



BANCO DE PORTUGAL
EUROSYSTEM

Portuguese Banking System

Recent Developments

Updated: 2nd quarter 2015

Prepared with data available up to 23 September 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 decreased slightly, driven by the reduction of credit to clients.

II. Liquidity & Funding

- Deposits remained resilient, although a growth is observed in deposits taken from domestic activity, mainly in the households' segment.
- Eurosystem refinancing decreased in line with the trend observed in the former quarters, however at a slower pace.
- The loans to deposits ratio remained stable over the first semester.
- The banking system liquidity position improved in all maturity buckets (as measured by liquidity gaps).

III. Asset/Credit Quality

- The credit at risk ratio increased, slightly.
- The evolution of the ratio is mainly explained by the increase of credit at risk, although the impact of the deleveraging process in this indicator remains significant.
- To the variation of the overall ratio stands out the contribution of credit to the non-financial corporations' segment.

IV. Profitability

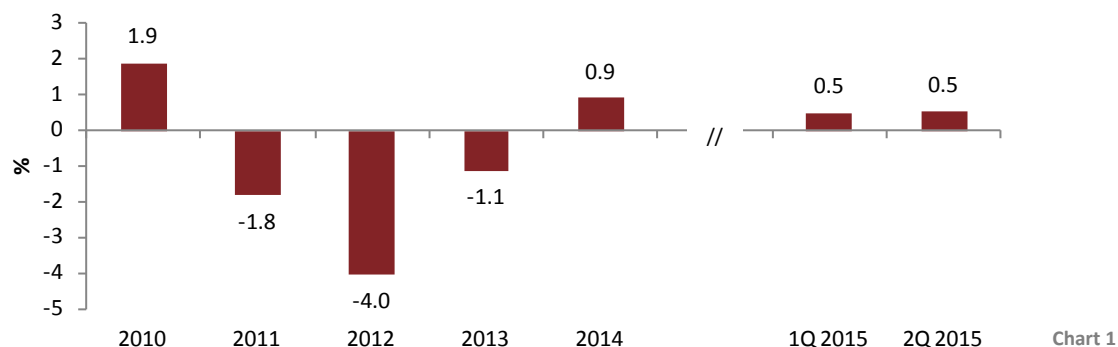
- The banking system recorded positive profitability levels;
- The observed improvement stemmed from the increase in net interest income and in results from financial operations, as well as from the decrease in the flow of impairments on credit.

V. Solvency

- Solvency levels increased 0.5 p.p., to 11.6%.

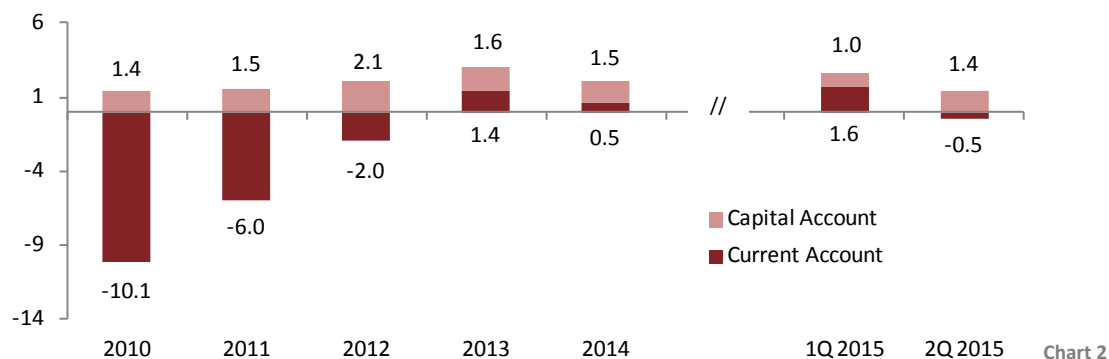


GDP growth rate – Volume



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



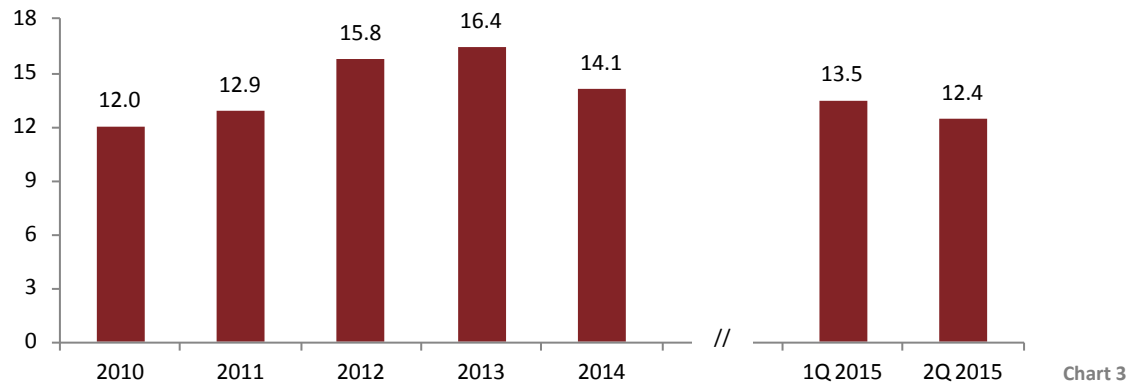
Note: Quarterly figures are seasonally adjusted.

■ In the second quarter of 2015, quarter-on-quarter GDP growth rate was positive by the fifth consecutive quarter. The year-on-year growth rate of GDP was 1.6%.

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

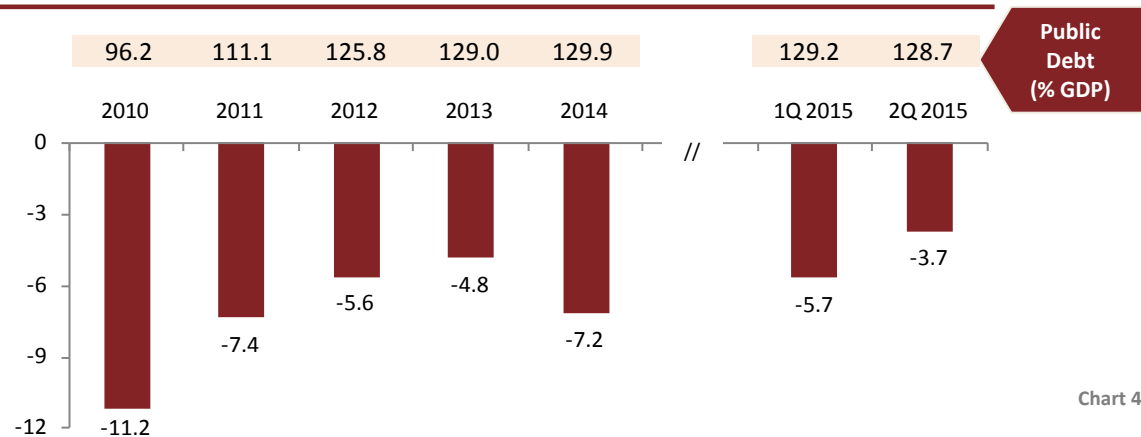


Unemployment rate, % of active population



- The rate of unemployment decreased about 1.1 p.p. vis-à-vis the previous quarter, reaching 2010 levels.

Fiscal deficit, % GDP



- Public debt as a percentage of GDP stood at 128.7% at the end of the second quarter of 2015, decreasing in relation to the end of the previous quarter. Deposits from General Government represented about 11% of GDP.

Note: The fiscal deficit of 2014 was revised in the context of the second notification of 2015 to Eurostat related to the Excessive Deficit Procedure. The revision of the balance of 2014 reflects, mainly, the inclusion of 4.9 billion Euros related to the capitalization of Novo Banco as a capital transfer.



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

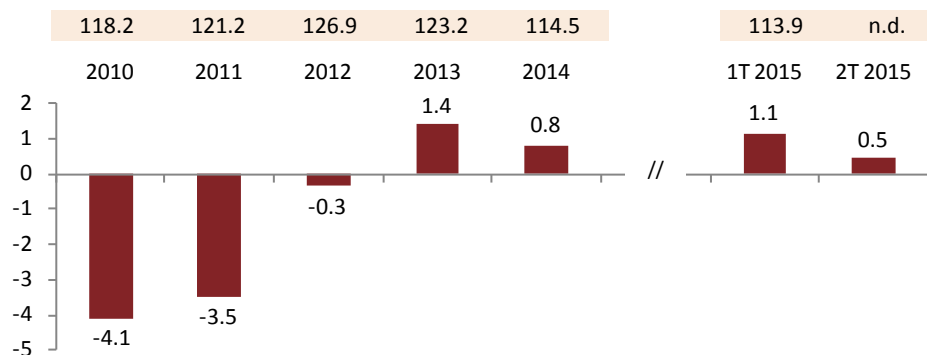


Chart 5

■ In the first quarter of 2015, non-financial corporations' debt decreased slightly (0.6 p.p. of GDP) compared to end-2014.

■ In the second quarter of 2015, non-financial corporations' financing capacity decreased 0.7 p.p. year-on-year.

Net lending/borrowing of households, % GDP

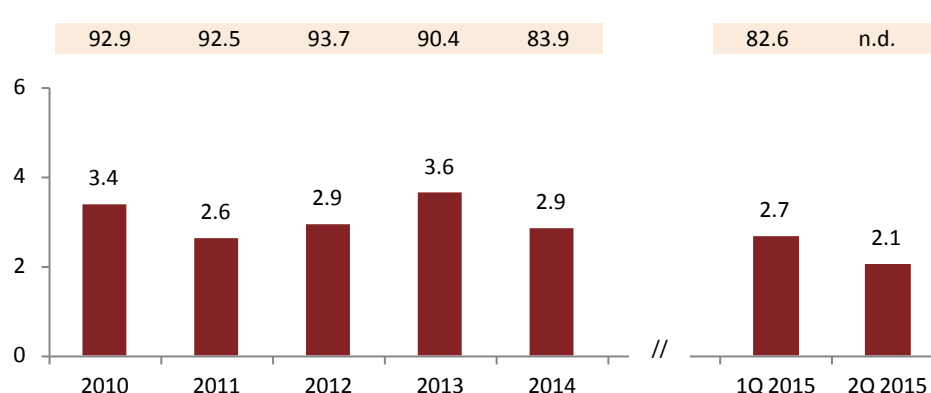


Chart 6

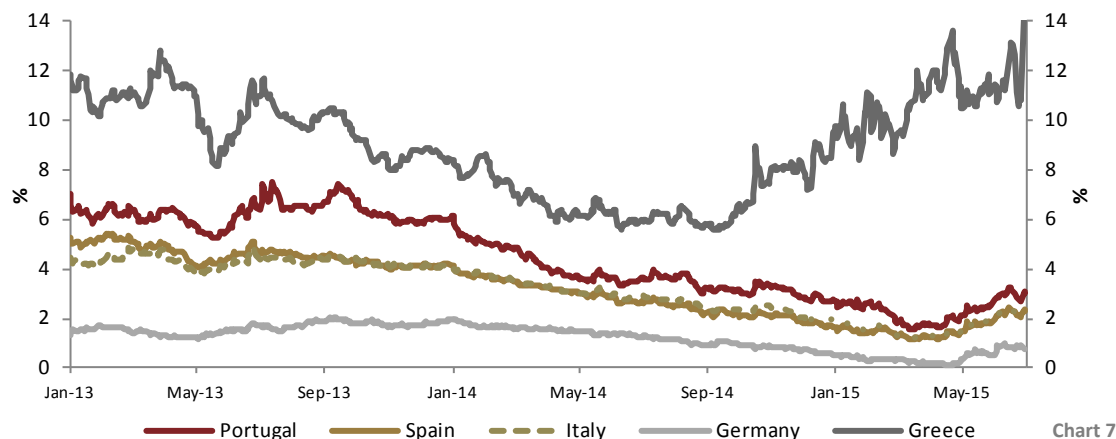
■ The households' debt level continued to decline, by about 1.3 p.p. of GDP, vis-à-vis end-2014.

■ In the second quarter of 2015, households' financing capacity remained positive, despite decreasing by about 1.1 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.

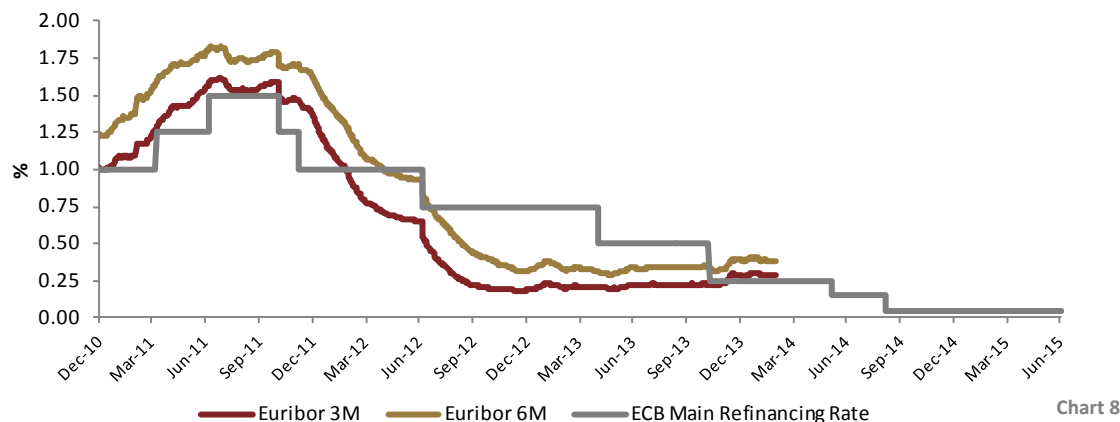


Sovereign debt yields 10 Y



■ After a historical low achieved in March 2015 (1.6%), the Portuguese 10-year government bond yield rates increased in the second quarter. This variation occurs in a context of rising volatility in the international financial markets.

Euribor and ECB main refinancing rate



■ In the euro area, the developments in the financial markets might have continued to reflect the implementation of the public securities purchase program by the European Central Bank.

■ During the second 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

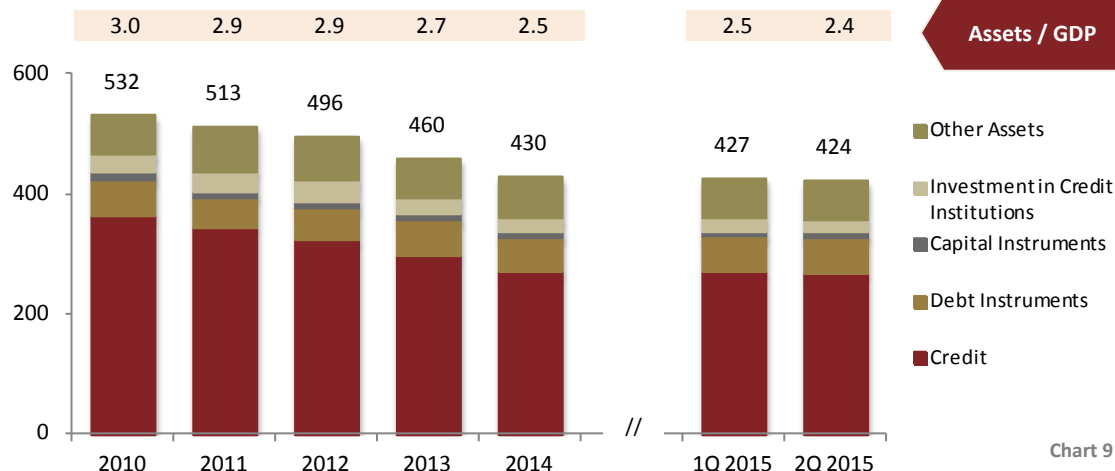


Chart 9

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

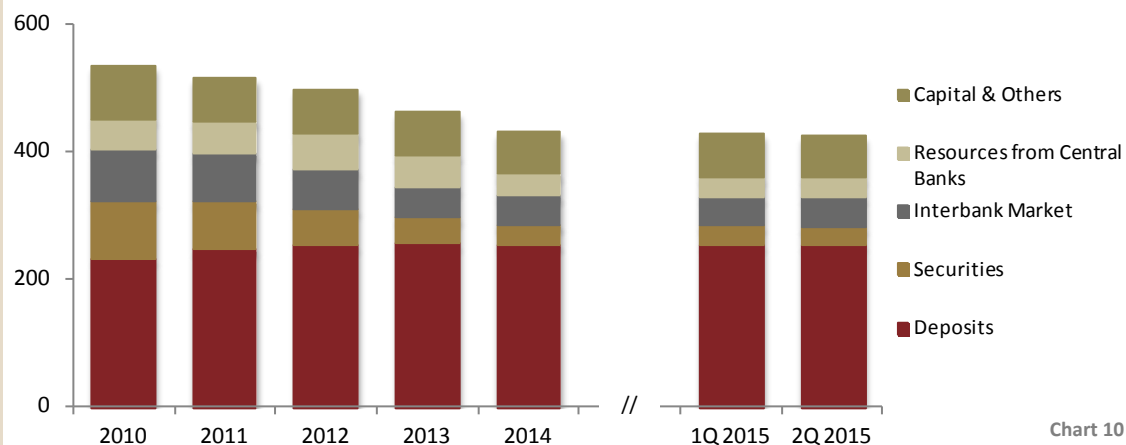


Chart 10

▪ Bank total assets decreased slightly.

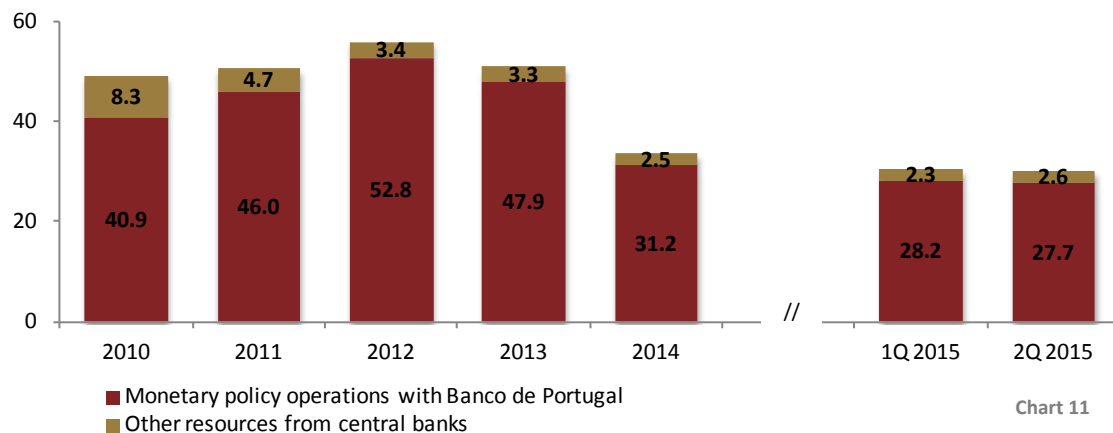
▪ The main driver of this reduction was the evolution of credit to clients, partially compensated by the increase in debt instruments portfolio.

▪ Deposits from clients remained stable. Deposits taken in domestic activity increased, mainly in the households' segment.

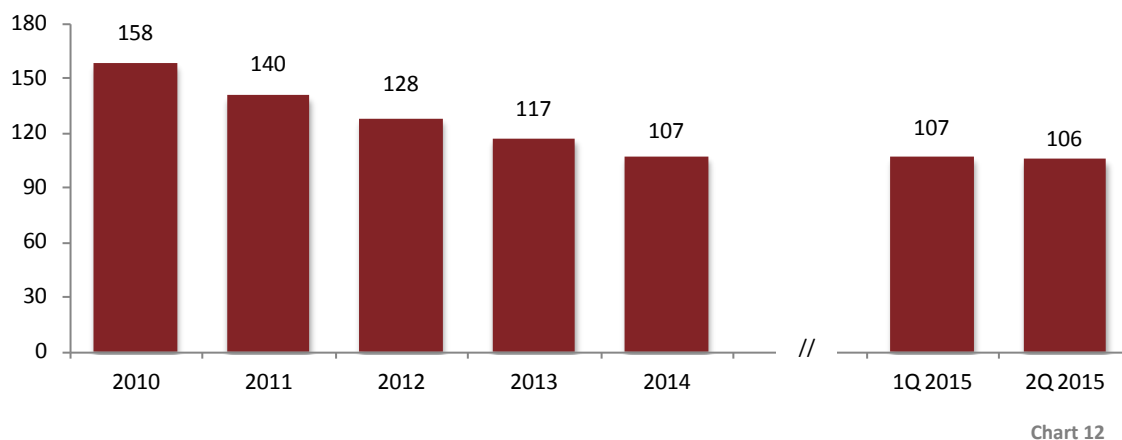
▪ Deleveraging continued associated to a reduction of the weight of securities in the banking system's financing.



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



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



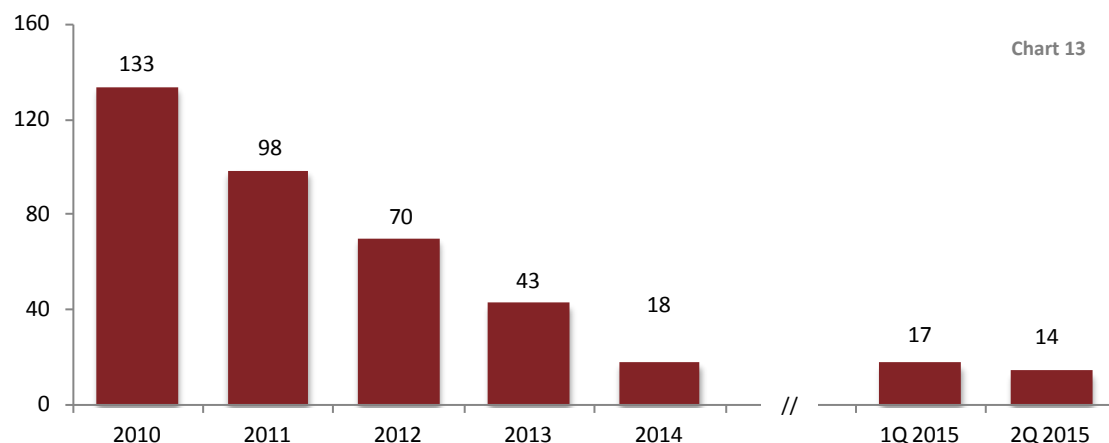
■ Central banks financing remained on a downward trend, although at a slower pace compared to previous quarters.

■ Central banks financing represents 7.2% of total assets, comparing to its historical high of 12.5% reached in June 2012.

■ The loans to deposits ratio remained stable in the first semester.

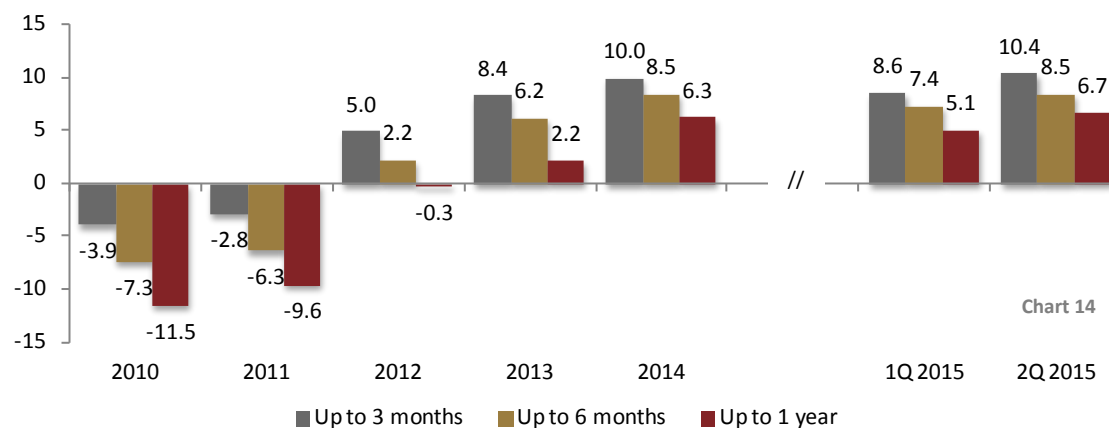


Commercial gap (€Bn) – Value at end of period



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

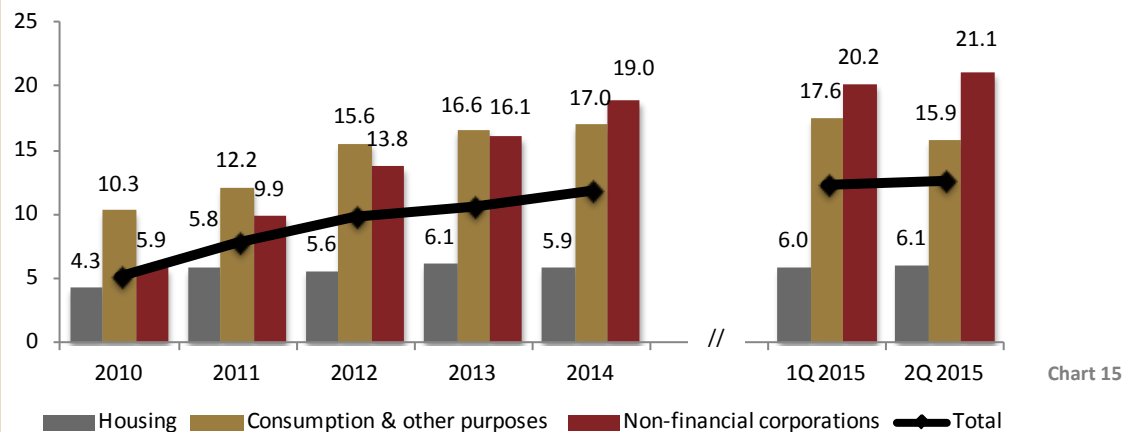
Liquidity gap in cumulative maturity ladders (% stable assets) – Value at end of period



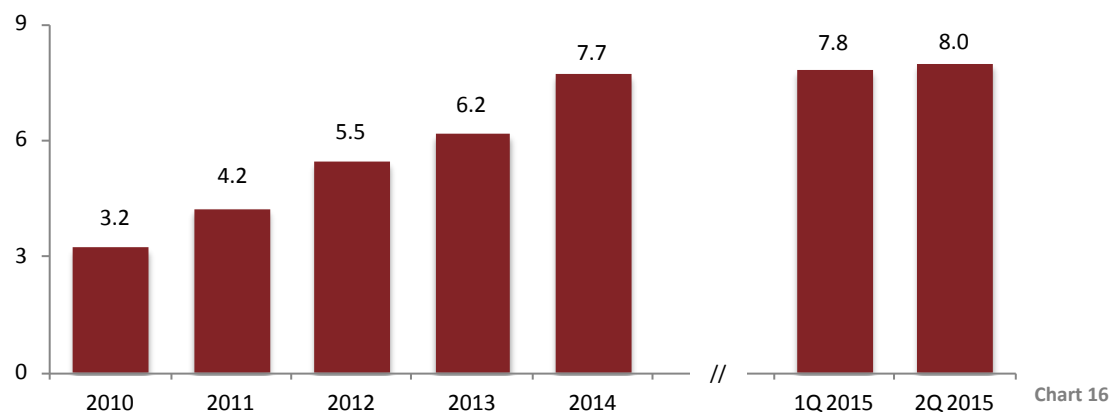
▪ The improvement of the liquidity gaps for all maturity buckets benefited from a positive contribution from all the ratio components.



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



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

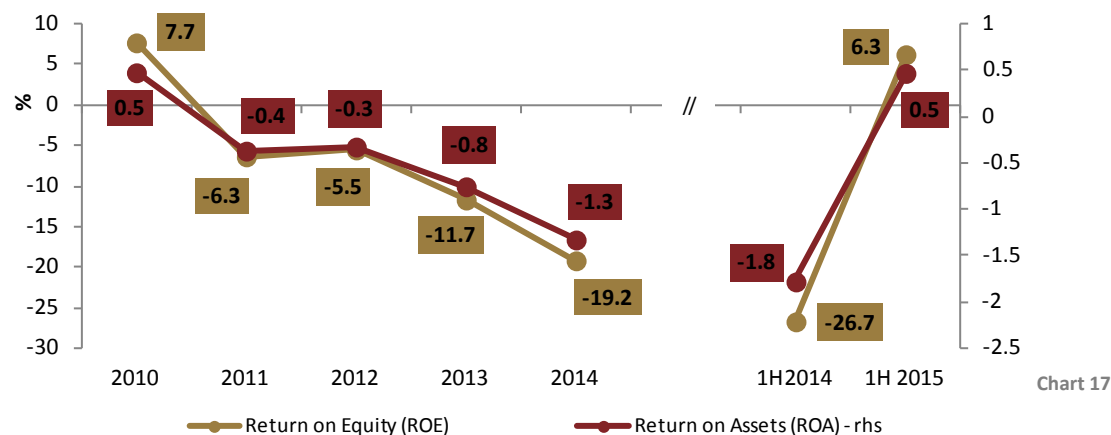


- The credit at risk ratio increased slightly to 12.6%, stemming from the rise of credit at risk, in particular in the non-financial corporations' segment.
- However, the impact of the decrease of gross credit (denominator) on this indicator continues to be significant.

- The stock of impairments as a percentage of gross credit increased residually.
- This evolution was mainly due to an increase in the stock of impairments, but also reflected a reduction in gross credit.

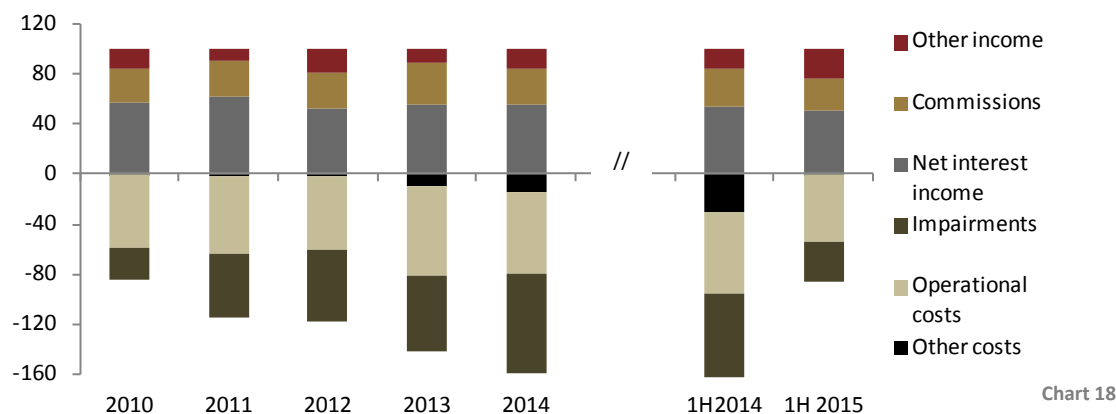


ROA & ROE – Value in the period



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

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



▪ Over the first half of 2015, return on assets and return on equity improved significantly year-on-year. Excluding BES and Novo Banco, the increase in profitability was still significant (about 5 p.p. in ROE and 0.4 p.p. in ROA).

▪ To this improvement contributed both net interest income and, mainly, results from financial operations.

▪ The reduction of the flow of impairments and, at a lower extent, the operational costs, had also a positive contribution.

▪ The weight of net interest income and commissions on gross income decreased, counterbalanced by the significant increase of the weight of “other income”, essentially reflecting returns in financial operations.



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

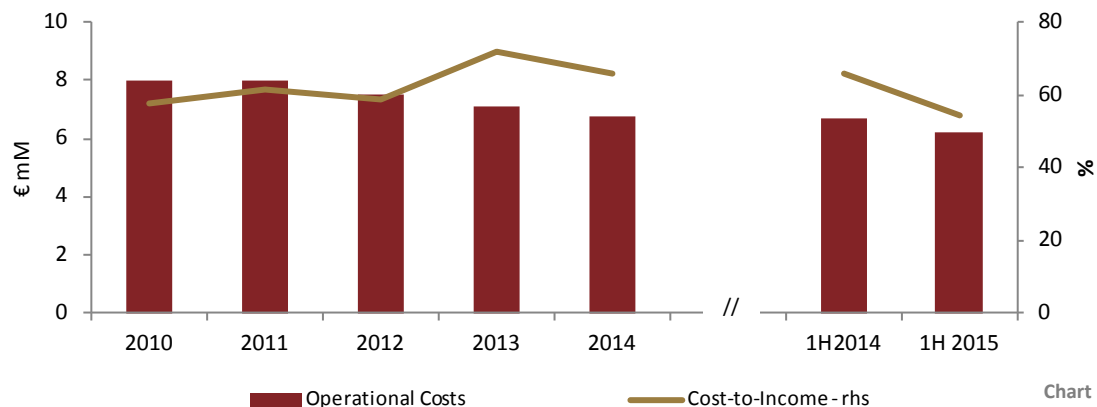


Chart 19

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

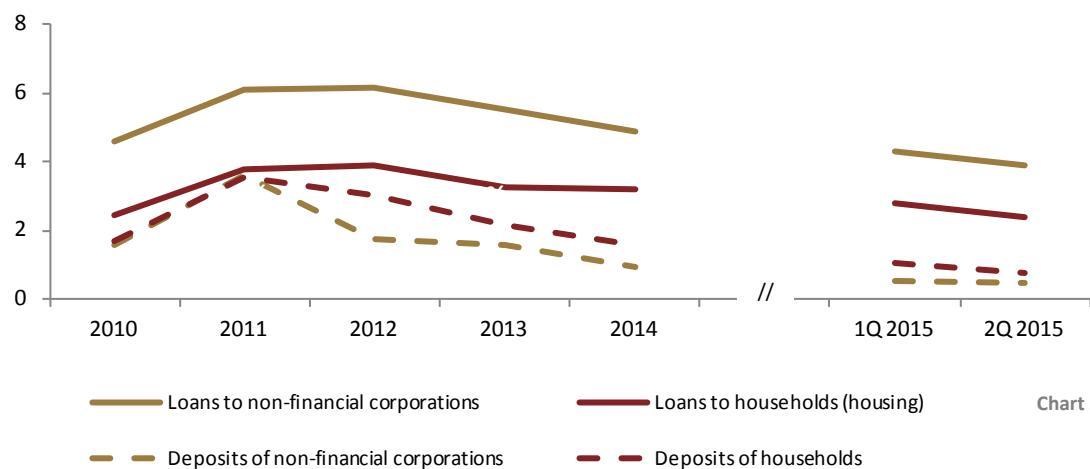


Chart 20

■ The reduction of the cost-to-income ratio in the first half 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 first quarter of 2015 (39 b.p. and 44 b.p. respectively).

■ The cost of new deposits kept a downward trend, recording reductions of 28 b.p. for the households' segment and 7 b.p. for the non-financial corporations' segment.



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

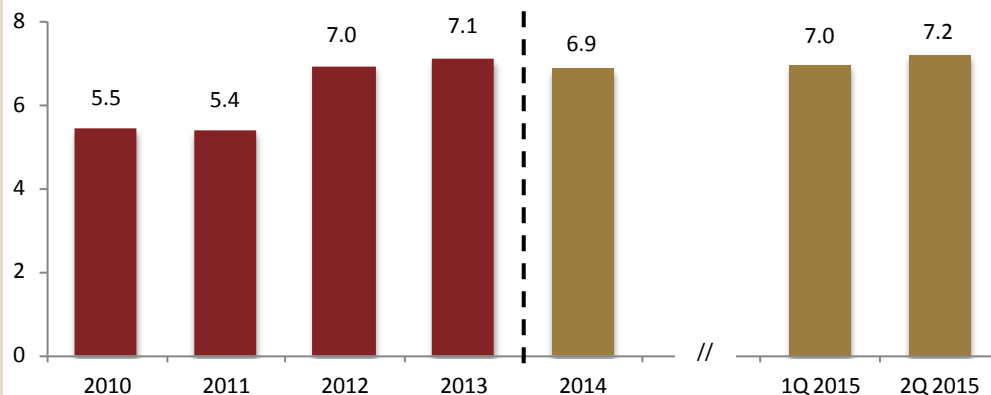


Chart 21

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

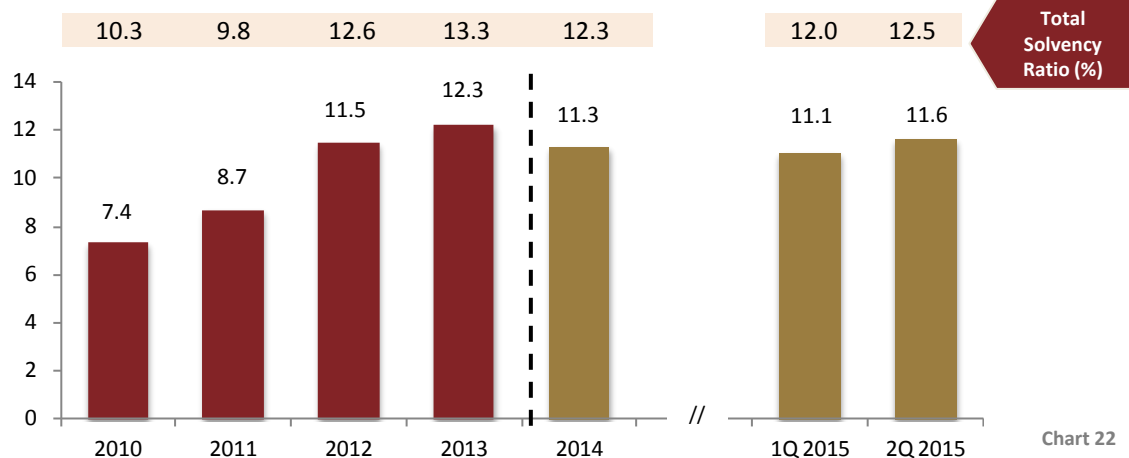


Chart 22

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

■ The CET 1 ratio* increased to 11.6% for the aggregate of the Portuguese banking system, reflecting both an increase of regulatory capital and a decrease of risk-weighted assets.

(*) 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 (Q2 2015)
Monitoring and supervision	Banco de Portugal	Approval of Circular Letter No 26/2015/DSC which transmits Banco de Portugal's understanding regarding the application of EURIBOR rates to credit and financing agreements, should this index attain negative values.
Solvency and liquidity	ECB	Decision (EU) 2015/774 of the European Central Bank of 4 March (ECB/2015/10), OJ L 121, 14.5.2015. Decision on a secondary markets public sector asset purchase programme (PSPP). The Eurosystem hereby establishes the PSPP under which the Eurosystem central banks shall purchase eligible marketable debt securities on the secondary markets from eligible counterparties, under specific conditions. Enters into force on the day following its publication on the ECB's website and applies from 9 March 2015.
		Decision (EU) 2015/509 of the European Central Bank of 18 February 2015 (ECB/2015/9), OJ L 91, 2.4.2015. Repeals Decision ECB/2013/6 on the rules concerning the use as collateral for Eurosystem monetary policy operations of own-use uncovered government-guaranteed bank bonds, Decision ECB/2013/35 on additional measures relating to Eurosystem refinancing operations and eligibility of collateral (Article 1 of the Decision), and Articles 1, 3 and 4 of Decision ECB/2014/23 on the remuneration of deposits, balances and holdings of excess reserves (Article 2 of the Decision). Article 1 enters into force on 1 May 2015 and Article 2 entered into force on 3 April.
		Decision (EU) 2015/656 of the European Central Bank of 4 February (ECB/2015/4), OJ L 107, 25.4.2015. Decision on the conditions under which credit institutions are permitted to include interim or year-end profits in Common Equity Tier 1 capital in accordance with Article 26(2) of Regulation (EU) No 575/2013. Enters into force on 6 February 2015 and applies from the reporting reference date of 31 December 2014 in accordance with Article 2 of Implementing Regulation (EU) No 680/2014.



Topic	Institution	Latest Measures (Q2 2015)
Legal framework	Banco de Portugal	On 1 May entry into force of Guideline ECB/2014/60, regarding the implementation of the monetary policy in the Eurosystem, amended by Guideline ECB/2015/20, which repeals Guideline ECB/2011/14. It was implemented at national level, taking into account the national specificities, by Instruction of Banco de Portugal No 3/2015 which repeals and replaces the Instruction No 1/99.
	Portuguese Government	Decree-Law No 100/2015 of 2 June. Approves the legal system of credit financial companies and amends the legal systems of investment companies, financial leasing companies, factoring companies and mutual guarantee companies, updating them in line with the amendments introduced by Decree-Law No 26/2015 of 6 February to Article 349 of the Commercial Companies Code.
	European Parliament and Council	Publication of Regulation (EU) 2015/751 of the European Parliament and of the Council, of 29 April 2015, on interchange fees for card-based payment transactions. This Regulation lays down uniform technical and business requirements for card-based payment transactions carried out within the Union, where both the payer's payment service provider and the payee's payment service provider are located therein.
Other	Banco de Portugal	Amendment of Instruction No 54/2012 on 15 January 2013 – TARGET2-PT Regulation, following the publication, on 2 April 2015, of Guideline (EU) 2015/930 (ECB/2015/15), which incorporates the Eurosystem service for securities settlement in central bank money (TARGET2-Securities/T2S).
	ECB	Publication of Guideline (EU) 2015/930 of the European Central Bank of 2 April 2015, which amends Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) (ECB/2015/15), establishing a Eurosystem service for securities settlement in central bank money (TARGET2-Securities/T2S).

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