OVERVIEW OF THE PORTUGUESE BANKING SECTOR

SNAPSHOT

APB ASSOCIAÇÃO PORTUGUESA DE BANCOS

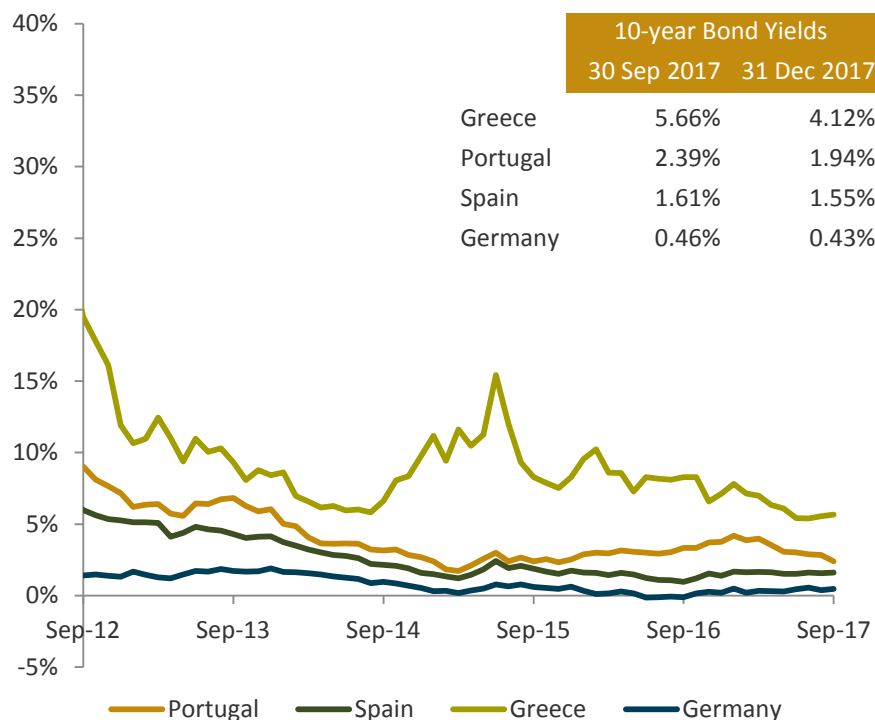# The Portuguese economy: most important developments - I

- 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.

- 2017 and 2018. Economic activity is now expected to grow at 2.6% in 2017 and 2.2% in 2018 (revised forecasts for GDP in the 2018 State Budget).

- 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.

- Throughout 2017, there were upgrades of Portugal's credit rating.

	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

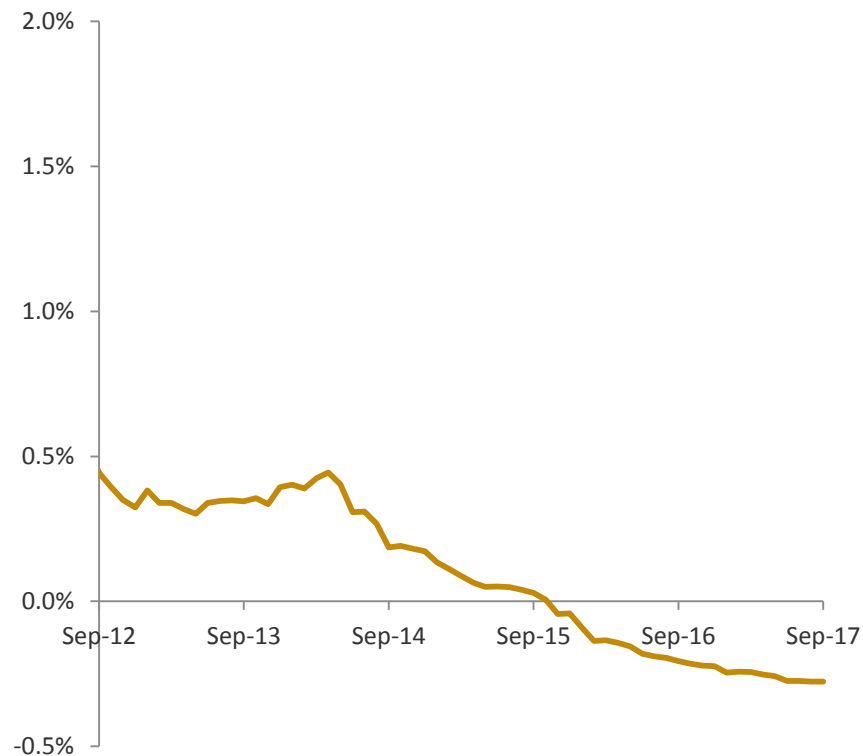Source: INE. Eurostat. 2017 forecasts based on the 2018 State Budget.

The Portuguese economy: most important developments - II

10-year Government Bond Yields

10-year Bond Yields		
	30 Sep 2017	31 Dec 2017
Greece	5.66%	4.12%
Portugal	2.39%	1.94%
Spain	1.61%	1.55%
Germany	0.46%	0.43%

Legend: Portugal, Spain, Greece, Germany

Source: Macrobond. ECB.

Euribor (6m)

Source: Euribor.

The Portuguese banking sector

Employees*
- **47,031** in Portugal
- **1,214** abroad

154 Credit Institutions
- **62** Banks
- **88** Mutual agricultural savings banks
- **4** savings banks

Payment Systems*
- **14,527** ATMs
- **11,710** Multibanco ATMs
- **271,684** POS

Branches*
- **4,535** in Portugal
- **157** abroad

Solvency
- **CET1 ratio** = 13.5%
- **Total solvency ratio** = 14.7%
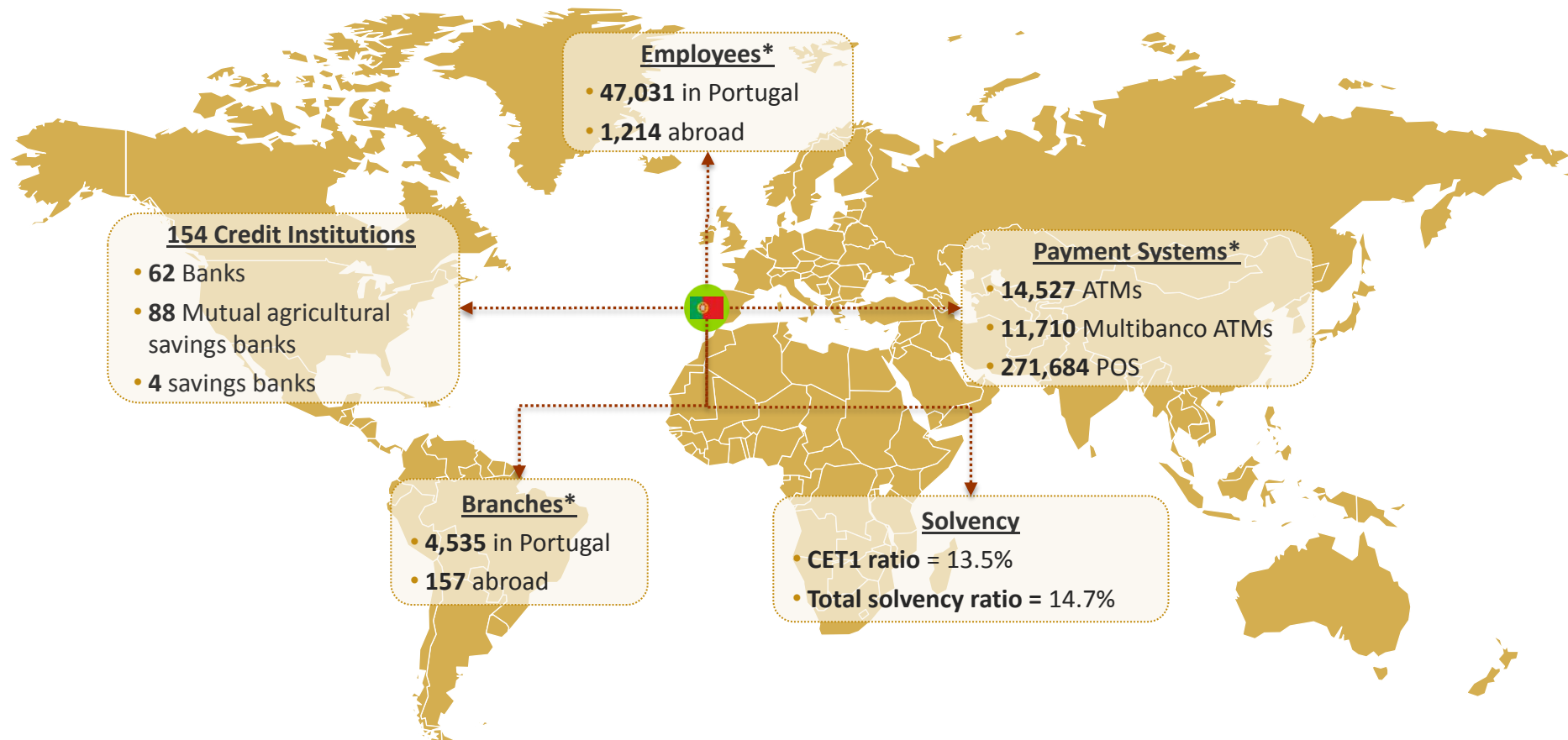
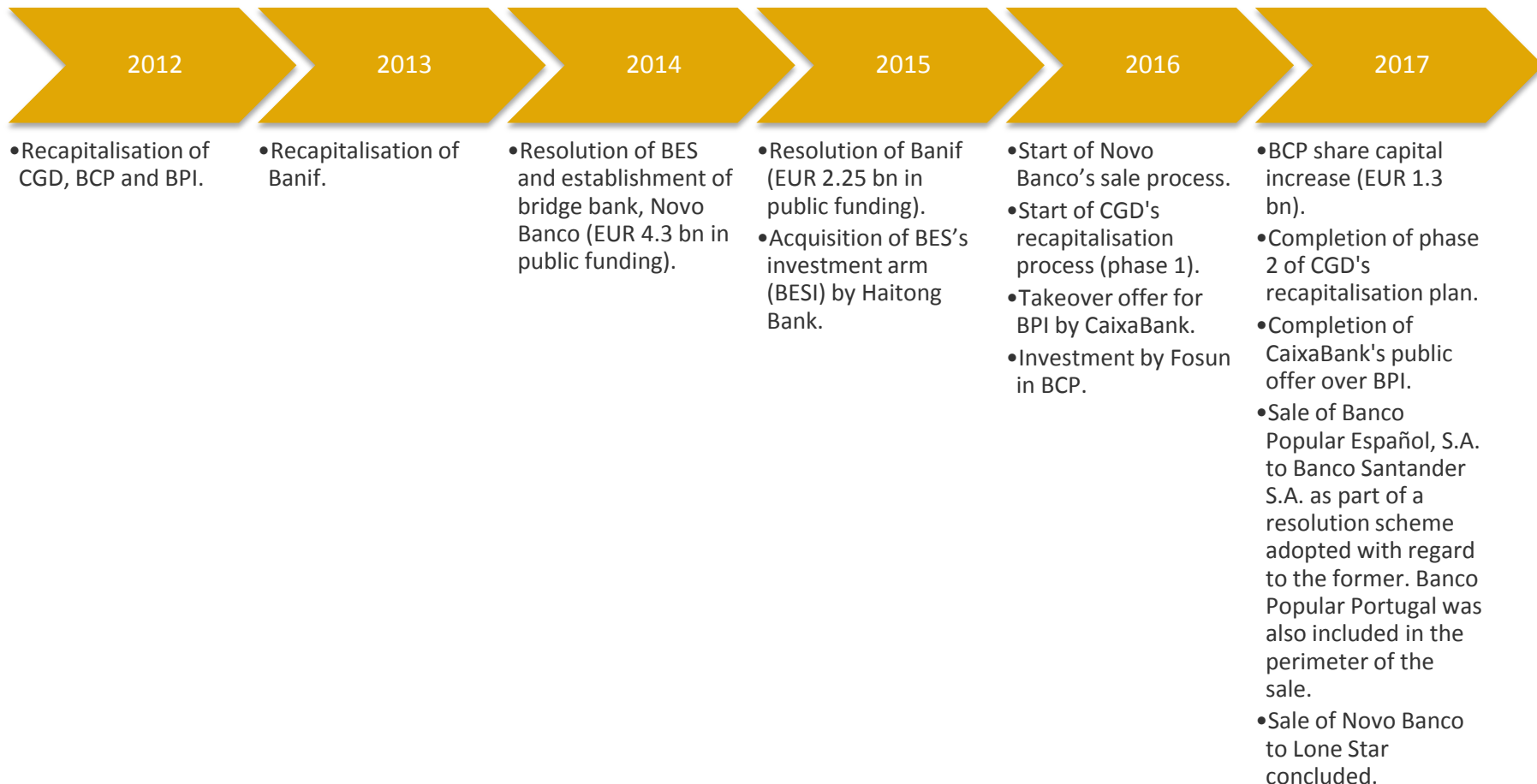* Data as at June 2017.
Source: APB. Banco de Portugal.

The Portuguese banking sector: main financial indicators

Total Solvency Ratio	Common Equity Tier 1 (CET1) Ratio	Leverage Ratio	Liquidity Coverage Ratio (LCR)	Assets	Loans and Advances to Customers	Deposits
14.7%	13.5%	7.5%	176.7%	EUR 385.1 bn	EUR 231.6 bn	EUR 246.4 bn
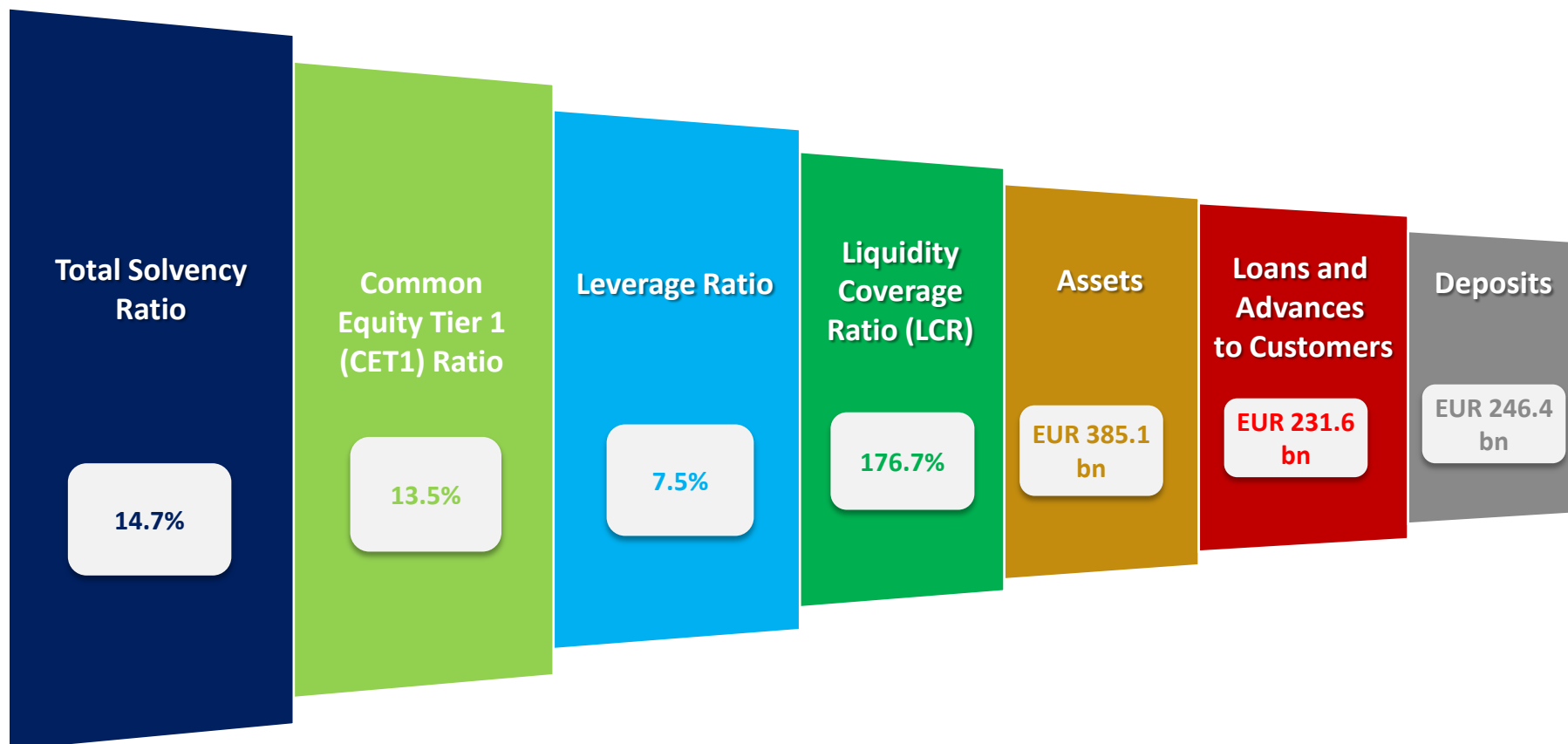
Source: Banco de Portugal – Sistema Bancário Português.

The Portuguese banking sector: landmarks

2012	2013	2014	2015	2016	2017

2012
- Recapitalisation of CGD, BCP and BPI.

2013
- Recapitalisation of Banif.

2014
- Resolution of BES and establishment of bridge bank, Novo Banco (EUR 4.3 bn in public funding).

2015
- Resolution of Banif (EUR 2.25 bn in public funding).
- Acquisition of BES's investment arm (BESI) by Haitong Bank.

2016
- Start of Novo Banco's sale process.
- Start of CGD's recapitalisation process (phase 1).
- Takeover offer for BPI by CaixaBank.
- Investment by Fosun in BCP.

2017
- BCP share capital increase (EUR 1.3 bn).
- Completion of phase 2 of CGD's recapitalisation plan.
- Completion of CaixaBank's public offer over BPI.
- Sale of Banco Popular Español, S.A. to Banco Santander S.A. as part of a resolution scheme adopted with regard to the former. Banco Popular Portugal was also included in the perimeter of the sale.
- Sale of Novo Banco to Lone Star concluded.

Total assets

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

Index*

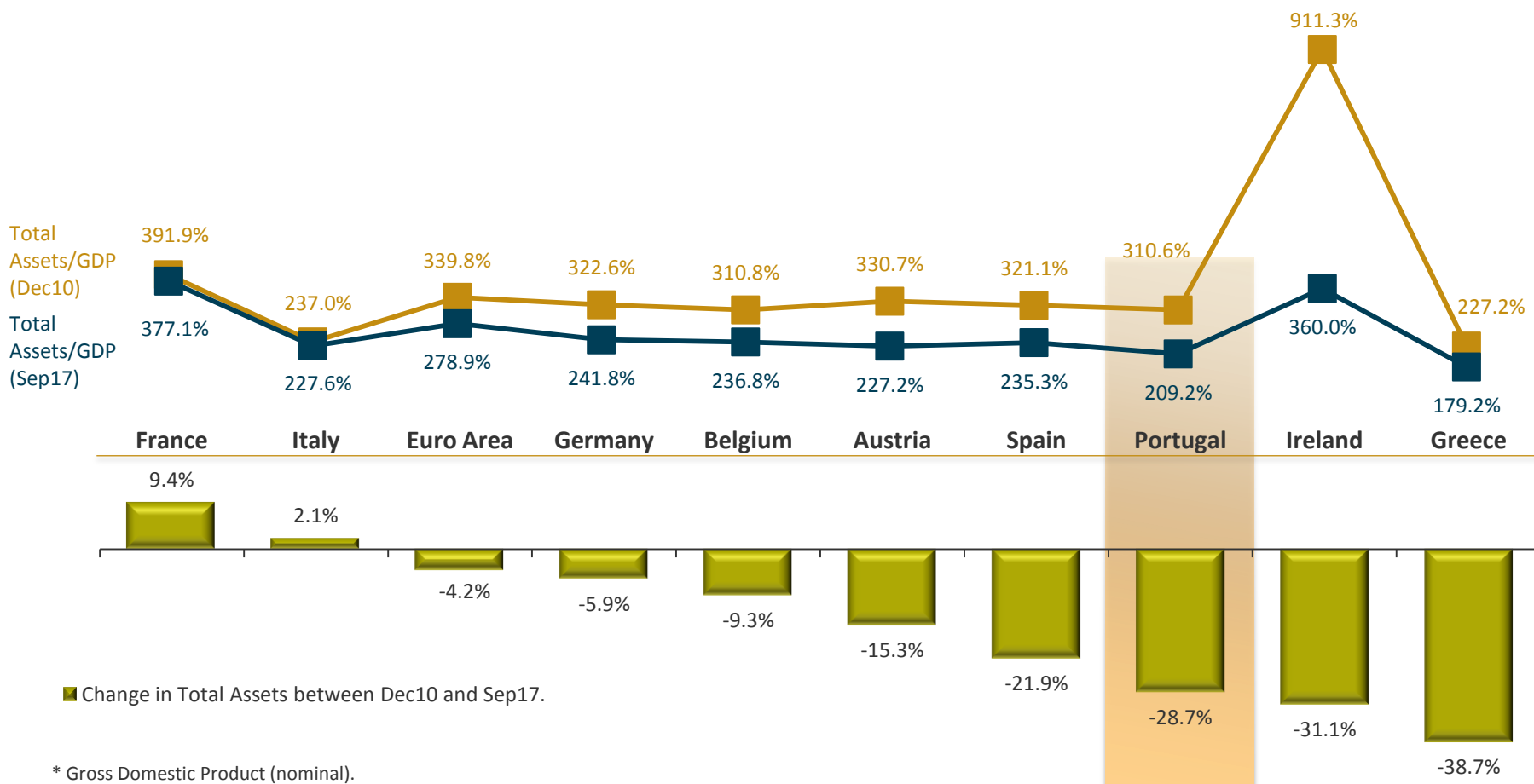Average annual growth rate (YoY)
(Set08 – Apr11)
Portugal = 8.8%
Euro Area = 2.5%

Average annual growth rate (YoY)
(May11 – Sep17)
Portugal = -4.5%
Euro Area = -0.4%

(EUR bn)

	Portugal	Euro Area
May 11	571.8	32,100.6
May 12	583.1	34,808.6
Sep 17	398.5	30,840.3
	-30.3%	-3.9%

Portugal ——— Euro Area
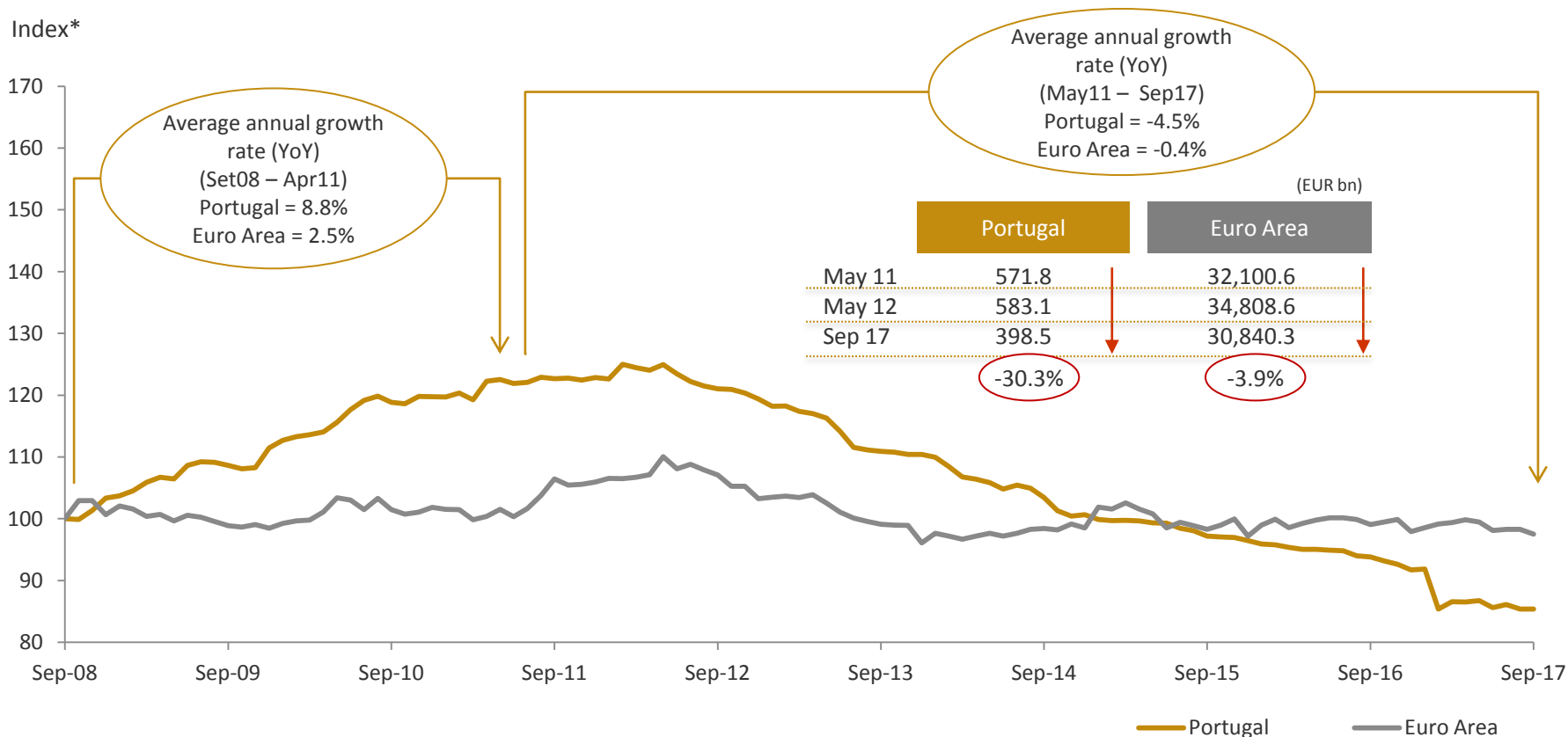
* Sep 2008 = 100.
Source: ECB – MFI Balance Sheet Items Statistics.

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.
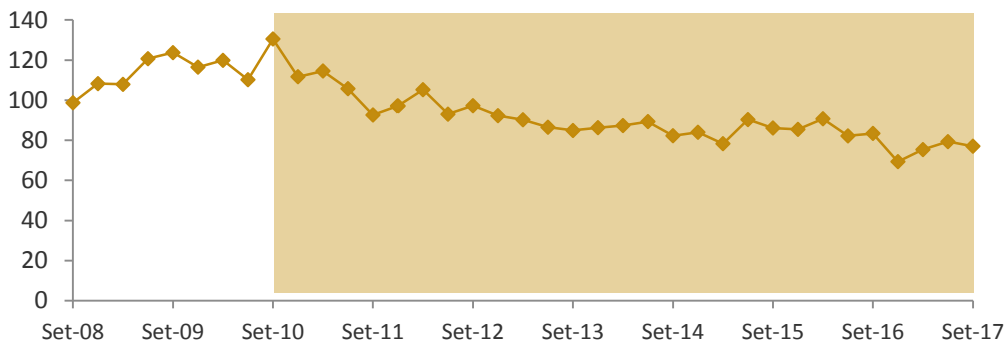

Total Assets/GDP (Dec10)

Total Assets/GDP (Sep17)

	France	Italy	Euro Area	Germany	Belgium	Austria	Spain	Portugal	Ireland	Greece
Total Assets/GDP (Dec10)	391.9%	237.0%	339.8%	322.6%	310.8%	330.7%	321.1%	310.6%	911.3%	227.2%
Total Assets/GDP (Sep17)	377.1%	227.6%	278.9%	241.8%	236.8%	227.2%	235.3%	209.2%	360.0%	179.2%
Change in Total Assets between Dec10 and Sep17	9.4%	2.1%	-4.2%	-5.9%	-9.3%	-15.3%	-21.9%	-28.7%	-31.1%	-38.7%

■ Change in Total Assets between Dec10 and Sep17.

* Gross Domestic Product (nominal).
Source: ECB – MFI Balance Sheet Items Statistics. Eurostat.

International exposure*

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

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

Exposure by country: EUR bn (September 2017)
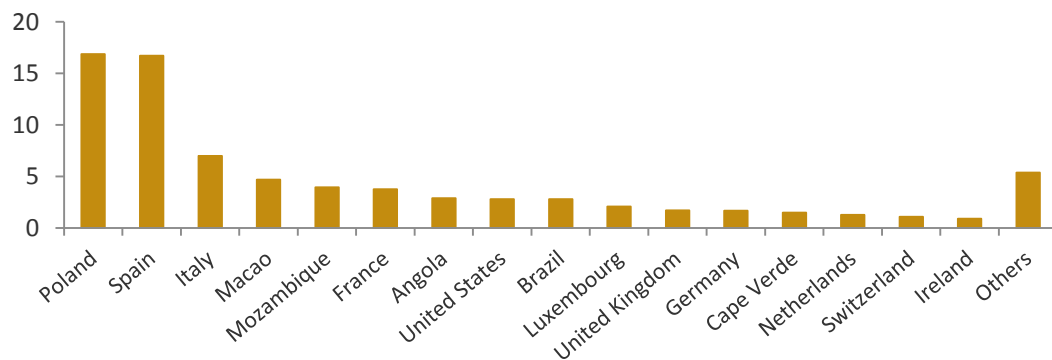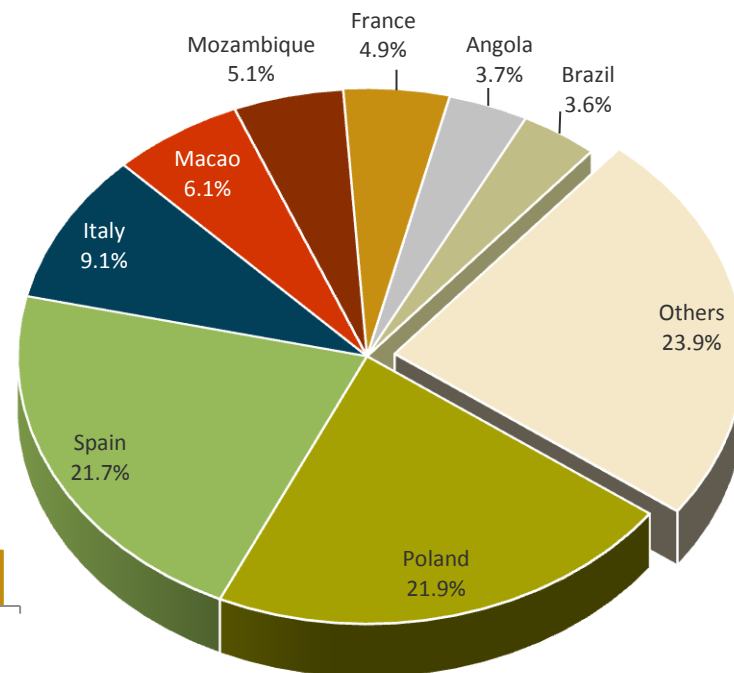

Exposure by country (September 2017)

Pie chart values:
- Others 23.9%
- Poland 21.9%
- Spain 21.7%
- Italy 9.1%
- Macao 6.1%
- Mozambique 5.1%
- France 4.9%
- Angola 3.7%
- Brazil 3.6%

* 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.

EUR bn

Loans to NFC
Δ (May11 - Sep17): EUR -42.9 bn
$\Delta\%$(May11 - Sep17): -36.6%

Loans to households
Δ (May11 - Sep17): EUR -27.0 bn
$\Delta\%$ (May11 - Sep17): -19.1%

The sovereign debt crisis, which began in May 2010, created difficulties for the Portuguese Republic in access to financing on the financial markets and led to an increase in recourse to bank loans.

Loans to general government
Δ (May11 - Sep17): EUR -6.4 bn
$\Delta\%$ (May11 - Sep17): -39.6%

■ General government ■ Households ■ Non-financial corporations

* 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.

September 2017
Portugal: 2.7%
Euro Area: 1.5%

November 2011
Portugal: 6.9%
Euro Area: 3.3%
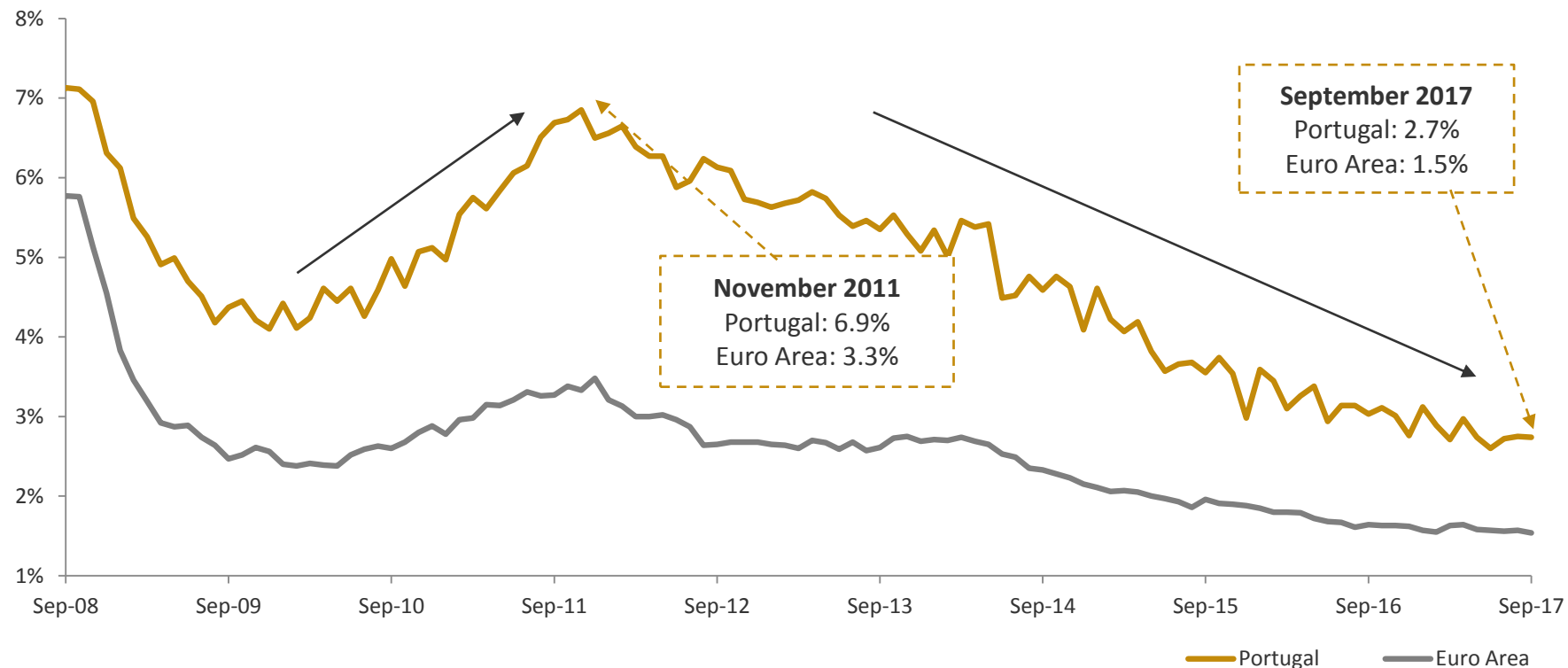
Portugal — Euro Area

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	Sep-17
GR	33.9%	37.3%	38.6%	42.0%
CY	45.4%	46.1%	42.7%	38.0%
PT	**14.8%**	**16.2%**	**16.4%**	**13.7%**
IT	14.0%	13.9%	12.6%	9.9%
IE	16.6%	13.9%	10.2%	9.5%
EU	**5.5%**	**4.9%**	**4.4%**	**3.7%**
AT	6.6%	5.7%	4.2%	3.4%
FR	3.7%	3.5%	3.2%	2.9%
BE	3.1%	2.9%	2.5%	2.2%
NL	2.9%	2.5%	2.3%	2.2%
DE	3.1%	2.5%	2.1%	1.8%

NPL: Provisioning and collateral

■ Provisions (as % of NPL)   ■ Collateral (as % of NPL)

Source: EBA (Portugal data based on 6 banks: BPI, BCP, CCCAM, Montepio, CGD and Novo Banco).
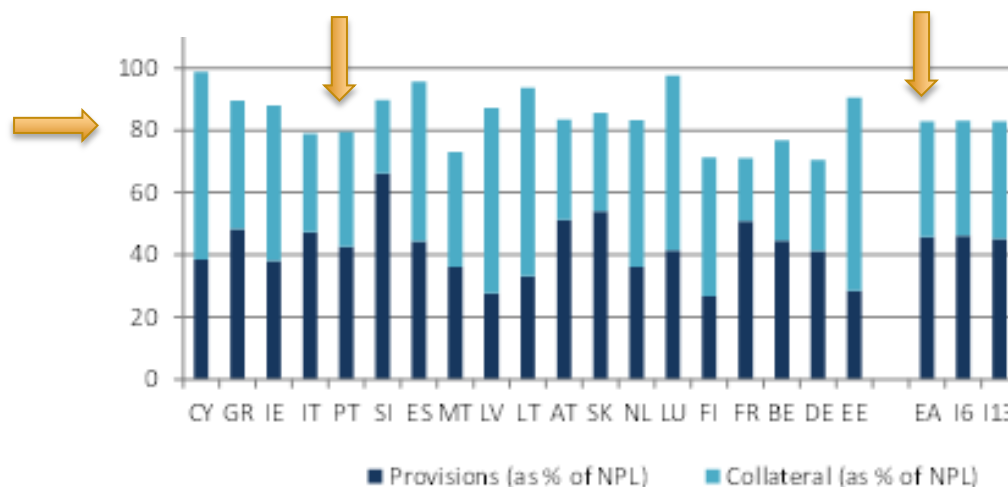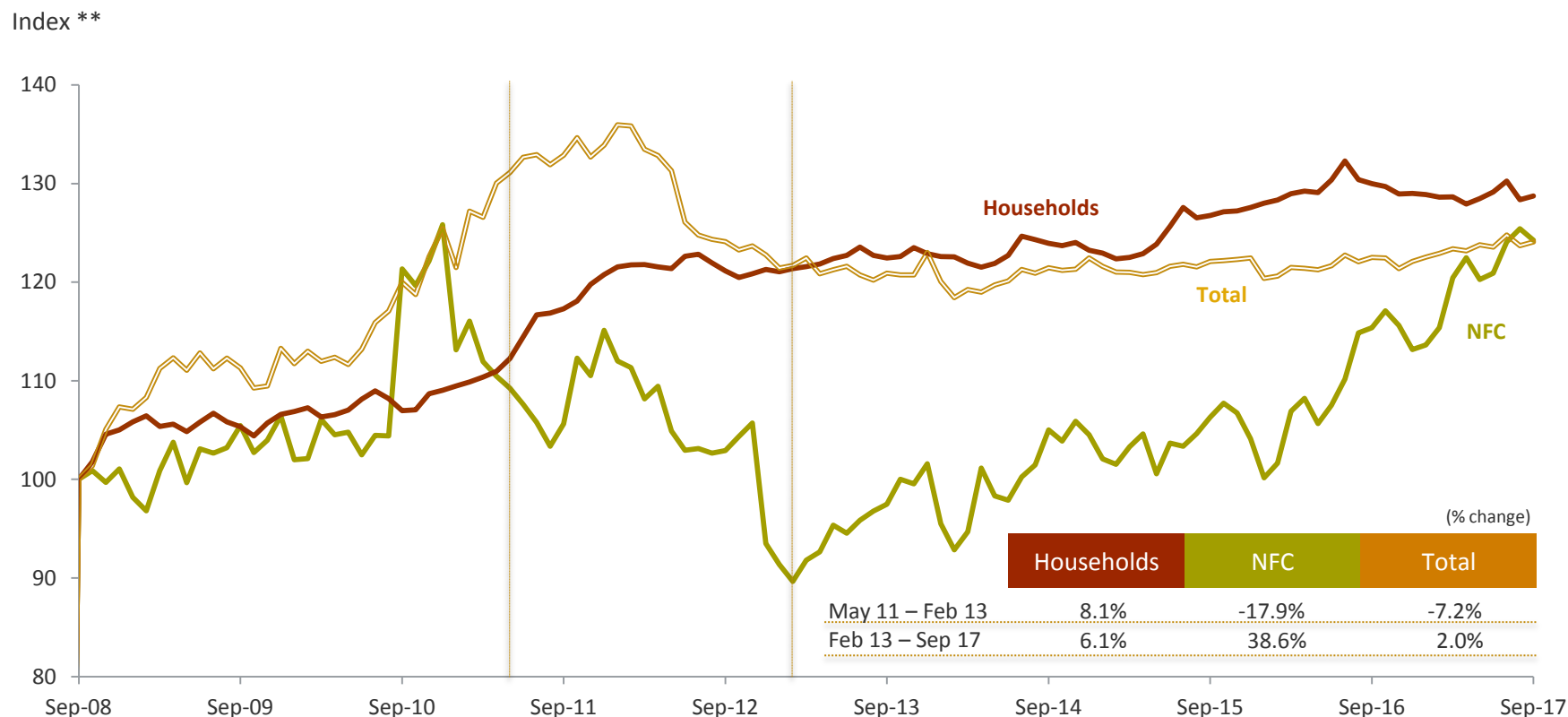
Data as at December 2016.
Source: ECB Supervisory and Prudential Statistics.

Deposits* by Institutional sector

Despite the austerity programme imposed by the EFAP in May 2011, households' deposits increased, reaching their highest level ever in July 2016.
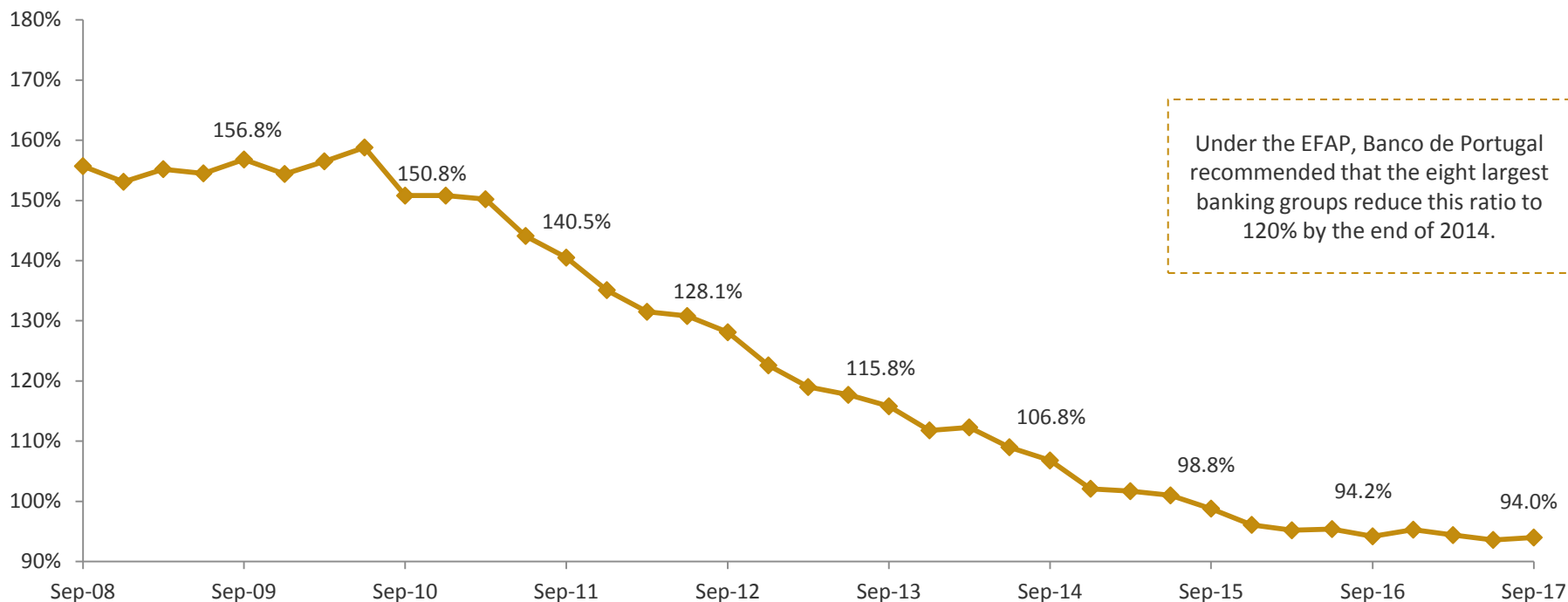
Index **

	Households	NFC	Total	(% change)
May 11 – Feb 13	8.1%	-17.9%	-7.2%	
Feb 13 – Sep 17	6.1%	38.6%	2.0%	

* Deposits from the non-monetary resident sector, end of period balances.
** Sep 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. From September 2016 onwards, the loan-to-deposit ratio stabilized around 94%.


Under the EFAP, Banco de Portugal recommended that the eight largest banking groups reduce this ratio to 120% by the end of 2014.

* 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.

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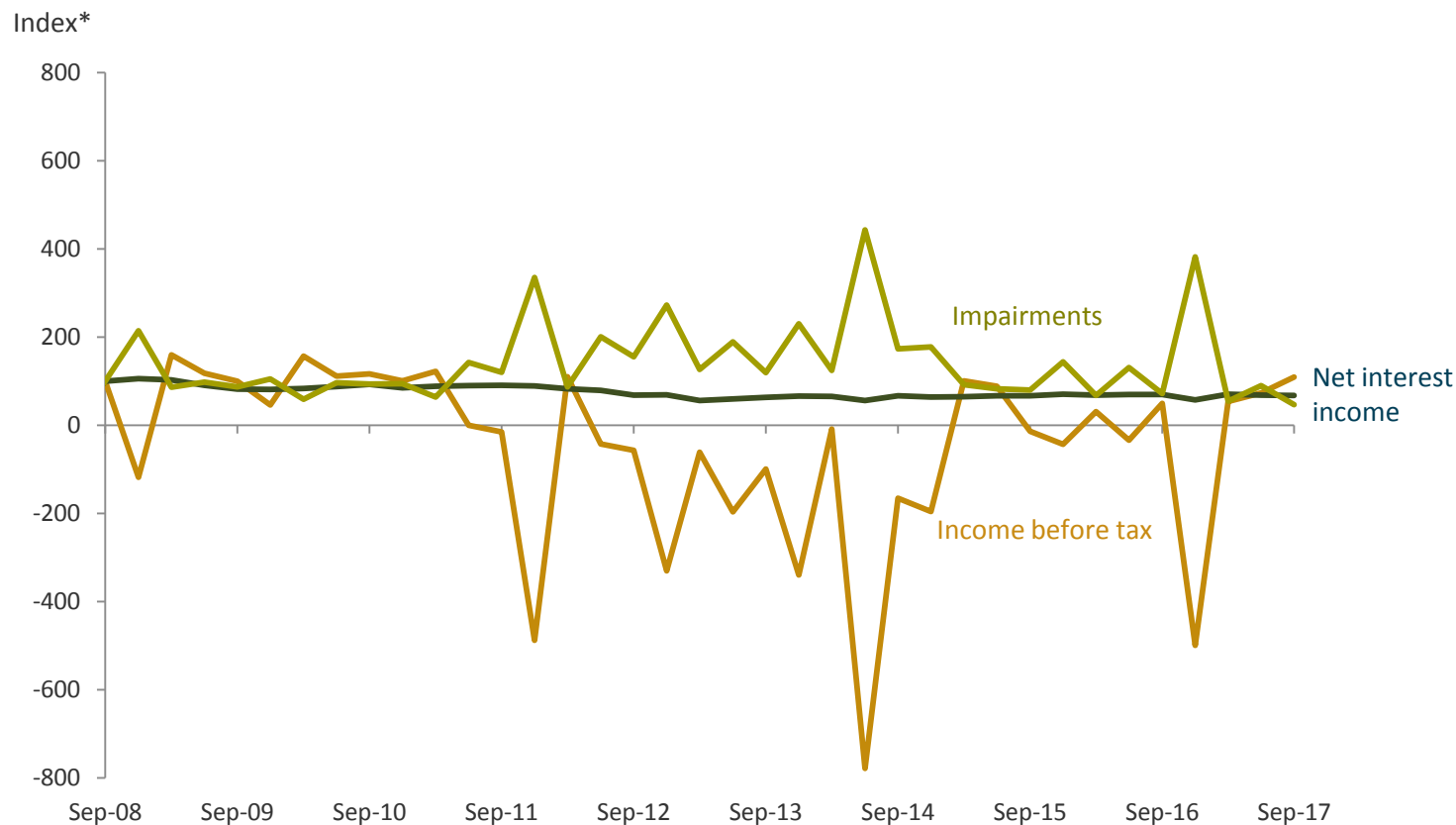
Cost-to-income ratio	
Q3 2011	59.3%
Q3 2014	65.9%
Q3 2015	58.7%
Q3 2016	61.1%
Q1 2017	65.9%
H1 2017	60.5%
Q3 2017	61.5%

* Set 2008 = 100. Quarterly values.
Source: Banco de Portugal – BPstat.
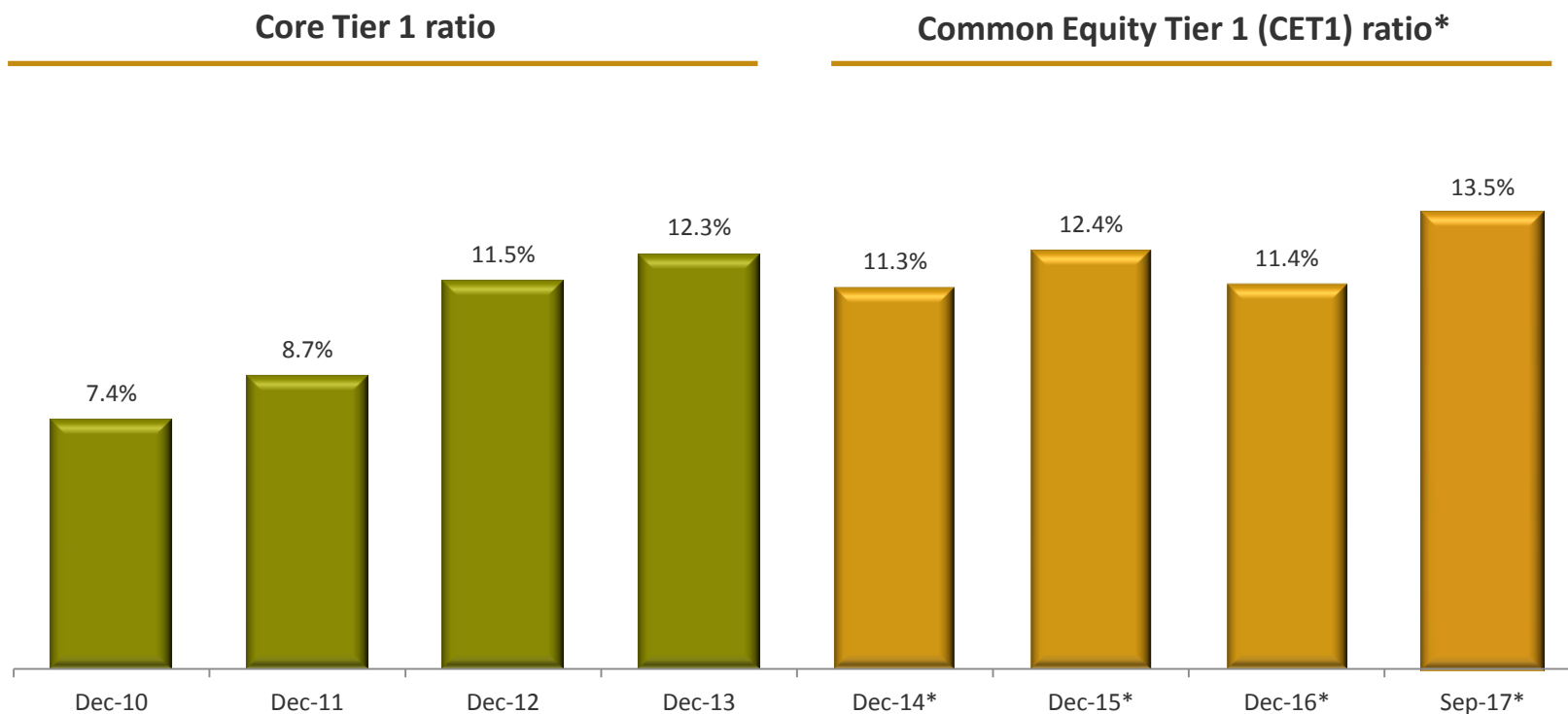
Profitability: RoE and RoA

In the first nine months of 2017, profitability was positive and, on an annual basis, mainly benefited from the increase in income from financial operations and a substantial decrease in impairments.
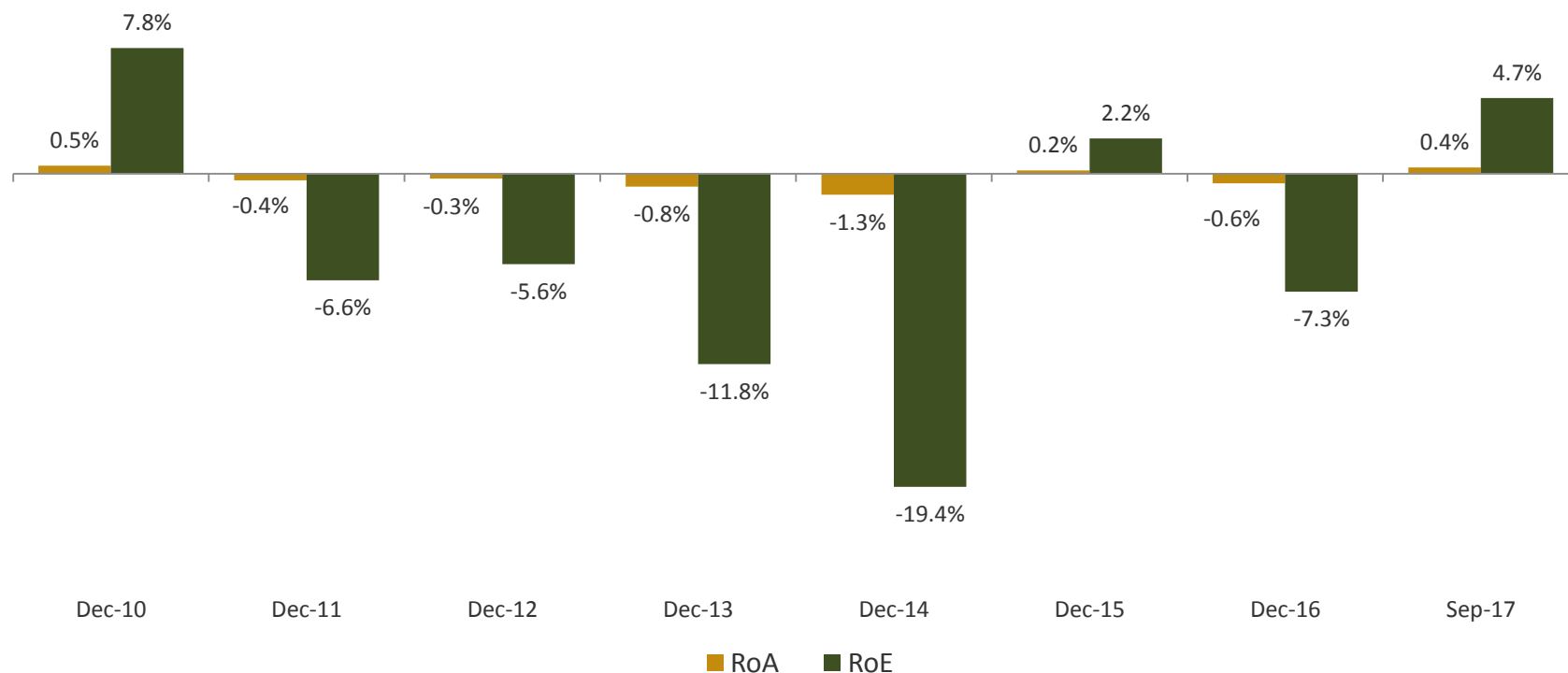
Source: Banco de Portugal – Sistema Bancário Português.

Solvency

The Portuguese banks' solvency has improved significantly since 2011 and particularly during 2017.

Core Tier 1 ratio   **Common Equity Tier 1 (CET1) ratio***

	Core Tier 1 ratio				Common Equity Tier 1 (CET1) ratio*		
7.4%	8.7%	11.5%	12.3%	11.3%	12.4%	11.4%	13.5%
Dec-10	Dec-11	Dec-12	Dec-13	Dec-14*	Dec-15*	Dec-16*	Sep-17*

* 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 Q3 2017

• Total assets remained broadly stable in the first nine months of 2017. On a quarterly basis, total assets increased by 0.3%, mainly driven by an increase in loans and advances to central banks and customers.

• The NPL ratio continued its downward trend all segments, most particularly in the NFC. The ratio decreased 2.6 p.p. against 2016 reaching 14.6% by the end of September 2017, a level still high in European terms. The NPL coverage ratio (46.5%) remained broadly in line with the Euro Area average.

• Deposits increased slightly against December 2016, reinforcing their position as the main source of banks' funding. In September 2017, the loan-to-deposit ratio stood at 94% (in comparison with the 158.8% peak reached in June 2010), showing signs of stabilization since September 2016.

• In the first nine months of 2017, profitability was positive and, on an annual basis, mainly benefited from the increase in income from financial operations and a substantial decrease in impairments.

• The Common Equity Tier 1 ratio and the total solvency ratio stood at 13.5% and 14.7% respectively, in September 2017. The leverage ratio remained at 7.5% as opposed to 6.6% in December 2016.

Main indicators[1] | Comparison of 2007, 2011 and 2014 - Q3 2017

	2007	2011[2]	2014[3]	2015	2016	Q3 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**	**407,589**	**385,662**	**385,113**
Change %		*15.1%*	*-16.6%*	*-4.3%*	*-5.4%*	*-0.1%*
Total loans	**313,190**	**330,346**	**257,332**	**244,472**	**233,890**	**231,555**
Change %		*5.5%*	*-22.1%*	*-5.0%*	*-4.3%*	*-1.0%*
Loans to non-financial corporations[4]	101,610	113,808	86,483	82,215	77,323	74,322
Change %		*12.0%*	*-24.0%*	*-4.9%*	*-6.0%*	*-3.9%*
Loans to households[4]	127,278	139,605	123,122	118,544	115,708	114,774
Change %		*9.7%*	*-11.8%*	*-3.7%*	*-2.4%*	*-0.8%*
Liabilities	**415,185**	**484,429**	**394,961**	**374,618**	**355,838**	**348,169**
Change %		*16.7%*	*-18.5%*	*-5.2%*	*-5.0%*	*-2.2%*
Deposits	**195,604**	**244,431**	**252,129**	**254,421**	**245,442**	**246,439**
Change %		*25.0%*	*3.1%*	*0.9%*	*-3.5%*	*0.4%*
Resources from Central Banks	**5,731**	**50,723**	**33,717**	**28,545**	**24,655**	**24,690**
Change %		*785.1%*	*-33.5%*	*-15.3%*	*-13.6%*	*0.1%*
Capital	**28,273**	**25,687**	**30,736**	**32,971**	**29,824**	**36,943**
Change %		*-9.1%*	*19.7%*	*7.3%*	*-9.5%*	*23.9%*
Credit quality data (consolidated, % & EUR M)						
NPLs (gross)[5]				49,818	46,361	39,915
NPLs (net)				29,492	25,359	21,355
NPL ratio				17.5%	17.2%	14.6%
NPL coverage ratio				40.8%	45.3%	46.5%
Main funding & liquidity risk indicators (consolidated, % & EUR M)						
Loan to deposit ratio	**160.1%**	**135.1%**	**102.1%**	**96.1%**	**95.3%**	**94.0%**
Funding gap	**117,586**	**85,915**	**5,202**	**-9,948**	**-11,552**	**-14,883**
Liquidity coverage ratio (LCR)	-	-	-	-	150.8%	176.7%

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

Main indicators[1] | Comparison of 2007, 2011 and 2014 - Q3 2017

	2007	2011[2]	2014[3]	2015	2016	Q3 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)						
Net income before taxes	4,801	-1,975	-5,961	685	-2,346	1,228
YoY change %		*-141.1%*	*-201.8%*	*111.5%*	*-442.6%*	*404.1%*
Net interest income	8,164	7,933	5,594	5,948	5,881	4,562
YoY change %		*-2.8%*	*-29.5%*	*6.3%*	*-1.1%*	*-1.1%*
Gross income	13,778	12,871	10,192	10,728	9,469	7,348
YoY change %		*-6.6%*	*-20.8%*	*5.3%*	*-11.7%*	*0.2%*
Net interest income (as a % of gross income)	59.3%	61.6%	54.9%	55.4%	62.1%	62.1%
Cost-to-income ratio	55.6%	61.7%	65.8%	60.8%	59.4%	61.5%
Impairments (as a % of gross income)	12.5%	51.6%	79.8%	37.5%	67.1%	21.4%
Profitability ratios (%)						
ROE[6]	17.7%	-6.6%	-19.4%	2.2%	-7.4%	4.7%
ROA[6]	1.1%	-0.4%	-1.3%	0.2%	-0.6%	0.4%
Leverage & solvency indicators (consolidated, % & EUR M)						
Core Tier 1 ratio	n.a.	8.7%	-	-	-	-
Common equity Tier 1 ratio (CET1)	-	-	11.3%	12.4%	11.4%	13.5%
Total solvency ratio	10.4%	9.8%	12.3%	13.3%	12.3%	14.7%
RWAs	296,741	302,776	240,563	233,238	215,400	n.a.
RWAs (as a % of total assets)	66.9%	59.3%	56.5%	57.2%	55.9%	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. Gross figures.

[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) impariments; 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.

OVERVIEW OF THE PORTUGUESE BANKING SECTOR

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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