



BANCO DE PORTUGAL
EUROSISTEMA

Portuguese Banking System

Recent Developments

Updated: 4th quarter 2015

Prepared with data available up to 14 March 2016



- 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

- In 2015, banking system total assets maintained a gradual downward trend.

II. Liquidity & Funding

- In 2015, deposits remained stable, which, given the decrease in credit, led to the reduction of the Loan-to-Deposits ratio and the commercial gap.
- Despite the increase recorded in the fourth quarter, Eurosystem financing declined in 2015.
- During 2015, the banking system liquidity position improved in all maturity buckets (as assessed by the liquidity gaps).

III. Asset/Credit Quality

- In 2015, the credit-at-risk ratio remained virtually unchanged, despite the decrease observed in the last quarter.

IV. Profitability

- Banking system profitability returned to positive values in 2015.
- In 2015, impairment flows have decreased to approximately half of 2014 values, remaining however at high levels.

V. Solvency

- Solvency improved in the fourth quarter of 2015, driven by decreasing Risk Weighted Assets and by the increase in Own Funds of the banking system.



GDP growth rate – Volume

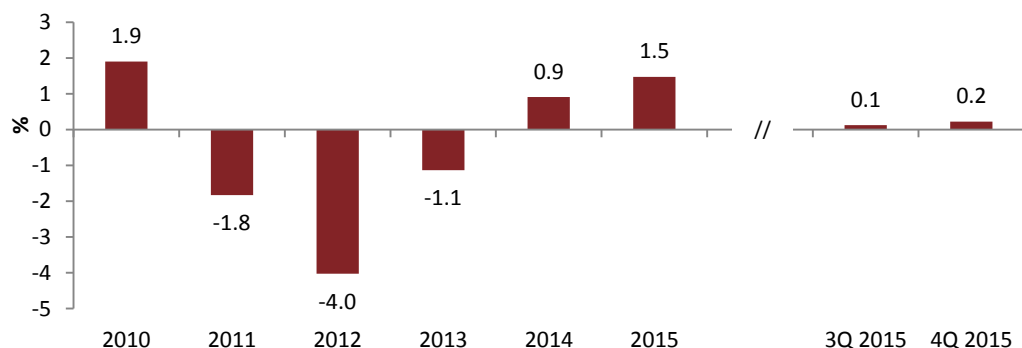


Chart 1

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, % of GDP

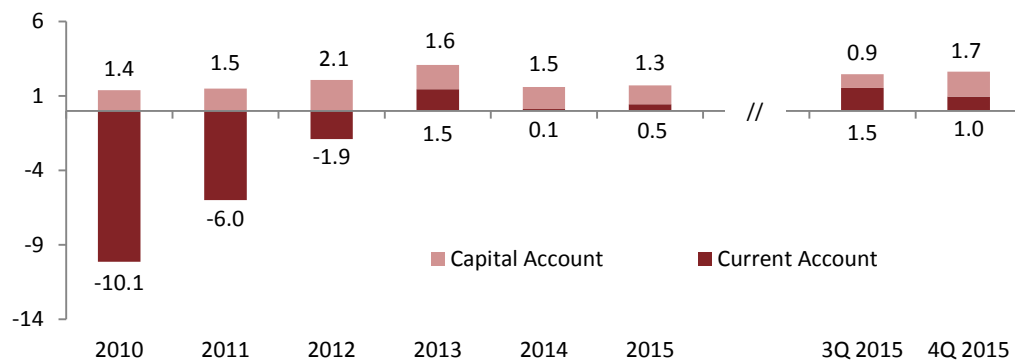


Chart 2

Note: Quarterly figures are seasonally adjusted.

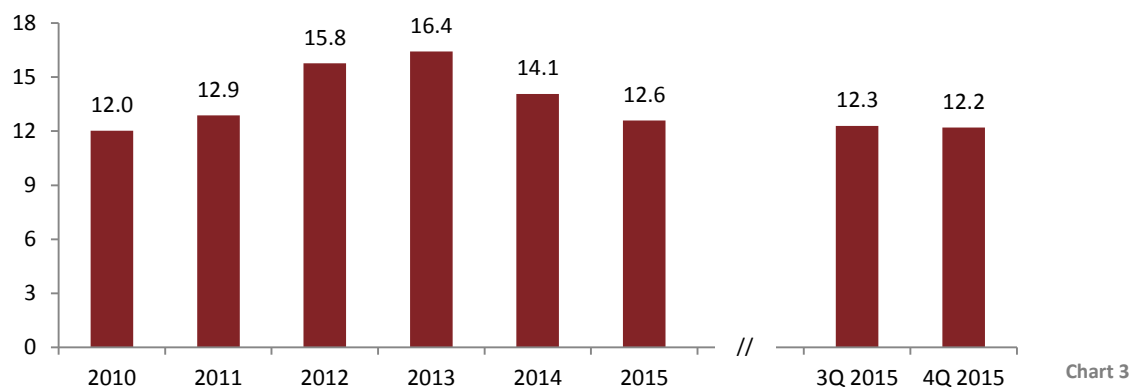
■ In 2015Q4, the quarter-on-quarter GDP growth rate was positive.

■ The year-on-year growth rate was 1.5% (0.9% in 2014).

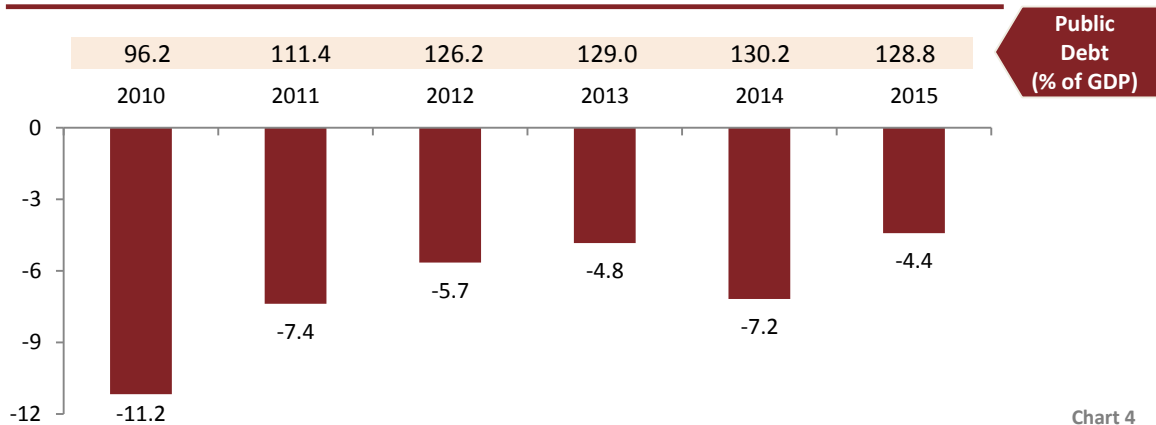
■ In 2015, the current and capital accounts recorded a surplus of 1.7% of GDP.



Unemployment rate, % of active population



Fiscal Balance, % 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.

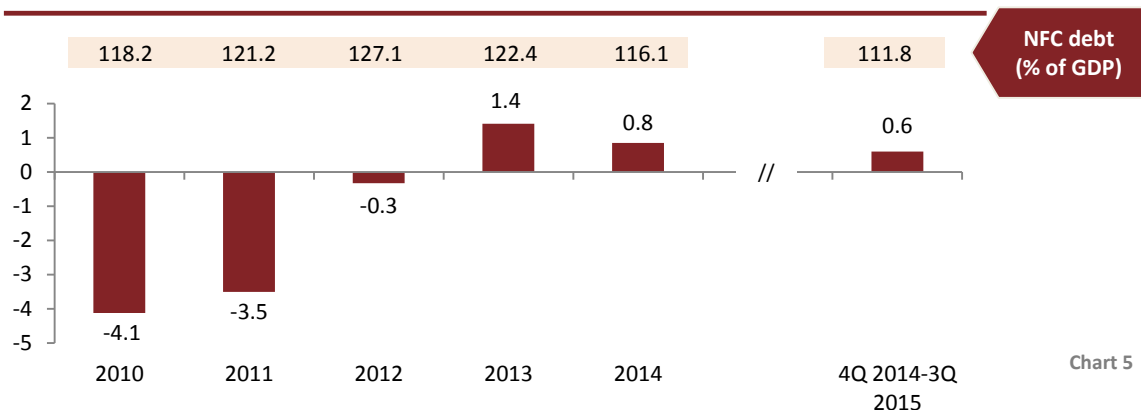
■ The unemployment rate was 12.2% in 2015Q4, close to levels observed in 2010.

■ The unemployment rate in 2015 was 1.5 p.p. lower than the 2014 level.

■ At end-2015, the Public Debt (as percentage of GDP) stood at 128.8% and the General Government deposits amounted to 10.6% of GDP.



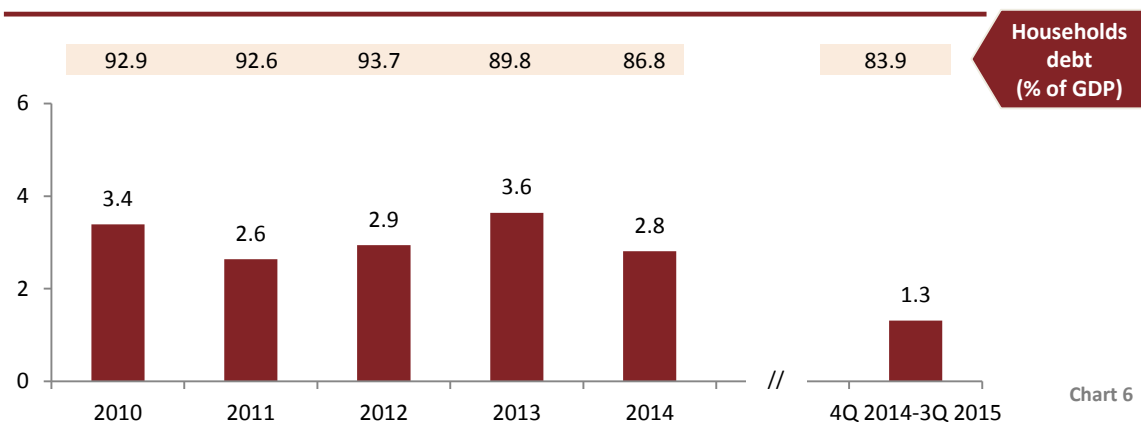
Net lending/borrowing of non-financial corporations, % of GDP



■ In September 2015, NFC debt was 4.3 p.p. of GDP lower than in December 2014.

■ In the year ending in September 2015, net lending of non-financial corporations stood at 0.6% of GDP, which compares to 0.8% in December 2014.

Net lending/borrowing of households, % of GDP



■ In September 2015, Households' debt was 3 p.p. of GDP lower than in December 2014.

■ In the year ending in September 2015, households' net lending was 1.3% of GDP, which compares with 2.8% in 2014.

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

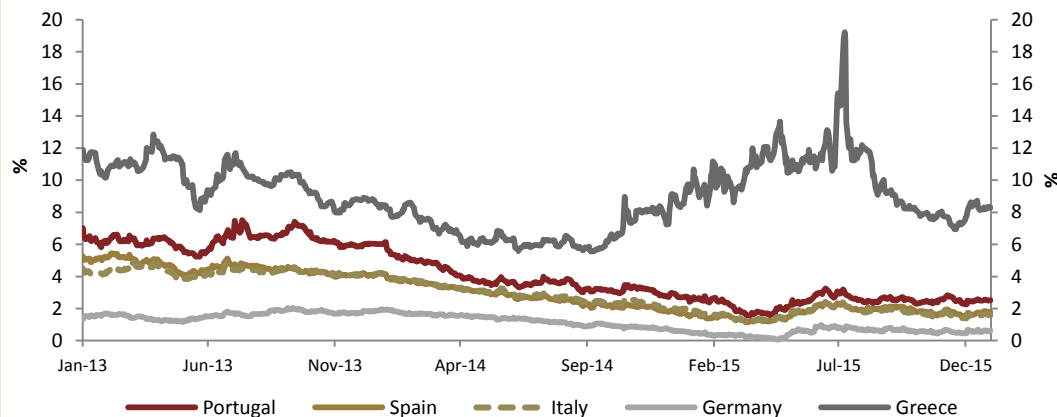


Chart 7

ECB rates

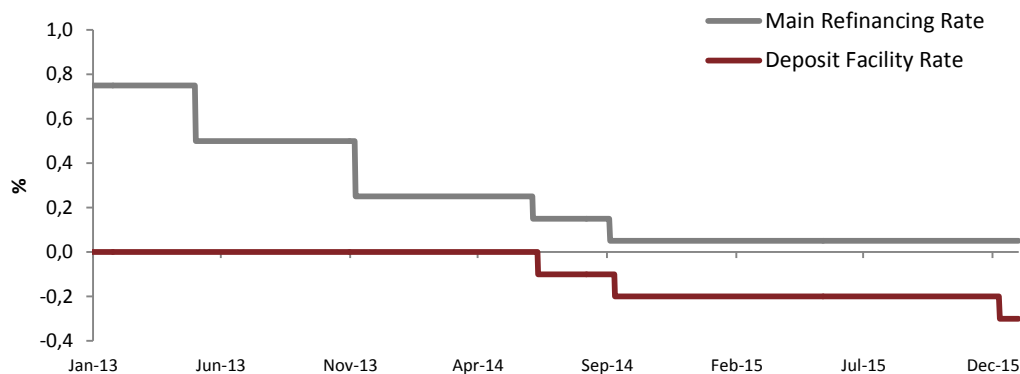


Chart 8

■ The Portuguese 10-year government bond yield recorded a slight increase in 2015Q4, though its value remained below the end-2014's level.

■ In 2015Q4, the 6-month interbank rate became negative, following what was already observed in the 3-month rate, reflecting the ECB non-conventional monetary policy. Similarly, in February 2016, the 12-month rate also became negative.

■ In March 2016, the ECB released its latest monetary policy decision, including the decrease: i) of the deposit facility interest rate by 10 basis points (b.p.) to -0.40%, ii) of the main refinancing operations interest rate from 0.05% to 0%, and iii) of the marginal lending facility interest rate from 0.30% to 0.25%.



Comment on accounting and prudential information

The banking system data present the following breaks in time series:

- In the third quarter of 2014, resulting from the resolution measure applied to Banco Espírito Santo (BES). In particular, the break in the time series arises 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.

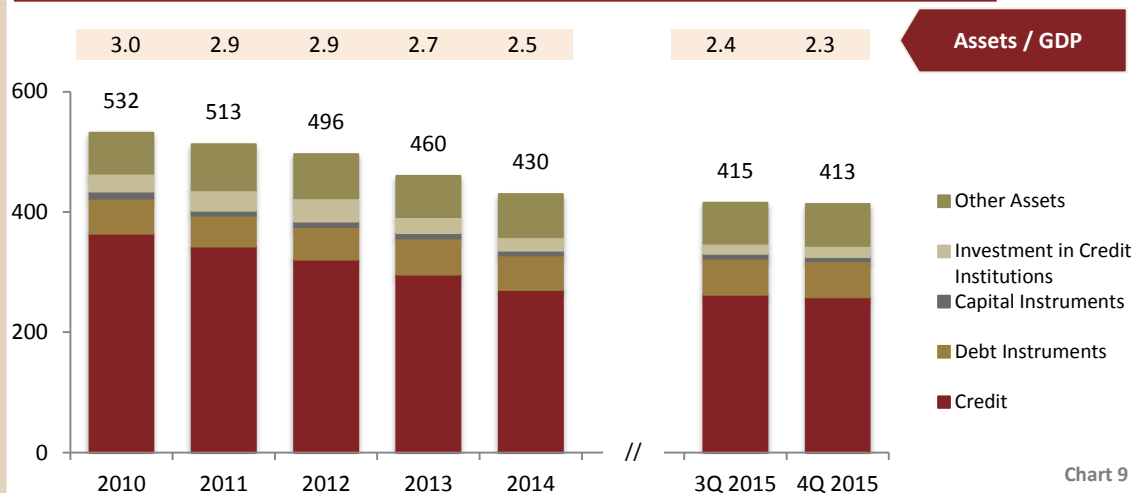
In the absence of accounting information for BES on a consolidated basis for the period from 30 June 2014 to the day of implementation of the resolution measure (closing balance sheet and statement of profit and loss), the reporting of BES on individual basis, with reference to 31 July 2014, was considered 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.

- In the fourth quarter of 2015, resulting from the resolution measure applied to BANIF – Banco Internacional do Funchal (Banif). In particular, the break in the time series arises from the fact that the assets/liabilities transferred to the financial vehicle – Oitante, S.A. – are not considered in the aggregate of the banking system from 20 December 2015 onwards.

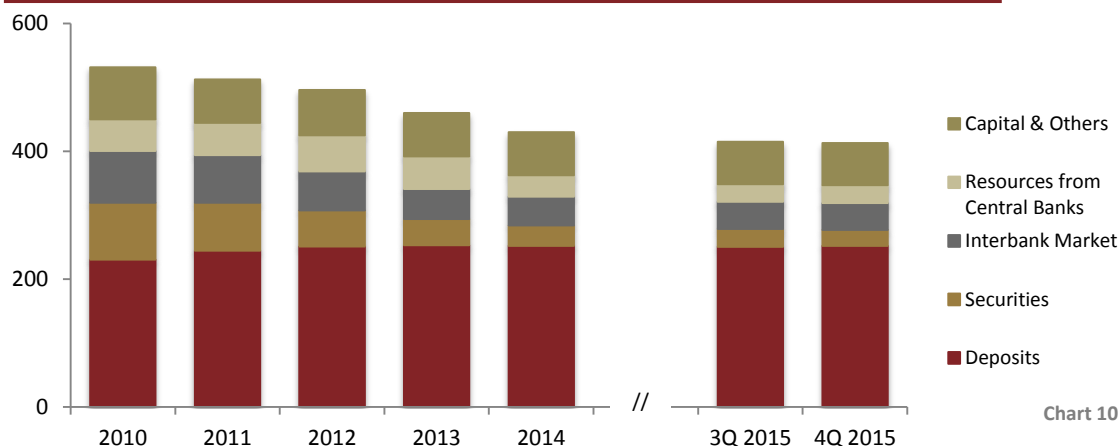
In the absence of accounting information for Banif on a consolidated basis for the period from 30 September 2015 to the day of implementation of the resolution measure (statement of profit and loss), the reporting of Banif on individual basis, with reference to 30 November 2015, was considered when determining the aggregate results of the banking system for the fourth quarter of 2015. However, it must be stressed that the adjustments resulting from the resolution measure applied to Banif were not considered.



Assets (€Bn) – Value at end of period



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



Source: Banco de Portugal

▪ In 2015Q4, banking system total assets recorded a slight decrease, in line with the previous years.

▪ Deposits have marginally increased in 2015Q4.

▪ In the same period, securities financing showed a significant reduction, mostly reflecting the (re)transfer of €Mn 1985 senior bonds from Novo Banco to BES.



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

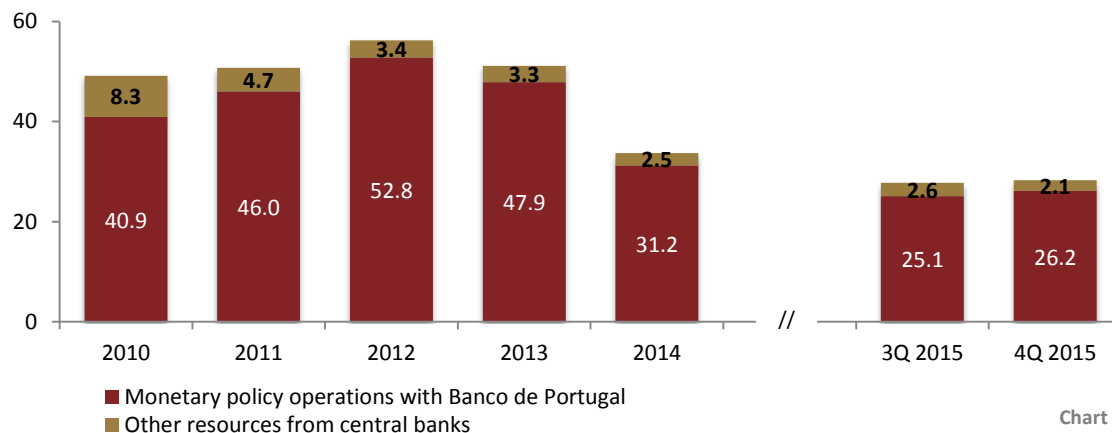


Chart 11

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

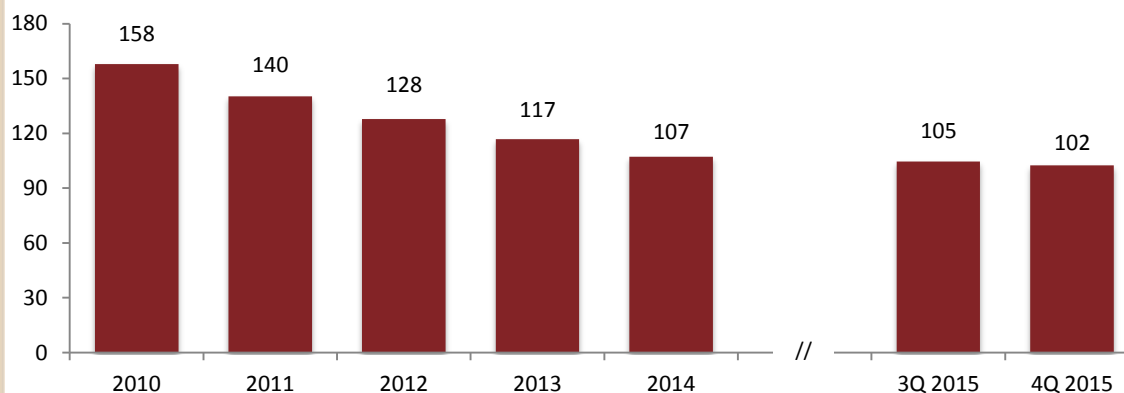


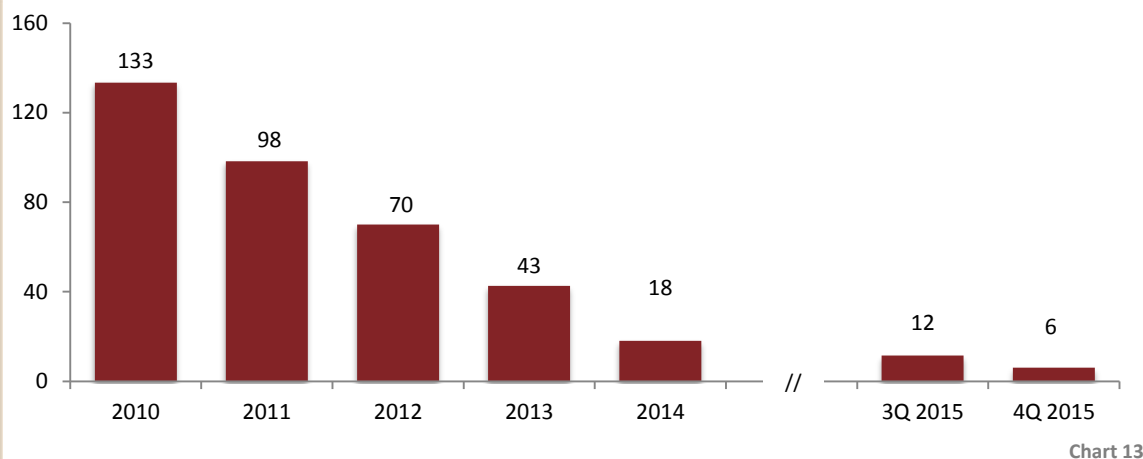
Chart 12

■ Central banks financing increased slightly over the quarter, representing 6.8% of total assets. Nonetheless, its value remains below the level observed in 2014.

■ Loan-to-Deposits ratio continued to decrease in 2015Q4, reflecting the decline in credit.

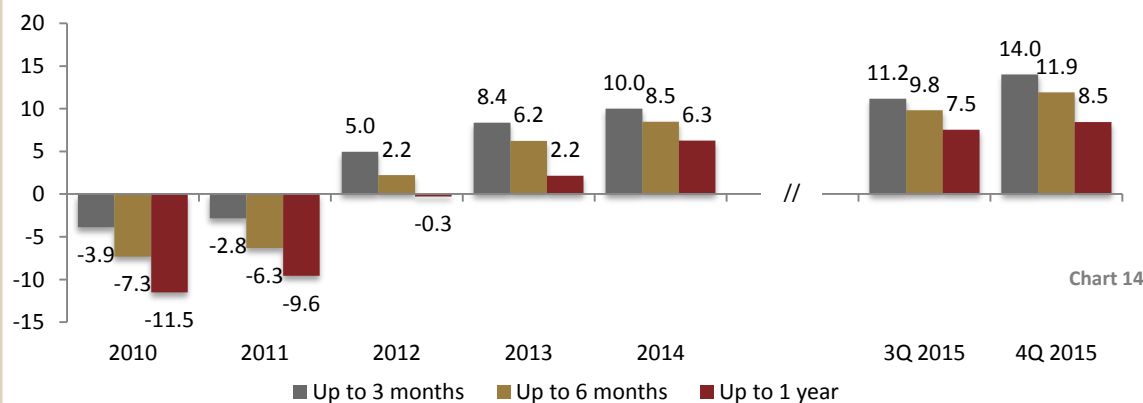


Commercial gap (€Bn) – Value at end of period



■ In 2015Q4, the commercial gap decreased considerably, mainly due to credit tightening, in line with the trend observed in the last quarters.

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



■ Liquidity gaps have improved in all maturity buckets, benefiting from an increase in liquid assets.



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

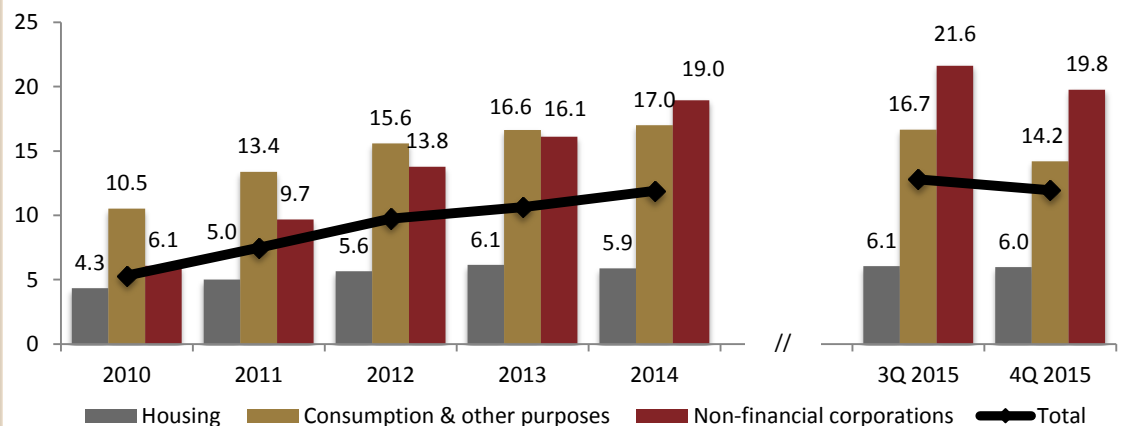


Chart 15

Credit Impairments (% of gross credit) – Value at end of period

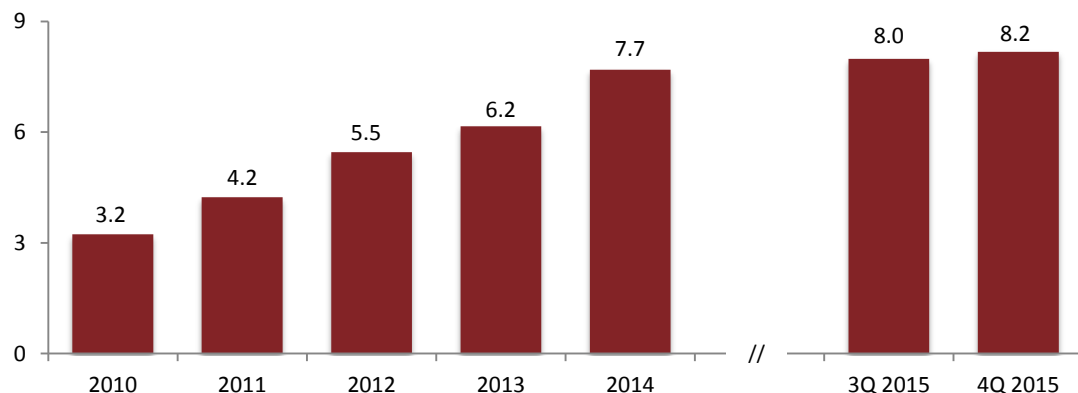


Chart 16

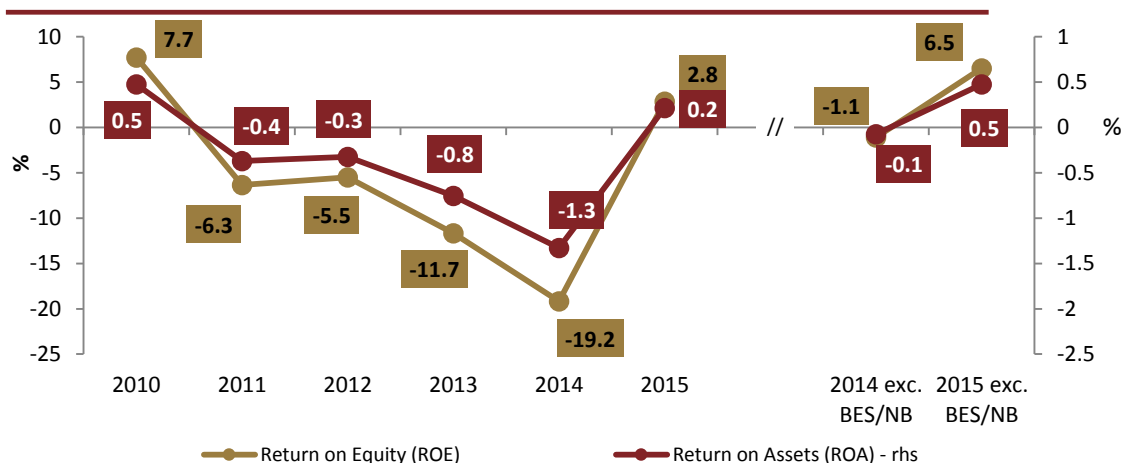
■ The credit-at-risk ratio decreased to 12% in 2015Q4, due to a larger contribution of the decline in credit at risk when compared to the decrease observed in gross credit.

■ This reduction was observed across all segments of the private sector, although more significantly in the non-financial corporations' segment.

■ Credit impairments as a percentage of gross credit increased slightly in 2015Q4, reflecting mainly the decrease in credit in the same period.



ROA & ROE – Value in the period



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

Chart 17

Income and costs (% of gross income) – Value in the period

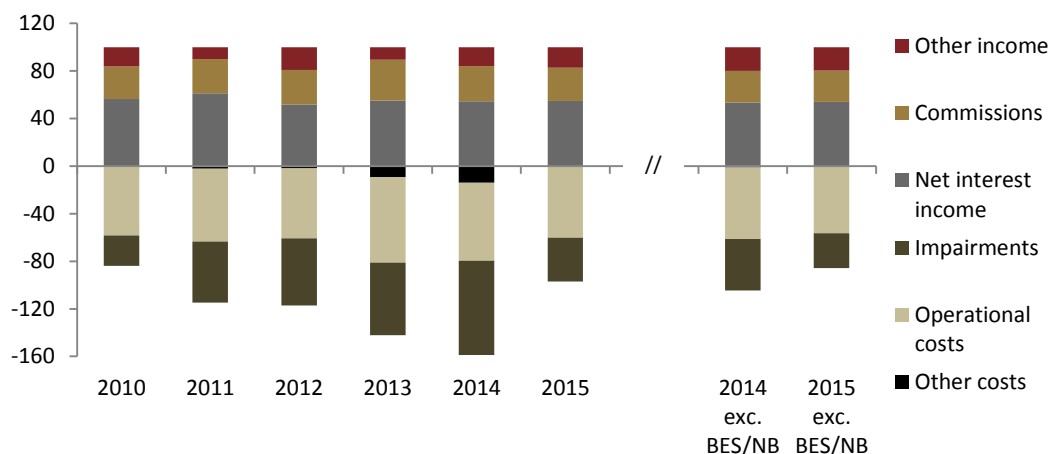


Chart 18

Source: Banco de Portugal

Both the return on equity and the return on assets improved considerably in 2015, even when excluding the impact of BES/Novo Banco.

This positive development in profitability was mainly driven by a significant reduction in the flow of impairments.

Despite the increase of the net interest income, its weight in the gross income remained stable in 2015.

In the same period, the weight of financial operations' income (included in the other income category) increased.



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

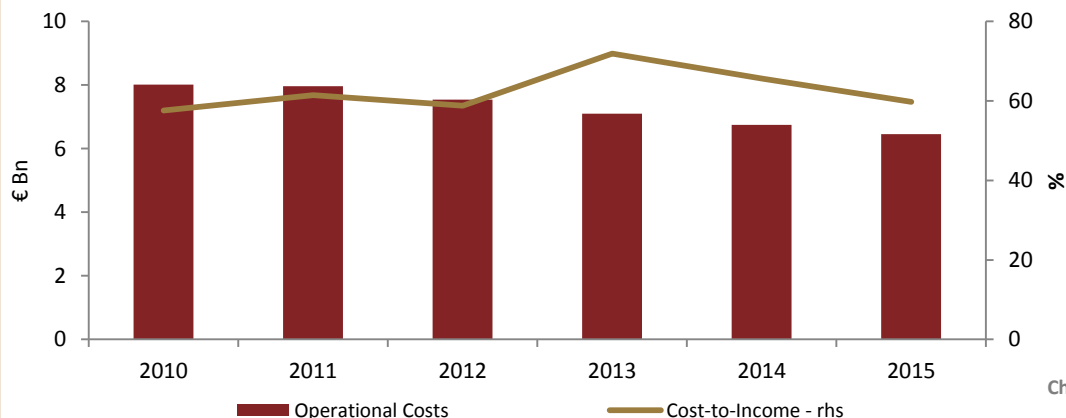


Chart 19

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

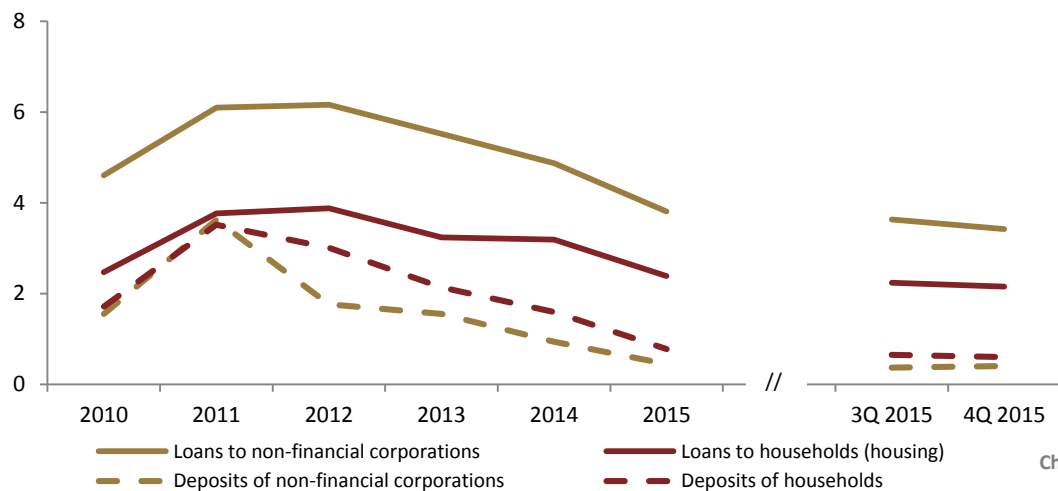


Chart 20

Source: Banco de Portugal

■ The cost-to-income ratio decreased 5.8 p.p. in 2015 vis-à-vis the previous year due to a rise in the gross income and, to a smaller extent, a reduction in the operating costs.

■ In 2015Q4, interest rates on new loans continued to decrease while the cost of new deposits remained stable.

■ In comparison with 2014, interest rates on new loans for housing purchase and to non-financial corporations fell by 81 b.p. and 107 b.p. respectively.

■ On the other hand, the cost of new deposits decreased 50 b.p. for the non-financial corporations' segment and 82 b.p. for the households' segment.



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

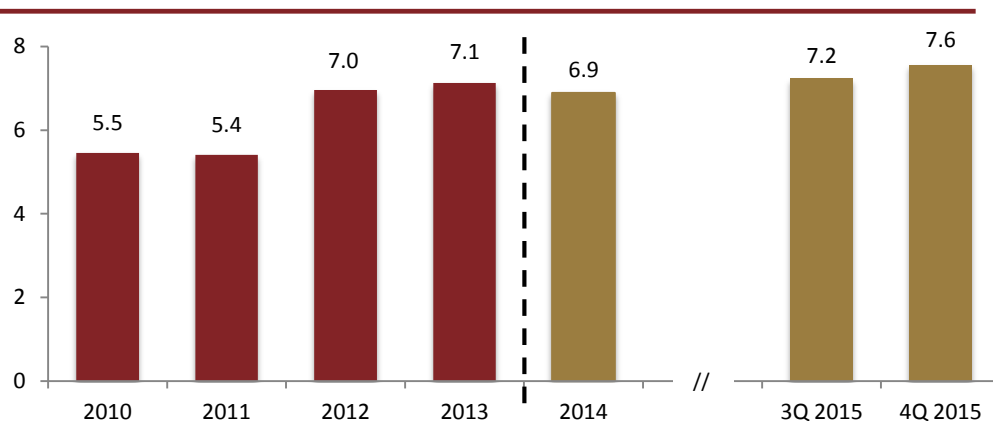


Chart 21

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

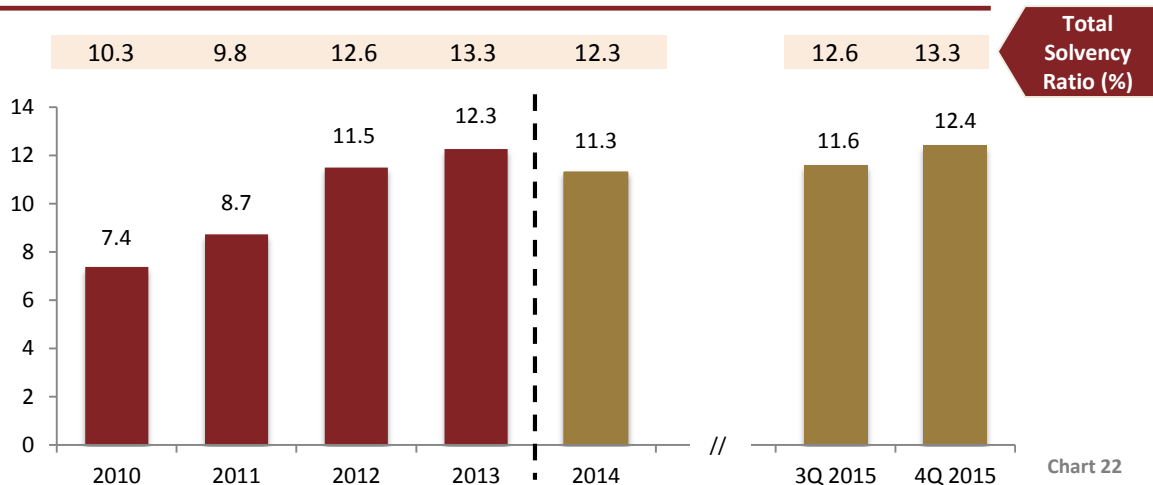


Chart 22

Source: Banco de Portugal

■ In 2015Q4, the ratio between Tier 1 capital and total assets* increased by 0.4 p.p. vis-à-vis the previous quarter and by 0.7 p.p. vis-à-vis the end-2014.

■ Both the CET 1 ratio and the Total Solvency ratio improved in 2015Q4, comparing favourably with end-2014 values. This was due to the decisions that completed the resolution measure applied to BES, which resulted in an increase of Novo Banco's equity, in December 2015, and in the reduction of the risk-weighted assets in the banking system.

(*) 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 (Q4 2015) |
|-----------------------------------|---|--|
| Monitoring and supervision | Banco de Portugal | <p>Notice of Banco de Portugal No 3/2015, of 10 November</p> <p>Defines the procedures for the submission, maintenance and review of recovery plans, as well as other additional rules necessary for the implementation of Article 116-D of the Legal Framework of Credit Institutions and Financial Companies (Legal Framework), approved by Decree-Law No 298/92, of 31 December, defines the procedures for determining simplified obligations in the preparation and reporting of the recovery plans and exercises the option to waive from reporting the institutions covered by Article 116-E of the Legal Framework.</p> <p>Were also integrated into the legal framework the following EBA guidelines: (i) "Guidelines on the range of scenarios to be used in recovery plans" and (ii) "Guidelines on the minimum list of qualitative and quantitative recovery plan indicators".</p> |
| | | <p>Circular-Letter of Banco de Portugal No 85/2015/DES dated 3 November.</p> <p>Provides clarifications on the accounting treatment of contributions to the Resolution Fund.</p> |
| | European Banking Authority (EBA) | <p>Published on 24 November 2015, the Transparency Exercise by the European Banking Authority (EBA), providing detailed bank-by-bank data on the capital positions, risk exposure amounts and asset quality on 105 European banks, covering around 70% of the total European Union banking assets. CGD, BCP and BPI were the Portuguese banks that participated in the exercise.</p> |
| | Single Supervision Mechanism | <p>Comprehensive Assessment results were published on 14 November 2015, which was a financial health check through a stress test of nine financial institutions of the euro area that had not been included in the same exercise held in 2014, which includes, in the Portuguese case, Novo Banco. It was carried out by the Single Supervisory Mechanism.</p> |
| Solvency and liquidity | Banco de Portugal | <p>Press release dated 29 December informing on the decision of Banco de Portugal to set the countercyclical buffer rate at 0% of the total risk exposure amount, with effect from 1 January 2016 and to prevail in the first quarter of the year. This buffer applies to all credit exposures to the domestic private non-financial sector of credit institutions and investments firms in Portugal subject to the supervision of Banco de Portugal or the European Central Bank (Single Supervisory Mechanism), as applicable.</p> |
| | | <p>Press release dated 29 December releasing the names of the banking groups identified as O-SIIs in 2015 and the respective capital buffers, as a percentage of the total risk exposure amount.</p> |



| Topic | Institution | Latest Measures (Q4 2015) |
|-------------------------------|----------------------------|--|
| Solvency and liquidity | Banco de Portugal | <p>Notice of Banco de Portugal No 4/2015 of 14 December 2015</p> <p>Establishes, according to the current legal framework set out in Articles 138-Q and 138-R of the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992, the items to be disclosed by Banco de Portugal regarding the identification of other systemically important institutions (O-SII), the capital buffer applicable to each of these institutions and the reporting frequency of that disclosure.</p> <p>This Notice entered into force on 15 December 2015.</p> |
| | European Commission | <p>Commission Implementing Regulation (EU) No 2015/2326 of 27 November 2015, on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulation (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council.</p> <p>This Regulation entered into force on 30 November 2015.</p> |
| | ECB | <p>On 3 December 2015, the Governing Council of the ECB decided to decrease the interest rate on the deposit facility by 10 basis points to -0.30%, with effect from 9 December 2015, keeping the interest rate on the main refinancing operations and the interest rate on the marginal lending facility unchanged at 0.05% and 0.30% respectively.</p> |
| | | <p>On 3 December 2015, the Governing Council of the ECB decided to adopt further non-standard measures, namely:</p> <ul style="list-style-type: none"> • To continue conducting the Eurosystem's main and three-month longer-term refinancing operations as fixed rate tender procedures full allotment for as long as necessary, and at least until the end of the last reserve maintenance period of 2017; • To extend the asset purchase programme (APP) until the end of March 2017, or beyond, if necessary; • To reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary; • To include, in the public sector purchase programme, euro-denominated marketable debt instruments issued by regional and local governments located in the euro area in the list of assets that are eligible for regular purchases by the respective national central banks. |



| Topic | Institution | Latest Measures (Q4 2015) |
|------------------------|--|---|
| Legal framework | Banco de Portugal | <p>Notice of Banco de Portugal No 5/2015 of 7 December 2015</p> <p>Requires that all entities subject to Banco de Portugal supervision shall prepare their financial statements on an individual and consolidated basis, where applicable, in conformity with the international accounting standards, and establishes transitional provisions to be in force up to 31 December 2016 for those situations that are not subject to the procedure laid down in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.</p> <p>This Notice entered into force on 8 December 2015.</p> |
| | Portuguese Government | <p>Executive Order No 362/2015, Ministry of Finance that amends Executive Order No 95/94 of 9 February 1994 on the minimum capital requirements for investment companies, financial leasing companies, credit financial companies and savings banks and repeals the minimum capital requirements established for certain types of companies, which, with Decree-Law No 157/2014 of 24 October 2014, no longer exist in Portuguese law.</p> <p>This Executive Order entered into force on 16 October 2015.</p> |
| | European Parliament and Council | <p>Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015, on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.</p> |
| | European Commission | <p>Approval of the Commission Delegated Regulation (EU) 2015/2303 of 28 July 2015 that further develops Directive 2002/87/EC of the European Parliament and of the Council with regard to regulatory technical standards specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions.</p> <p>This Regulation entered into force on 31 December 2015.</p> |
| Other | ECB | <p>Recommendation of the European Central Bank of 17 December 2015 (ECB/2015/49)</p> <p>Recommendation of the European Central Bank 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 (ECB/2014/17).</p> <p>This Recommendation was published on 30 December 2015.</p> |

Portuguese Banking System

Recent Developments – 4th quarter 2015



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