



BANCO DE PORTUGAL
EUROSISTEMA

Portuguese Banking System

Recent Developments – 2nd quarter 2016

Prepared with data available up to 23rd September of 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

- Banking system total assets continued to decrease in the second quarter of 2016, following the downward trend observed in the previous quarters.

II. Liquidity & Funding

- Both the Loan-to-Deposits ratio and the commercial gap remained fairly stable.
- Eurosystem financing stood at similar level to that of the last quarter.

III. Asset/Credit Quality

- Credit-at-risk ratio increased during the second quarter of 2016, driven chiefly by a growth in NFC's credit at risk.

IV. Profitability

- Although slightly positive, banking system profitability decreased in the first semester of 2016 on a year-on-year basis, due mainly to a considerable reduction in income from financial operations.
- Net interest income increased in the first semester of 2016 vis-à-vis the first semester of 2015; this growth was offset by a similar increase in the flow of credit impairments.

V. Solvency

- Banking system solvency level remained globally stable in the second quarter of 2016.



GDP growth rate (%) – Volume

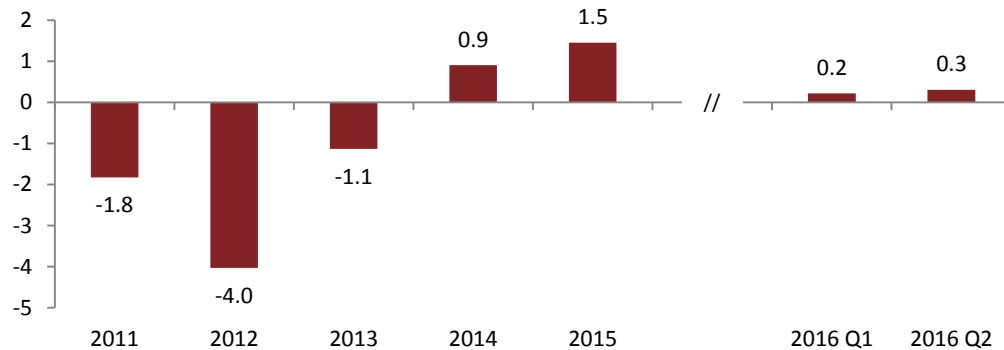


Chart 1

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

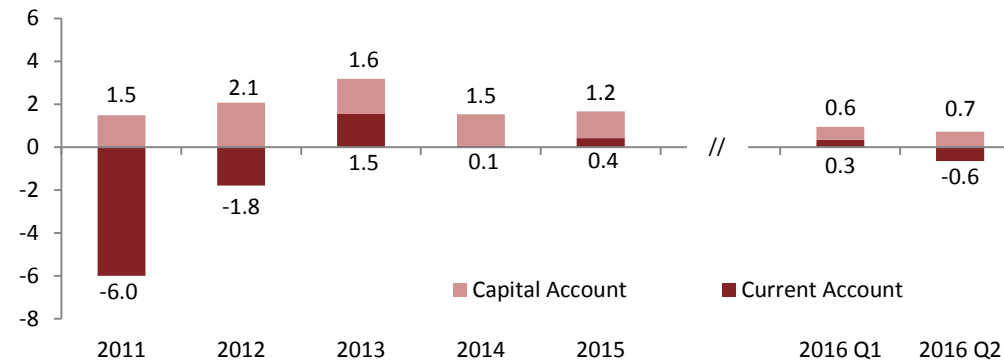


Chart 2

Note: Quarterly figures are seasonally adjusted.

- In 2016 Q2, the quarter-on-quarter GDP growth rate improved slightly vis-à-vis the previous quarter.
- The year-on-year growth rate stood at 0.9%, as in 2016 Q1.

- The current and capital accounts, although positive in 2016 Q2, recorded a decrease of approximately 0.9% of GDP from the previous quarter, chiefly due to a decline in the first component.



Unemployment rate, % of active population

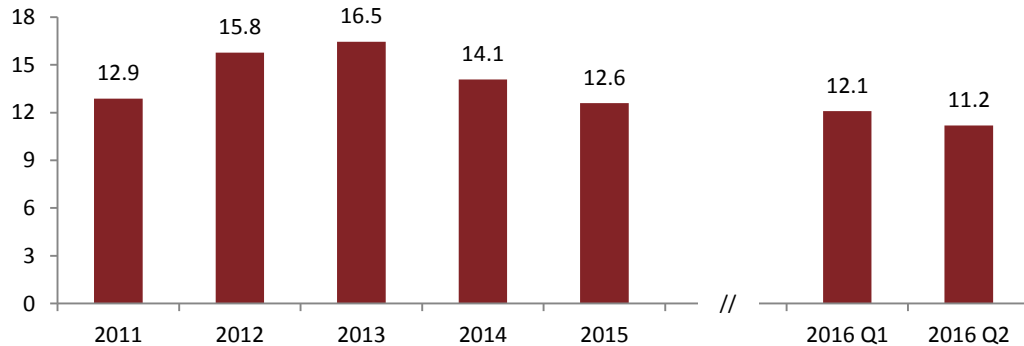


Chart 3

Fiscal Balance, % of GDP

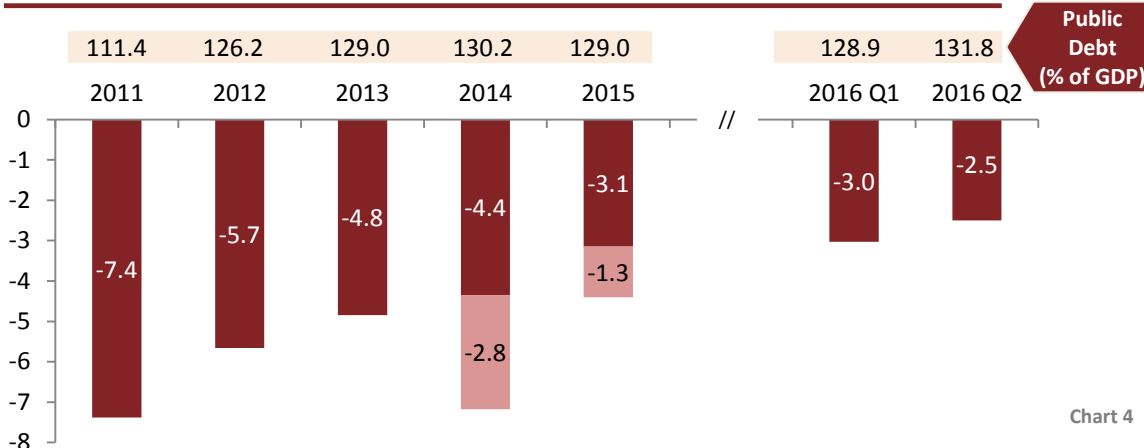


Chart 4

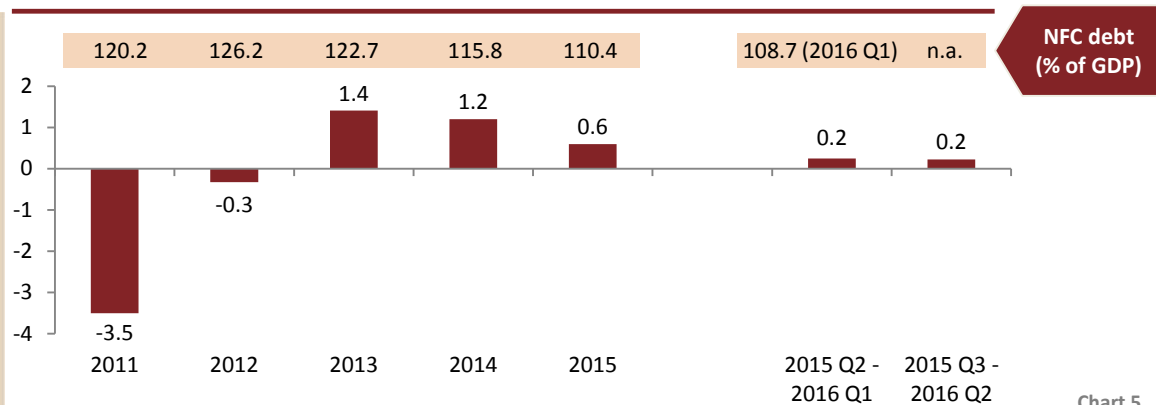
▪ The unemployment rate was 11.2% in 2016 Q2, which corresponds to a decrease of 0.9 p.p. from the previous quarter.

▪ Public debt as a percentage of GDP stood at 131.8% in 2016 Q2, an increase of 2.9 p.p. of GDP compared to the previous quarter. Deposits from the General Government amounted to approximately 10% 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 reflects the inclusion of 4.9 billion Euros related to the capitalization of Novo Banco as a capital transfer (-2.8% of GDP). The fiscal deficit of 2015 reflects the inclusion of 2.3 billion euros as a capital transfer in the context of the Banif resolution in 2015Q4 (-1.3% of GDP).



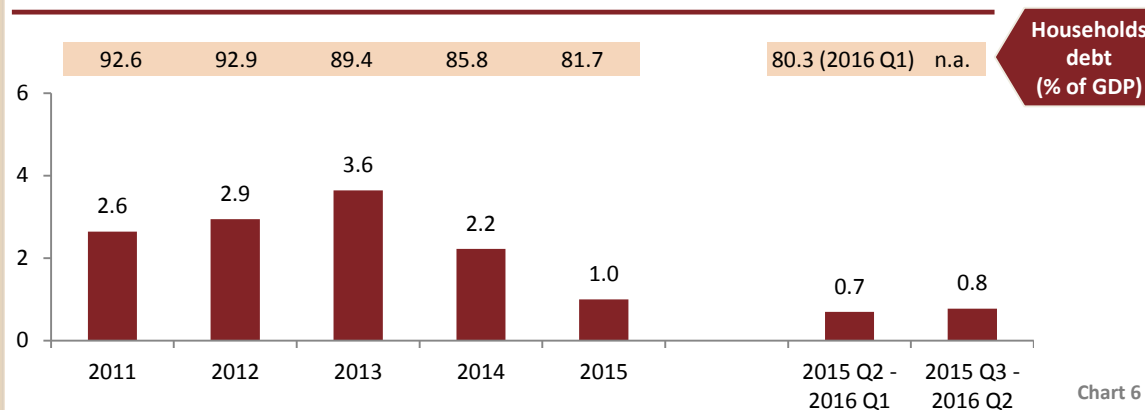
Net lending/borrowing of non-financial corporations, % of GDP



- At the end of 2016 Q1, NFC debt amounted to 108.7% of GDP, which compares to 110.4% of GDP as of end-2015.

- In the year ended in 2016 Q2, net lending of NFC stood at 0.2% of GDP, as in the year ended in the previous quarter.

Net lending/borrowing of households, % of GDP



- Households' debt decreased to 80.3% of GDP in 2016 Q1, which represents a decline of roughly 1.4 p.p. of GDP vis-à-vis end-2015.

- In the year ended in 2016 Q2, households' net lending amounted to 0.8% of GDP, which compares to 0.7% of GDP in the year ended in the previous quarter.

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 10Y (%)

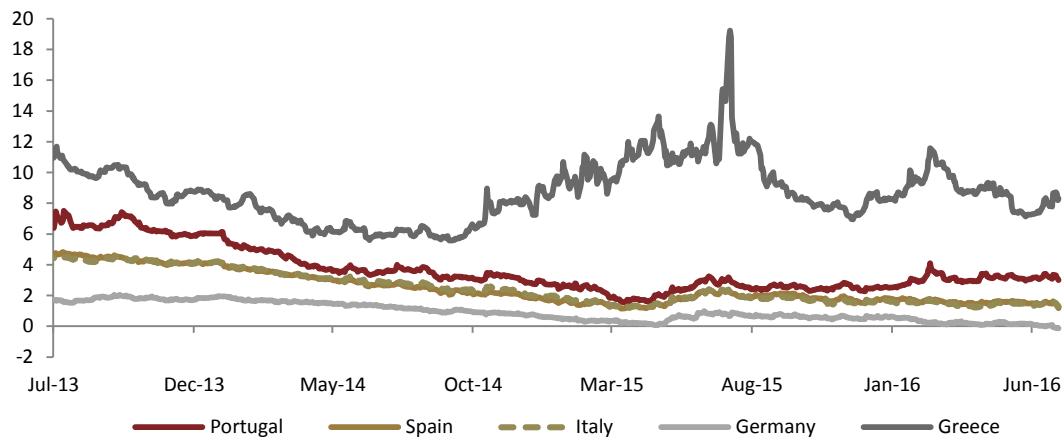


Chart 7

ECB rates (%)

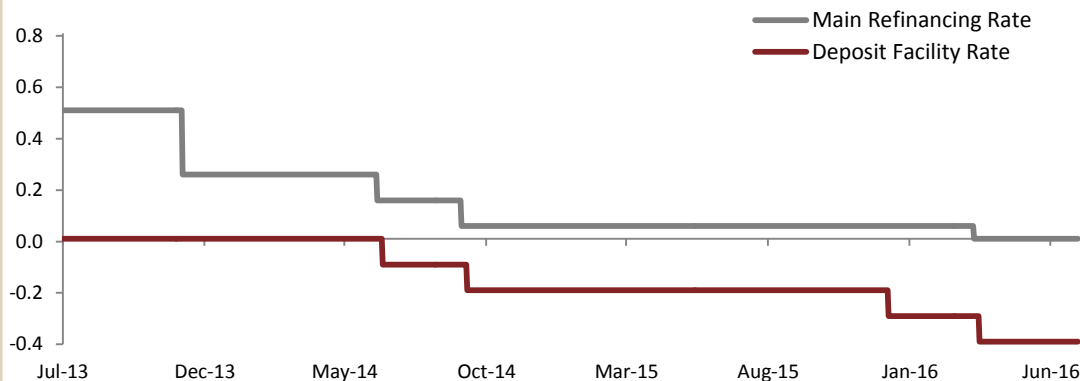


Chart 8

▪ The Portuguese 10-year government remained fairly stable in 2016Q2, slightly above 3%.

▪ The interbank rates continued to be negative for all maturities, just as in the previous quarter, reflecting the non-conventional monetary policy pursued by the ECB.

▪ ECB rates have been kept unchanged since March 2016: the deposit facility interest rate at -0.40%, the main refinancing operations interest rate at 0%, and the marginal lending facility interest rate at 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.

Changes in banking system liabilities represented by debt securities and equity items, in the fourth quarter of 2015, somewhat reflect the re-transfer from NB to BES of five issuances of non-subordinated debt, which had been originally transferred from BES to NB following the Decision of 3 August 2014.

- 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

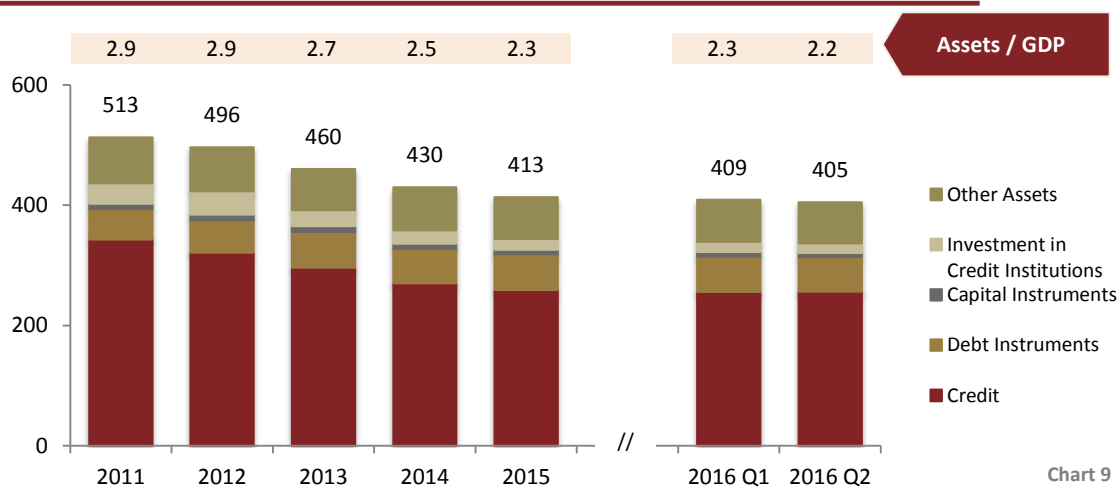


Chart 9

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

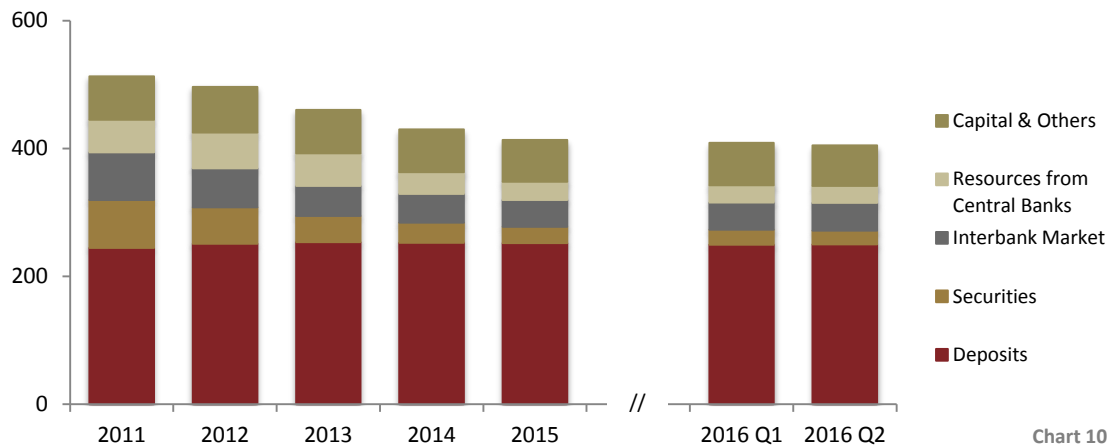


Chart 10

▪ In 2016 Q2, banking system total assets maintained its gradual downward path.

▪ Banking system financing structure remained practically unchanged vis-à-vis the first quarter of the year.

▪ Balance sheet structure was affected by the reclassification of “non-current assets/liabilities held for sale and discontinued operations” items into credit and deposit items.



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

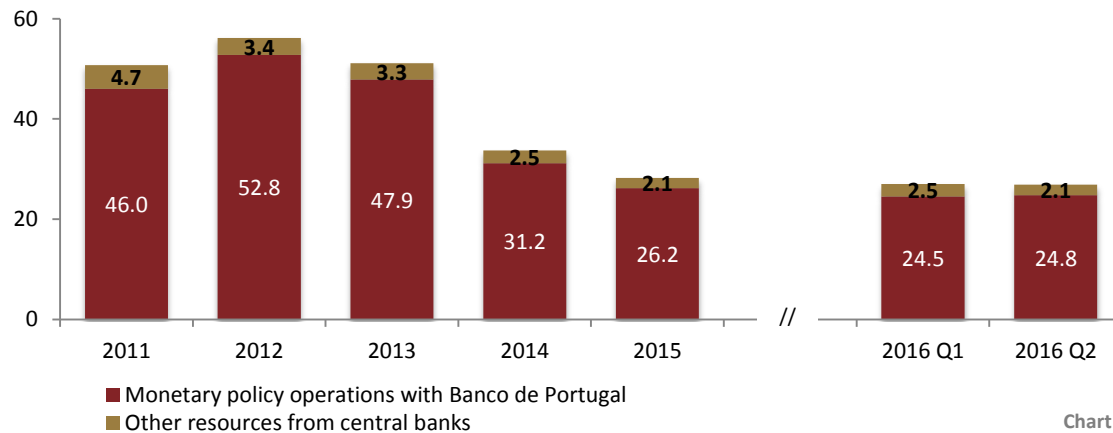


Chart 11

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

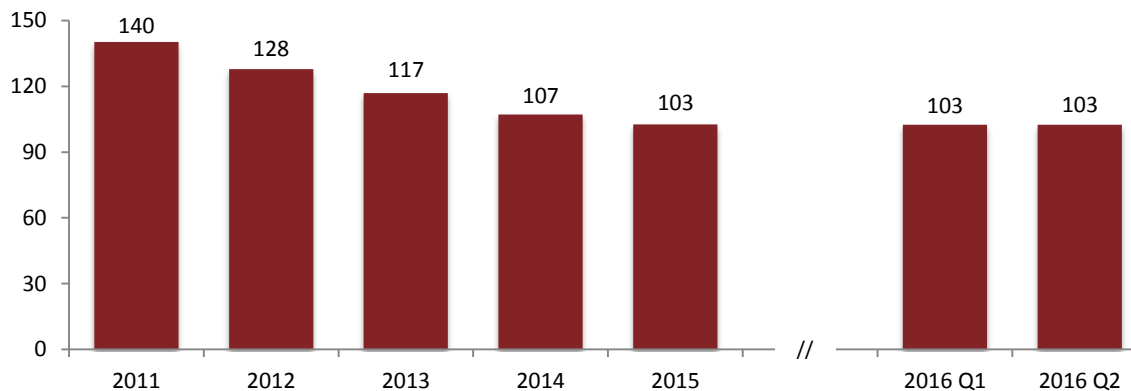


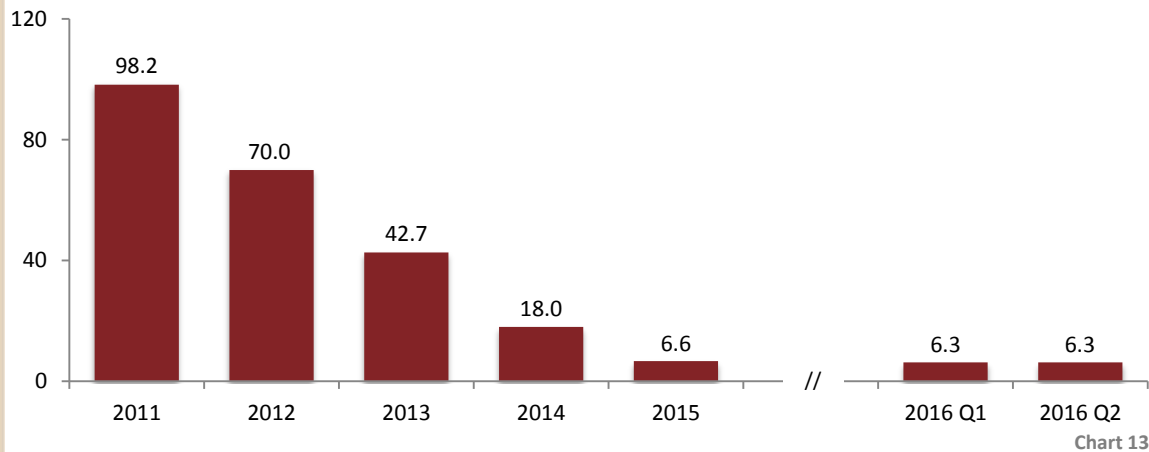
Chart 12

■ Central banks financing continued to represent about 6.6% of the banking system total assets in 2016 Q2, as in the previous quarter.

■ The Loan-to-Deposits ratio remained fairly unchanged in this quarter.

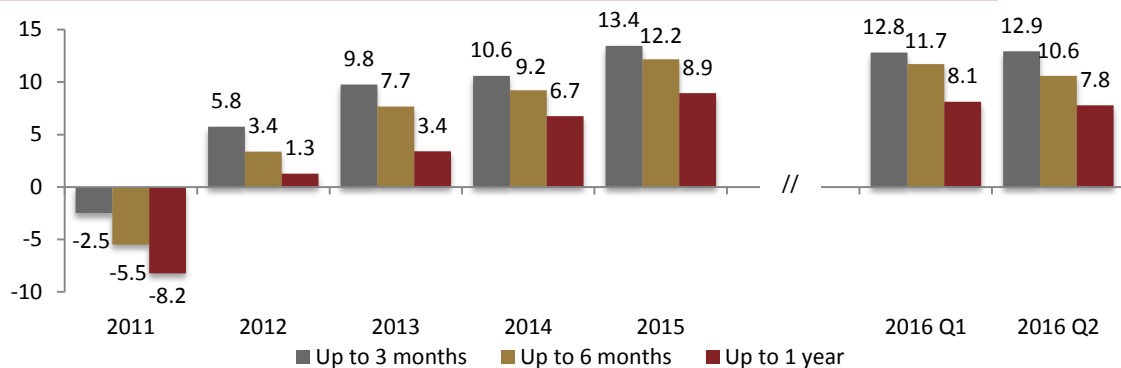


Commercial gap (€Bn) – Value at end of period



▪ As in the previous quarter, the commercial gap stood at 6.3 billion euros in 2016 Q2.

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



▪ Liquidity gaps for domestic institutions remained broadly stable at high levels.

Note: The liquidity gap is defined as the difference between liquid assets and volatile liabilities in proportion of the difference between total assets and liquid assets, for each cumulative maturity scale. An increase of this indicator reflects an improvement of banks' liquidity position.

Chart 14



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

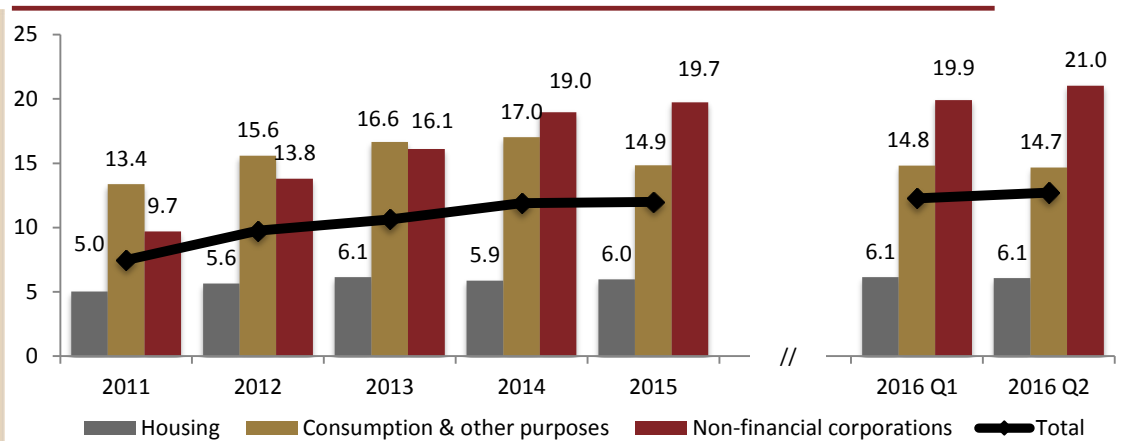


Chart 15

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

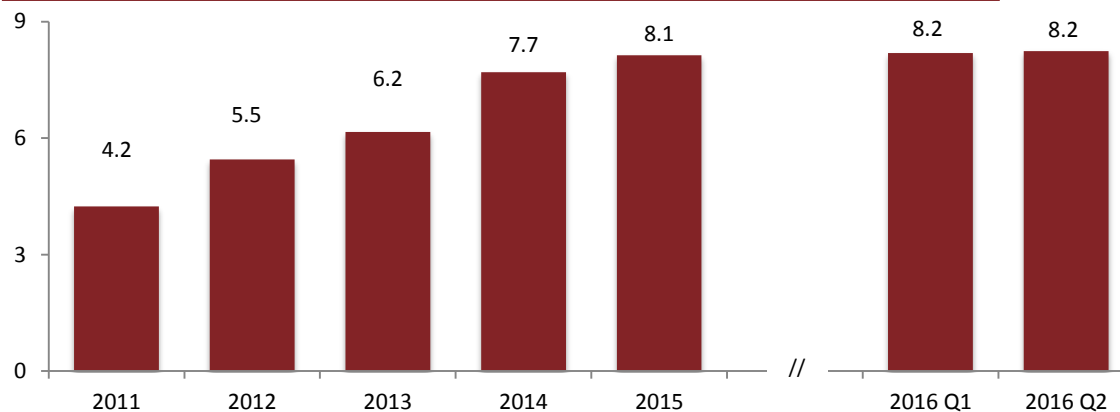


Chart 16

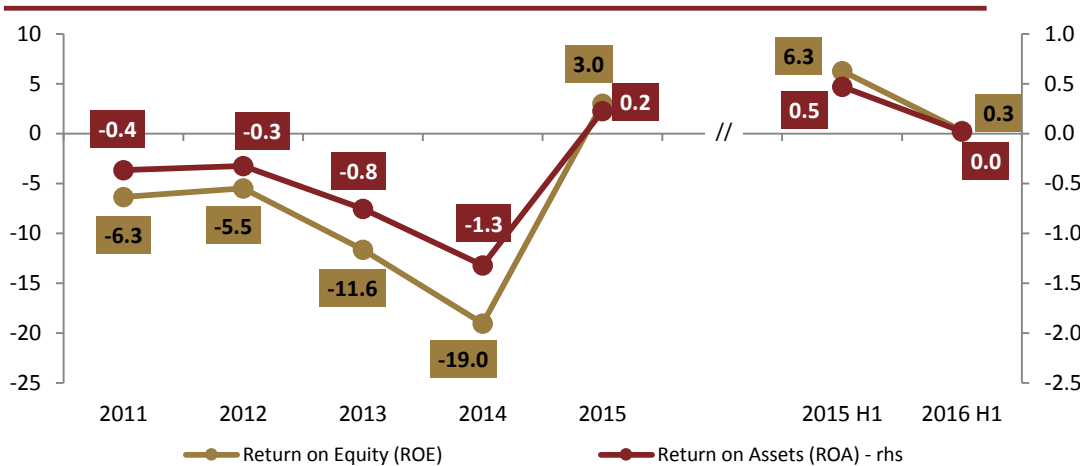
■ In 2016 Q2, the credit-at-risk ratio increased 0.4 p.p. vis-à-vis the previous quarter to 12.7%.

■ This development reflects primarily the rise in NFC's credit at risk.

■ Credit impairments stood at 8.2% of gross credit in 2016 Q2.



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

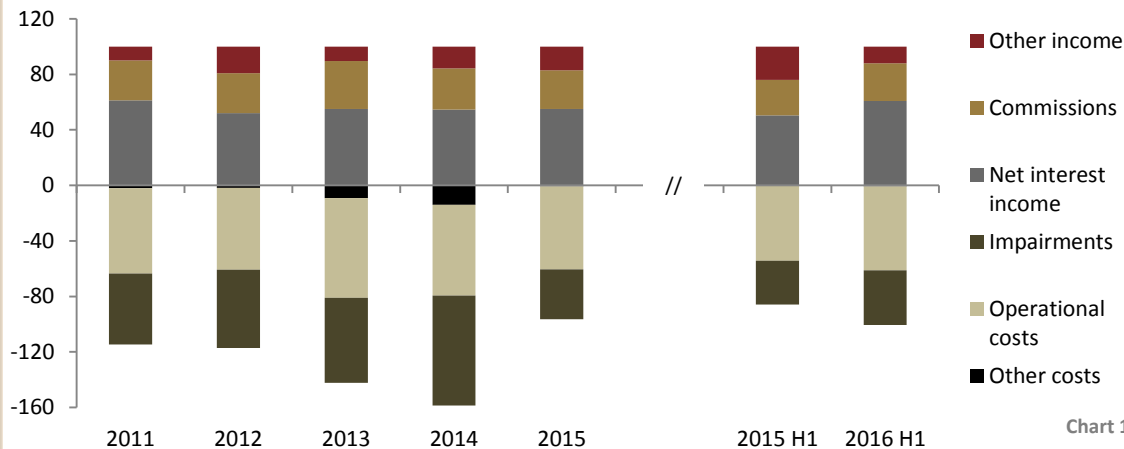


Chart 18

Source: Banco de Portugal

- The return on equity and the return on assets were marginally positive in 2016 H1. Both indicators display a significant reduction on a year-on-year basis.

- This decline in profitability was largely driven by a significant decrease in income from financial operations, which were considerable in 2015 H1.

- Net interest income increased in 2016 H1 vis-à-vis 2015 H1, reflecting a larger reduction in interest costs than in interest income.

- The flow of impairment losses increased on a year-on-year basis, in particular those associated with the capital instruments portfolio.



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

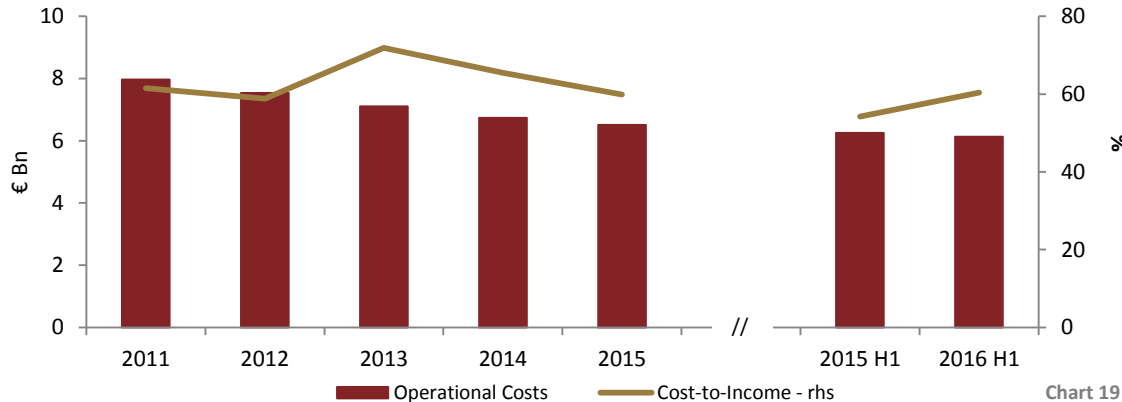


Chart 19

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

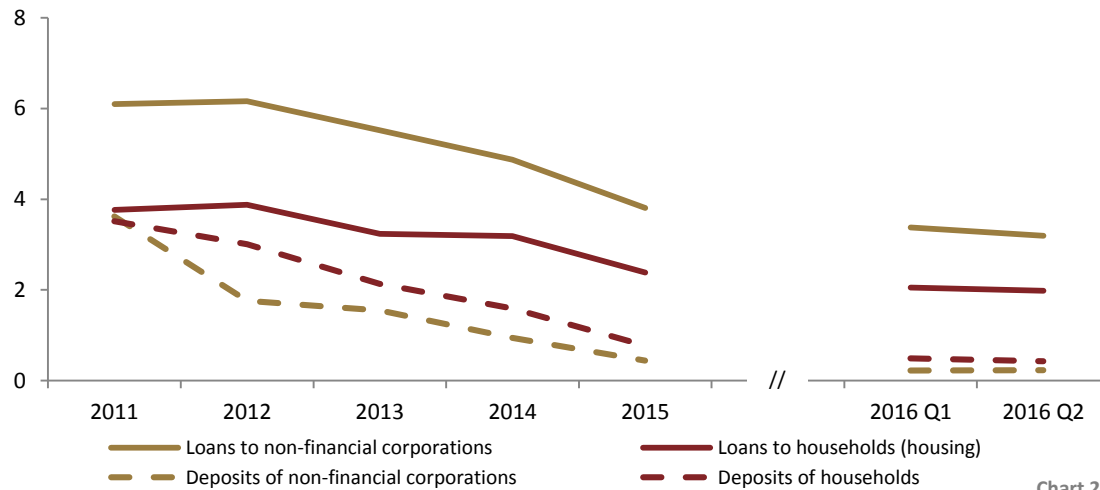


Chart 20

▪ Despite a slight decrease in operational costs over 2016 H1, the cost-to-income ratio increased vis-à-vis the previous year as a reflex of a greater reduction in gross income.

▪ Interest rates on new operations maintained its downward trend, with the exception of new deposits from NFC.

▪ In 2016 Q2, interest rates on new loans for housing purchase and to NFC fell by 7 b.p. and 18 b.p. respectively.

▪ The cost of new deposits decreased by 6 b.p. for the households' segment.



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

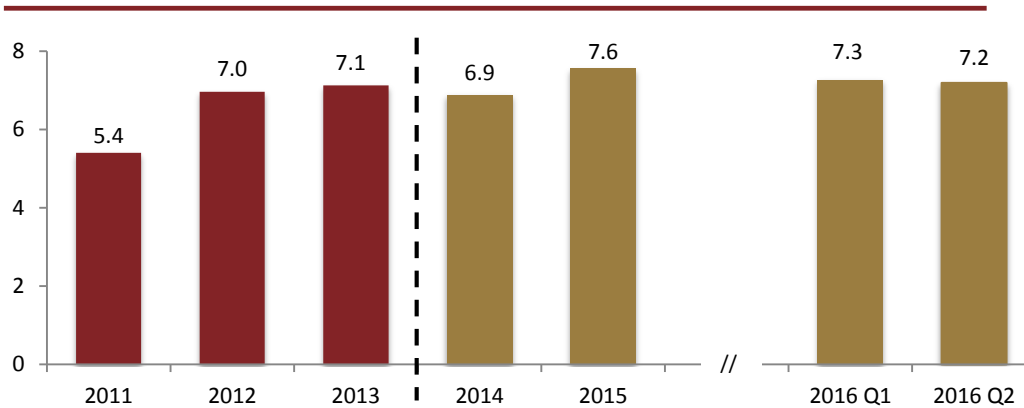


Chart 21

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

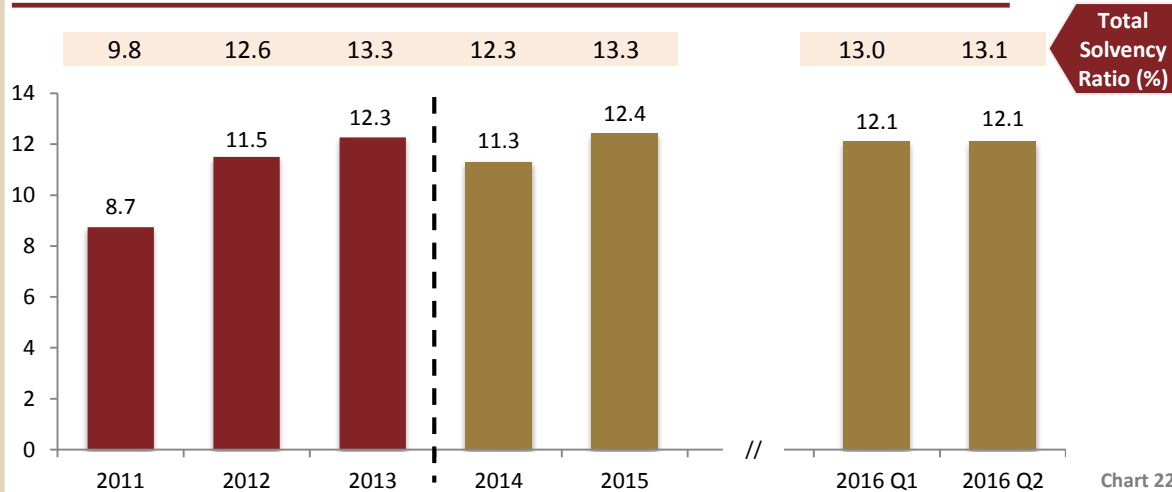


Chart 22

■ The ratio between Tier 1 capital and total assets decreased marginally in 2016 Q2, accumulating a fall of 0.4 b.p. since end-2015, due to a decline in capital.

■ Both the CET 1 ratio and the Total Solvency ratio remained virtually unchanged compared with the previous quarter.

Note: 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.



Recent measures with impact on the banking system are available at:

<http://www.bportugal.pt/en-US/EstabilidadeFinanceira/Legislacaoenormas/Pages/Legislacaoenormas.aspx>

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