



**BANCO DE PORTUGAL**  
EUROSISTEMA

# Portuguese Banking System

**Recent Developments – 1<sup>st</sup> quarter 2016**

Prepared with data available up to 2<sup>nd</sup> June 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 maintained a gradual downward trend in the first quarter of 2016.

### II. Liquidity & Funding

- Both the Loan-to-Deposits ratio and the commercial gap remained stable due to a slight decrease of credit and deposits.
- Eurosystem financing declined.

### III. Asset/Credit Quality

- Credit-at-risk ratio increased during the first quarter of 2016, driven by a rise in credit at risk and a decline in gross credit.

### IV. Profitability

- Although positive, the profitability of the banking system decreased in the first quarter of 2016 on a year-on-year basis, due mainly to a reduction in income from financial operations.
- The flow of credit impairments decreased sharply vis-à-vis the first quarter of 2015.

### V. Solvency

- Banking system solvency ratios declined slightly in the first quarter of 2016 due to a decrease in own funds.



### GDP growth rate (%) – Volume

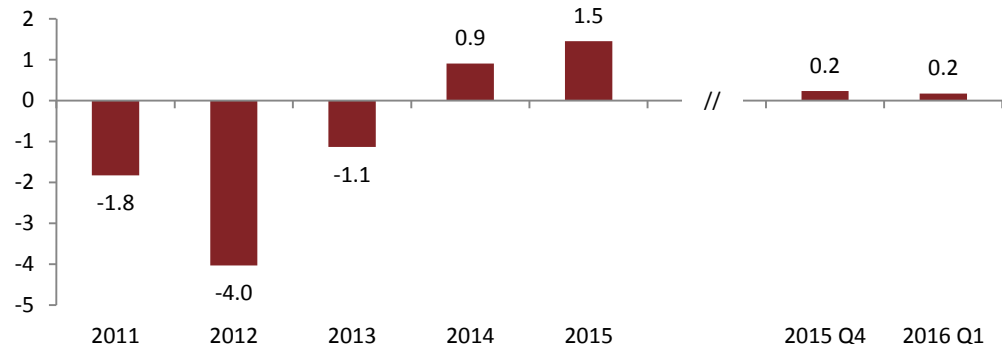


Chart 1

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

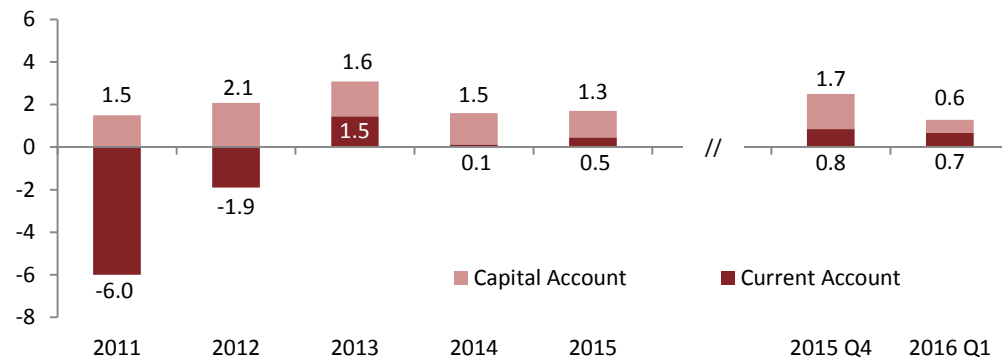


Chart 2

Note: Quarterly figures are seasonally adjusted.

■ In 2016Q1, the quarter-on-quarter GDP growth rate remained unchanged vis-à-vis 2015Q4.

■ The year-on-year growth rate was 0.9%.

■ In 2016Q1, the current and capital accounts recorded a surplus of 1.3% of GDP, a decrease of 1.2 p.p. from the last quarter of 2015.



### Unemployment rate, % of active population

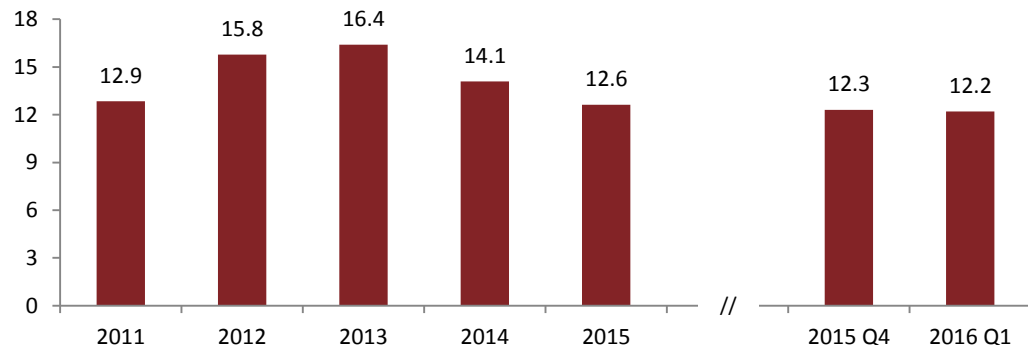


Chart 3

### Fiscal Balance, % of GDP

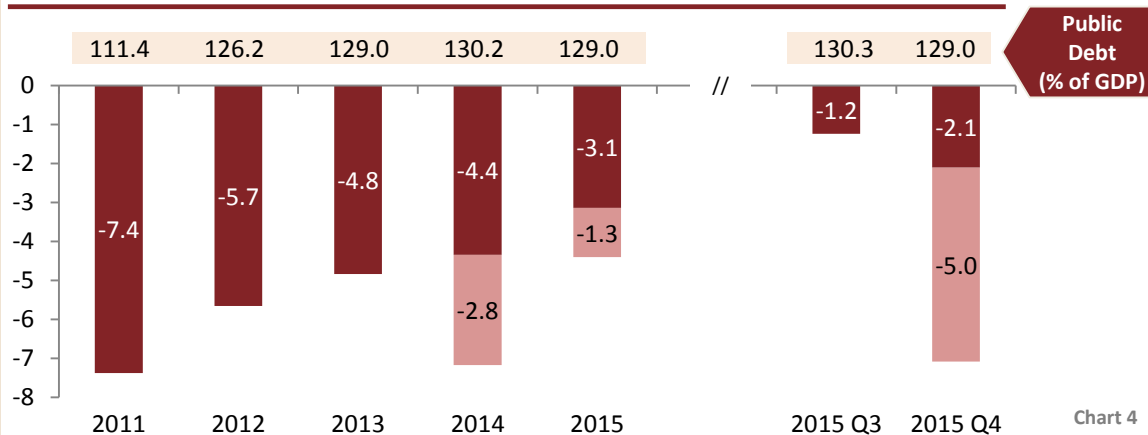


Chart 4

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. 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.

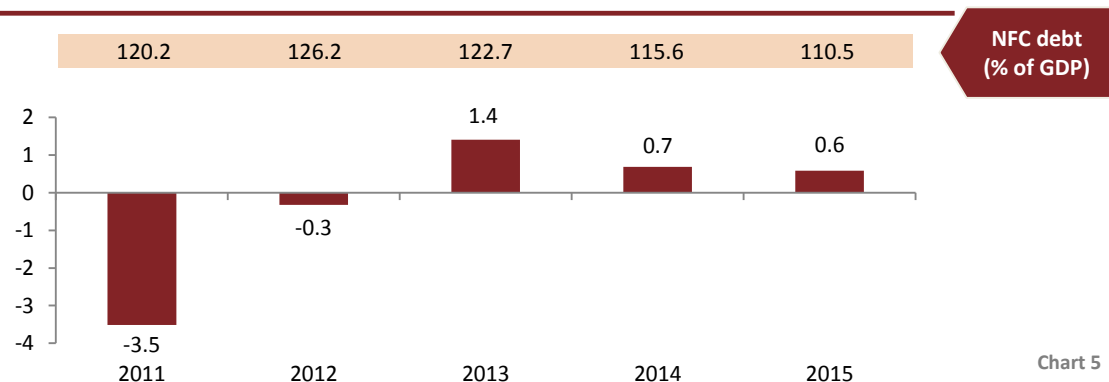
■ The unemployment rate was 12.2%, a decrease of 0.1 p.p. from 2015Q4 level.

■ Public debt as a percentage of GDP stood at 129% at the end of 2015. Deposits from the General Government amounted to about 11% of GDP.

Note: The impacts of the capital transfers related to BES and BANIF resolution processes in the fiscal balances are pointed out.



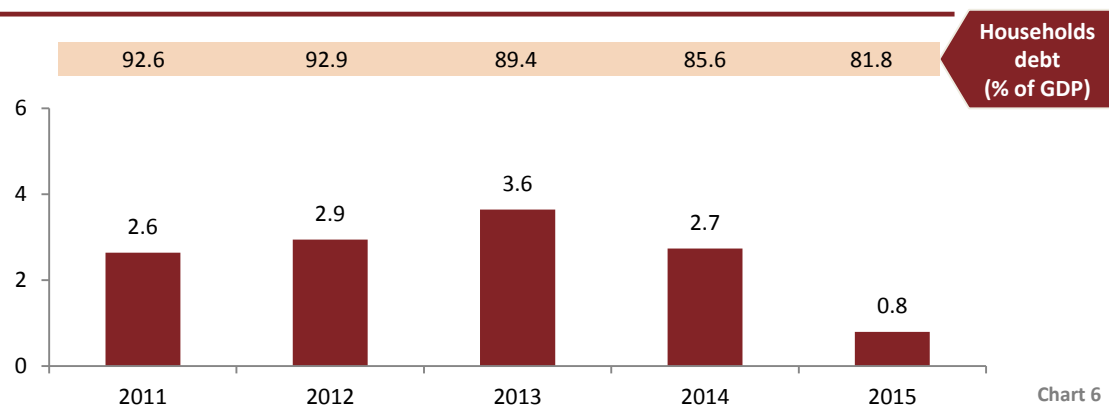
### Net lending/borrowing of non-financial corporations, % of GDP



■ In end-2015, NFC debt stood at 110.5% of GDP, a figure that represents a 5.1 p.p. of GDP decrease vis-à-vis end-2014.

■ In 2015, net lending of non-financial corporations was 0.6% of GDP, which compares to 0.7% in December 2014.

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



■ In 2015, Households' debt decreased. In December 2015 it was 3.8 p.p. of GDP lower than in December 2014.

■ In 2015, households' net lending was 0.8% of GDP, which compares with 2.7% in 2014. This development was chiefly due to a decline in this sector's saving.

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 (%)

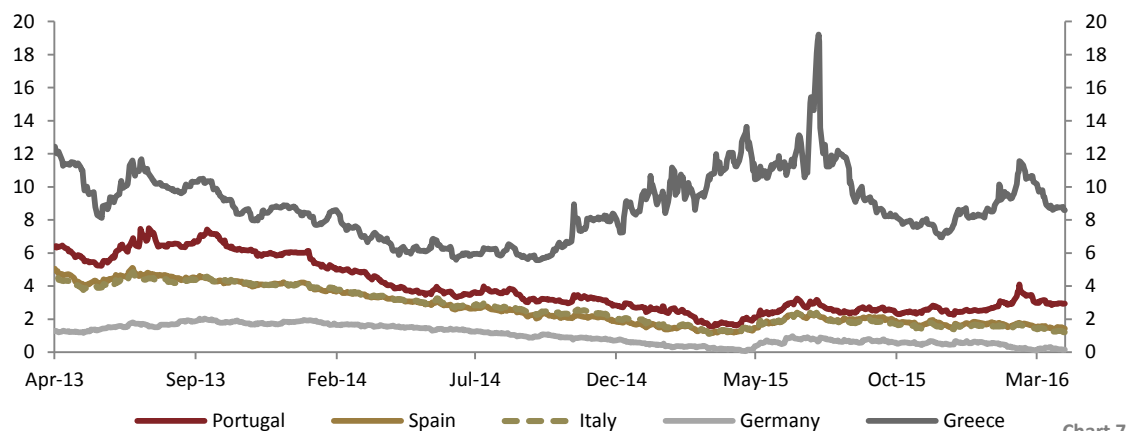


Chart 7

### ECB rates (%)

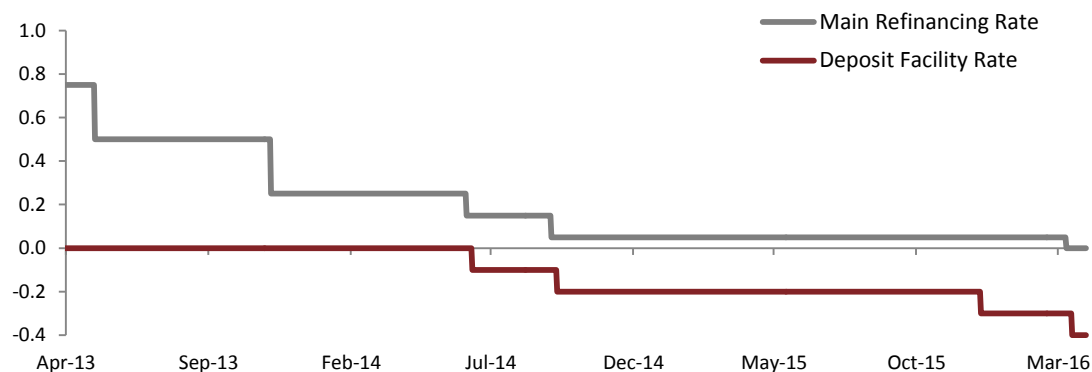


Chart 8

■ The Portuguese 10-year government bond yield recorded an increase of approximately 40 basis points (b.p.) in 2016 Q1.

■ In 2016 Q1, the 12-month interbank rate turned negative, following the 3-month and the 6-month rates, as a reflex of the ECB non-conventional monetary policy.

■ In March 2016 the ECB changed (i) the deposit facility interest rate from -0.30% to -0.40%, (ii) the main refinancing operations interest rate from 0.05% to 0%, and (iii) the marginal lending facility interest rate from 0.30% to 0.25%. Those rates were kept unchanged as of June 2016.



## 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

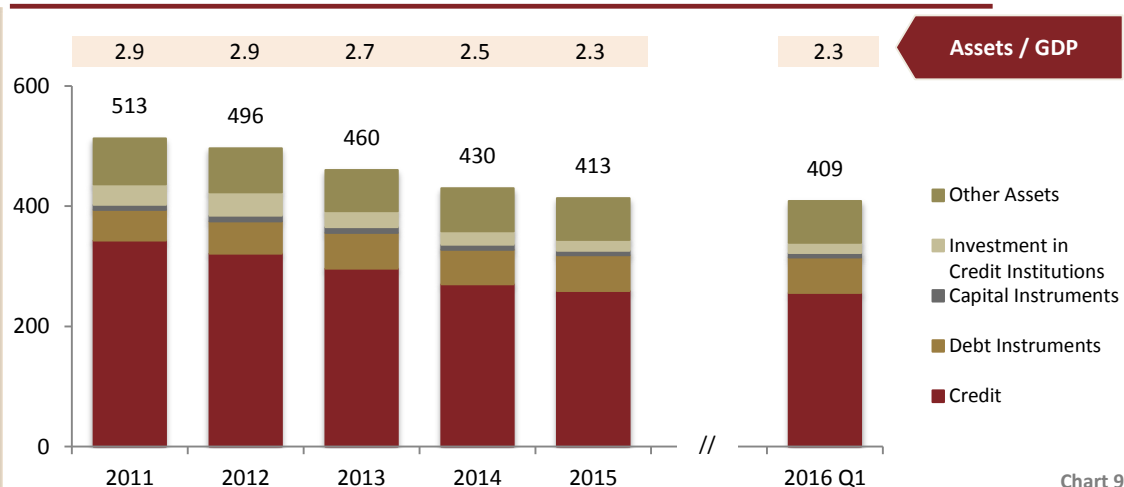


Chart 9

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

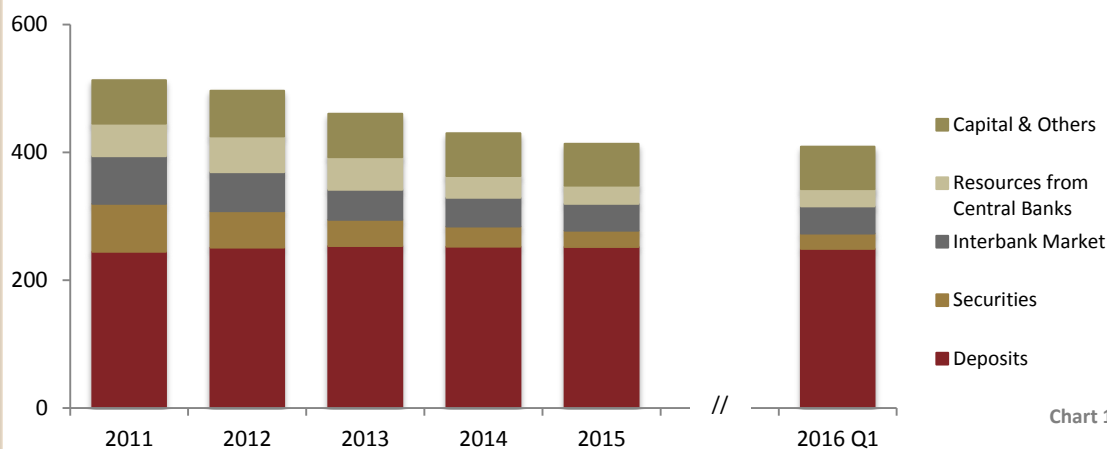


Chart 10

Source: Banco de Portugal

▪ In 2016 Q1, similarly to the previous quarters, banking system's total assets continued to decline gradually.

▪ Despite a slight decrease in deposits in 2016 Q1, its weight in the financing structure remained virtually unchanged.

▪ Additionally, resources from central banks and securities decreased (4.4% and 6.4%, respectively).



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

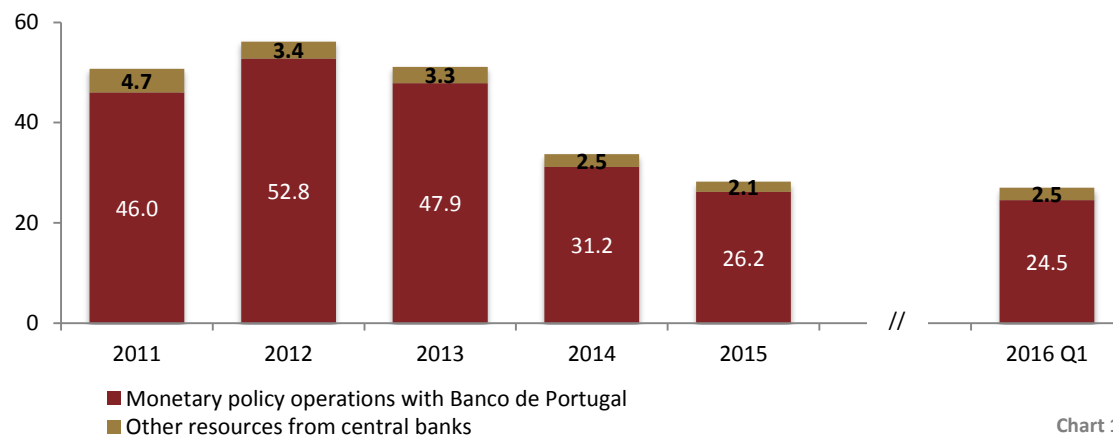


Chart 11

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

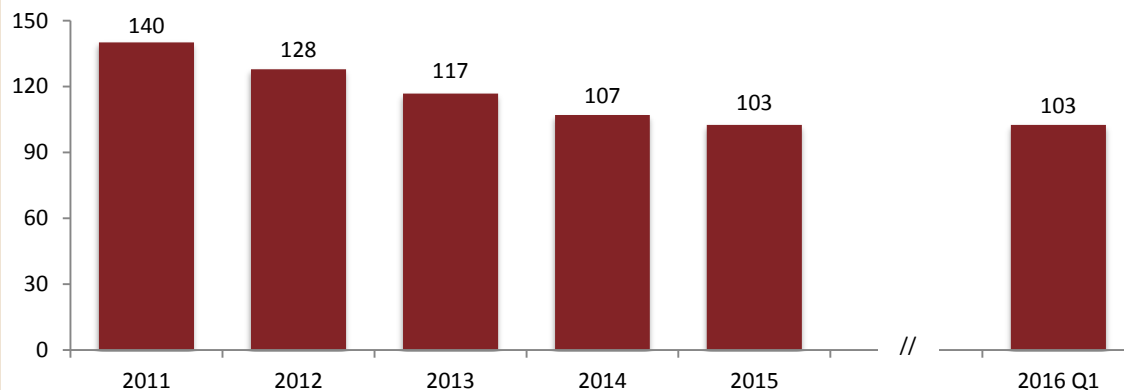


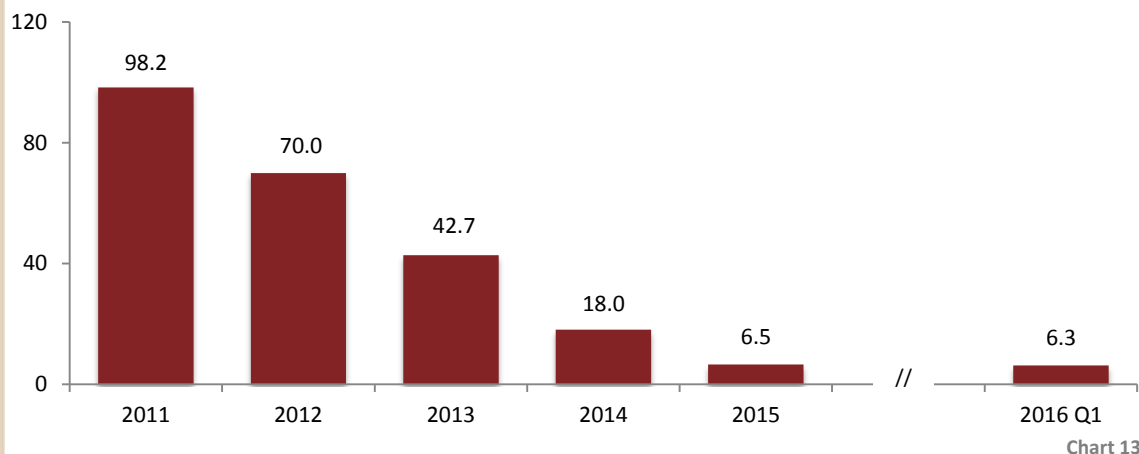
Chart 12

■ Central banks financing, represented 6.6% of the banking system's total assets in 2016 Q1, having decreased 0.2 p.p. vis-à-vis end-2015.

■ The Loan-to-Deposits ratio remained stable during this period, reflecting a slight decrease both in loans and in deposits.

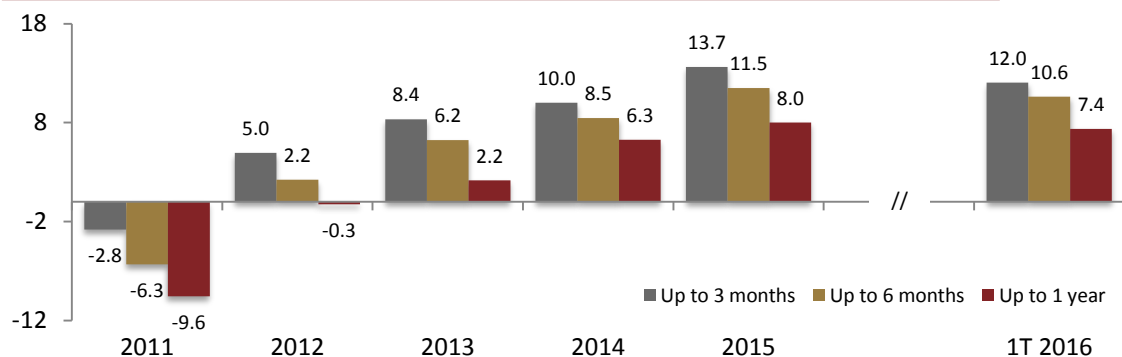


Commercial gap (€Bn) – Value at end of period



■ In 2016 Q1, the commercial gap decreased by 0.2 billion euros, resulting from a contraction of credit slightly higher than the decrease in deposits.

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



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.

■ Liquidity gaps have decreased in all maturity buckets, remaining however at high levels.



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

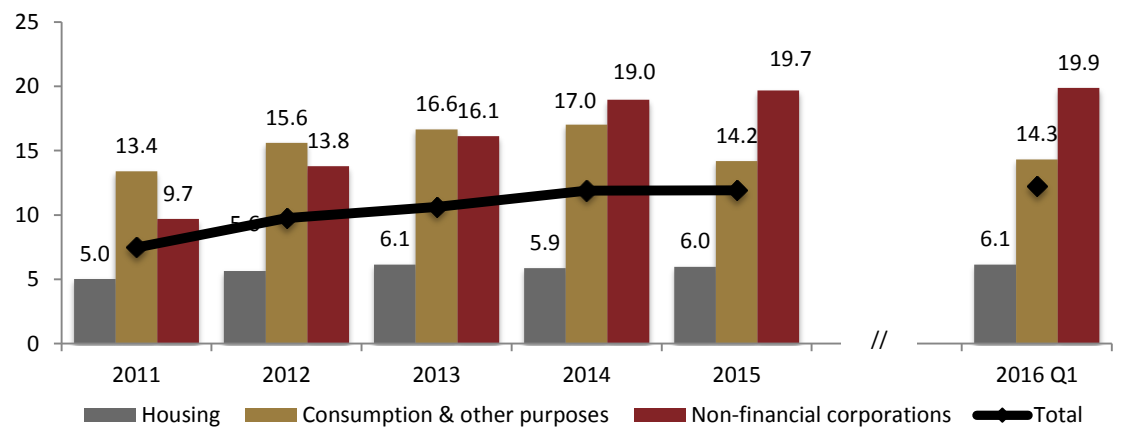


Chart 15

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

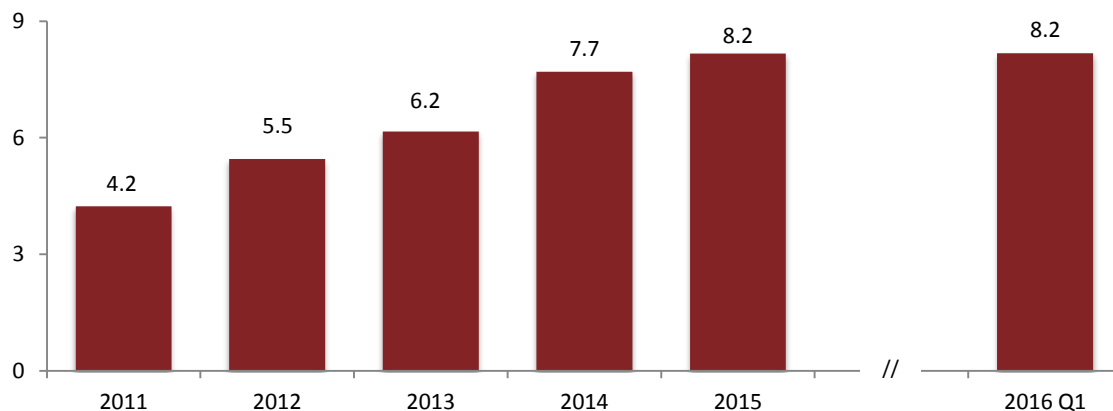


Chart 16

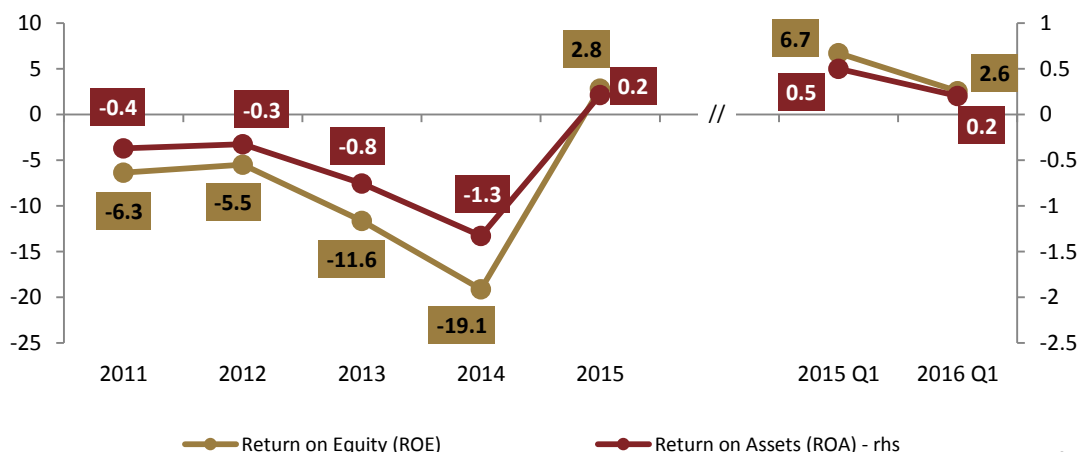
■ The credit-at-risk ratio increased slightly to 12.2% in 2016 Q1, explained equally by an increase in credit at risk and a decline in gross credit.

■ This rise was observed across all segments of the resident non-financial private sector.

■ Credit impairments as a percentage of gross credit remained virtually unchanged, reflecting marginal decreases in both the numerator and denominator.



## 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

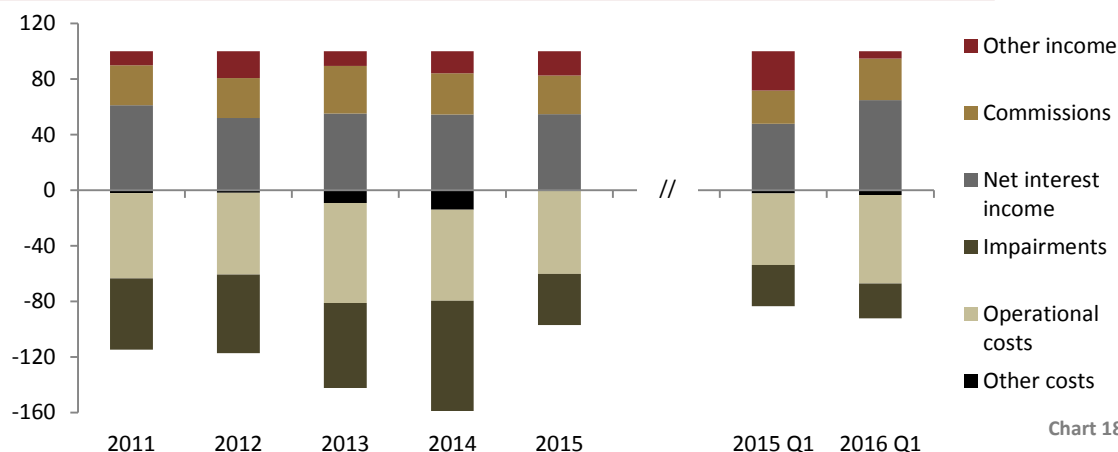


Chart 18

Source: Banco de Portugal

▪ The return on equity and the return on assets were positive in 2016 Q1. However, on a year-on-year basis, both display a significant deterioration.

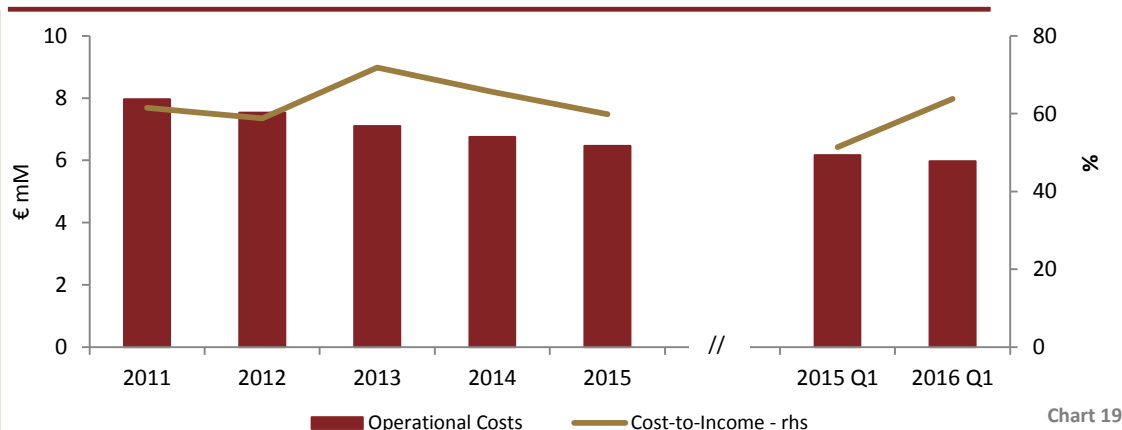
▪ This negative development in profitability was mainly driven by a substantial reduction in income from financial operations.

▪ Net interest income increased in 2016 Q1 vis-à-vis 2015 Q1, driven by the sharp reduction on interest costs.

▪ The weight of other income (which includes income from financial operations) decreased significantly, becoming residual.



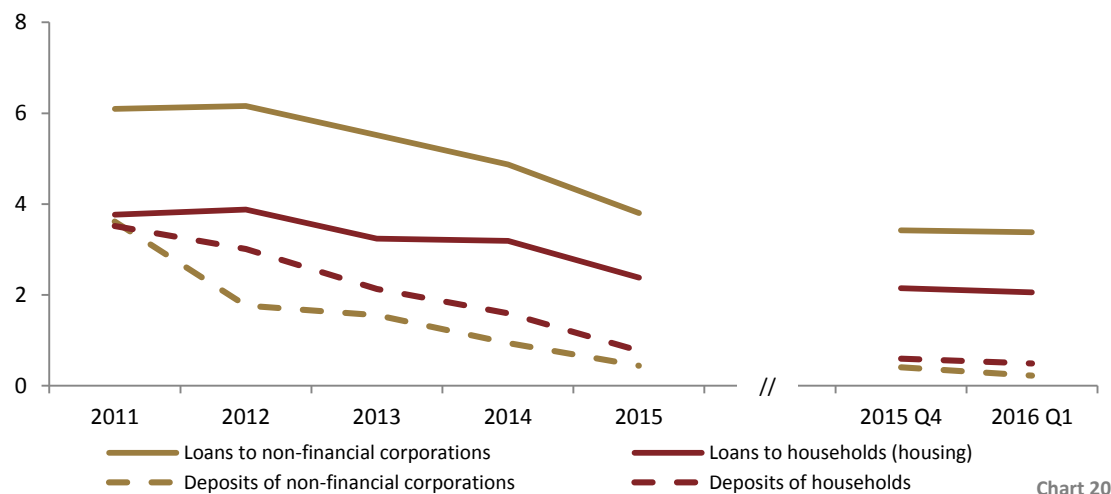
Cost-to-Income (%), Operational Costs (€Bn) – Value in the period



■ Despite the reduction in operational costs, cost-to-income ratio increased in 2016 Q1 vis-à-vis the previous year due to a decrease in gross income.

■ Interest rates on new operations decreased, especially for new deposits.

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

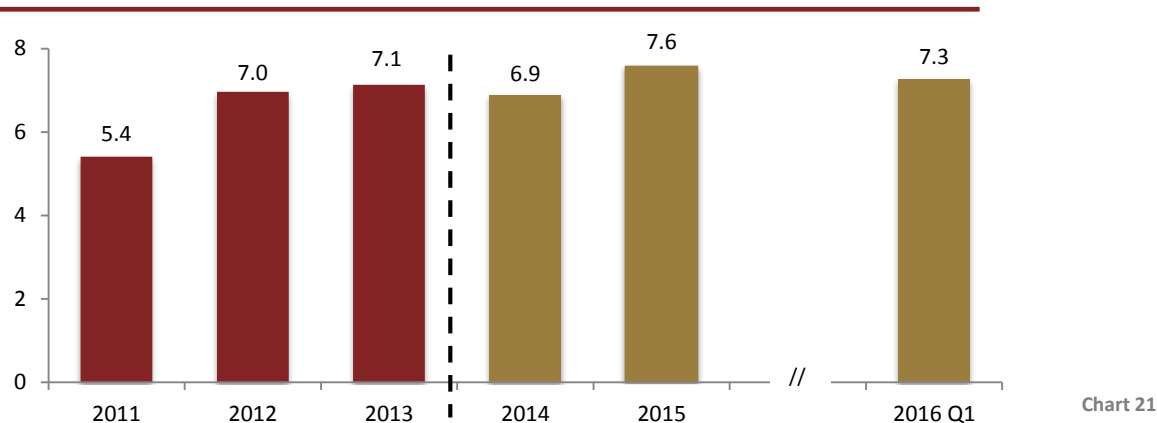


■ In comparison with 2015 Q4, interest rates on new loans for housing purchase and to non-financial corporations fell by 10 b.p. and 4 b.p. respectively.

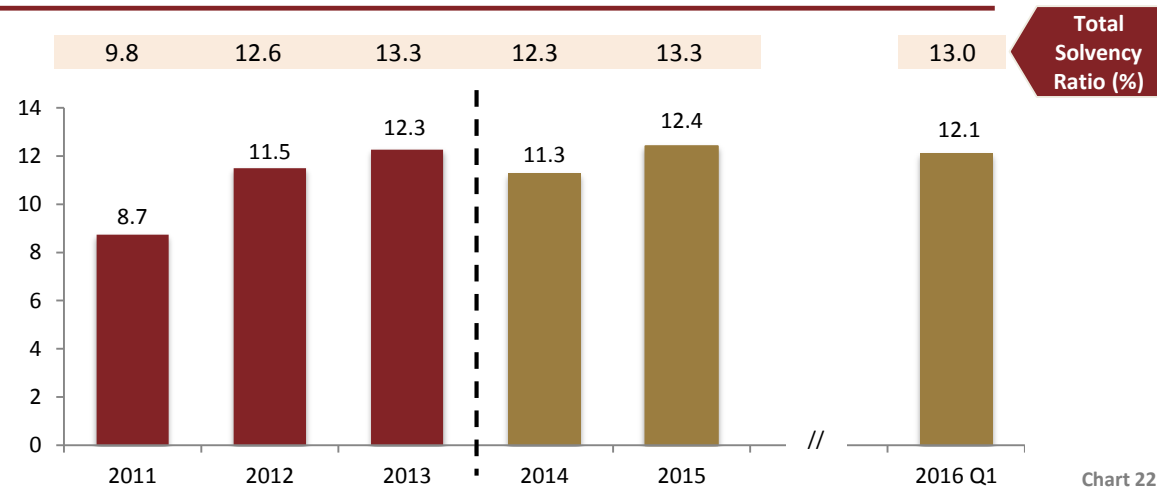
■ On the other hand, the cost of new deposits decreased 18 b.p. for the non-financial corporations' segment and 10 b.p. for the households' segment.



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



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



■ In 2016 Q1, the ratio between Tier 1 capital and total assets decreased by 0.3 p.p. vis-à-vis the previous quarter.

■ Both the CET 1 ratio and the Total Solvency ratio decreased by 0.3 p.p. The evolution of solvency ratios continue to reflect the effect of regulatory transitional adjustments from CRD IV / CRR.

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.



Topic	Institution	Latest Measures (2016 Q1)
Solvency and liquidity	Banco de Portugal	Press release of 30 March informing that Banco de Portugal decided to maintain the countercyclical buffer rate for credit exposures to the domestic private non-financial sector at 0 per cent of the total risk exposure amount in the 2nd quarter of 2016.
	ECB	<p>The Governing Council of the ECB, on 10 March 2016, decided to decrease:</p> <ul style="list-style-type: none"><li>• the interest rate on the main refinancing operations of the Eurosystem by 5 basis points to 0.00%;</li><li>• the interest rate on the marginal lending facility by 5 basis points to 0.25%;</li><li>• the interest rate on the deposit facility by 10 basis points to -0.40%;</li></ul> <p>with effect from 16 March 2016.</p> <p>On 10 March 2016, the Governing Council of the ECB decided to adopt further non-standard measures, namely:</p> <ul style="list-style-type: none"><li>• To expand the monthly purchases under the asset purchase programme to €80 billion starting in April.</li><li>• To conduct a new series of four targeted longer-term refinancing operations (TLTRO II), starting in June 2016, of which the last operation will mature on March 2021. Borrowing conditions in these operations can be as low as the interest rate on the deposit facility at the time of allotment and the highest interest rate applicable will be the interest rate on the main refinancing operations of the Eurosystem at the time of allotment.</li><li>• To include investment grade euro-denominated bonds issued by non-bank corporations established in the euro area in the list of assets that are eligible for regular purchases under a new corporate sector purchase programme.</li></ul>





Topic	Institution	Latest Measures (2016 Q1)
Legal framework	Banco de Portugal	<p>Publication of Guideline (EU) 2016/64 of the European Central Bank of 18 November 2016, which amends Guideline (EU) 2015/510 on the implementation of the Eurosystem monetary policy framework (ECB/2015/34), (i) reflecting the change in the rules on the own-use of covered bonds with respect to additional valuation haircuts; and, (ii) reflecting the decision that non-marketable debt instruments backed by eligible credit claims may be used on a cross-border basis in accordance with the applicable correspondent central banking model (CCBM) procedures.</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 (Instruction No 1/2016).</p>
		<p>Notice of Banco de Portugal No 1/2016 of 18 March 2016 complemented by Instruction No 4/2016.</p> <p>Establishes, according to the current legal framework set out in Articles 112 and 114 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 to the Banco de Portugal regarding real estate exposure. The referred notice repeals the Instruction No. 120/96 of 16 August, except for the disposition in paragraph b), No 2, which remains in force until 31 December 2017, pursuant to Article 11 of Notice No 6/2013 of 27 December.</p> <p>This Notice entered into force on 19 March 2016.</p>
	European Commission	<p>Commission Implementing Decision (EU) 2016/230 of 17 February 2016</p> <p>Amends Implementing Decision 2014/908/EU of 12 December 2014 as regards the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.</p> <p>Entered into force on 9 March 2016.</p>
		<p>Commission Delegated Regulation (EU) 2016/438 of 17 December 2015</p> <p>Supplements Directive 2009/65/EC of the European Parliament and of the Council with regard to obligations of depositaries.</p> <p>Entered into force on 13 April 2016 and applies from 13 October 2016.</p>



Topic	Institution	Latest Measures (2016 Q1)
Legal framework	European Commission	Commission Delegated Regulation (EU) 2016/101 of 26 October 2015 Supplements Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105(14). In accordance with this Regulation, institutions shall calculate the total additional valuation adjustments ('AVAs') necessary to adjust the fair values to the prudent value and shall calculate those AVAs quarterly. Entered into force on 17 February 2016. Corrected in accordance with the terms of the Corrigendum published in OJ L 28, 4.2.2016.
		Publication of Guideline (EU) 2016/579 of the European Central Bank of 16 March 2016, which amends Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2).
Other	ESRB	Decision of the European Systemic Risk Board (ESRB/2015/3) Decision on the assessment of materiality of third countries for the Union's banking system in relation to the recognition and setting of countercyclical buffer rates. Entered into force on 1 January 2016.
		Recommendation of the European Systemic Risk Board (ESRB/2015/2) Recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures.
		Recommendation of the European Systemic Risk Board (ESRB/2015/1) Recommendation on recognizing and setting countercyclical buffer rates for exposures to third countries.

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# Portuguese Banking System

## Recent Developments – 1<sup>st</sup> quarter 2016

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