

OVERVIEW OF THE PORTUGUESE BANKING SECTOR

SNAPSHOT

The Portuguese economy: most important developments - I

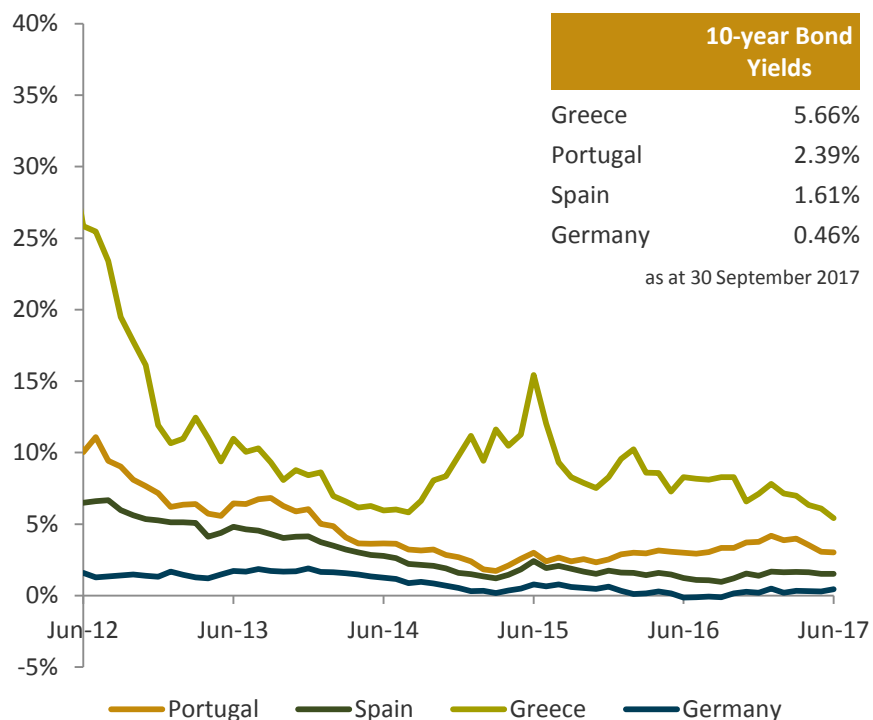
- The Economic and Financial Adjustment Programme (EFAP) ended in May 2014.
 - Total funding for the Portuguese State amounted to EUR 78 bn, EUR 12 bn of which went to the banking sector (EUR 5.6 bn used during the programme).
- After three years of contraction, the Portuguese economy started to show positive signs of growth from Q3 2013 onwards.
- In the 2018 State Budget, the Ministry of Finance revised the forecasts for GDP growth rate up for 2017 and 2018. Economic activity is now expected to grow at 2.6% in 2017 and 2.2% in 2018.
- 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	1.8	1.5	2.6
Private consumption	-3.6	2.3	2.3	2.1	2.2
Public consumption	-3.7	-0.5	1.3	0.6	-0.2
Investment (GFCF)	-12.5	2.3	5.8	1.6	7.7
Exports	7.0	4.3	6.1	4.1	8.3
Imports	-5.8	7.8	8.5	4.1	8.0
Contribution to growth (p.p.)					
Domestic demand	-6.2	2.2	2.8	1.6	2.7
Net foreign demand	4.5	-1.3	-1.1	-0.1	-0.1
External sector (% GDP)					
Net lending	-4.0	1.0	0.3	1.0	0.8
Labour market					
Employment (% change)	-3.2	1.6	1.4	1.6	2.7
Unemployment rate (%)	12.7	13.9	12.4	11.1	9.2
Prices					
HCPI	3.6	-0.2	0.5	0.6	1.2
Public finances (% GDP)					
Budget balance	-7.4	-7.2	-4.4	-2.0	-1.4
Gross public debt	111.4	130.6	128.8	130.1	126.7

Source: INE. Eurostat. 2017 forecasts based on the 2018 State Budget.

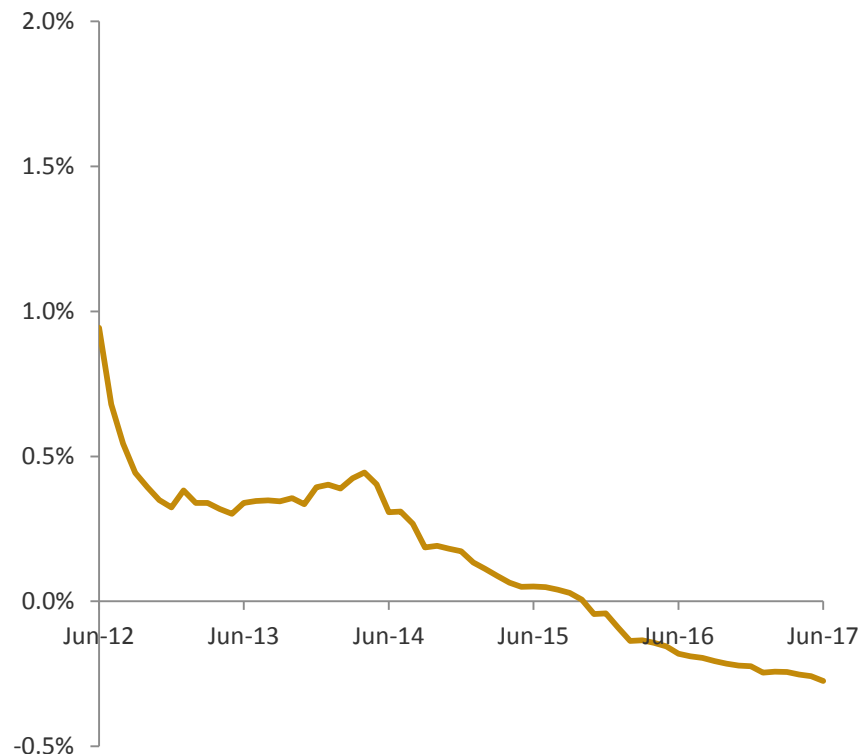
The Portuguese economy: most important developments - II

10-year Government Bond Yields



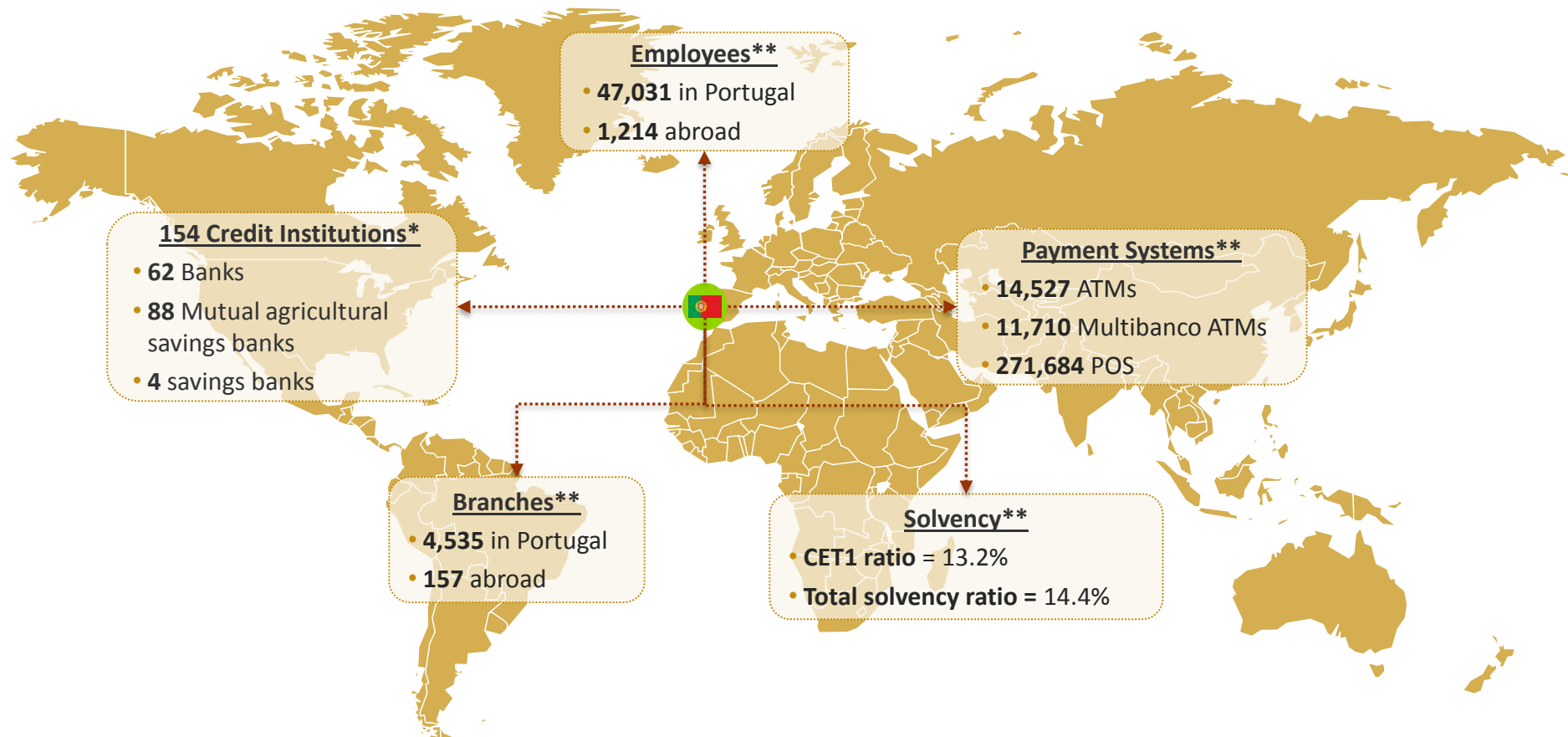
Source: Macrobond. ECB.

Euribor (6m)



Source: Euribor.

The Portuguese banking sector

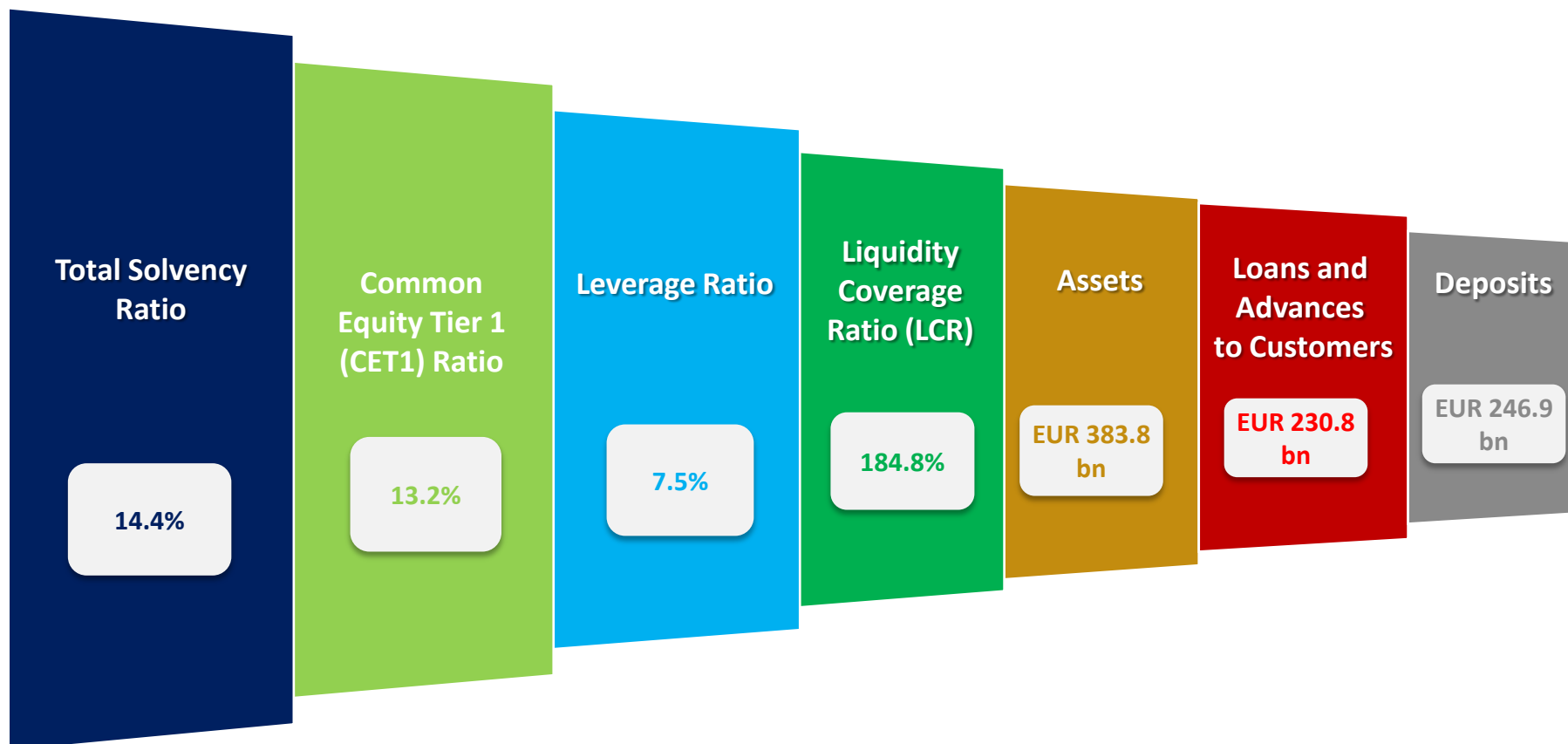


* Data as at August 2017.

** Data as at June 2017.

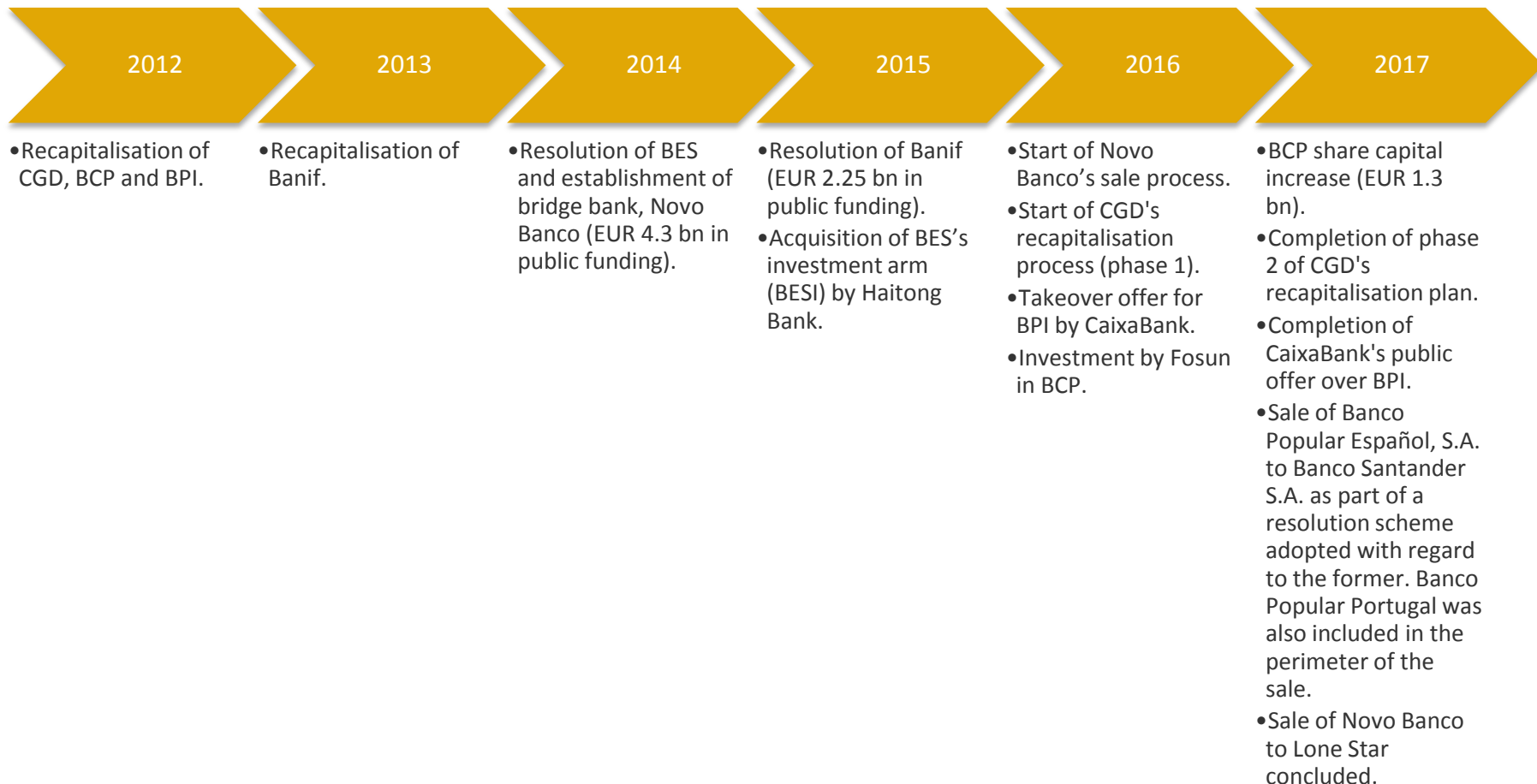
Source: APB. Banco de Portugal.

The Portuguese banking sector: main financial indicators



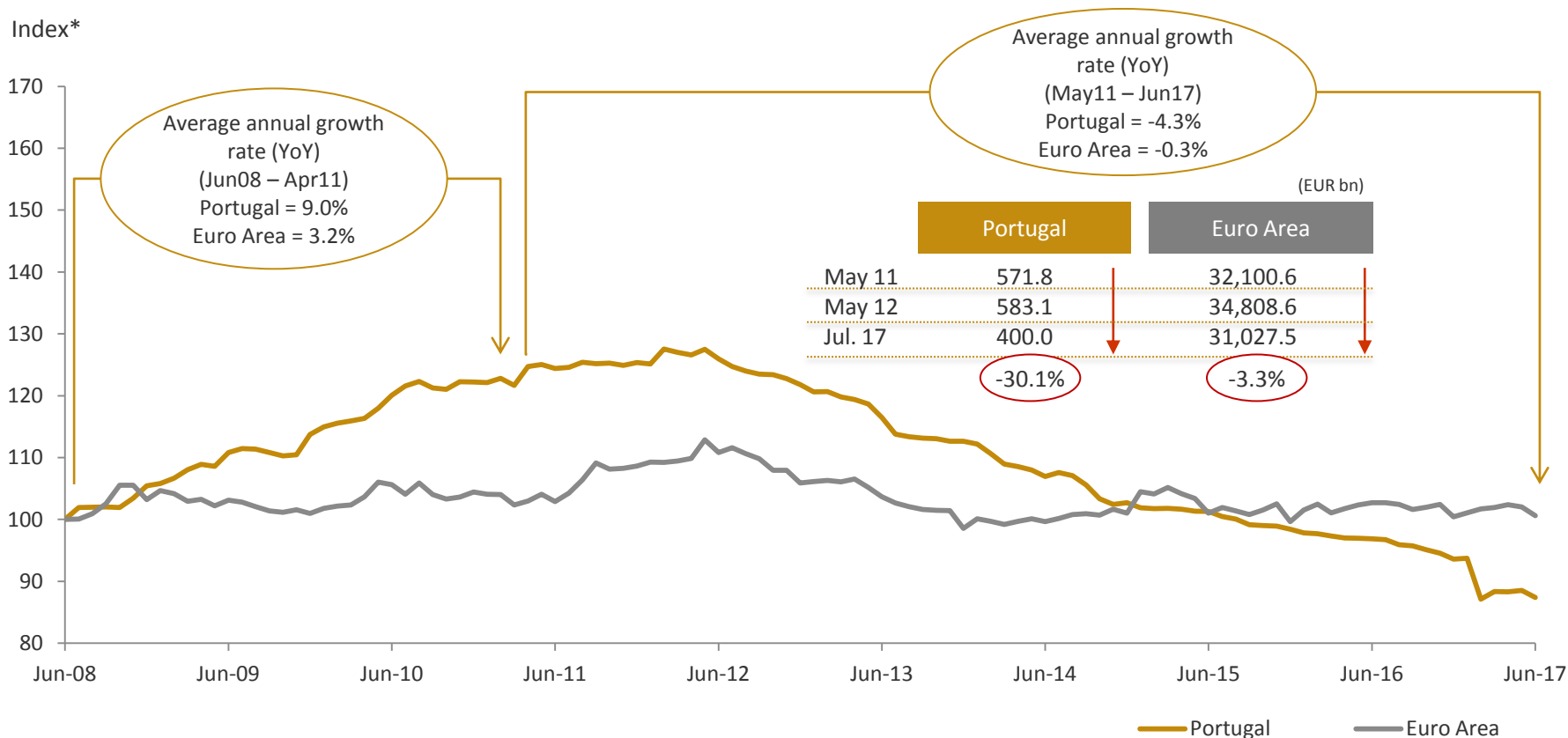
Source: Banco de Portugal – Sistema Bancário Português. Data as at June 2017.

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).

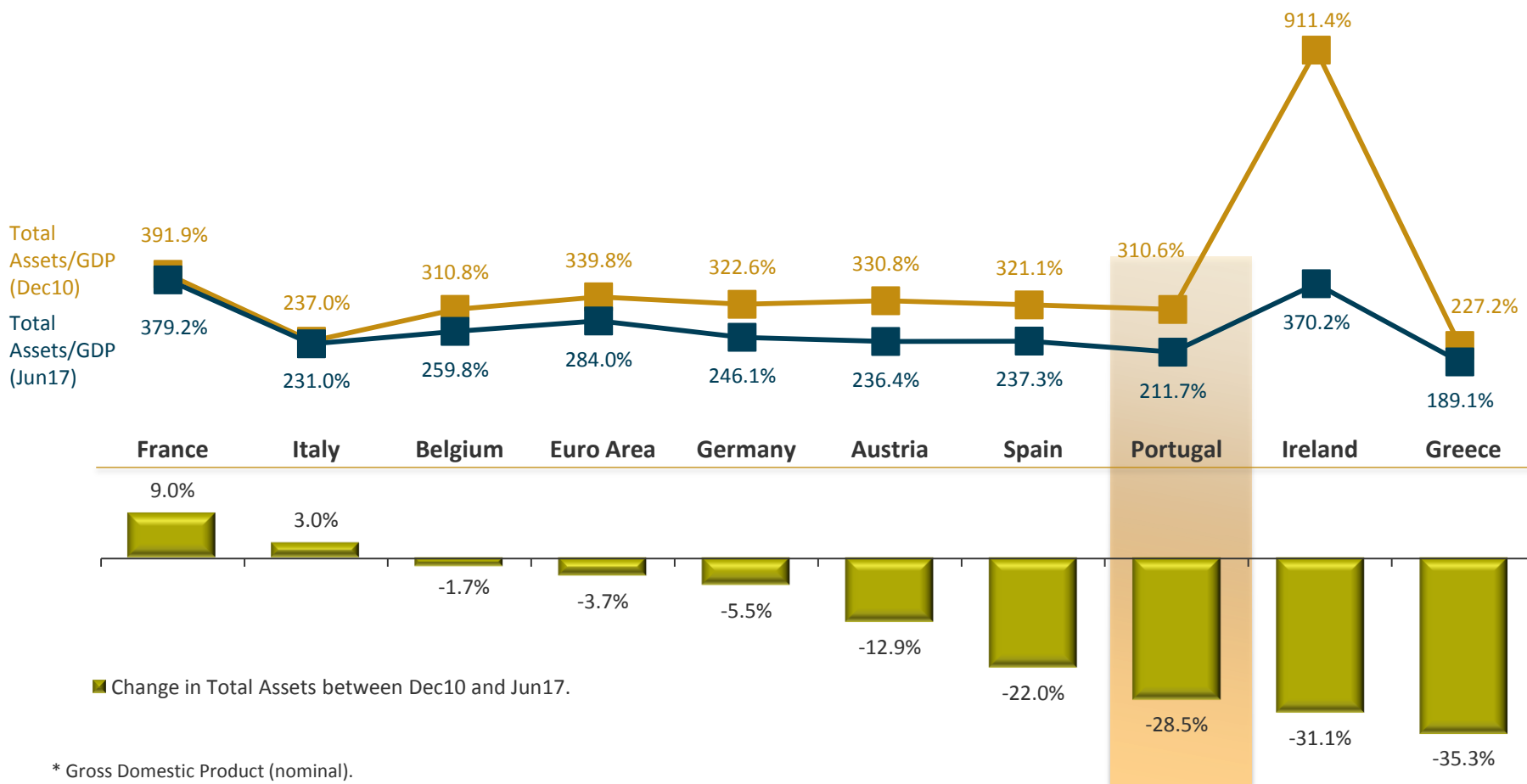


* Jun 2008 = 100.

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.

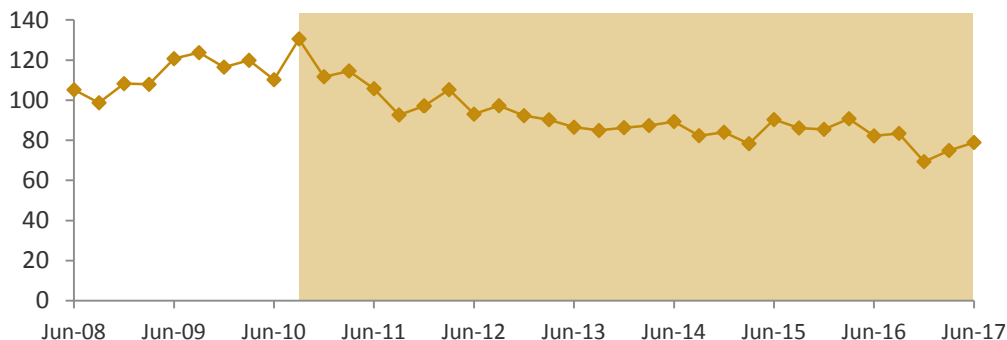


* Gross Domestic Product (nominal).

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

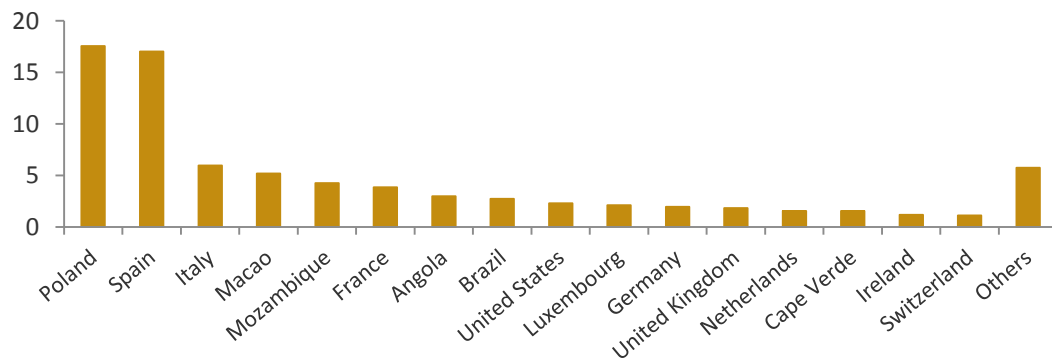
International exposure*

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

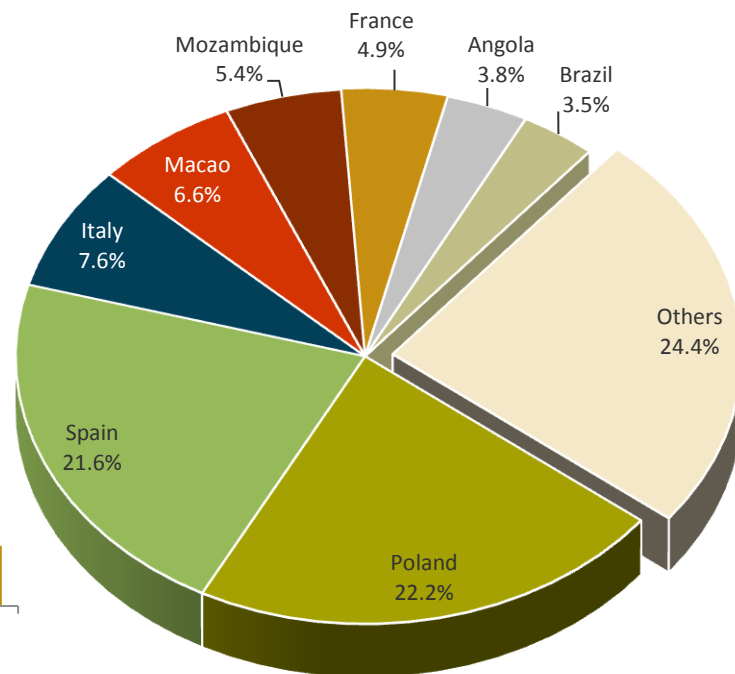


The Portuguese banks' international exposure declined as a result of the deleveraging process.

Exposure by country: EUR bn (June 2017)



Exposure by country (June 2017)

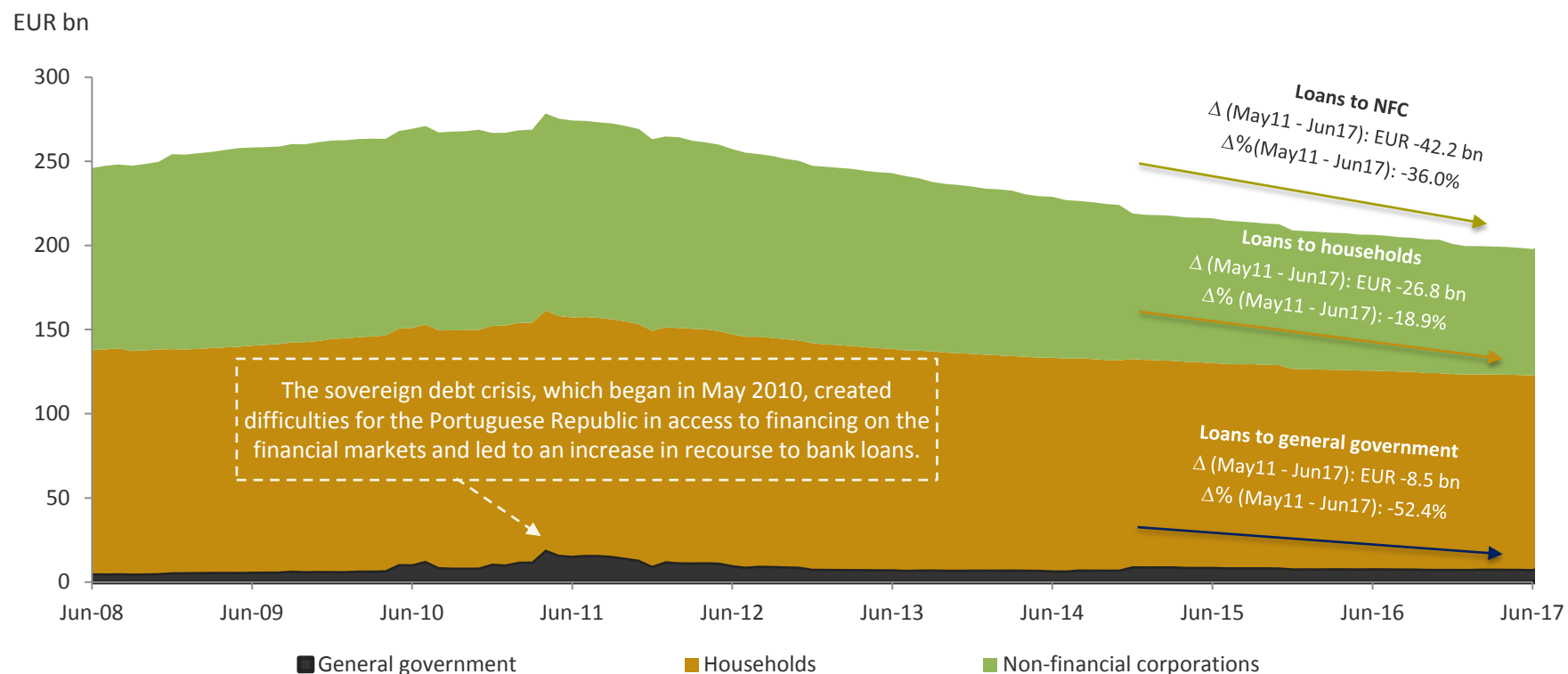


* Measured by outstanding loans, advances and liabilities of Portuguese banking groups, on a consolidated basis and excluding intra-group exposure, in relation to international entities, but including loans, advances and deposits with other banks, loans and advances to non-banking entities and debt securities.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

Source: Bank for International Settlements.

Loans and advances* per institutional sector

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



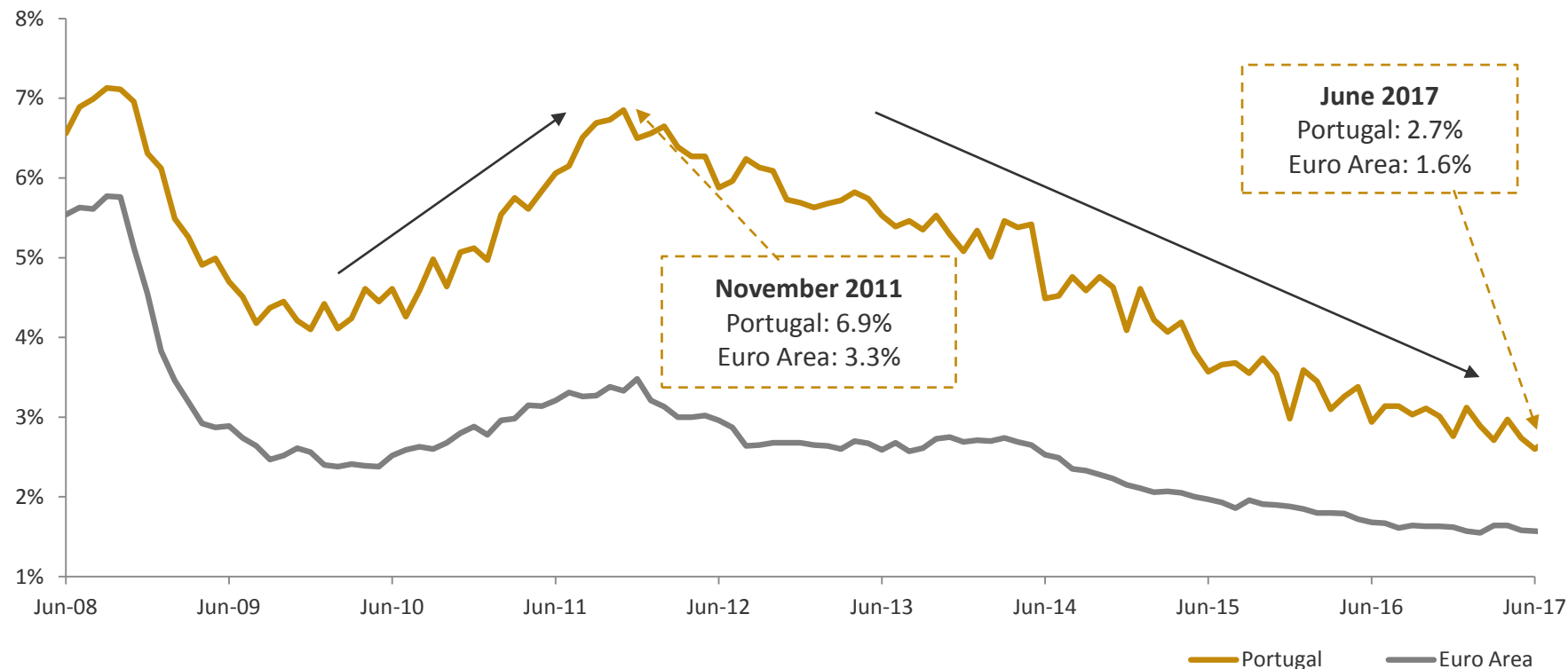
* This refers to loans granted by resident other monetary financial institutions to the resident non-monetary sector. Gross figures.

** 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 the beginning of 2012, reaching its lowest level in June 2017.



Source: ECB – MFI Interest Rate Statistics.

NPL and NPE: Portugal vs. other EU countries

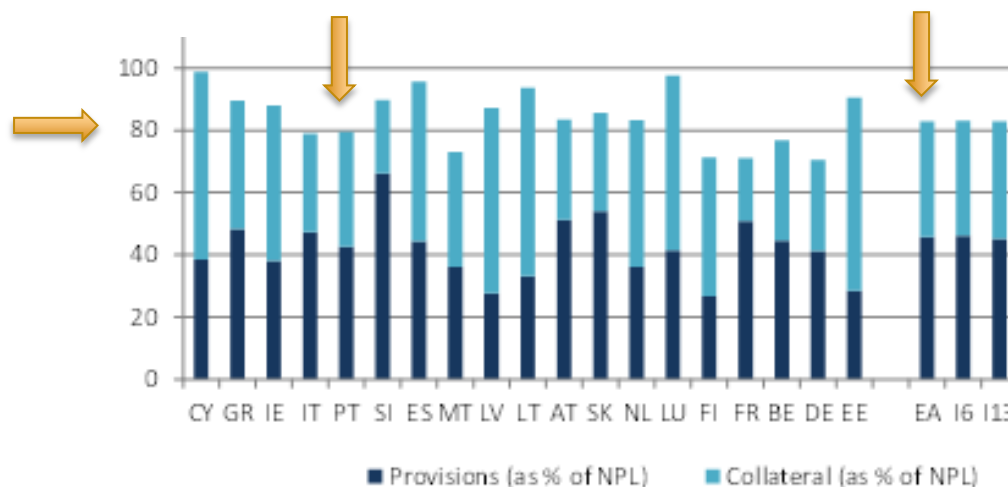
The NPL coverage ratio in Portugal is broadly in line with the Euro Area average. It increased from 40.8% at the end of 2015 to 45.3% at the end of 2016.

NPE ratio evolution

	Dec-14	Dec-15	Dec-16	Jun-17
GR	33.9%	37.3%	38.6%	40.2%
CY	45.4%	46.1%	42.7%	40.0%
PT	14.8%	16.2%	16.4%	14.6%
IT	14.0%	13.9%	12.6%	10.0%
IE	16.6%	13.9%	10.1%	9.8%
EU	5.5%	4.9%	4.4%	3.9%
AT	6.6%	5.7%	4.2%	3.6%
FR	3.7%	3.5%	3.2%	3.1%
BE	3.1%	2.9%	2.5%	2.3%
NL	2.9%	2.5%	2.3%	2.3%
DE	3.1%	2.5%	2.3%	1.9%

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

NPL: Provisioning and collateral

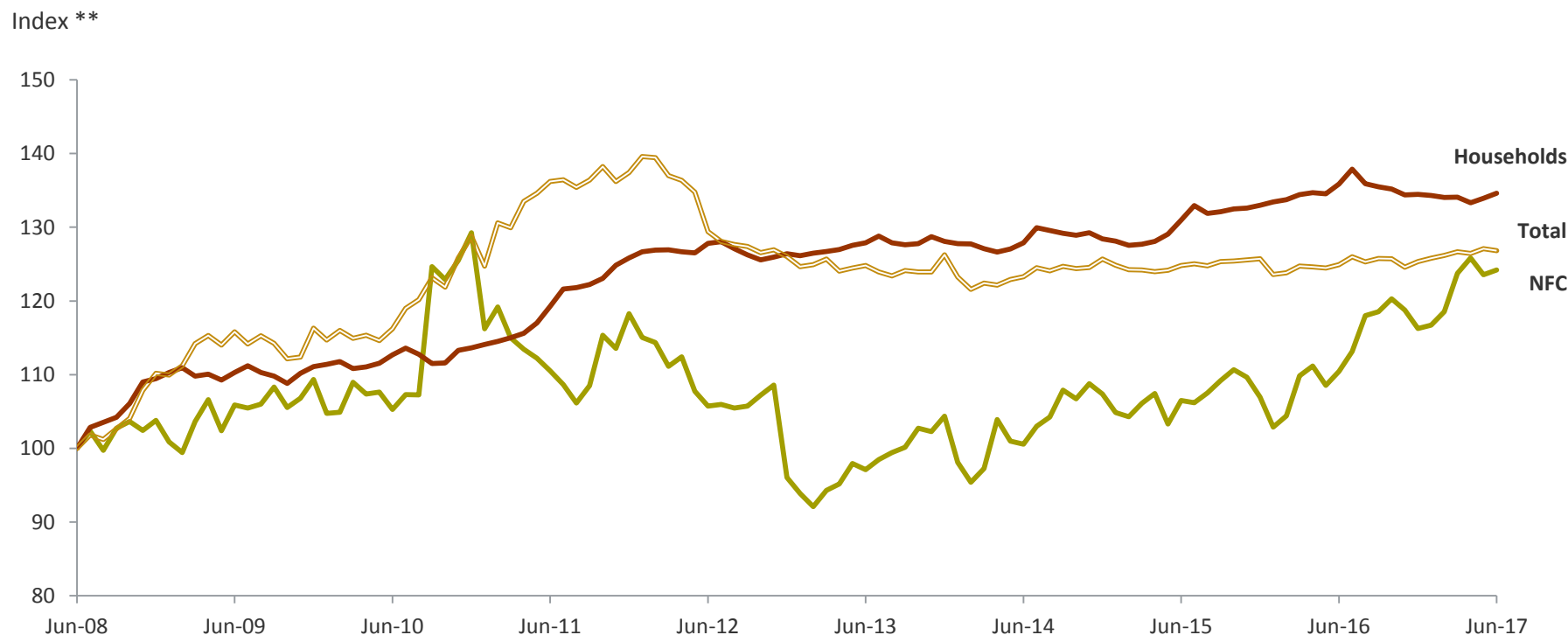


Data as at December 2016.

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.



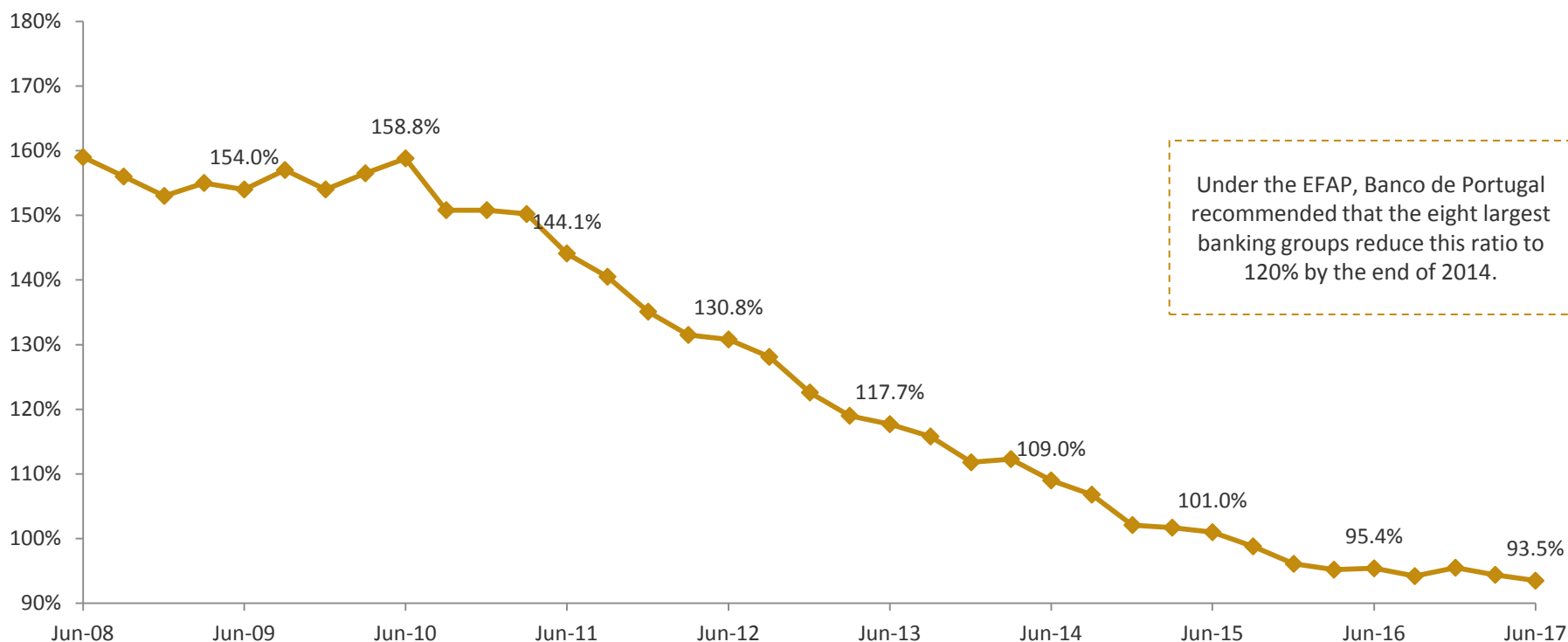
* Deposits from the non-monetary sector, end of period balances.

** Jun 2008 = 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.

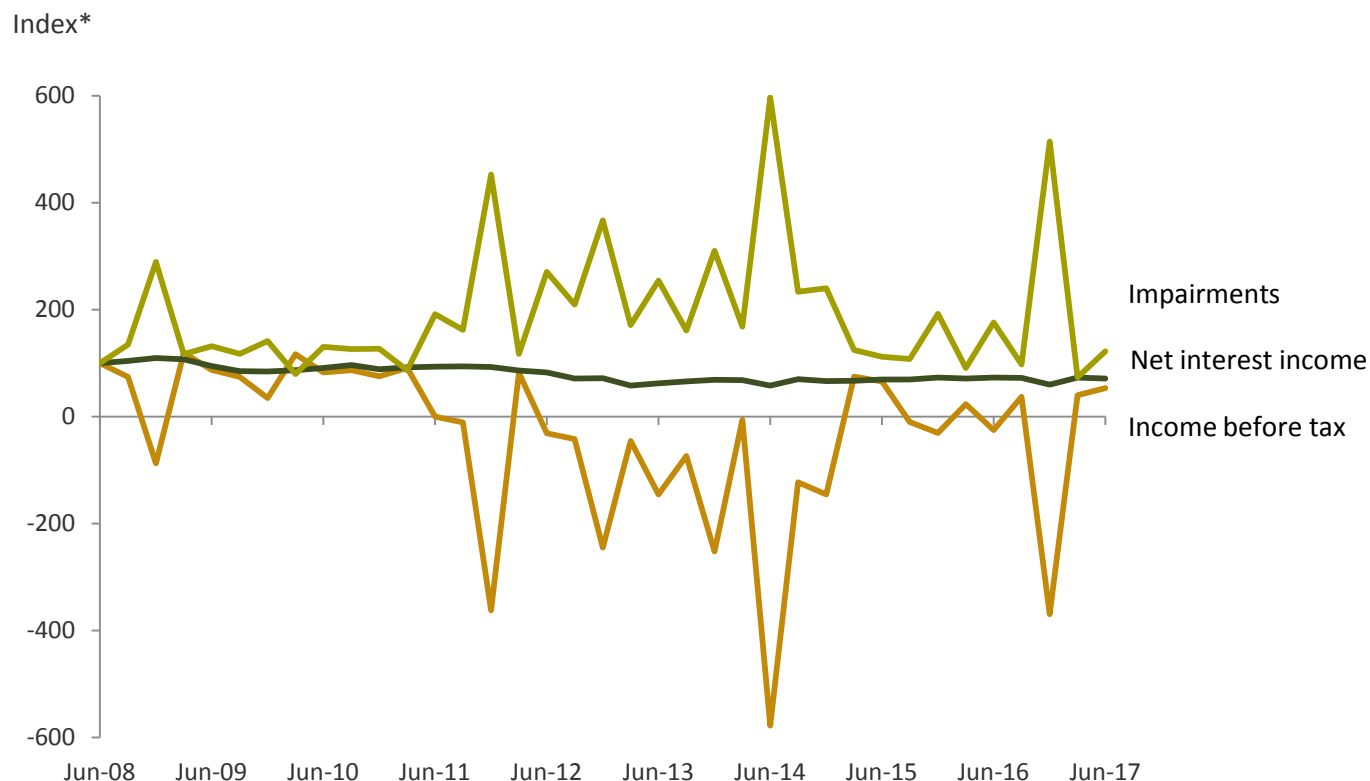


* Loans and advances net of impairments, end of period balances.

Source: Banco de Portugal – Sistema Bancário Português. From 2008 onwards, the loan-to-deposit ratio reflects 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 stabilized while impairments continued to affect the profitability of the sector.

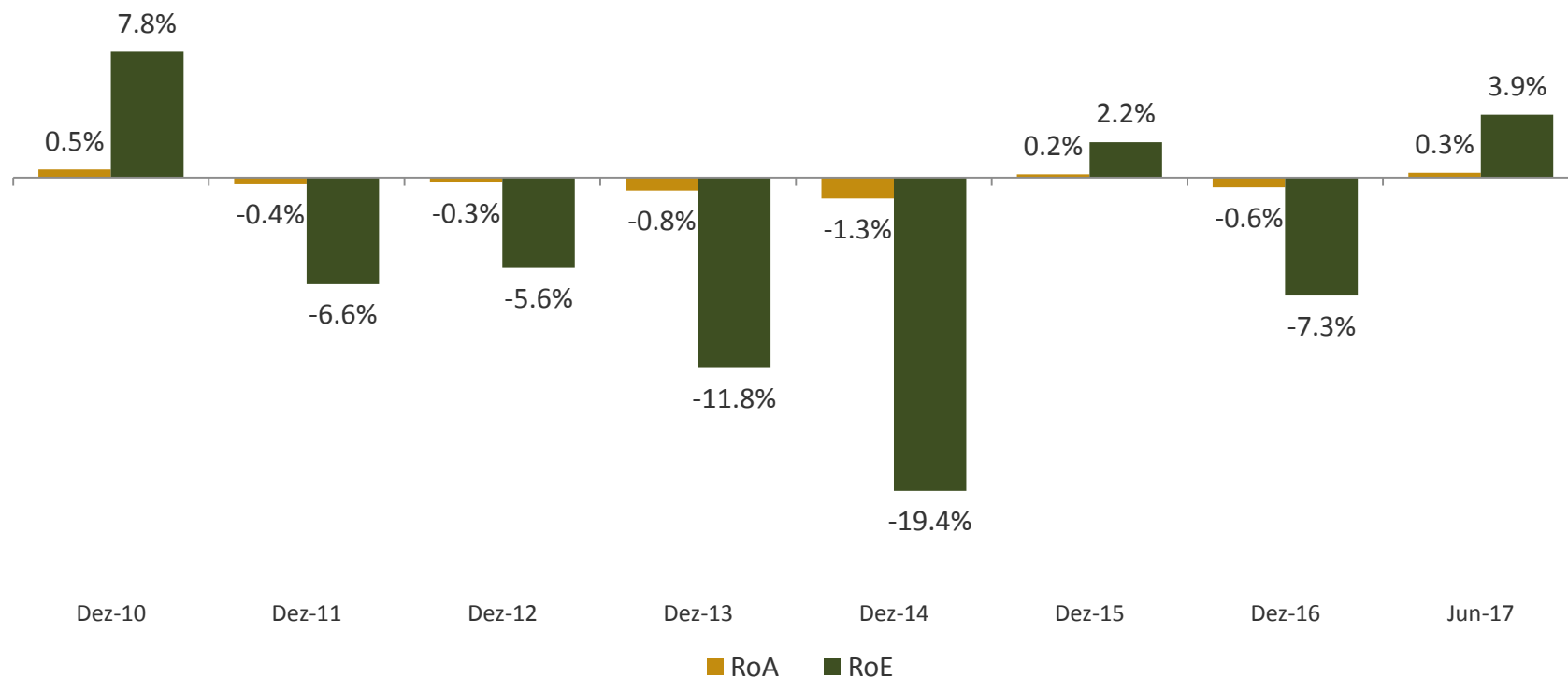


Cost-to-income ratio	
H1 2011	58.6%
H1 2014	66.2%
H1 2015	54.4%
H1 2016	61.9%
Q1 2017	65.9%
H1 2017	60.5%

* Jun 2008 = 100. Quarterly values.
Source: Banco de Portugal – BPstat.

Profitability: RoE and RoA

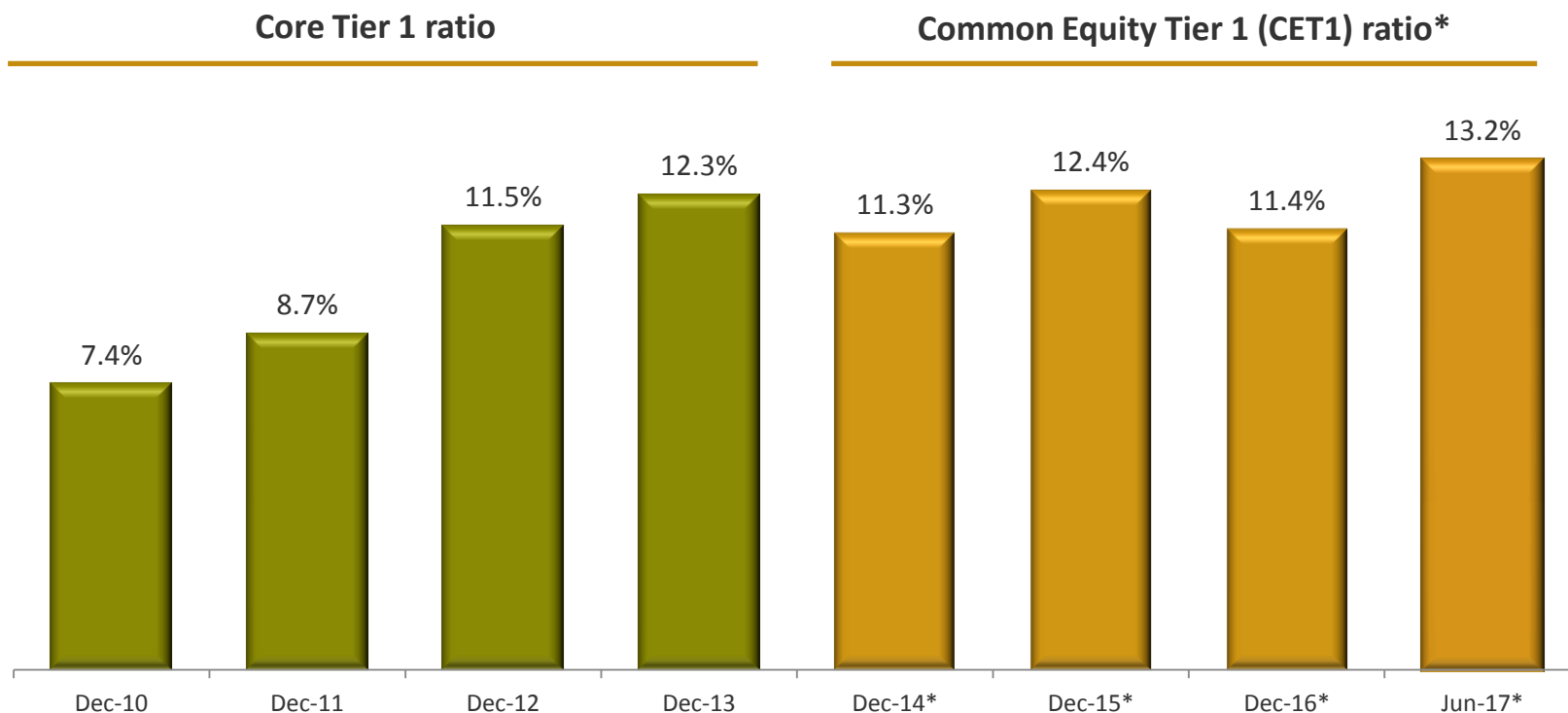
In the first half of 2017, profitability reverted to positive values, benefiting from a reduction in operating costs and a substantial decrease in impairments.



Source: Banco de Portugal – Sistema Bancário Português.

Solvency

The Portuguese banks' solvency has improved significantly 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 H1 2017

- Following a 1.5% GDP growth rate in 2016 and a 2.8% year-on-year increase in the first half of 2017, prospects for the Portuguese economy have improved.
- Total assets continued a downward trend, decreasing by 0.6% in the first half of 2017, mainly driven by a 1.5% fall in outstanding loans vis-à-vis December 2016. Loan conditions have been improving steadily over time with the average interest rate on new loans to non-financial corporations reaching its lowest level in June 2017.
- The NPL ratio remained high but continued to show positive developments across all segments. The NPL coverage ratio is broadly in line with the Euro Area average (45.9%).
- Deposits increased slightly over December 2016, reinforcing their position as the main source of banks' funding. In June 2017, the loan-to-deposit ratio stood at 93.5% (in comparison with the 158.8% peak reached in June 2010).
- In the first half of 2017, profitability reverted to positive values, benefiting from a reduction in operating costs and a substantial decrease in impairments.
- The Common Equity Tier 1 ratio and the total solvency ratio stood at 13.2% and 14.4% respectively, in June 2017. The leverage ratio was 7.5% as opposed to 6.6% registered in December 2016.

Main indicators¹ | comparison of 2007, 2011 and 2014 - H1 2017

	2007	2011 ²	2014 ³	2015	2016	H1 2017
	End of period	End of period	End of period	End of period	End of period	End of period
Balance sheet data (consolidated, EUR M)						
Total assets	443,458	510,316	425,697	407,449	386,076	383,803
Δ%		15.1%	-16.6%	-4.3%	-5.2%	-0.6%
Total loans	313,190	330,346	257,332	244,463	234,291	230,786
Δ%		5.5%	-22.1%	-5.0%	-4.2%	-1.5%
Loans to non-financial corporations ⁴	101,610	113,808	86,483	82,215	77,323	75,096
Δ%		12.0%	-24.0%	-4.9%	-6.0%	-2.9%
Loans to households ⁴	127,278	139,605	123,122	118,544	115,708	115,026
Δ%		9.7%	-11.8%	-3.7%	-2.4%	-0.6%
Liabilities	415,185	484,429	394,961	374,506	356,177	347,433
Δ%		16.7%	-18.5%	-5.2%	-4.9%	-2.5%
Deposits	195,604	244,431	252,129	254,343	245,434	246,858
Δ%		25.0%	3.1%	0.9%	-3.5%	0.6%
Resources from central banks	5,731	50,723	33,717	28,533	24,655	25,418
Δ%		785.1%	-33.5%	-15.4%	-13.6%	3.1%
Capital	28,273	25,687	30,736	32,943	29,899	36,370
Δ%		-9.1%	19.7%	7.2%	-9.2%	21.6%
Credit quality data (consolidated, % & EUR M)						
NPLs (gross)⁵				49,818	46,361	42,262
NPLs (net)				29,492	25,359	22,864
NPL ratio				17.5%	17.2%	15.5%
NPL coverage ratio				40.8%	45.3%	45.9%
Main funding & liquidity risk indicators (consolidated, % & EUR M)						
Loan to deposit ratio	160.1%	135.1%	102.1%	96.1%	95.5%	93.5%
Funding gap	117,586	85,915	5,203	-9,880	-11,143	-16,072
Liquidity coverage ratio (LCR)	-	-	-	-	153.6%	184.8%

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

Main indicators¹ | comparison of 2007, 2011 and 2014 - H1 2017

	2007	2011 ²	2014 ³	2015	2016	H1 2017
	End of period	End of period	End of period	End of period	End of period	End of period
Income statement data (consolidated, % & EUR M, flows)						
Income before taxes	4,801	-1,975	-5,961	693	-2,341	653
Δ% YoY		-141.1%	-201.8%	111.6%	-437.6%	4,499.4%
Net interest income	8,164	7,933	5,594	5,947	5,886	3,068
Δ% YoY		-2.8%	-29.5%	6.3%	-1.0%	0.2%
Gross income	13,778	12,871	10,192	10,732	9,470	4,822
Δ% YoY		-6.6%	-20.8%	5.3%	-11.8%	-1.9%
Net interest income (as a % of gross income)	59.3%	61.6%	54.9%	55.4%	62.2%	63.6%
Cost-to-income ratio	55.6%	61.7%	65.8%	60.8%	59.2%	60.5%
Impairments (as a % of gross income)	12.5%	51.6%	79.8%	37.4%	67.1%	23.0%
Profitability ratios (%)						
ROE⁶	17.7%	-6.6%	-19.4%	2.1%	-7.3%	3.9%
ROA⁶	1.1%	-0.4%	-1.3%	0.2%	-0.6%	0.3%
Leverage & solvency indicators (consolidated, % & 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%	13.2%
Total solvency ratio	10.4%	9.8%	12.3%	13.3%	12.2%	14.4%
RWAs	296,741	302,776	240,653	233,238	215,400	n.a.
RWAs (as a % of total assets)	66.9%	59.3%	56.5%	57.2%	55.8%	n.a.
Leverage ratio	-	-	-	-	6.6%	7.5%

¹ Consolidated data as at end of period, except if otherwise stated.

² Cumulative change between 2007 and 2011.

³ Cumulative change between 2011 and 2014.

⁴ Data on an individual basis.

⁵ NPL (Non-Performing Loans) - Loans and advances that comply with at least one of the following conditions: (i) material exposures that are more than 90 days past-due; (ii) the debtor is assessed as unlikely to pay its obligations in full without realization of collateral; (iii) impaired assets, except incurred but not reported (IBNR) impairments; and (iv) defaulted credit, in accordance with the CRR prudential concept.

⁶ Calculated based on Income before taxes and minority interests. Note: annualised values.

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 is based on consolidated bank data.

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