



**BANCO DE PORTUGAL**  
EUROSYSTEM

# Portuguese Banking System

## Recent Developments

Updated: 3<sup>rd</sup> quarter 2015

Prepared with data available up to 1 December 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 persist in a decreased trend driven by the reduction of credit to clients.

### II. Liquidity & Funding

- Deposits remained resilient in the third quarter which along with the credit reduction justifies a slight decrease of the loans to deposits and the commercial gap.
- Eurosystem refinancing decreased in line with the trend observed in the former quarters.
- 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 driven by the credit at risk.
- To the variation of the overall ratio stands out the contribution of credit to the non-financial corporations' segment.

### IV. Profitability

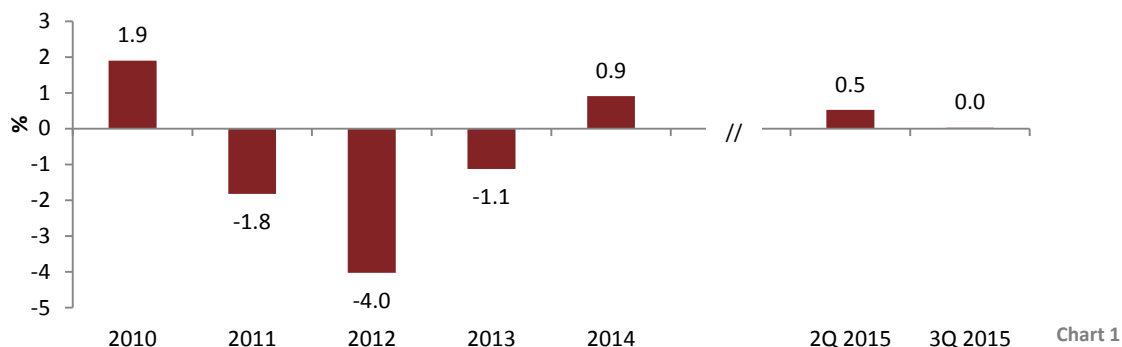
- In the third quarter of 2015 the banking system recorded positive profitability levels.
- On a year-on-year basis, the observed improvement stemmed mostly from the decrease in the flow of impairments and provisions.

### V. Solvency

- Solvency levels remained broadly stable in the third quarter of 2015.

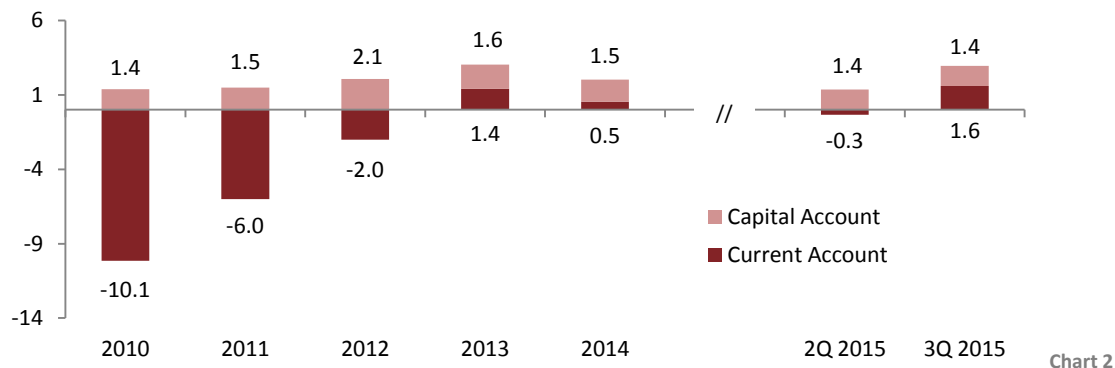


### GDP growth rate – Volume



Note: Quarterly figures correspond to q-on-q rates of change. National Accounts and Balance of Payments figures are already presented according to 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.

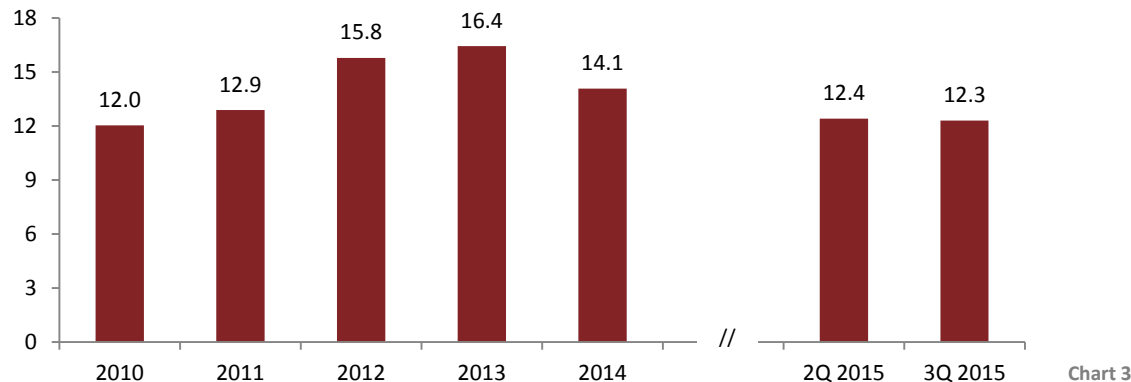
■ In the third quarter, quarter-on-quarter GDP growth rate was virtually null.

■ The year-on-year growth rate of GDP was 1.4%.

■ At September 2015, the current and capital account recorded a surplus of 3.0% of GDP, reflecting the ongoing adjustment of the external imbalance of the Portuguese economy. The current account recorded 1.6%.

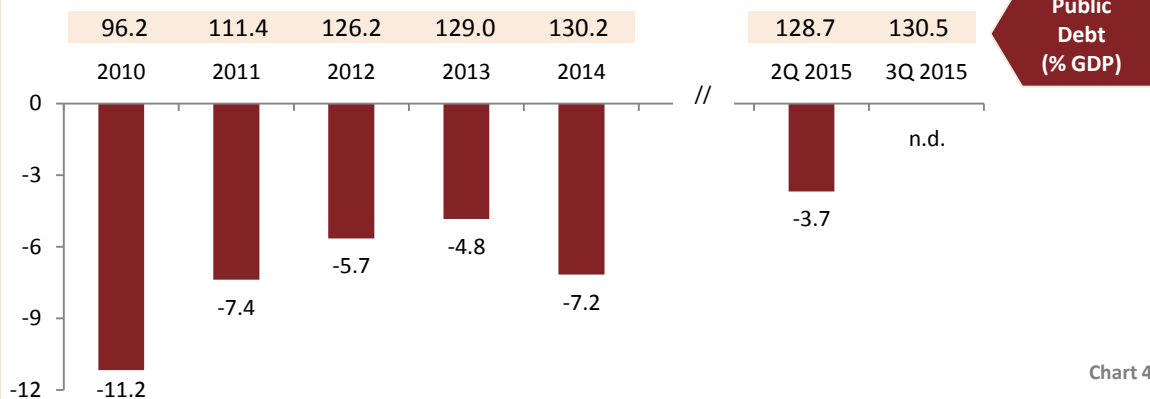


### Unemployment rate, % of active population



- The unemployment rate was 12.3%, reaching almost 2010 levels. It decreased 1.3 p.p. when compared to 3Q2014.

### Fiscal deficit, % GDP



- Public debt as a percentage of GDP stood at 130.5% at the end of the third quarter of 2015. Deposits from the General Government amount to about 14% of GDP.

Note: : The unemployment rate corresponds to the figure of the central month of each quarter published by the National Statistical Institute. 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

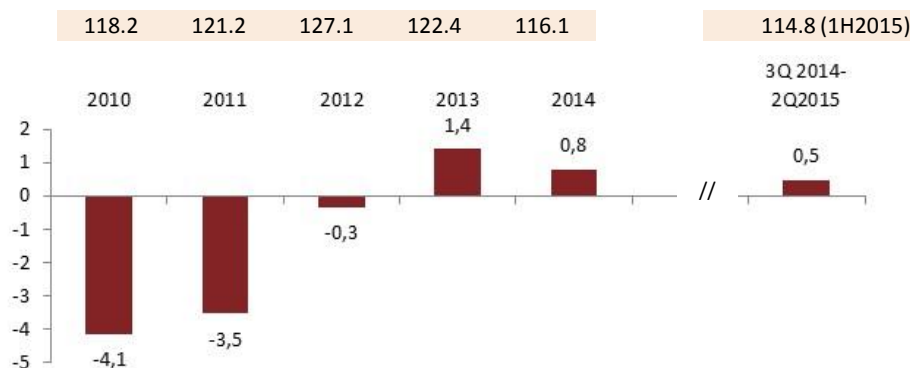


Chart 5

### Net lending/borrowing of households, % GDP

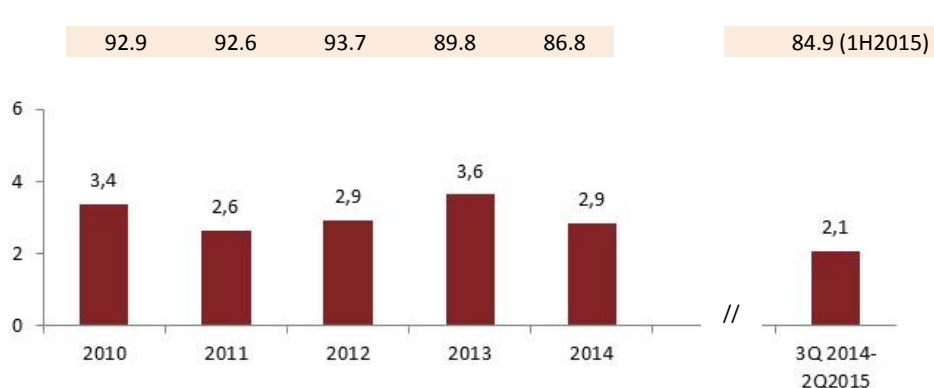


Chart 6

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.

■ In the first half of 2015, non-financial corporations' debt decreased about 1.3 p.p. of GDP from the end-2014.

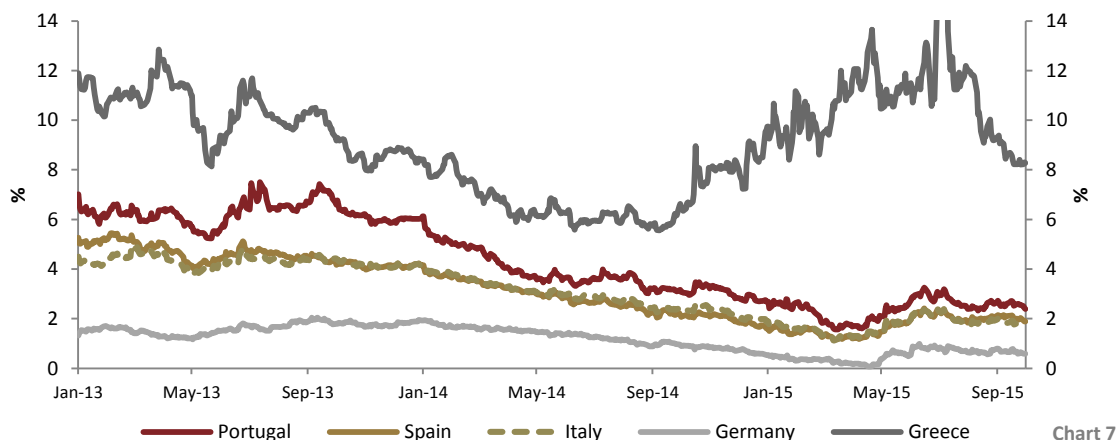
■ In the year ending in June 2015, net lending of non-financial corporations stood in 0.5% of GDP which compares with 0.8 in December 2014.

■ The households' debt level continued to decline, by about 1.9 p.p. of GDP, vis-à-vis end-2014.

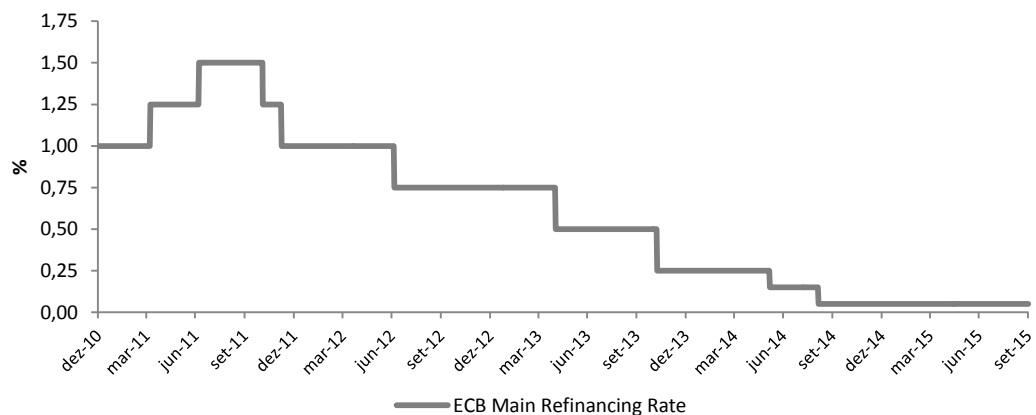
■ In the year ending in June 2015, the net lending of households stood in 2.1% of GDP which compares with 2.9 in December 2014.



### Sovereign debt yields 10 Y



### ECB main refinancing rate



■ The Portuguese 10-year government bond yield decreased over the third quarter, approaching the levels of the first quarter. This variation occurs in a context of rising volatility in the international financial markets.

■ Interbank interest rates remain at negative levels, reflecting the ECB non-conventional monetary policy.

■ At the begin of December 2015, the ECB reduced the interest rate on the deposit facility by 10 basis points to -0.30%. The interest rates on the main refinancing operations and on the marginal lending facility remained unchanged at 0.05% and 0.30%, respectively.



## **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 that the adjustments stemming from the resolution measure applied to BES were not considered.





## Assets (€Bn) – Value at end of period

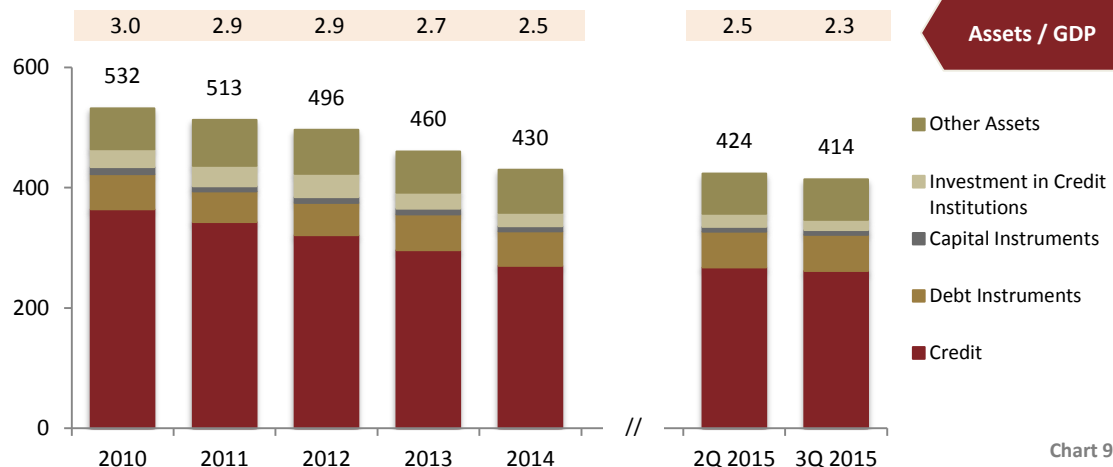


Chart 9

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

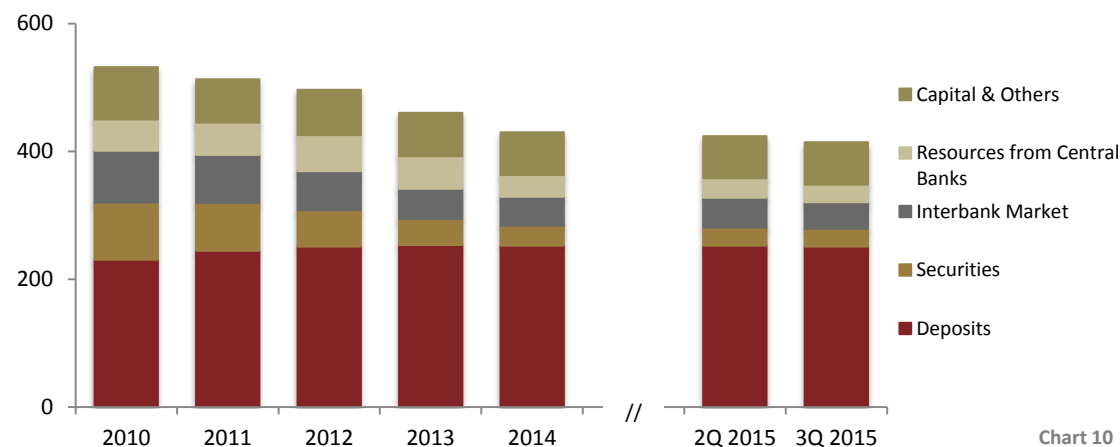


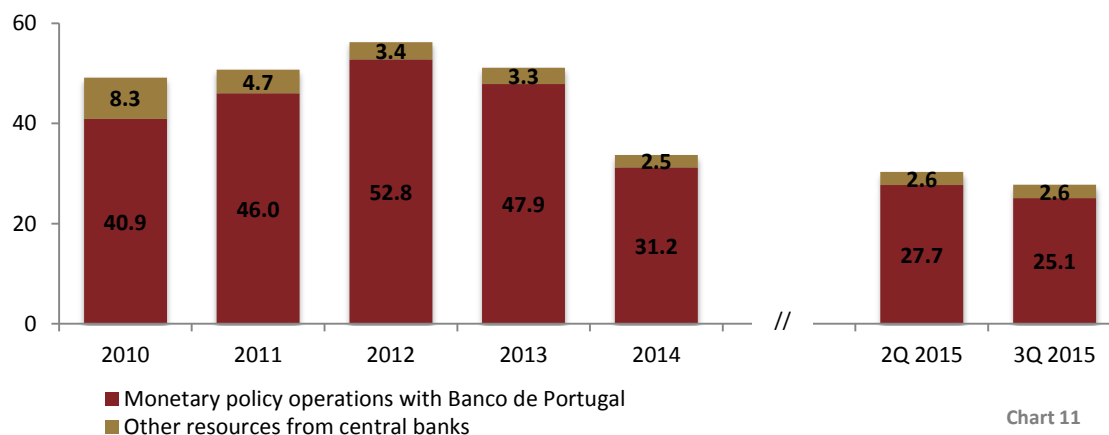
Chart 10

- Over the third quarter, total assets of the Portuguese banking system decreased by 2.3%.
- This evolution reflects the decrease in total credit and deposits in credit institutions.

- In terms of bank financing structure, in the third quarter of 2015 there was a decrease of the Eurosystem refinancing and the interbank market funding.

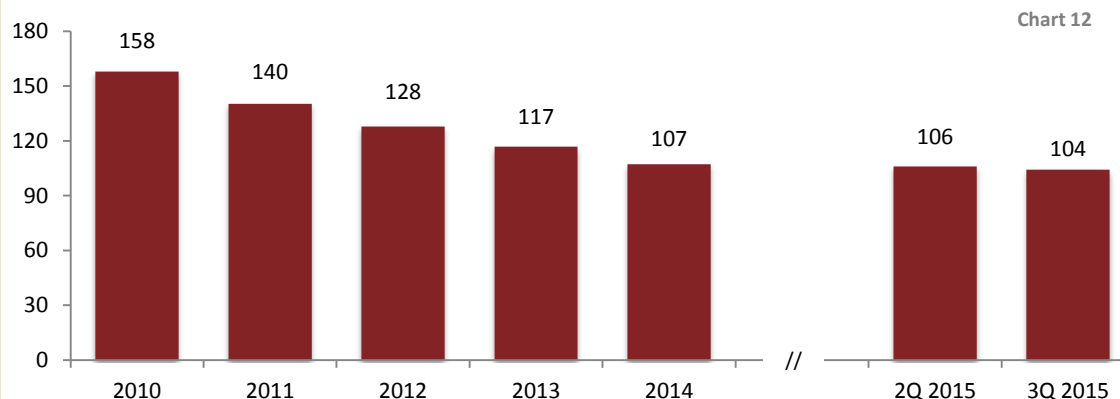


### Central Banks Financing (€Bn) - Value at end of period



■ Central banks financing decreased over the quarter, representing 6.7 % of banking assets as of September 2015.

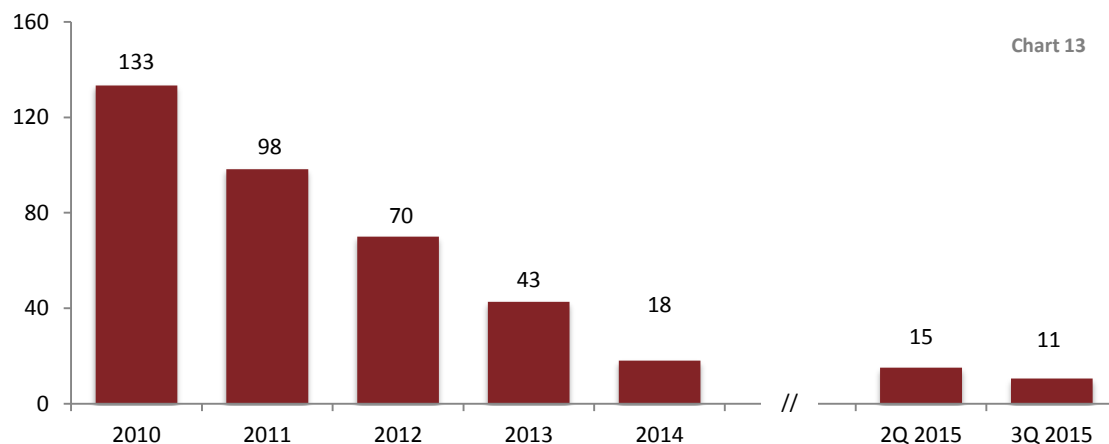
### Loan-To-Deposits ratio (%) - Value at end of period



■ The loan-to-deposits ratio decreased slightly from the previous quarter, reflecting the decrease in credit and the stabilization of deposits.

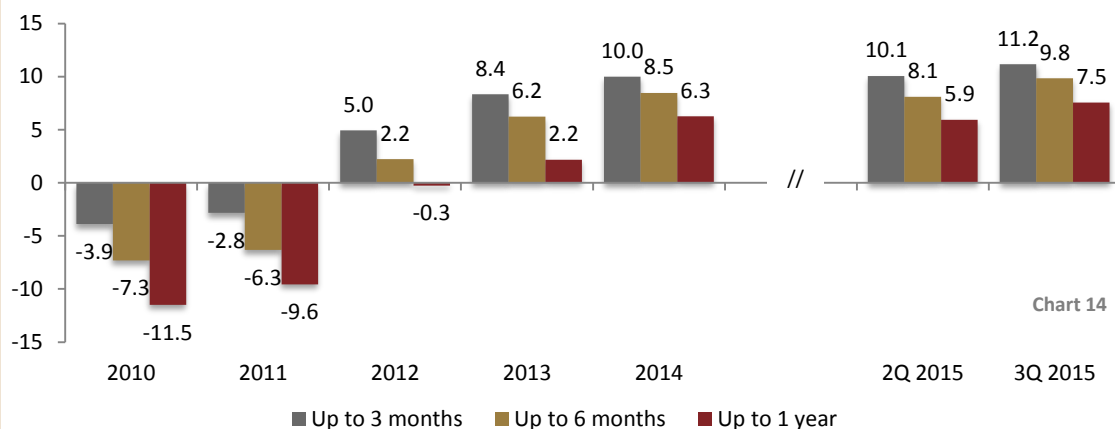


Commercial gap (€Bn) – Value at end of period



■ The commercial gap decreased more sharply over the third quarter of 2015 when compared with the other quarters of the year.

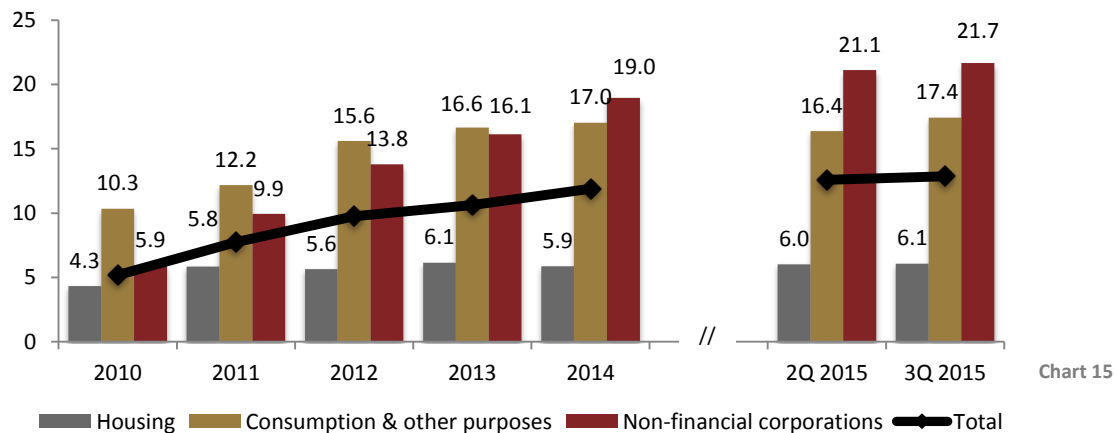
Liquidity gap in cumulative maturity ladders (% stable assets) – Value at end of period



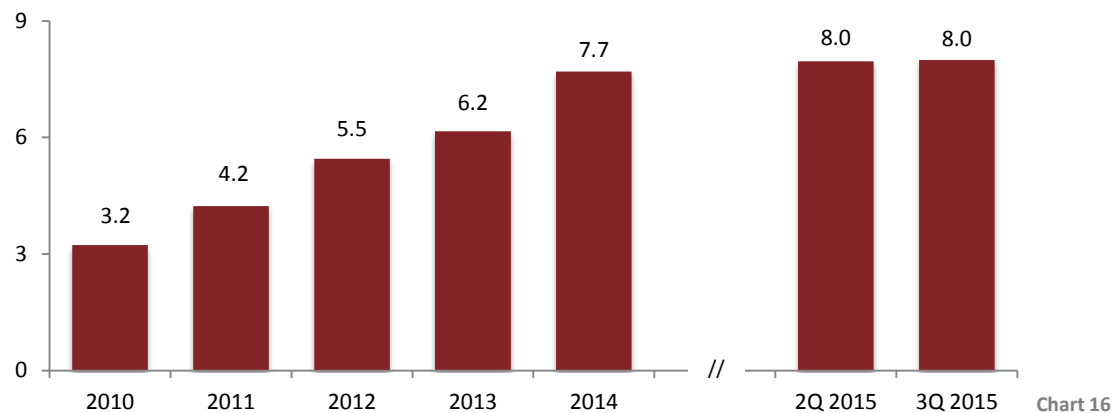
■ The improvement of the liquidity gap for all maturity buckets benefited from a positive contribution from all the ratio components.



### 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 12.9%, stemming from the rise of credit at risk, in particular in the non-financial corporations' segment.

■ The stock of credit impairments as a percentage of gross credit remained stable.



### ROA & ROE – Value in the period

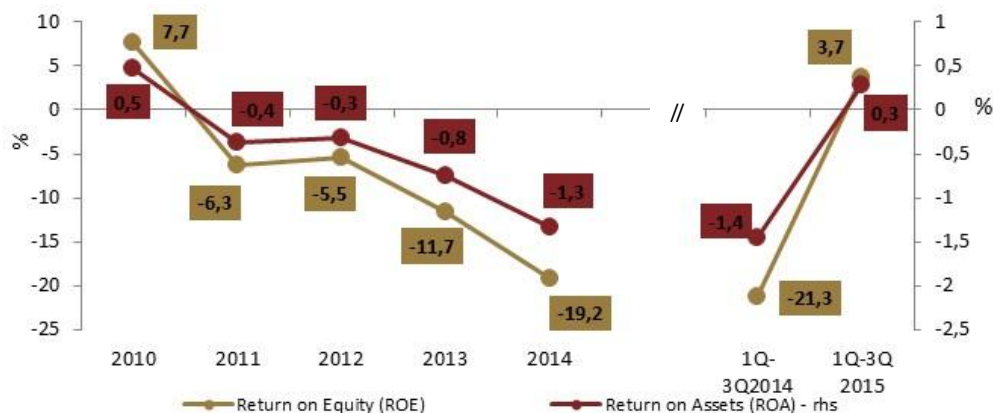


Chart 17

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

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

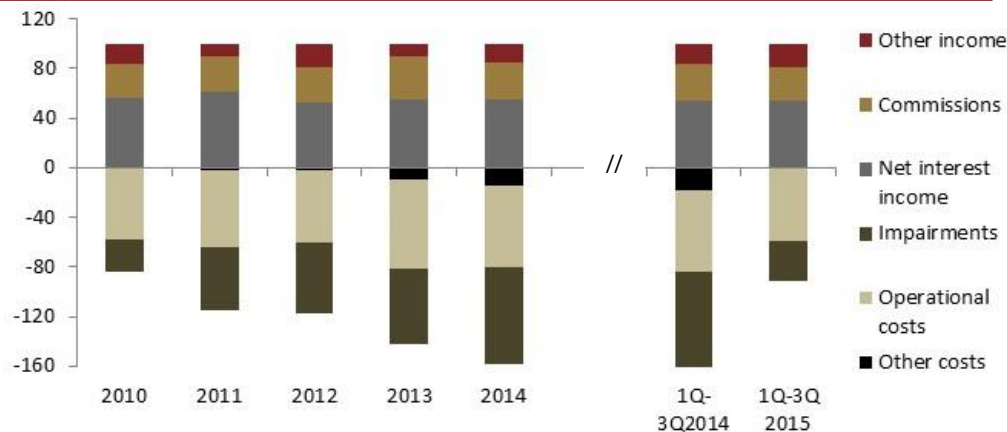


Chart 18

Return on assets and return on equity improved significantly year-on-year. Excluding BES/Novo Banco, ROA and ROE would stay at 0.5 and 7.1% in September 2015, which compares with 0.2 e 2.3% in September 2014.

The improvement in profitability was due to an significant reduction of impairments and other costs.

The weight of net interest income in gross income remained stable year-on-year, while the weight of returns in financial operations (included in other income) increased.



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

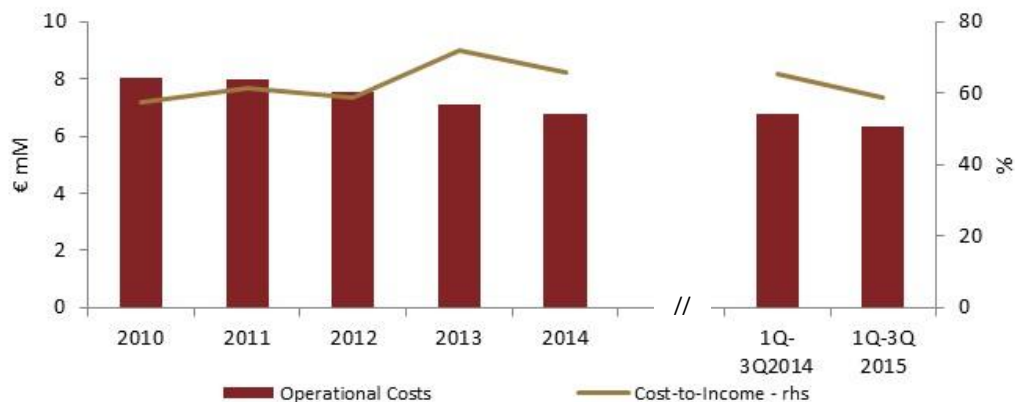


Chart 19

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

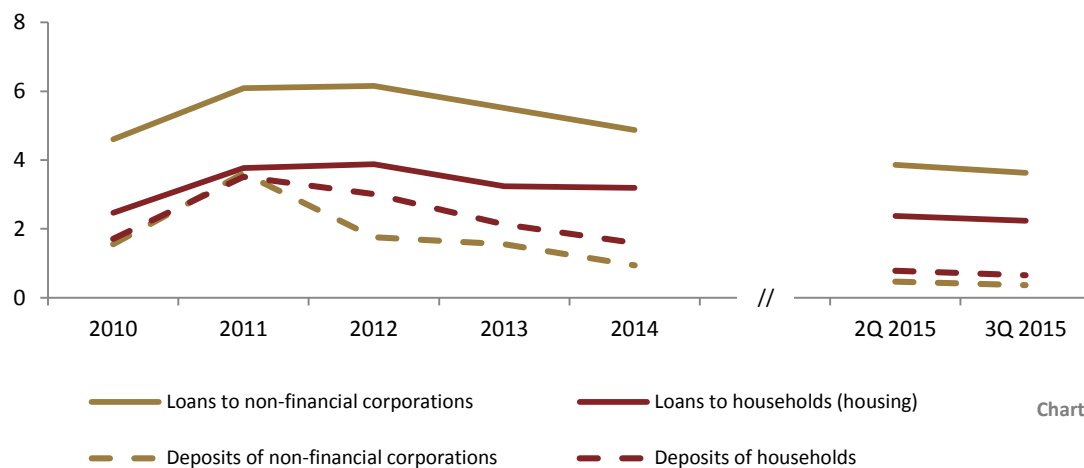


Chart 20

■ Cost-to-income ratio decreased 6.7 p.p. year-on-year due to a reduction of operational costs and to a less extent to the increase of gross income.

■ Interest rates on new loans remained on a downward trend. The interest rate on new operations to households for housing purposes and to non-financial corporations decreased by 14 and 23b.p. respectively.

■ The cost of new deposits kept on a downward trend, recording reductions of 13 b.p. for the households' segment and 11 b.p. for the non-financial corporations' segment.



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

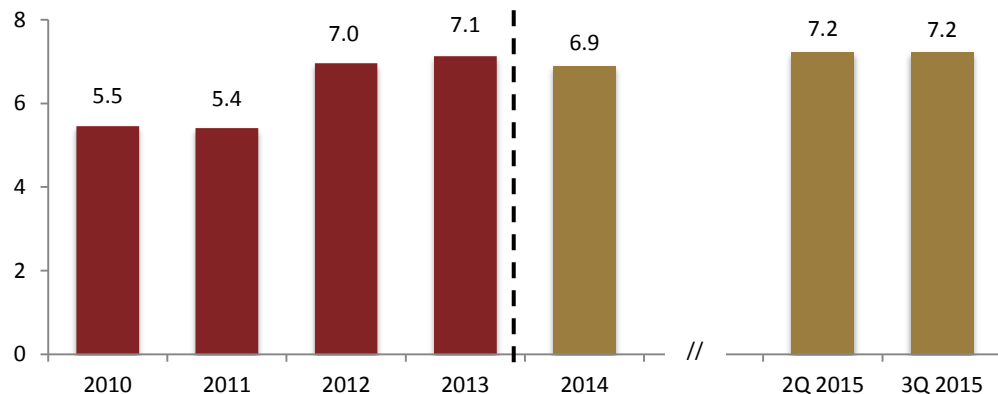


Chart 21

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

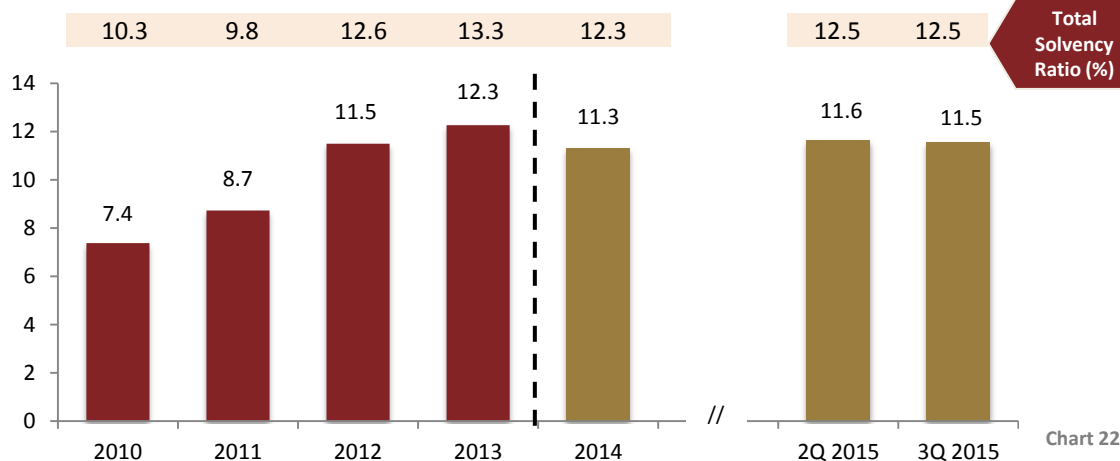


Chart 22

■ The ratio between Tier 1 capital and total assets\* remained stable and above 7%.

■ The CET 1 and the Total Solvency ratios\* stabilized in the third quarter of 2015.

(\*) 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 (Q3 2015)
<b>Solvency and liquidity</b>	<b>Banco de Portugal</b>	<p>Notice of Banco de Portugal No 1/2015 of 7 September</p> <p>Regulates the implementation of the capital conservation buffer established in Article 138-D of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992, which is aimed at making financial institutions more resilient, by increasing their capacity to absorb unexpected losses, thus contributing to the maintenance of financial stability. Establishes the introduction of a capital conservation buffer of 2.5 %, with effect from 1 January 2016.</p> <p>This Notice entered into force on 8 September 2015.</p>
	<b>ECB</b>	<p>On 16 September 2015, the ECB Governing Council decision on the new communication policy on Emergency Liquidity Assistance (ELA) was published. From that date onwards, national central banks have the option to communicate publicly about the provision of ELA to the banks in their country, in cases where they deem that such communication is necessary.</p>
<b>Legal framework</b>	<b>ECB</b>	<p>Publication of Guideline (EU) 2015/1938 of the European Central Bank of 27 August 2015, which amends Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (ECB/2015/27), (i) reflecting the revised Eurosystem counterparty framework as defined by the Governing Council, in particular by specifying the financial soundness eligibility criterion; and, (ii) introducing a new class of eligible assets in the Eurosystem collateral framework, namely the “ non-marketable debt instruments backed by eligible credit claims”, DECCs. This Guideline took effect on 2 November 2015.</p> <p>The Guideline was implemented at national level, taking into account the national specificities, by the amended Instruction of Banco de Portugal No 3/2015.</p>





Topic	Institution	Latest Measures (Q3 2015)
Legal framework	Portuguese Government	<p>Decree-Law No 190/2015 of 10 September</p> <p>Approves the legal framework of savings banks. It breaks down savings banks into two types – affiliated savings banks (<i>caixas económicas anexas</i>) and full-service savings banks (<i>caixas económicas bancárias</i>) – depending on the volume of assets.</p> <p>It envisages transitional schemes for both types of savings banks.</p> <p>This Decree-Law entered into force on 10 October 2015.</p>
	Portuguese Parliament	<p>Law No 153/2015 of 14 September</p> <p>Regulates the access and activities of real estate appraisers providing services to entities within the Portuguese financial system.</p> <p>This Decree-Law entered into force on 13 November 2015.</p>
		<p>Law No 119/2015 of 31 August</p> <p>Approves the <i>Código Cooperativo</i> (Cooperative Code). This Law is applicable to cooperatives of all types and similar organisations, as expressly mentioned in special legislation.</p> <p>This Law entered into force on 30 September 2015.</p>
		<p>Law No 66/2015 of 6 July</p> <p>Establishes the compulsory provision of minimum banking services by all credit institutions that provide the services included in the minimum banking services set out in Decree-Law No 27-C/2000 of 10 March, in the wording in force. In addition, this legislation is also enabling people over 65 years old and with a degree of permanent disability equal to or greater than 60% to be account holders of minimum banking services together with individuals who hold other deposit accounts.</p> <p>Prohibits the charging of fees to the beneficiary (the person who accepts a check in payment) for returning the check, in situations of lack of or insufficient funds, closed, blocked or suspended bank account and irregular withdrawal.</p> <p>Requires credit institutions to send annually, in January, to the current account holder an invoice-receipt itemizing all fees and expenses associated with the deposit current account supported during the previous calendar year.</p> <p>This Law entered into force on 4 October 2015.</p>

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# Portuguese Banking System

## Recent Developments – 3<sup>rd</sup> quarter 2015

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