sistema Bancário Português.

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Annex I: Methodology

Methodology

- The information provided by Banco de Portugal and the ECB regarding monetary statistics differs from that provided in the consolidated data for the financial system. The main differences are basically due to the fact that the universes surveyed are not exactly the same and to different consolidation procedures. This information is available on the Banco de Portugal and the ECB websites. Among others, the following documents may be consulted: Suplemento ao Boletim Estatístico n.º1/2001, de agosto; Instrução n.º 25/2014, de 15 de dezembro de 2014 and Sistema Bancário Português: desenvolvimentos recentes - 4º trimestre de 2016.
- The data provided by Banco de Portugal – Sistema Bancário Português on loans and advances do not include other credits and debt securities.
- The solvency and profitability analysis of the banking sector was based on consolidated bank data.

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SNAPSHOT