



BANCO DE PORTUGAL
EUROSYSTEM

Portuguese Banking System

Recent Developments

Updated: 1st quarter 2015

Prepared with data available up to 24 June 2015



- Portuguese Banking System – Main Highlights
- Macroeconomic and Financial Indicators
- Portuguese Banking System
 - Balance Sheet
 - Liquidity & Funding
 - Asset Quality
 - Profitability
 - Solvency
- Recent Measures with Impact on the Banking System



I. Balance Sheet

- Banking system total assets continued to decrease, though marginally.

II. Liquidity & Funding

- Deposits remained resilient;
- Eurosystem refinancing decreased in line with the trend observed in the former quarters;
- The loans to deposits ratio remained stable over the quarter in analysis.

III. Asset/Credit Quality

- The credit at risk ratio increased, particularly in the non-financial corporations' segment.

IV. Profitability

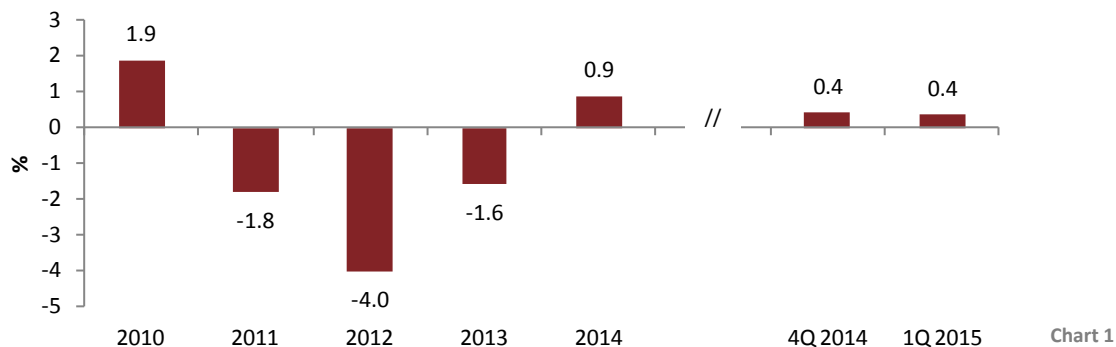
- The banking system recorded positive profitability levels;
- The flow of credit impairments decreased, though remaining at a high level.

V. Solvency

- Solvency levels decreased slightly.

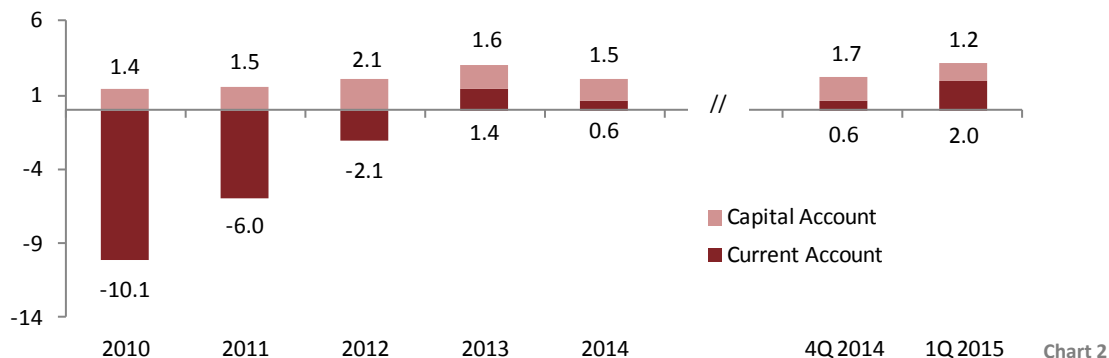


GDP growth rate – Volume



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



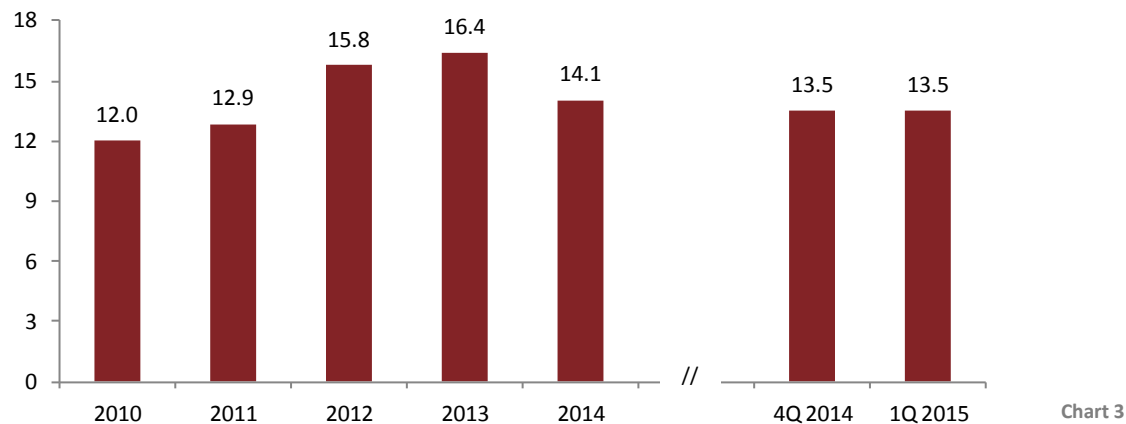
Note: Quarterly figures are seasonally adjusted.

■ In the first quarter of 2015, quarter-on-quarter GDP growth rate was positive by the fourth consecutive quarter. The year-on-year growth rate of GDP was 1.5%.

■ Current and capital account recorded a surplus, reflecting the ongoing adjustment of the external imbalance of the Portuguese economy.

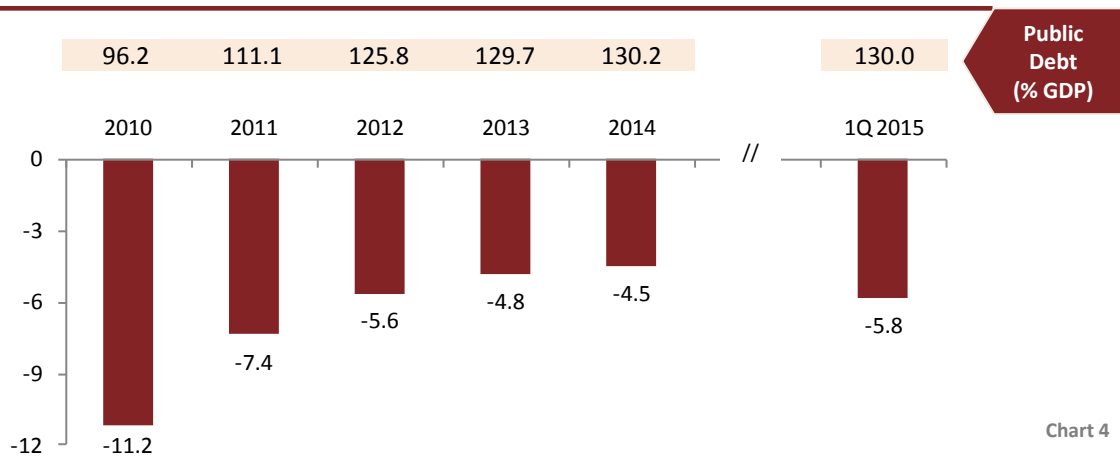


Unemployment rate, % of active population



■ The rate of unemployment remained stable and below the annual average of 2014.

Fiscal deficit, % GDP



■ Public debt as a percentage of GDP stood at 130.0% at the end of the first quarter of 2015. Deposits from General Government represented about 12% of GDP.



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

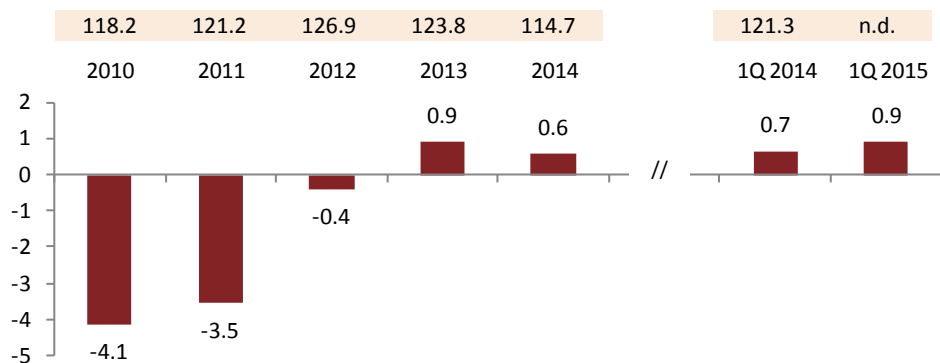


Chart 5

■ In 2014, non-financial corporations' debt was about 9 p.p. of GDP lower when compared to 2013.

■ In the first quarter of 2015, non-financial corporations' financing capacity increased on a year-on-year basis.

Net lending/borrowing of households, % GDP

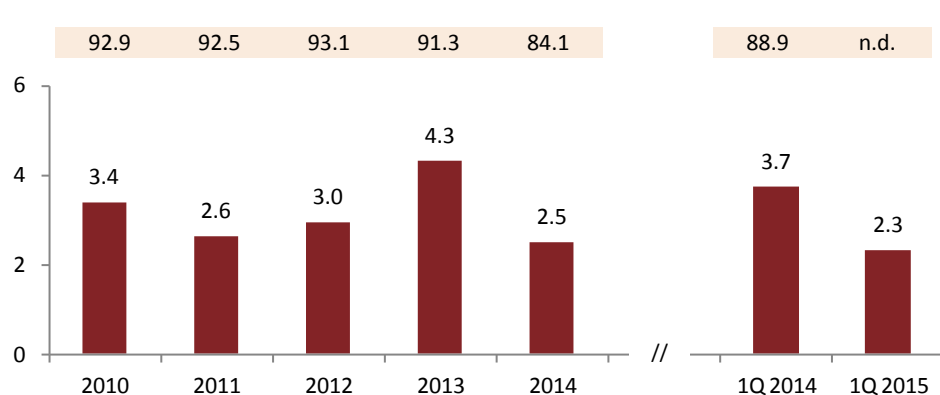


Chart 6

■ The households' indebtedness level continued to decline during 2014 by about 7.2 p.p. of GDP.

■ In the first quarter of 2015, households' financing capacity remained positive, despite decreasing by about 1.4 p.p. year-on-year.

Note: National Sector Accounts were revised when Statistics Portugal released the Accounts for the fourth quarter of 2014. These revisions reflect changes introduced in detailed Annual National Accounts for 2012 (final results), with an impact on subsequent years.



Sovereign debt yields 10 Y

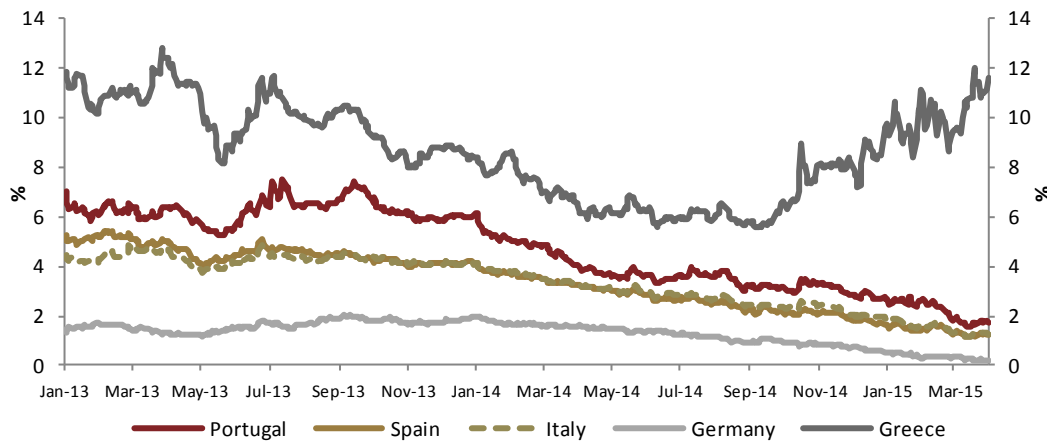


Chart 7

Euribor and ECB main refinancing rate

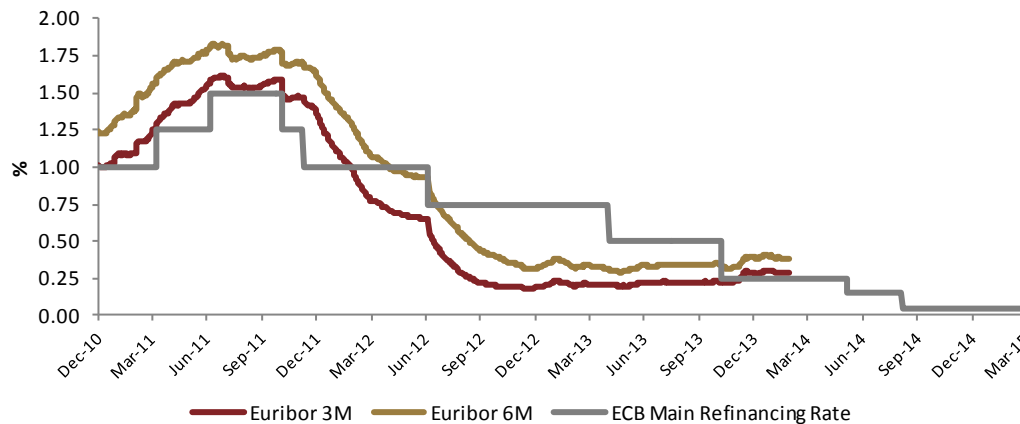


Chart 8

■ The Portuguese 10-year government bond yield rates achieved a historical low in March 2015 (1.6%). More recently, yields increased in a context of rising volatility.

■ The implementation of the public securities purchase program by the European Central Bank might have conditioned the recent developments in the financial markets.

■ During the first quarter of 2015, the ECB kept unchanged the main refinancing rate (0.05%), the deposit facility rate (-0.20%) and the marginal lending facility rate (0.30%).



Comment on accounting and prudential information

The banking system data present a break in time series in the third quarter of 2014 due to the resolution measure applied to Banco Espírito Santo (BES). The break in time series stems, in particular, from the fact that the assets/liabilities not transferred to the balance sheet of Novo Banco (NB) are not considered in the aggregate of the banking system from August 2014 onwards.

In the absence of accounting information for BES on a consolidated basis for the period from 30 June 2014 to the day of implementation of the resolution measure (closing balance sheet and statement of profit or loss), the reporting of BES on individual basis, with reference to 31 July 2014, was considered when determining the aggregate results of the banking system for the third quarter of 2014. However, it must be stressed the fact that the adjustments stemming from the resolution measure applied to BES were not considered.



Assets (€Bn) – Value at end of period

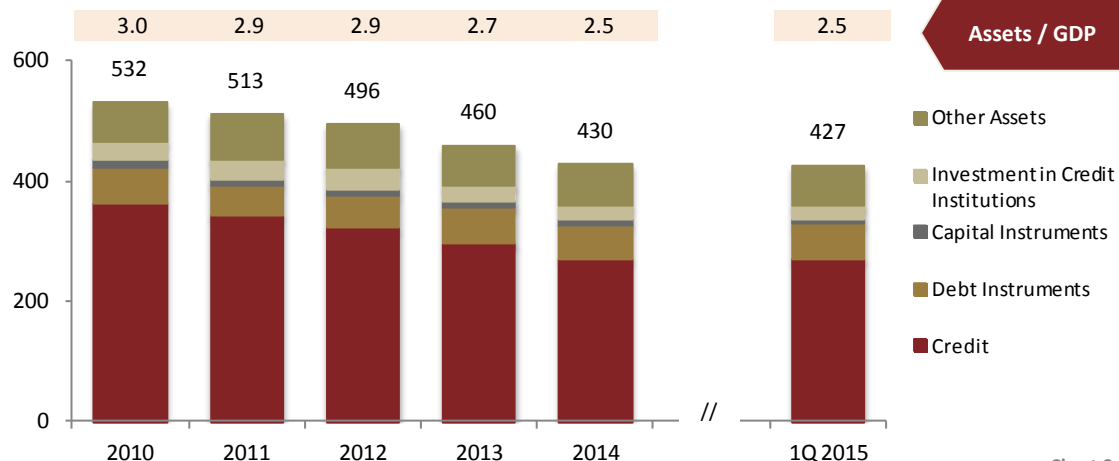


Chart 9

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

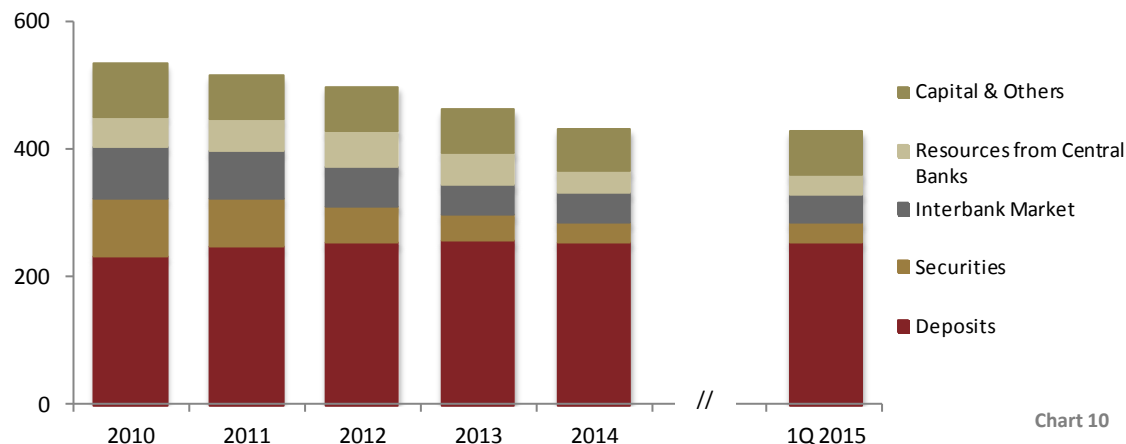


Chart 10

Source: Banco de Portugal

▪ Bank total assets recorded a marginal decrease.

▪ Customer deposits remained stable.

▪ The weight of resources of central banks, mainly from the Eurosystem, in bank financing structure continued to decrease.



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

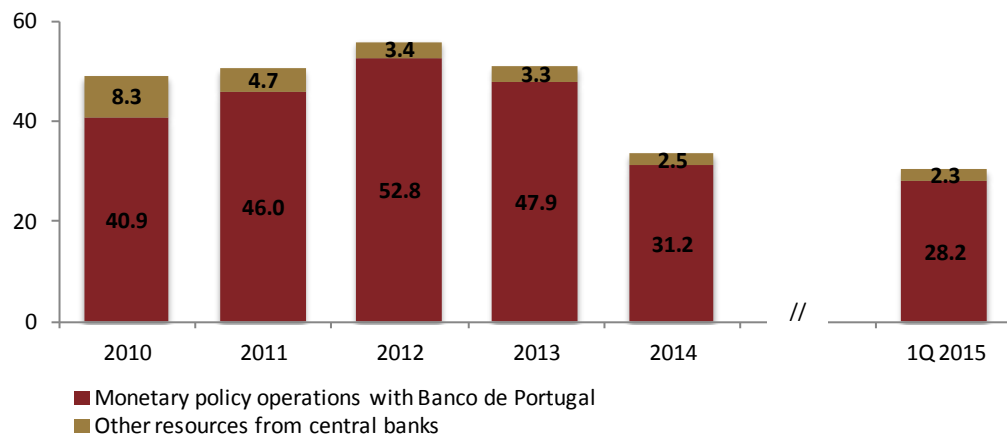


Chart 11

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

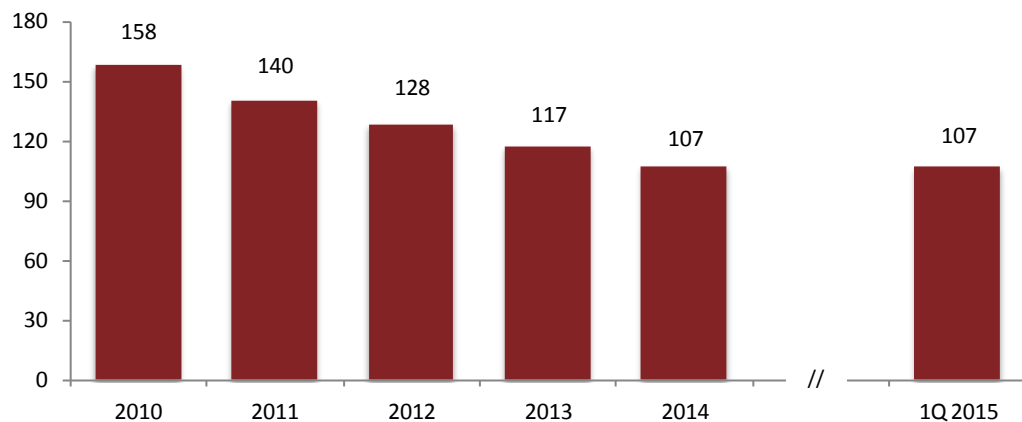


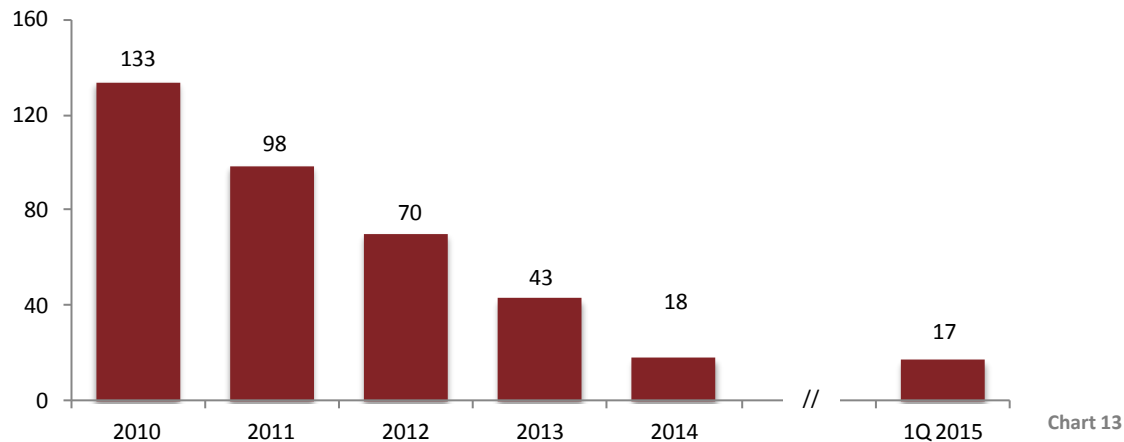
Chart 12

■ Eurosystem refinancing recorded a reduction, cumulating a €33.7 billion decrease since its historical high in June 2012.

■ The loans to deposits ratio remained stable.

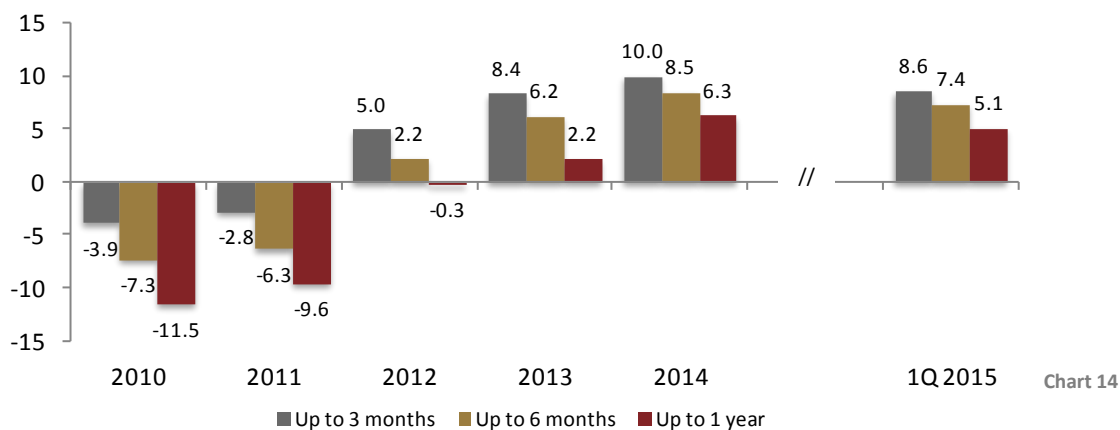


Commercial gap (€Bn) – Value at end of period



▪ The commercial gap decreased marginally, remaining at significantly low levels when compared to the beginning of the financial crisis.

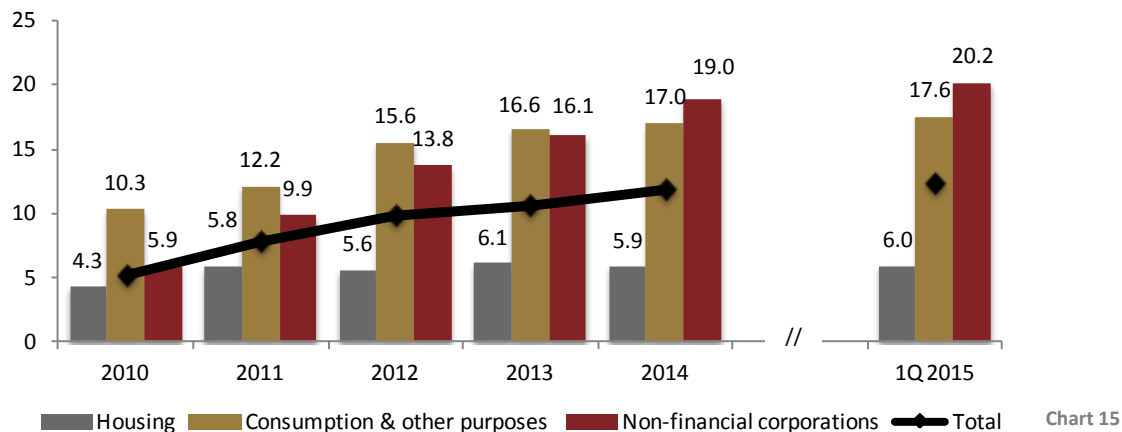
Liquidity gap in cumulative maturity ladders (% stable assets) – Value at end of period



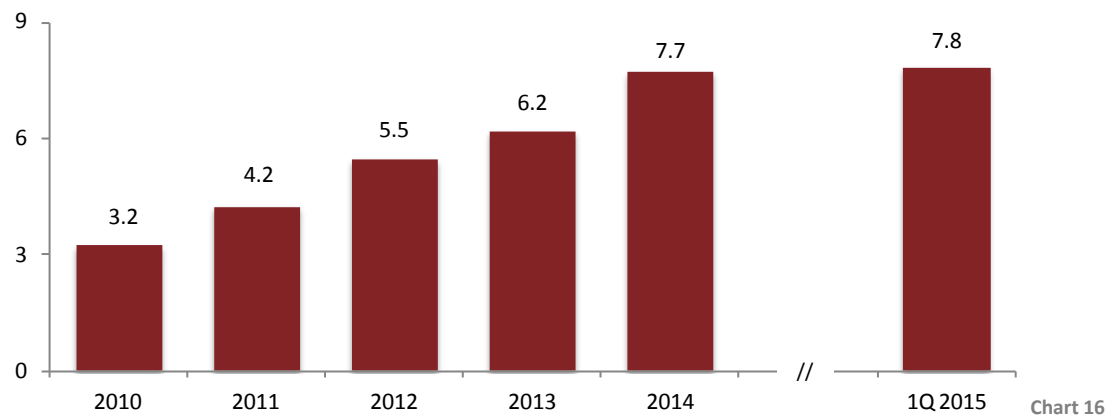
▪ Liquidity gaps decreased. This reduction is mainly due to the decrease of liquid assets.



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



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



■ The credit at risk ratio increased, stemming from the rise of the numerator, in particular in the non-financial corporations' segment.

■ The stock of impairments as a percentage of gross loans increased residually.



ROA & ROE – Value in the period

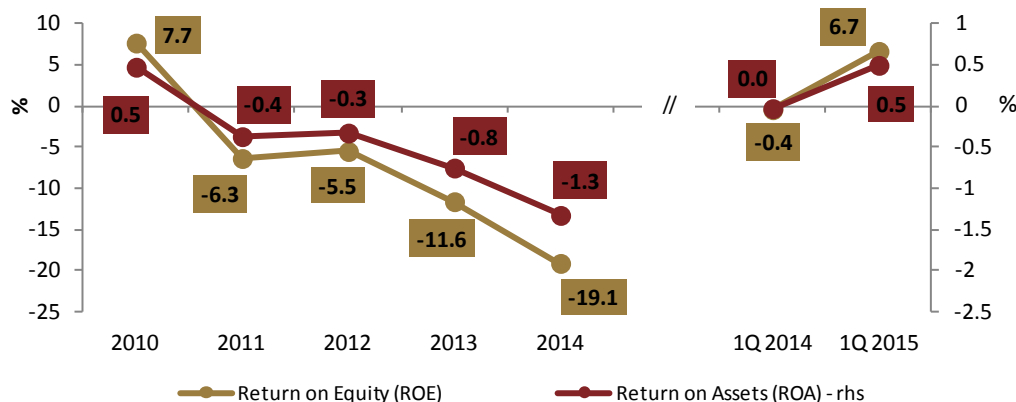


Chart 17

Note: Return is measured by earnings before taxes and minority interests.

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

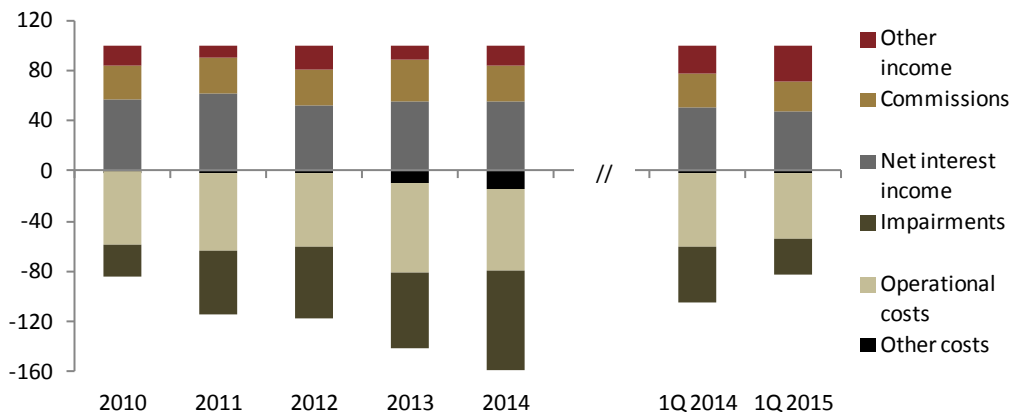


Chart 18

Over the first quarter of 2015, return on assets and return on equity were positive for the first time since 2012 on a year-on-year basis.

The decrease of both the flow of impairments and operational costs, contributed to the aforementioned year-on-year improvement of banking system returns.

On a year-on-year basis, the weight of “other income” on gross income, mainly returns in financial operations, increased significantly.



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

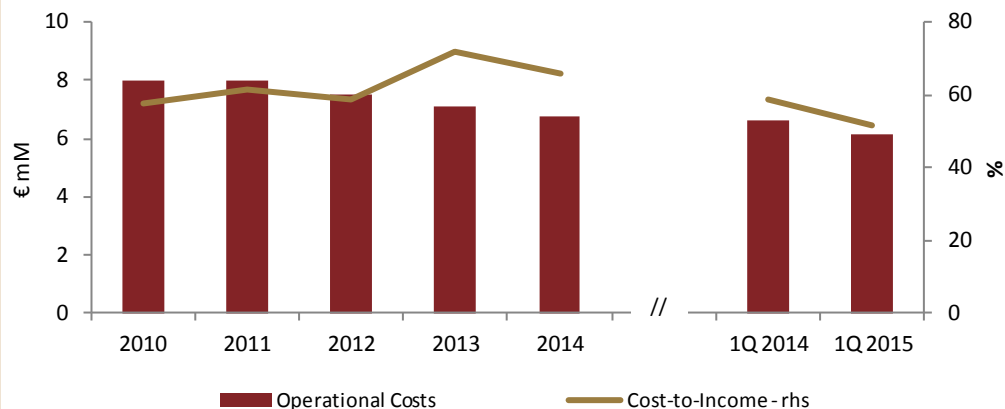


Chart 19

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

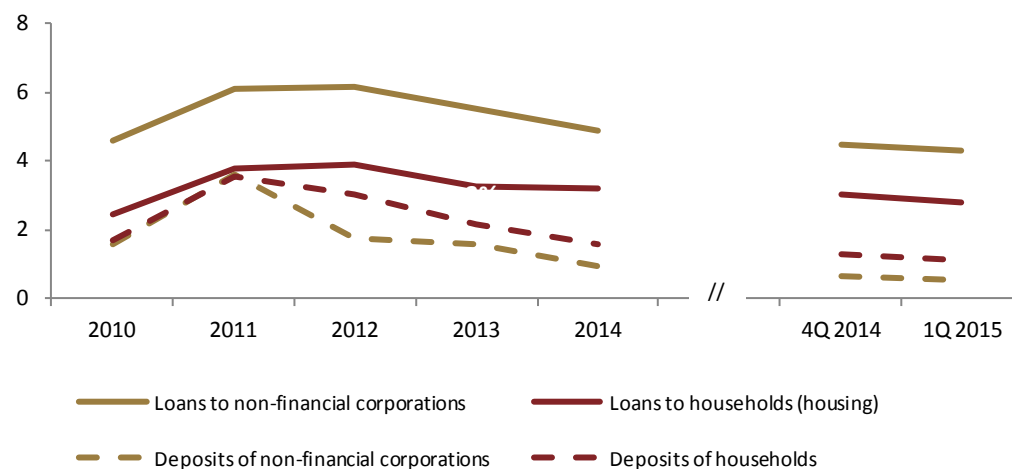


Chart 20

■ The reduction of the cost-to-income ratio in the first quarter of 2015, vis-à-vis 2014, was simultaneously driven by an increase in gross income and a reduction of operational costs.

■ Interest rates on new loans, either granted to households (for housing purposes), or to non-financial corporations, decreased slightly vis-à-vis the fourth quarter of 2014 (24 b.p. and 19 b.p. respectively).

■ The cost of new deposits kept a downward trend, recording reductions of 22 b.p. for the households' segment and 12 b.p. for the non-financial corporations' segment.



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

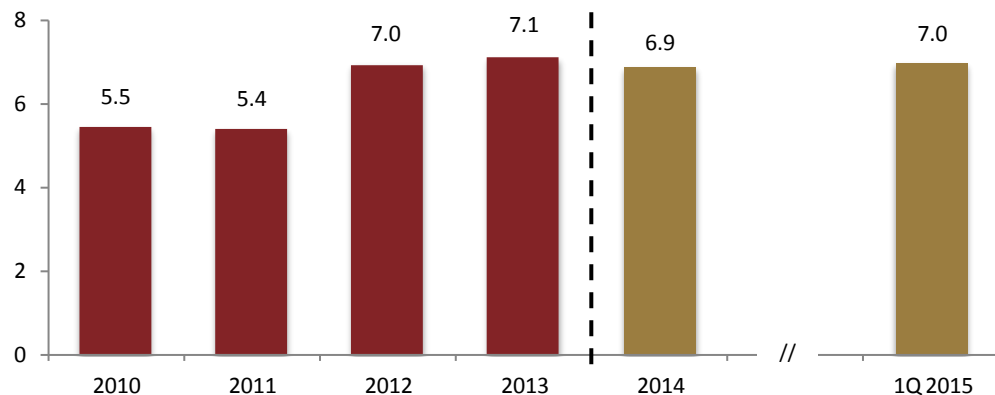


Chart 21

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

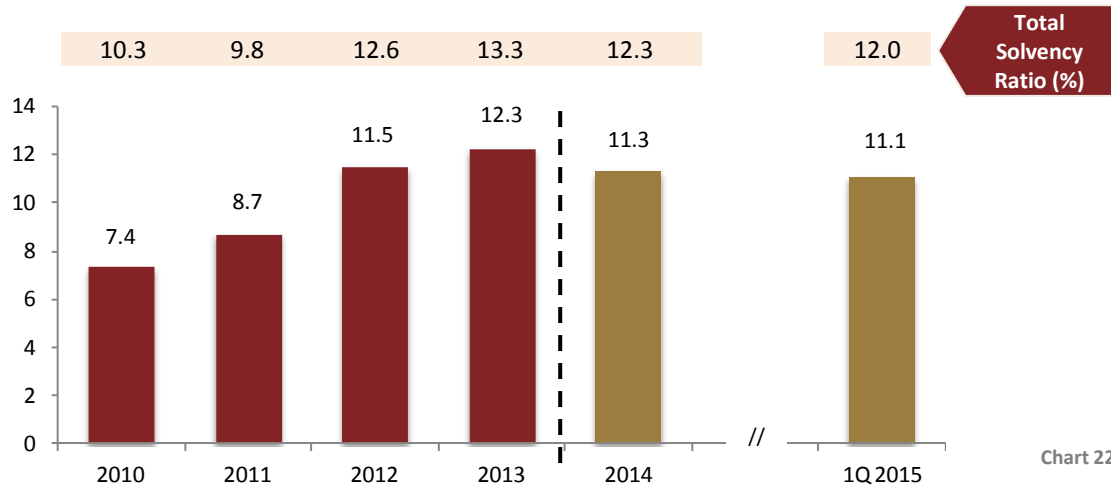


Chart 22

■ The ratio between Tier 1 capital and total assets* remained stable.

■ The CET 1 ratio* reached 11.1% for the aggregate of the Portuguese banking system, decreasing slightly vis-à-vis the end of 2014.

(*) In 2014, the transition to a new prudential regime determined the existence of breaks in the series of solvency indicators justified by methodological differences in the calculation of own funds components, affecting the comparability of ratios with previous years.



Topic	Institution	Latest Measures (1Q 2015)
Solvency and liquidity	ECB	Implementation of the Governing Council Decision of 20 March 2013 regarding the own-use of uncovered government-guaranteed bank bonds that, after 1 March 2015, may no longer be used as collateral for the Eurosystem credit operations.
		On 22 January 2015 the Governing Council approved an expanded asset purchase program to include a secondary market public sector asset purchase program (PSPP). This program started on 9 March 2015.
		The Governing Council of the ECB decided, on 22 January 2015, that the interest rate for the remaining six targeted longer-term refinancing operations (TLTROs) would be equal to the rate on the main refinancing operations (MROs) prevailing at the time when each TLTRO is conducted, eliminating the 10 basis point spread over the MRO rate which was applied in the first two TLTROs.
Legal framework	Portuguese Parliament	Law No 23-A/2015, of 26 March, which transposes into Portuguese Law (i) Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes and (ii) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for recovery and resolution of credit institutions and investment firms, amending the Legal Framework of Credit Institutions and Financial Companies, the Organic Law of Banco de Portugal, Decree-Law No 345/98 of 9 November 1998, the Securities Code (<i>Código dos Valores Mobiliários</i>), Decree-Law No 199/2006 of 25 October 2006, and Law No 63-A/2008 of 24 November 2008.
		Law No 16/2015, of 24 February, which transposes in part (i) Directives 2011/61/EU of the European Parliament and of the Council of 8 June 2011 and (ii) 2013/14/EU of the European Parliament and of the Council of 21 May 2013, amending the legal framework of undertakings for collective investment and rewording the Legal Framework of Credit Institutions and Financial Companies and the Securities Code. Approves the Legal Framework of Undertakings for Collective Investment annexed thereto.



Topic	Institution	Latest Measures (1Q 2015)
Legal framework	ECB	Publication of Regulation (EU) 2015/534 of the European Central Bank of 17 March 2015 (ECB/2015/13), which lays down requirements concerning reporting of supervisory financial information to be submitted to national competent authorities (NCAs) by significant supervised groups and less significant supervised groups. In accordance with this Regulation, 31 December 2015 shall be the first reference date for reporting of supervisory financial information concerning: (a) significant supervised groups; (b) significant supervised entities which are not part of a supervised group; 30 June 2016 shall be the first reference date for reporting of supervisory financial information concerning: (a) significant supervised entities which are part of a supervised group; (b) subsidiaries of significant supervised groups established in a non-participating Member State or a third country; 30 June 2017 shall be the first reference date for reporting of supervisory financial information concerning: (a) less significant supervised groups; (b) less significant supervised entities.
Other	Banco de Portugal	Amendment to Instruction of Banco de Portugal No 3/2009, in order to allow, under exceptional circumstances, the exemption of direct participants in SICOI from the obligation to contract with Banco de Portugal an intraday credit line on TARGET2-PT.
	EU General Court	Decision of the EU General Court, dated 4 March, that annuls the location policy for Central Counterparties (CCP), within the Eurosystem oversight policy framework, considering that the ECB does not have autonomous regulatory powers in relation to securities clearing systems under the Treaty on the Functioning of the EU.
	ECB	Recommendation of the European Central Bank of 28 January 2015 (ECB/2015/2) on dividend distribution policies. This recommendation is addressed to significant supervised entities and significant supervised groups as defined in Article 2 (16) and (22) of Regulation (EU) No 468/2014 of 16 April 2014.

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