



BANCO DE PORTUGAL
EUROSYSTEM

Portuguese Banking System

Recent Developments

Updated: 3rd quarter 2014

Prepared with data available up to 5 December 2014



- Portuguese Banking System at a Glance
- Recent Financial Stability Measures
- Macroeconomic and Financial Indicators
- Portuguese Banking System
 - Balance Sheet
 - Liquidity & Funding
 - Asset Quality
 - Profitability
 - Solvency



- I. Balance Sheet
 - Bank assets remained broadly stable.
- II. Liquidity & Funding
 - Deposits showed resilience;
 - Eurosystem refinancing decreased in line with the trend evidenced in the former quarters;
 - The loans to deposits ratio continued to decrease over the quarter.
- III. Asset/Credit Quality
 - Generally, the non-performing loans ratio remained stable, despite a slight increase in the non-financial corporation's segment.
- IV. Profitability
 - On a year-on-year basis, profitability of the banking system improved over the third quarter of 2014.
- V. Solvency
 - Solvency levels remained generally comfortable for most Portuguese banks.



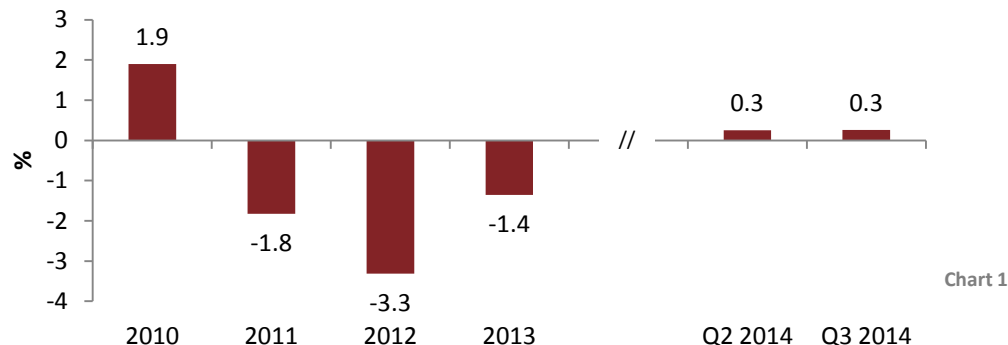
Topic	Institution	Latest measures (3 rd quarter 2014)
Solvency and liquidity	Banco de Portugal	Decision of the Banco de Portugal's Board of Directors to disable the MMI platform/CG, with the adoption of the Instruction of Banco de Portugal No 20/2014 of 15 September 2014, which revokes the Instruction No 8/2013 of 15 April 2013, on the regulation of the MMI/CG functioning.
	ECB	<p>Frequency change of the Governing Council monetary policy meetings from a four-week to a six-week cycle and extension of the reserve maintenance periods accordingly. Additionally, ECB will publish accounts of its monetary policy discussions from January 2015.</p> <p>The Governing Council of the ECB, on 4 September 2014, decided to decrease:</p> <ul style="list-style-type: none"> the interest rate on the main refinancing operations of the Eurosystem by 10 basis points to 0.05%; the interest rate on the marginal lending facility by 10 basis points to 0.30%; the interest rate on the deposit facility by 10 basis points to -0.20%; <p>with effect from 10 September 2014.</p>
Legal framework	Banco de Portugal	Entry into force of Notice of Banco de Portugal No 5/2014 of 23 September, which regulates the exemption of "caixas de crédito agrícola mútuo" belonging to the "sistema integrado de crédito agrícola mútuo" of several prudential requirements established in Parts II to VIII of the Regulation (UE) No 575/2013, of the European Parliament and of the Council of 26 June 2013.
	Portuguese Government	<p>Adoption of Ordinance No 140/2014 of 8 July, which defines the procedures necessary for the implementation of Law 63-A / 2008, with the wording introduced by Law No 1/2014, in capitalization operations of credit institutions using public investment.</p> <p>Approval of Decree-Law No 114-A/2014 and Decree-Law No 114-B/2014, which aimed to clarify and adjust the Portuguese resolution legal framework through the approval of a set of individual amendments. Among those amendments, the highlights are: (i) the no creditor worse off principle was expressly specified in Portuguese law, according to which no creditor can incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings; (ii) it was clarified that the Resolution Fund can be used in the context of the application of a resolution measure to guarantee the assets or the liabilities of the institution under resolution; (iii) the scope of the liabilities that can be transferred, when applying a resolution measure, was clarified; (iv) the methods and conditions for the sale of the shares representing the share capital of a bridge bank or of its property were altered so as to promote its sound and efficient management, thus facilitating market solutions that will maintain and maximize its value.</p>



Topic	Institution	Latest measures (3 rd quarter 2014)
Legal framework	Portuguese Parliament	Approval of Law No 46/2014, of 28 July, which authorises the Government, as part of the transposition of Directive 2013/36 / EU of the European Parliament and of the Council of 26 June, to amend the Legal Framework of Credit Institutions and Financial Companies, the Securities Code, the Laws No 25/2008 and 28/2009 and the Decree-Laws No 260/94, 72/95, 171/95, 211/98, 357-B/2007, 357-C/2007, 317/2009 and 40/2014.
		Approval of Law No 58/2014, of 25 August, which amends the extraordinary framework to protect home loan borrowers in serious economic difficulties created by Law No 58/2012.
		Approval of Law No 61/2014, of 26 August, that approves the special regime applicable to deferred tax assets that result from the non-deduction of expenses and negative equity changes due to impairment losses on loans and post-employment benefits or long-term employee benefits.
	ECB	The ECB publishes the Decision ECB/2014/34 of 29 July 2014, on measures relating to targeted longer-term refinancing operations (TLTRO), which defines the conditions for participation in the TLTROs and other operational aspects, as well as two annexes relating to the conduct of the TLTROs and to the guidelines for completing the reporting template.
Other	Banco de Portugal	Amendment of Instruction No 54/2012 of BP (TARGET2-PT Regulation), according to the Guideline of the European Central Bank ECB/2014/25, amending Guideline ECB/2012/27. On Annex II, two new definitions were added to article 1, and article 12 (3) was replaced, establishing that “PM accounts and their sub-accounts shall either be remunerated at zero per cent or the deposit facility rate, whichever is lower, unless they are used to hold required minimum reserves”).
		Amendment of No 8 of BP Instruction No 2/2009 (AGIL), that regulates the remuneration of accounts opened in the AGIL- <i>Aplicativo de Gestão Integrada de Liquidações</i> (integrated settlement management application), establishing that the accounts will be remunerated in accordance with the guidelines and decisions of the European Central Bank and shall be specified in the contracts of the participants.

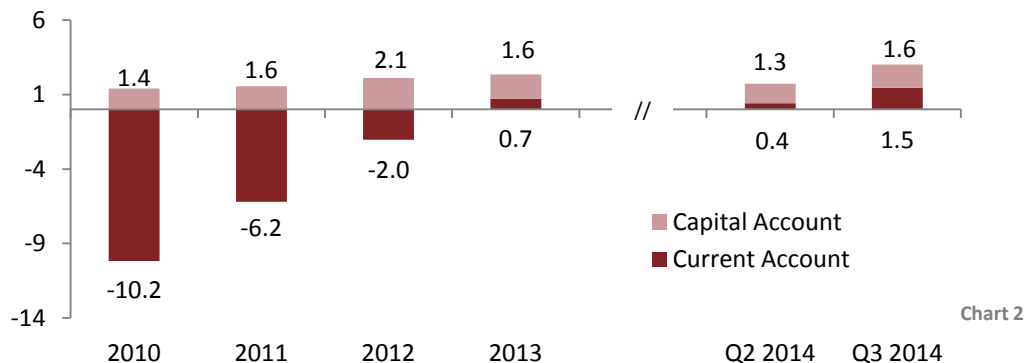


GDP growth rate - Volume



Note: Quarterly figures correspond to q-on-q rates of change. National Accounts and Balance of Payments figures are already presented according the rules of the European System of National and Regional Accounts (ESA 2010) and Balance of Payments and International Investment Position Manual (BPM6).

Current account and capital account, %GDP



Note: Quarterly figures are seasonally adjusted.

■ Over the third quarter of 2014, GDP witnessed a positive quarter-on-quarter rate of change, returning to a recovery path.

■ Current account recorded a surplus, reflecting the ongoing process of adjustment of the Portuguese economy's external imbalance over the recent years.



Unemployment rate, % of active population - Average value of period

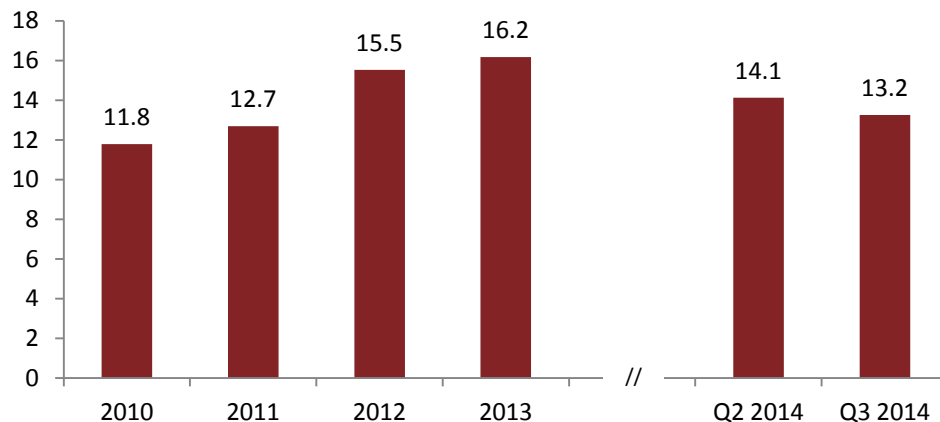
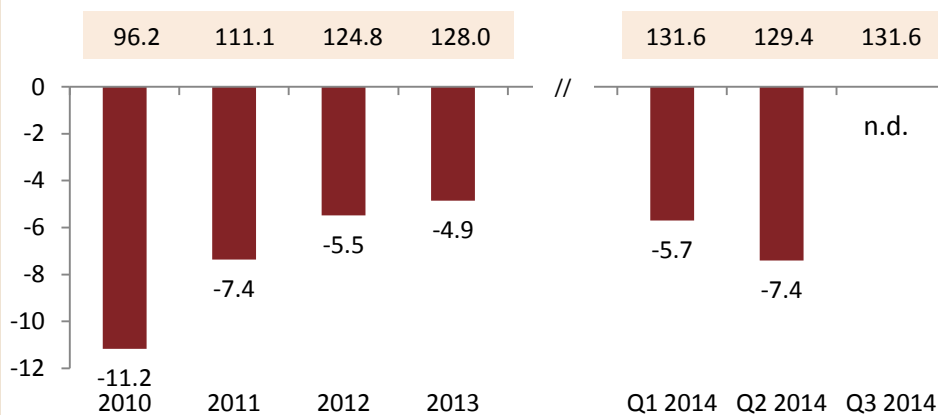


Chart 3

■ Despite remaining at a high level, the unemployment rate kept on a downward trend, having decreased 2.5 p.p. from the same period of the previous year.

Fiscal deficit, % GDP



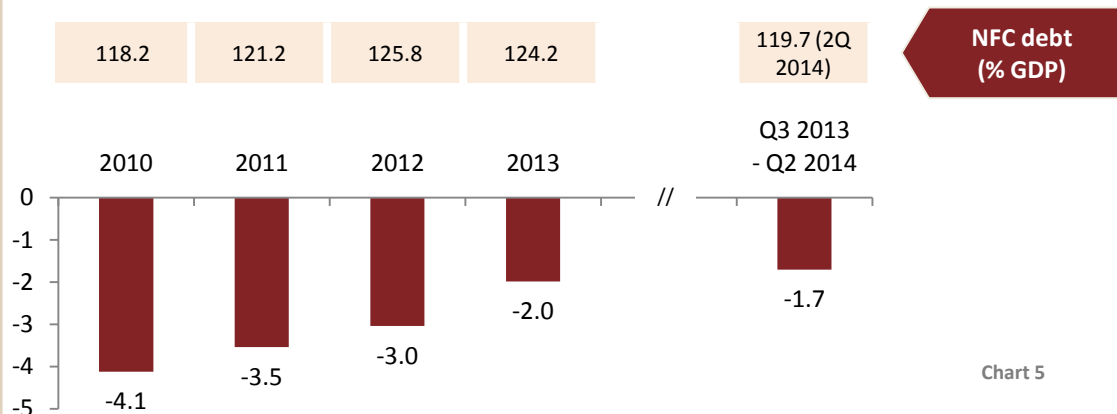
Public Debt
(% GDP)

■ Public debt as percentage of GDP stood at 131.6% at the end of Q3 2014. However there is significant amount of deposits from the General Government, above 12% of GDP.

Chart 4

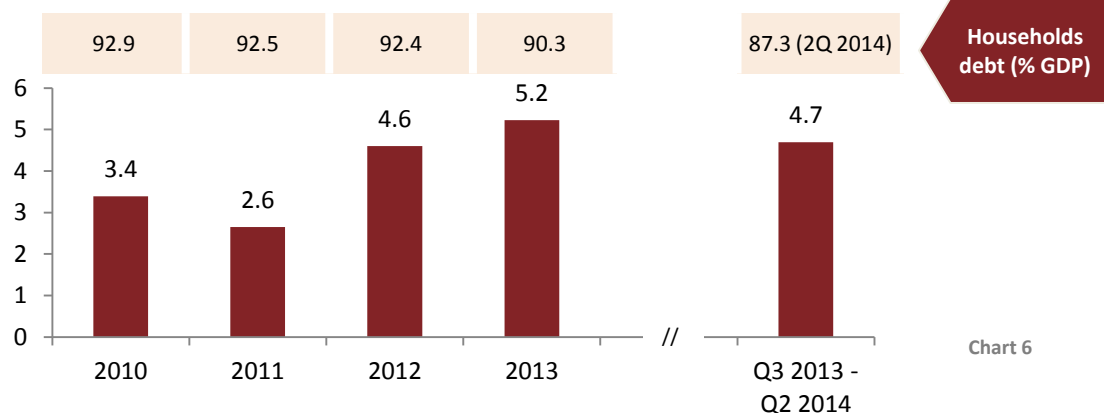


Net lending/borrowing of non-financial corporations, % GDP



■ Non-financial corporations' financing needs recorded a small reduction on a year-on-year basis. Despite persisting on a high level, Non-financial corporations' indebtedness level continued a downward trend.

Net lending/borrowing of households, % GDP



■ Households' financing capacity remained positive over the second quarter, recording a slight increase on a year-on-year basis. The households' indebtedness level continued to decline.



Sovereign debt yields 10 Y

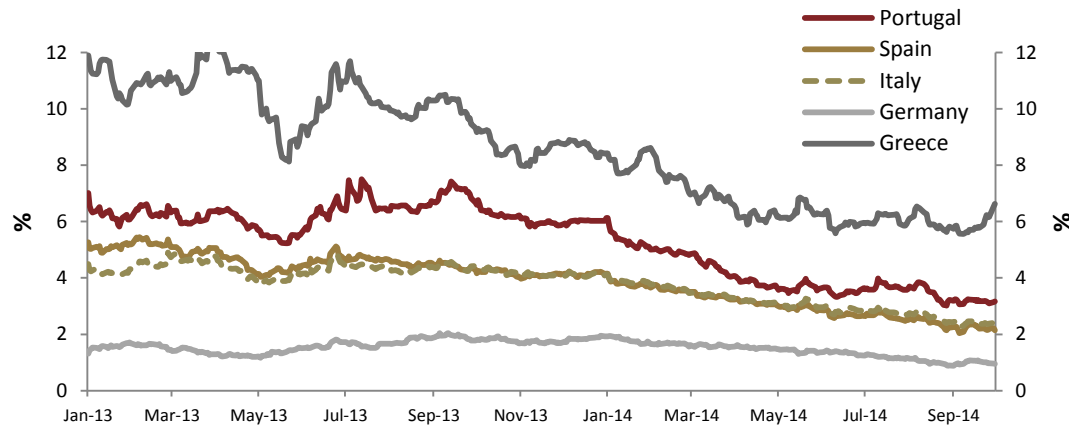


Chart 7

Euribor and ECB main refinancing rate

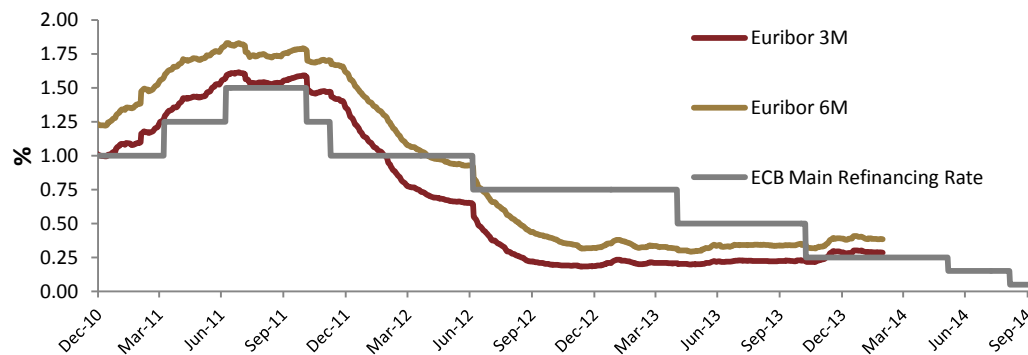


Chart 8

■ The Portuguese 10-year government bond yield rates continued to decrease in the course of the first nine months of the year (to 3.16%), narrowing the spread vis-à-vis comparable German sovereign bonds (to 222 b.p.).

■ At the beginning of September, the ECB decreased the rate of main refinancing operations by 10 basis points, to 0.05%. Equal decreases were decided on the deposit facility rate (to -0.20%) and on the marginal lending facility (to 0.30%).



Due to the absence of accounting and prudential data for Novo Banco as of 30 September 2014, the available data do not allow a full assessment of the Portuguese banking system.

Therefore, in order to grant information comparability, data referring to the second quarter of 2014 is presented in two versions: one including Banco Espírito Santo (institution under the supervision of Banco de Portugal as of 31 June 2014) and other excluding this institution.

Similarly, in order to allow information comparability between the third quarter of 2014 and the same period of the previous year, data for the third quarter of 2013 is presented simultaneously including Espírito Santo Financial Group (entity under the supervision of Banco de Portugal as of 30 September 2013) and excluding this institution.

For the sake of the analysis, whenever convenient, graphs and comments refer this situation as “excluding ESFG”, “excluding BES” or “excluding Novo Banco”, as applicable.



Assets (€Bn) – Value at end of period

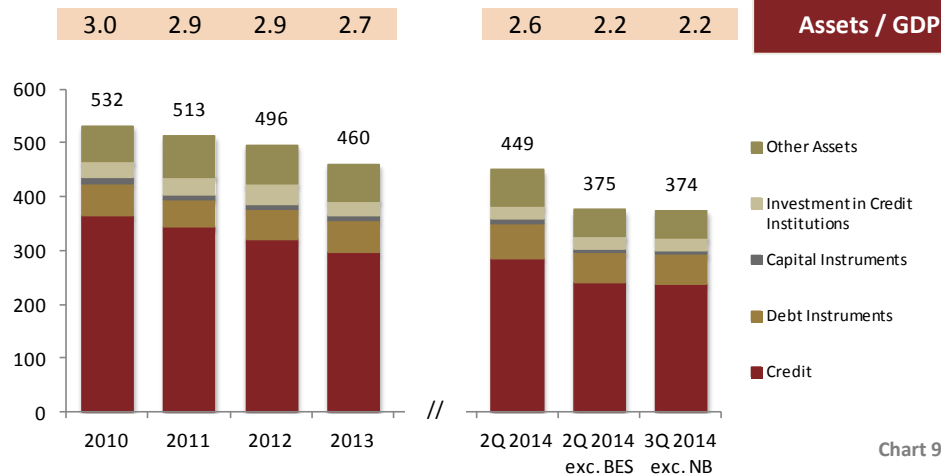


Chart 9

Bank financing structure (€Bn) - Value at end of period

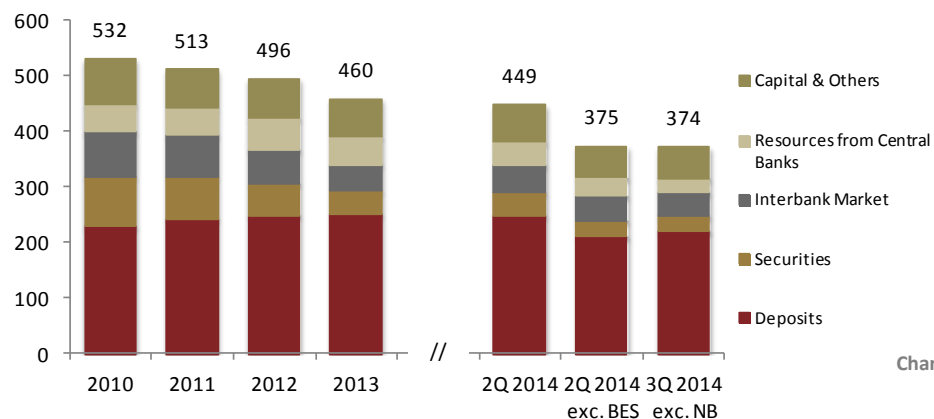


Chart 10

■ In the third quarter of 2014, bank assets (excluding Novo Banco) remained broadly stable.

■ When compared with the same quarter of the previous year, there was a significant decrease in total assets, on the basis of the reduction in credit.

■ Deposits showed resilience.

■ Eurosystem refinancing decreased to minimum levels from the beginning of the Economic and Financial Assistance Programme.



Central Banks Financing (€Bn) - Value at end of period

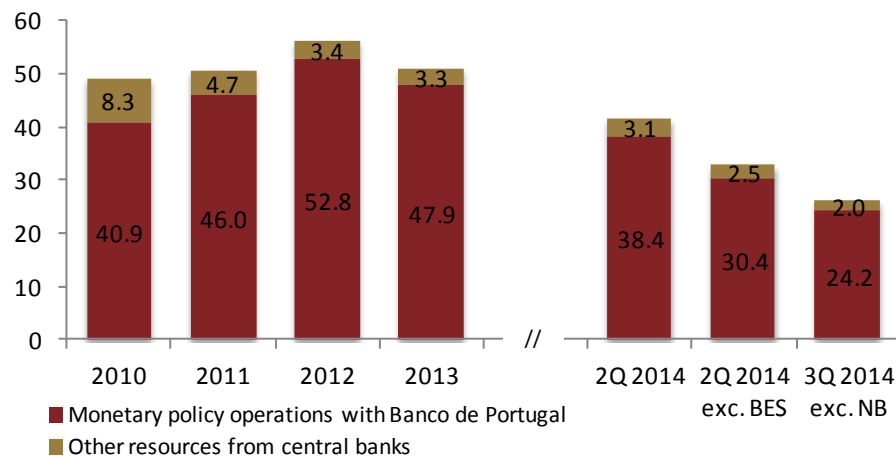


Chart 11

Loan-To-Deposits ratio (%) - Value at end of period

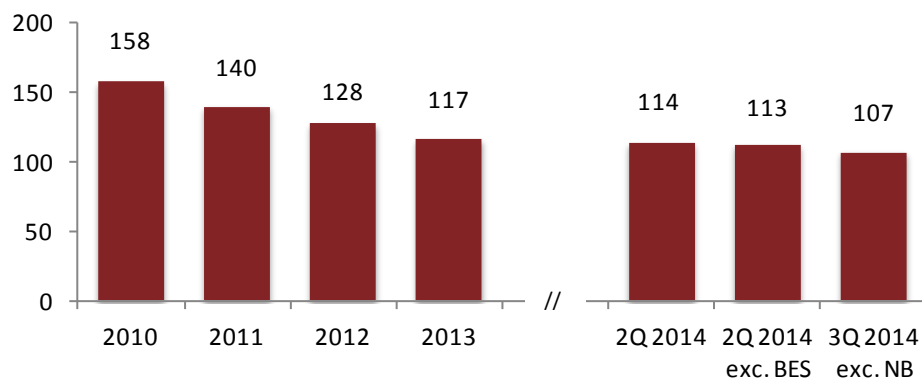


Chart 12

■ In the third quarter of 2014, Eurosystem refinancing recorded a decrease, in line with the trend evidenced in the former quarters.

■ The loans to deposits ratio continued to decrease.



Commercial gap (€Bn) – Value at end of period

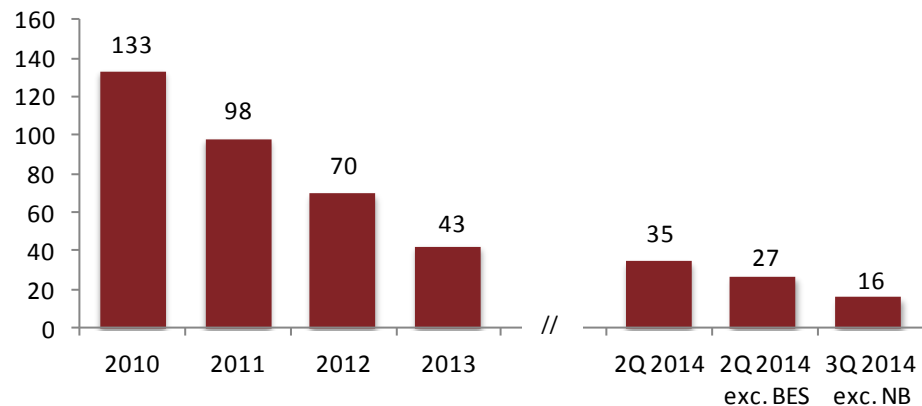


Chart 13

Liquidity gap in cumulative maturity ladders (% stable assets) - Value at end of period

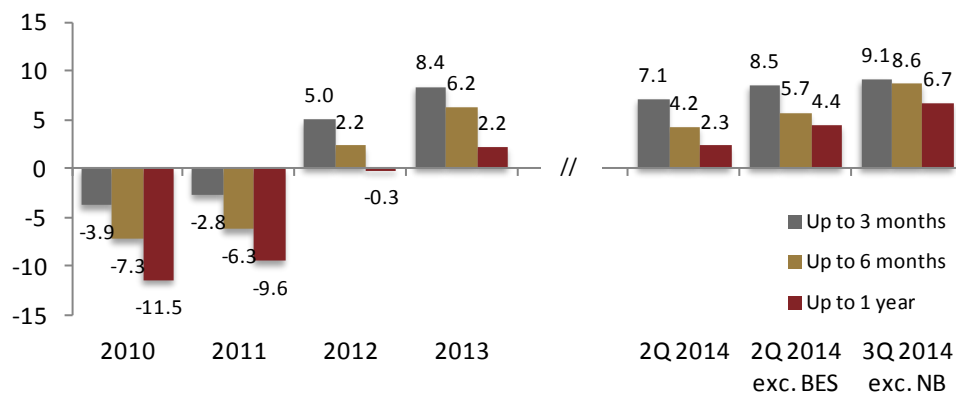


Chart 14

■ In the third quarter of 2014, the commercial gap followed the downward trend that started in 2010.

■ Liquidity gaps increased in all maturities, especially in the 6 month maturity ladder. The widespread increase of liquidity gaps is due essentially to the increase of liquid assets.



Credit at Risk ratio (% of gross credit) - Value at end of period

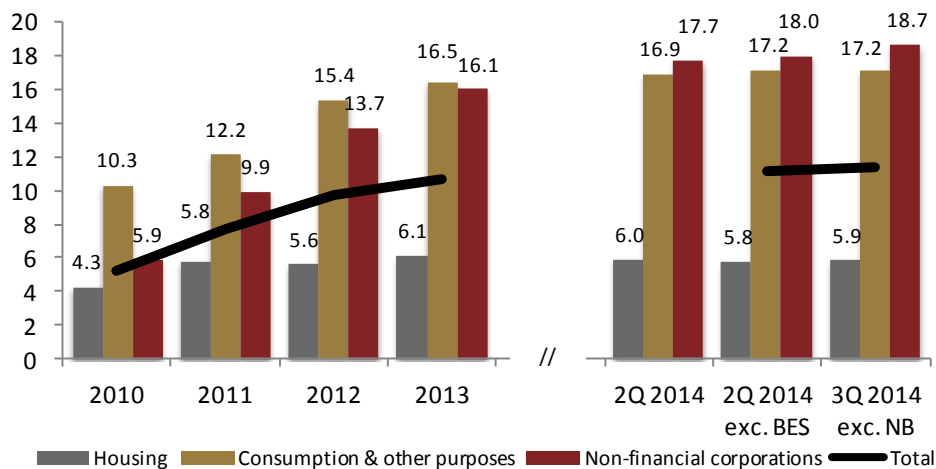


Chart 15

Credit Impairments as % of gross credit - Value at end of period

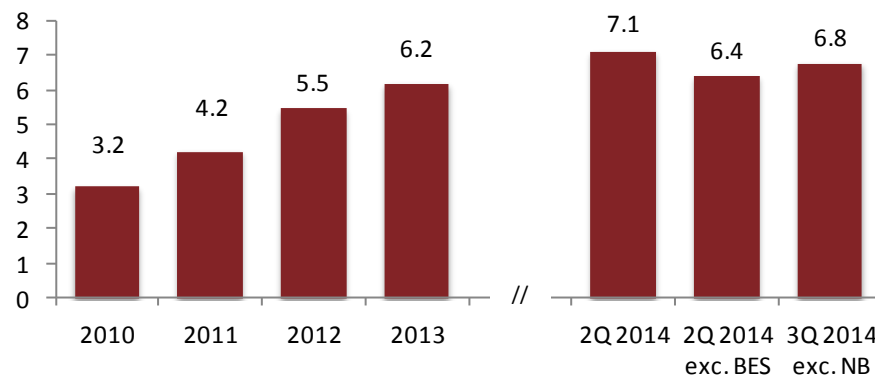


Chart 16

■ Generally, the non-performing loans ratio remained stable over the third quarter of 2014, despite a slight increase on the non-financial corporation's segment, justified mostly by credit reduction – denominator effect.

■ Similarly, the stock of impairments as a percentage of gross loans recorded a small increase.



ROA & ROE – Value in the period

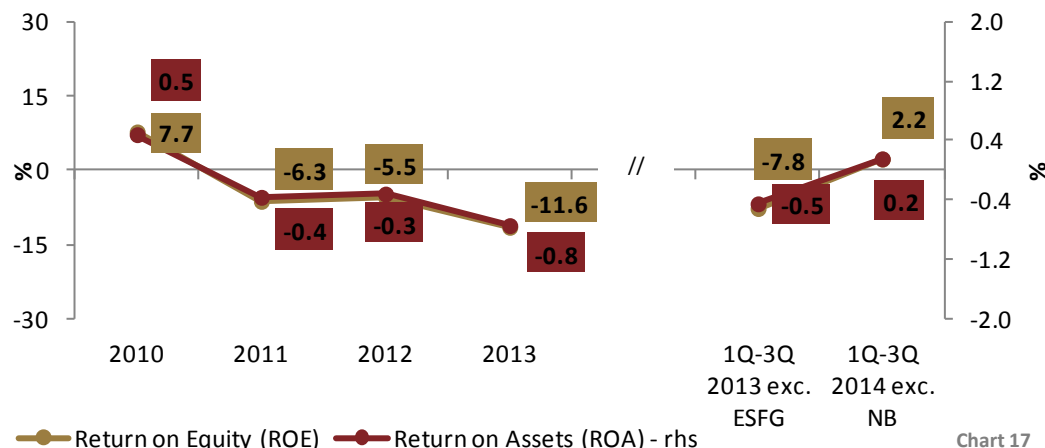


Chart 17

Income and costs as a % of gross income - Value in the period

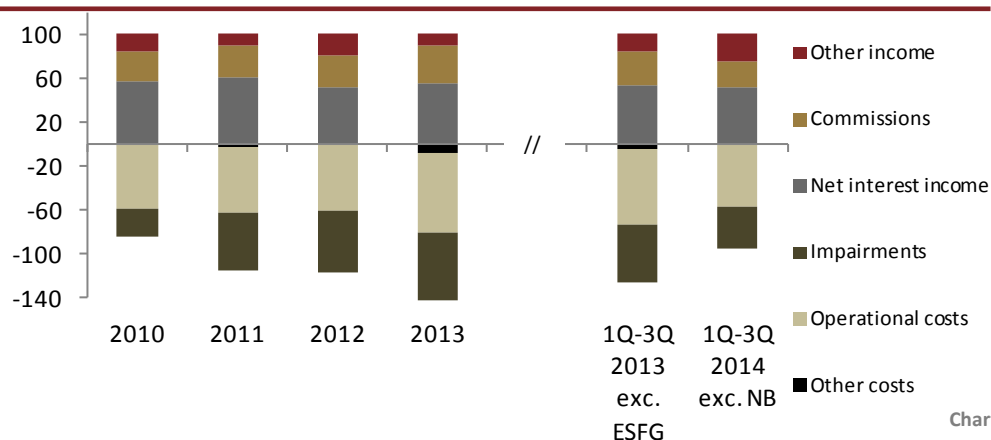


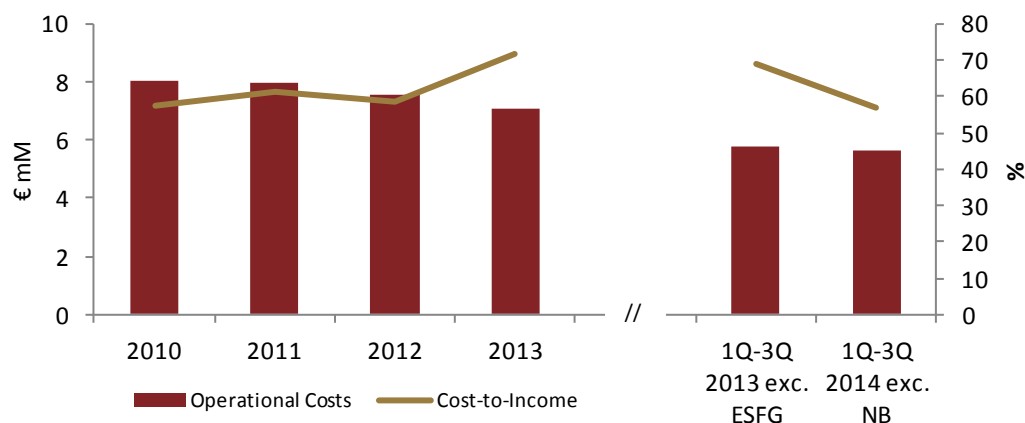
Chart 18

■ In the third quarter of 2014, there was an improvement of both return on assets and return on equity of the banking system (excluding Novo Banco), when comparing with the same period of the previous year (when returns were negative).

■ The increase of gross income, the decrease of the flow of impairments and the reduction of operational costs were the main drivers of the improvement of banking returns.



Cost-to-Income (%), Operational Costs (€Bn) - Value in the period



Note: Annualized figures.

Chart 19

Banking interest rates (new business) - Average value of period

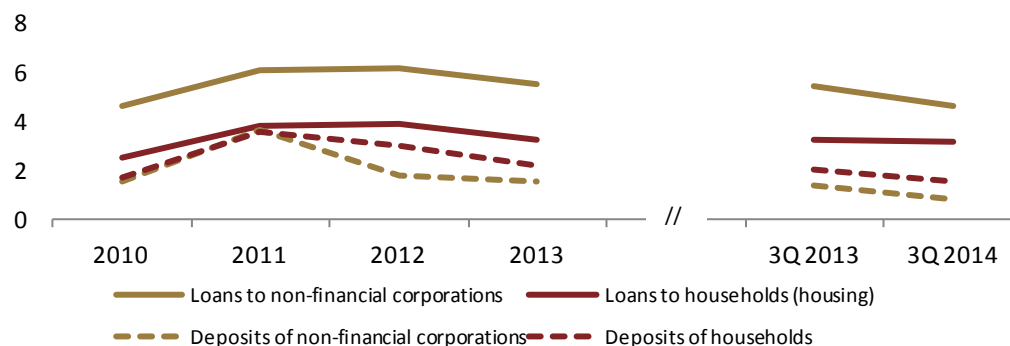


Chart 20

■ The reduction of the cost-to-income ratio, on year-on-year basis, was mainly driven by the increase of gross income.

■ Regarding the non-financial corporations' segment, when comparing the values for the same period of the previous year, the difference between interest rates on new loans and interest rates on new deposits decreased, with the former maintaining a downward trend.

■ Interest rates on new loans granted to households (for housing purposes) remained stable since the beginning of 2013.

■ On a year-on-year basis, the cost of new deposits decreased (for households, the reduction was 50 b.p.).



Tier 1 capital to Total Assets ratio - Value at end of period

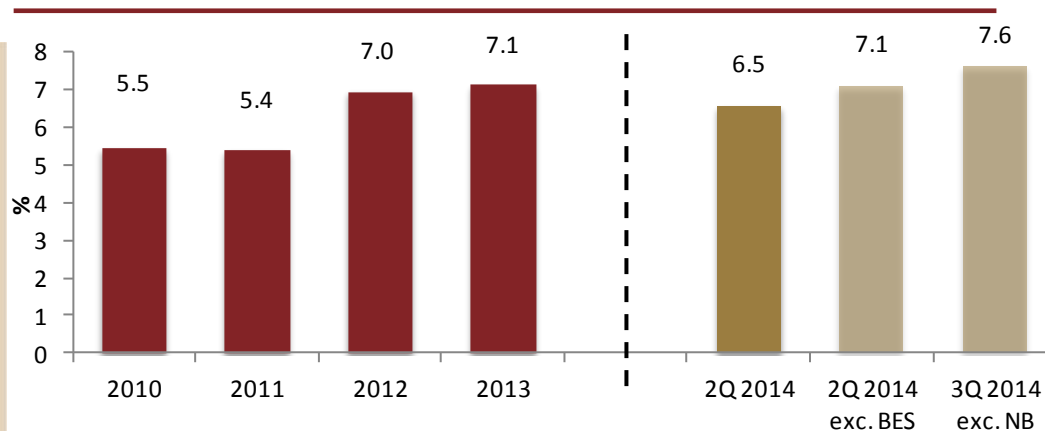


Chart 21

Core Tier 1 ratio (until 2013) and CET 1 ratio (2014) - Value at end of period

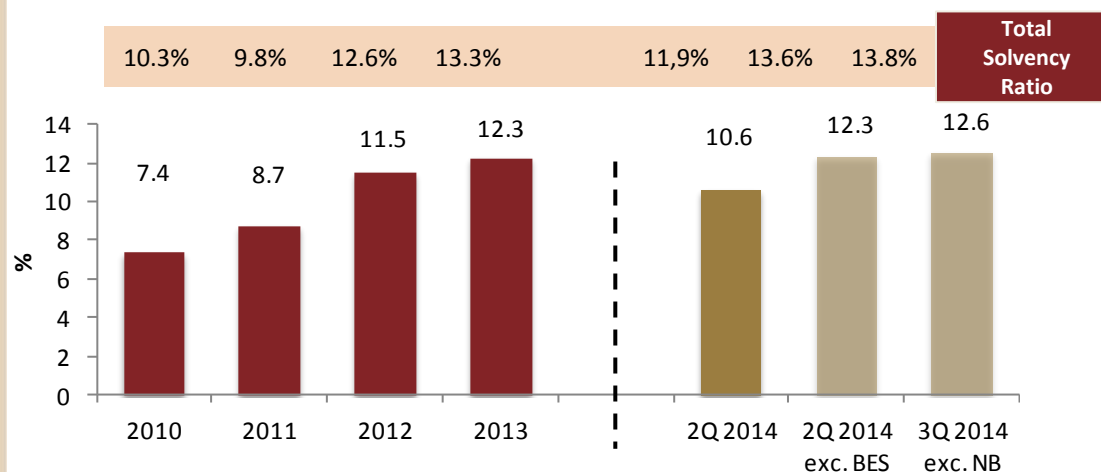


Chart 22

■ As of September 2014, the ratio between Tier 1 capital and total assets stood at 7.6%, increasing 0.3 p.p. vis-à-vis the previous quarter.

■ The CET 1 ratio reached 12.6% for the Portuguese banking system (excluding Novo Banco), in the context of a regulatory minimum of 7%*.

* From January to November 2014 was in effect the Notice of Banco de Portugal No 6/2013 which established a transitory regime of own funds adequacy until the Directive 2013 / 36/EU (or CRD IV - Capital Requirements Directive) was transposed to the Portuguese legal framework. Therefore, as of September 2014 the regulatory regime in force established that credit institutions and investment firms should preserve a common equity tier 1 capital ratio not below 7%.

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