

# Portuguese Banking System

## Latest Developments



BANCO DE PORTUGAL  
EUROSISTEMA

Updated: 1Q 2014

Prepared with data available up to 9 June 2014.



- Portuguese Banking System at a Glance
- Latest Financial Stability Measures
- Macroeconomic and Financial Indicators
- Portuguese Banking System
  - Balance Sheet
  - Liquidity & Funding
  - Asset Quality
  - Profitability
  - Solvency



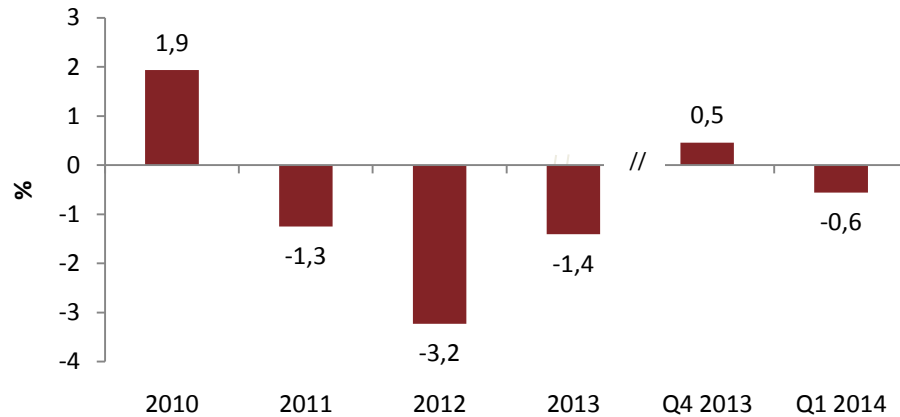
- I. Balance Sheet
  - Decrease in the credit portfolio as the main driver of the decrease in assets
- II. Liquidity & Funding
  - Stabilization of the loan-to-deposit ratio
- III. Asset/Credit Quality
  - Credit at risk ratio slightly increased
- IV. Profitability
  - Profitability remains under pressure, despite the slight recovery of the net interest margin
  - Flow of credit impairments stabilized, but still remains at historical highs
- V. Solvency
  - Sound solvency levels in the transition to the new prudential framework



Topic	Institution	Latest measures (Q1 2014)
<b>Solvency and liquidity</b>	<b>ECB</b>	ECB Guideline, of 12 March 2014, with some measures to facilitate the mobilization of eligible marketable assets on a cross-border basis: - Removal of the repatriation requirement to the issuer Central Securities Depository (CSD), effective as of 26 May 2014; and - Go-live of cross-border triparty collateral management services, as of 29 September 2014.
		Decision by the Governing Council of the ECB to re-map DRBS BBBL rating from Credit Quality Step (CQS) 4 to CQS3 and also to re-map the short term ratings R1L (from CQS2 to CQS3) and R2L (from CQS4 to CQS3). This decision was applicable from 1 of April 2014.
		In January 2014, decision by the Governing Council of the ECB to cease to conduct the three-month US dollar liquidity-providing operations as of April 2014 and to continue conducting the one-week US dollar liquidity-providing operations at least until the 31st of July 2014..
<b>Monitoring and supervision</b>	<b>Banco de Portugal</b>	Approval of Circular Letter No 24/2014/DSC which identifies best practice to be observed by credit institutions to simplify and standardize the commissioning of deposit accounts. It entails Banco de Portugal's opinion that credit institutions should provide a standard deposit account including, in general, the minimum banking services set out in Decree-Law No 27-C/2000 of 10 March, in the wording in force, but without the access or commissioning restrictions set out in that Decree-Law.
<b>Legal framework</b>	<b>Banco de Portugal</b>	Entry into force of Notice of Banco de Portugal No 5/2013 of 18 December, which regulates the conditions, mechanisms and procedures needed for effective compliance with the anti-money laundering and terrorist financing obligations, under the provision of financial services subject to the supervision of Banco de Portugal.
	<b>ECB</b>	On 24 February 2014 the Governing Council adopted Decision ECB/2014/6 on the organisation of preparatory measures for the collection of granular credit data by the European System of Central. This legal act relates to preparatory measures which are necessary to establish in a stepwise manner a long-term framework for the collection of granular credit data, i.e. about the credit exposures of credit institutions or other loan-providing financial institutions vis-à-vis borrowers, provided on a borrower-by-borrower basis or a loan-by-loan basis, based on harmonised ECB statistical reporting requirements.
<b>Other</b>	<b>Portuguese Government</b>	With the aim of diversifying funding alternatives to the corporate sector, as an alternative to bank credit, the Law-Decree No 29/2014 of 25 February was approved. It revises the legal framework concerning the commercial paper allowing a higher number of issuers particularly corporations with a smaller dimension of using this financing modality.



## GDP growth rate - Volume



Note: Quarterly figures correspond to q-o-q growth rates.

Chart 1

## Current account and capital account, %GDP

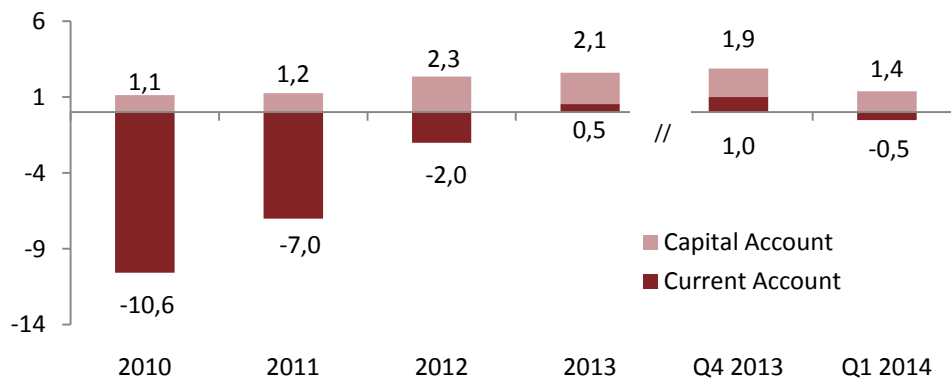


Chart 2

▪ In the first quarter of 2014, GDP recorded a negative quarter-on-quarter rate of change, following positive changes from the second to the fourth quarters of 2013.

▪ The current and capital account remained in surplus, although at a lower level than the observed in the preceding quarter.

▪ In the first quarter of 2014 the current account recorded a small deficit, after exhibiting a surplus, albeit reduced, in 2013.



### Unemployment rate, % of active population - Average value of period

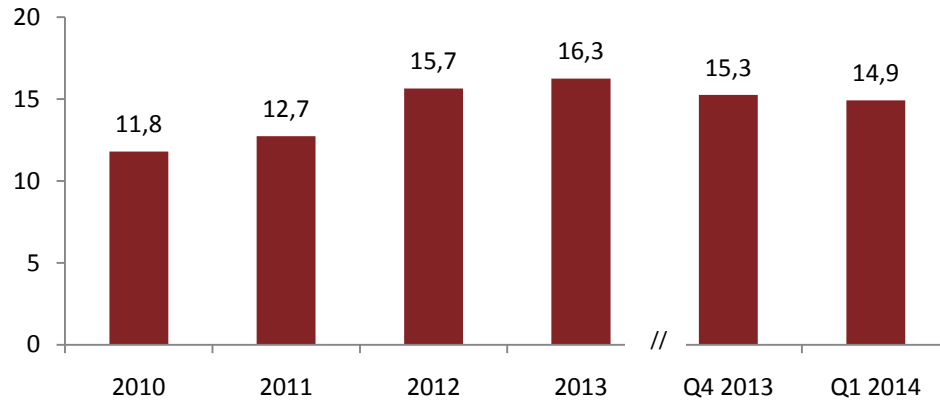


Chart 3

### Fiscal deficit, % GDP

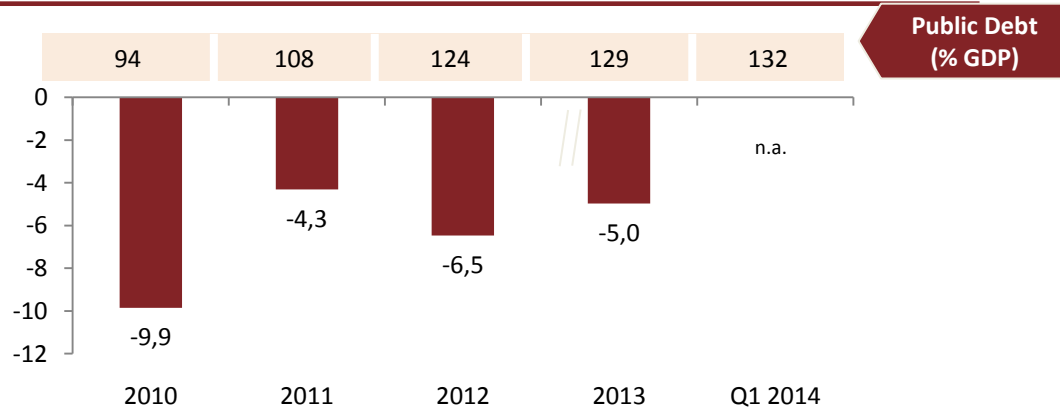


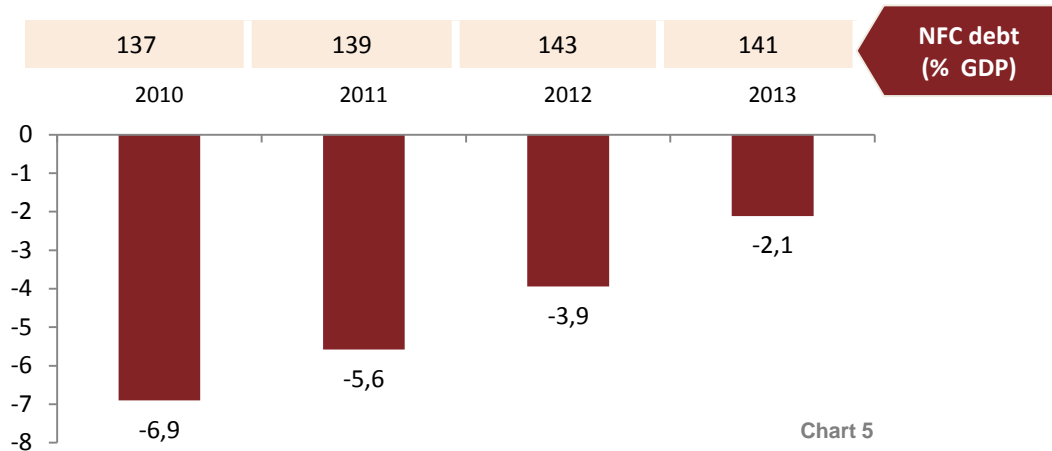
Chart 4

▪ In the first quarter of 2014 the unemployment rate kept the downward trend observed throughout 2013, remaining, nonetheless, at high levels.

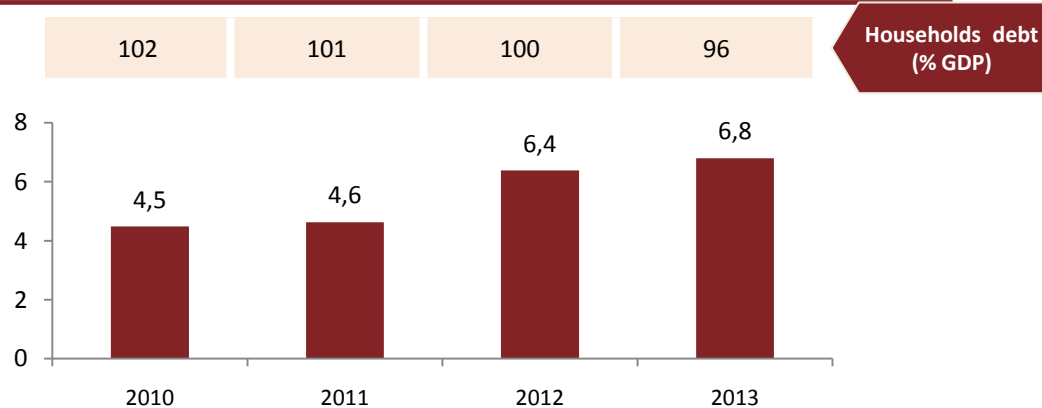
▪ The ratio between public debt and GDP increased. However, when measured net of deposits of the central government the ratio remained stable.



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



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



▪ The indebtedness of non-financial corporations declined slightly in 2013, remaining however at a high level. Financing needs continued to decrease.

▪ The household debt declined throughout 2013, having increased its financing capacity.



## Sovereign debt yields 10 Y

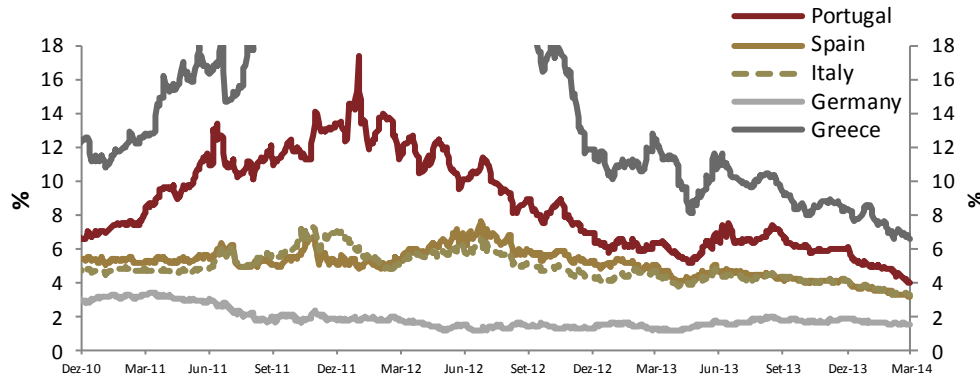


Chart 7

## Euribor and ECB main refinancing rate

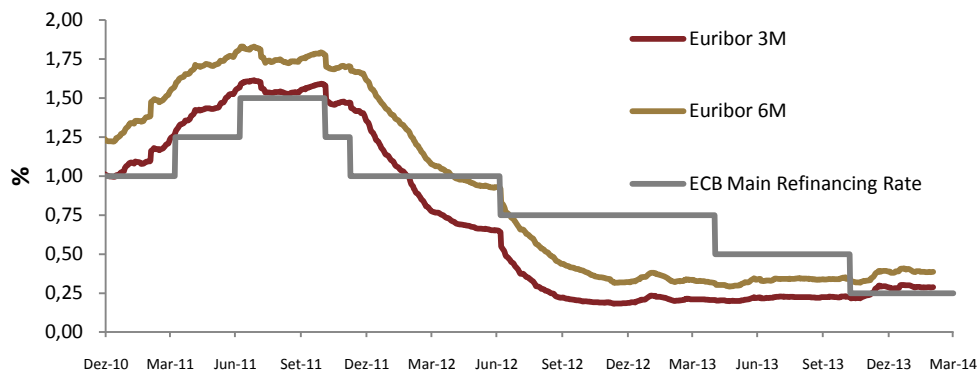


Chart 8

- The Portuguese sovereign yields declined in the first quarter of 2014, decreasing the spread to German yields.

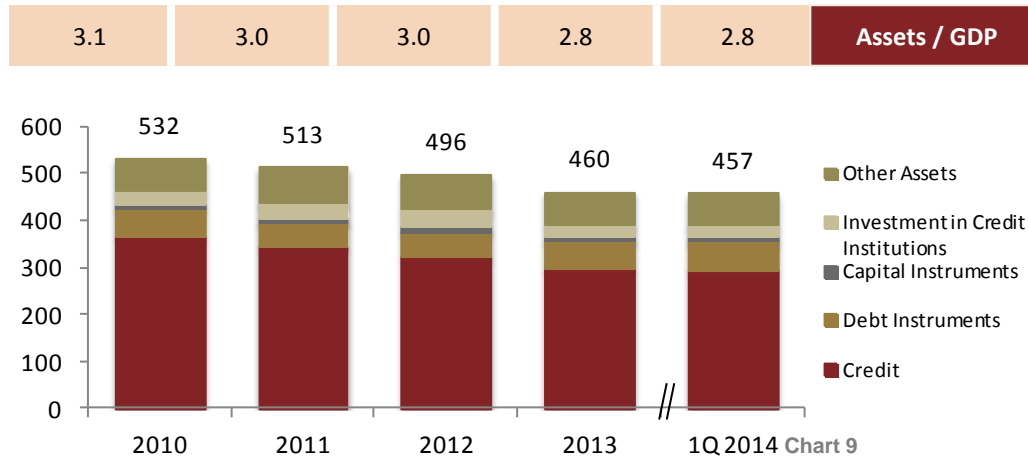
- The interbank interest rates remained relatively stable in early 2014, at a slightly higher level than in the last quarter of 2013.

- The eurosystem main refinancing operations rate remained unchanged in the first quarter of 2014.

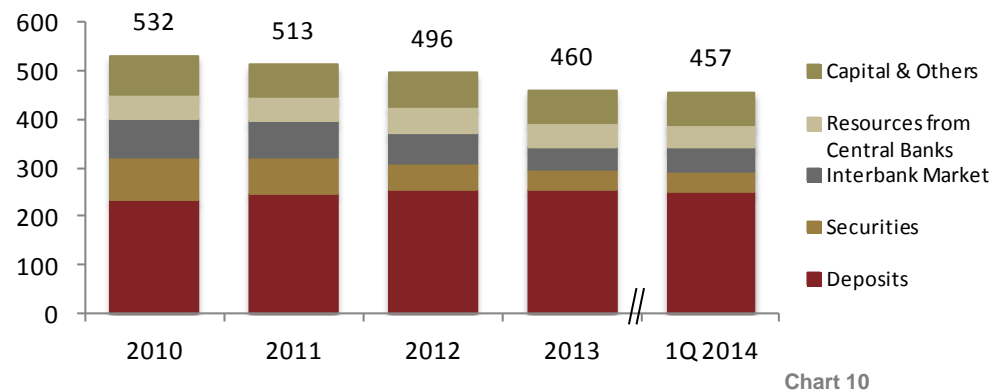




## Assets (€Bn) - Value at end of period



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



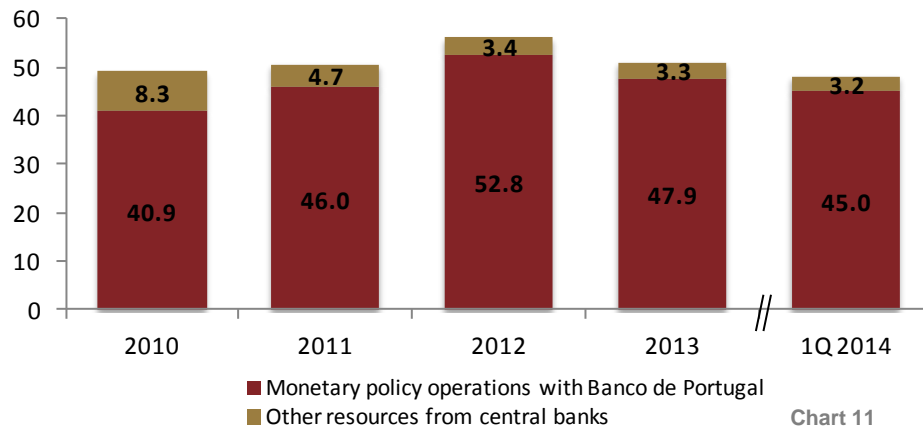
- Total assets of the Portuguese banking system reduced slightly in the first quarter of 2014, continuing the downward trajectory observed since end-2010.

- The reduction in credit to customers and in investments in credit institutions were the main drivers of this evolution. In the opposite direction, an increase in the value of debt instruments held was observed.

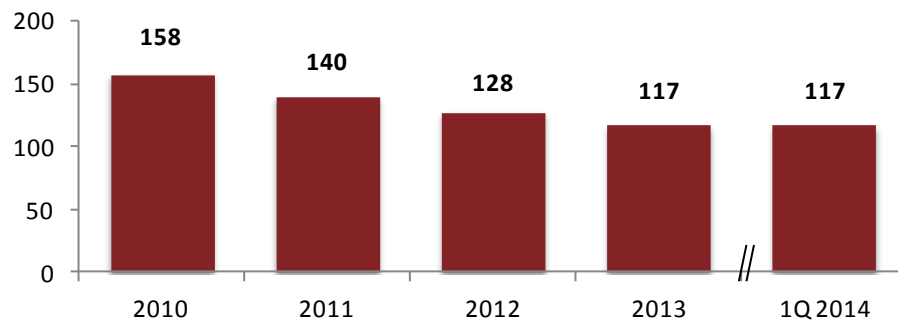
- Amid the gradual opening of markets to Portuguese issuers, a slight increase in the weight of market-based financing sources was observed. Conversely, recourse to the Eurosystem and customers' deposits recorded marginal reductions.



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



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



■ In the first quarter of 2014, Central Banks' financing, most through the recourse to the Eurosystem, decreased to minimum levels since the beginning of the Economic and Financial Assistance Programme.

■ The loan-to-deposits ratio remained unchanged, as the decrease of customers' deposits followed the reduction in the credit portfolio.



### Commercial gap (€Bn) - Value at end of period

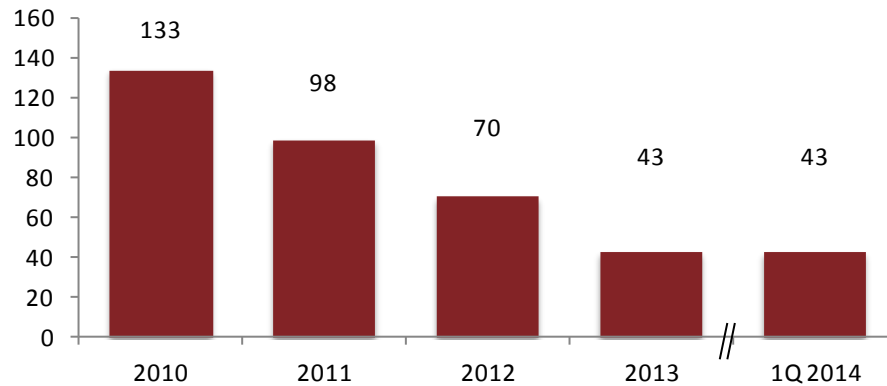


Chart 13

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

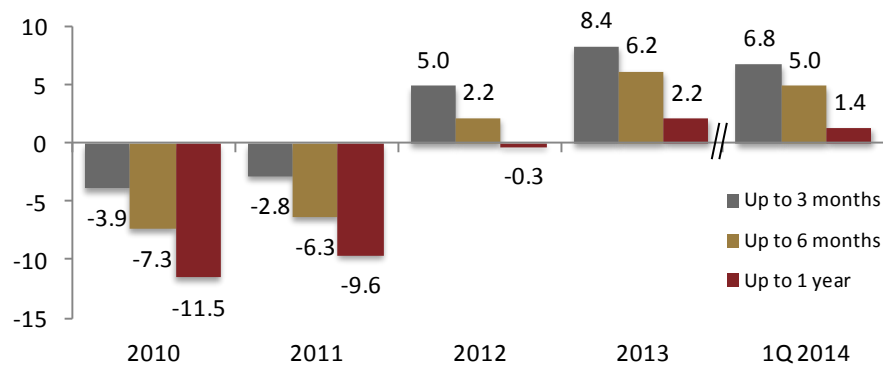


Chart 14

- In the first quarter of 2014, the commercial gap remained unchanged, standing at a very low level in historical terms.

- Liquidity gaps reduced but remain at comfortable levels.



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

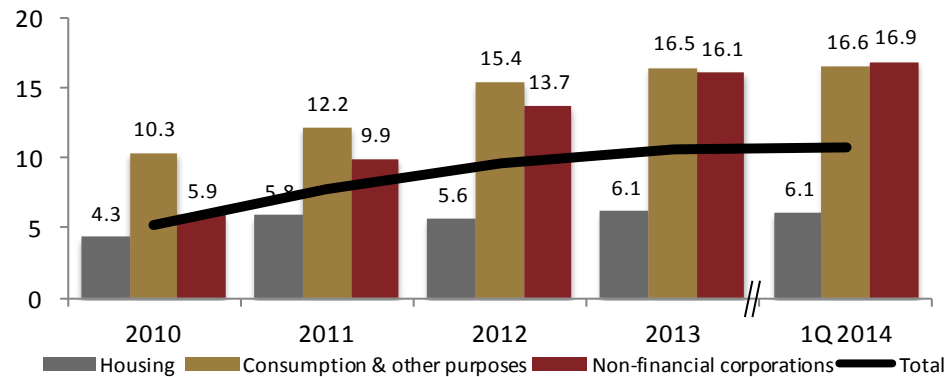


Chart 15

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

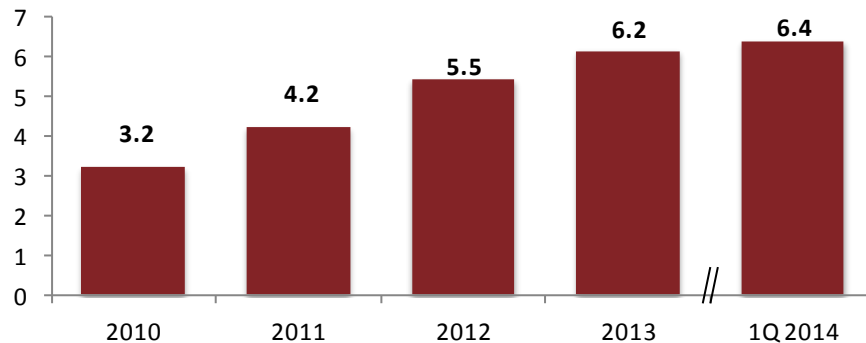
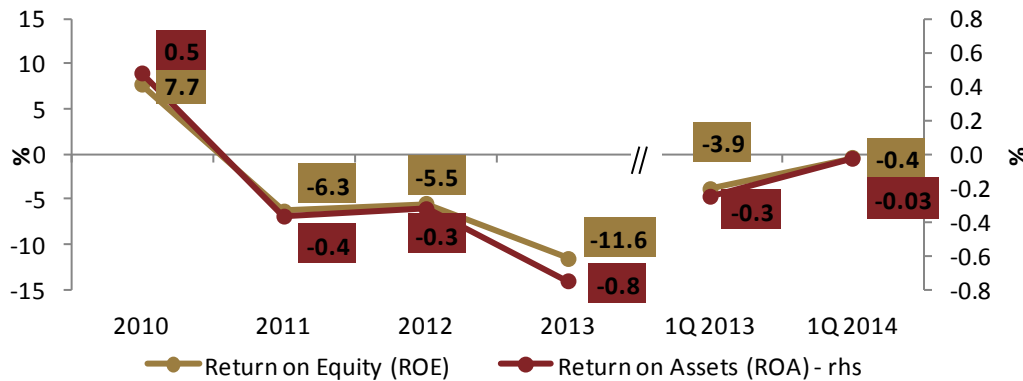


Chart 16

- The credit at risk ratio kept the upward trajectory in the first quarter of 2014.
- The worsening of the credit at risk ratio since 2010 resulted mainly from the deterioration of the quality of credit granted to the non-financial corporate sector.
- The impairment to gross credit ratio has been trending upwards since 2010, following the increase in credit risk materialisation.



ROA & ROE - Value at end of period



\* Annualized values.

Chart 17

Income and costs as a % of gross income - Value at end of period

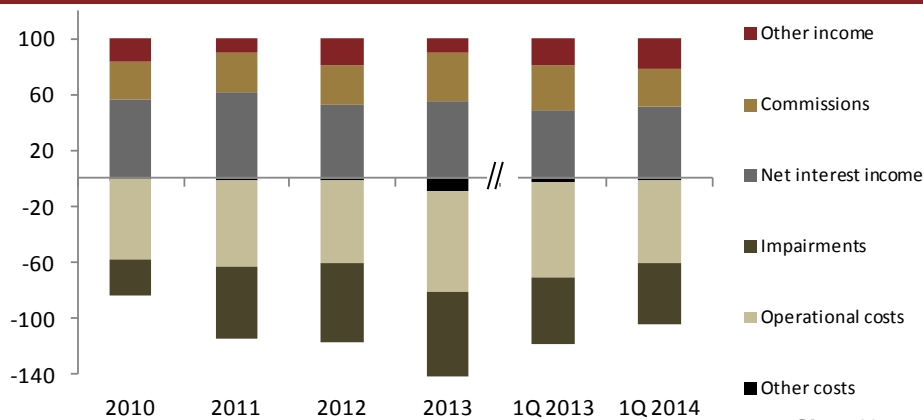


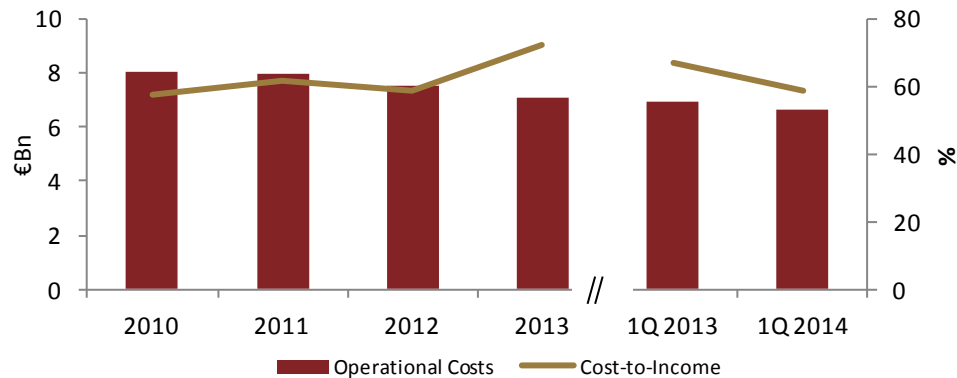
Chart 18

■ In the first quarter of 2014 the aggregate results of the Portuguese banking system, although negative, posted an improvement compared to the same period of 2013.

■ An increase in the net interest income and in profits from financial operations and a reduction in operating costs were underlying this improvement. In turn, a relative stabilization of the impairment flow was observed.



## Cost-to-Income (%), Operational Costs\* (€Bn) - Value at end of period



\* Annualized values.

Chart 19

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

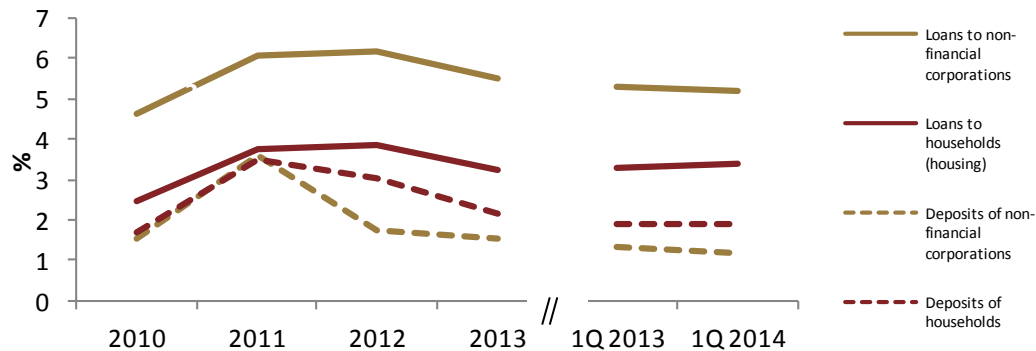


Chart 20

- The improvement in the cost-to-income ratio was mainly due to the increase of gross income.

- Regarding operational costs, the reduction recorded was mainly driven by the decrease in personnel costs.

- In the first quarter of 2014, interest rates on new operations with customers stabilized.



## Tier 1 capital to Total Assets ratio - Value at end of period

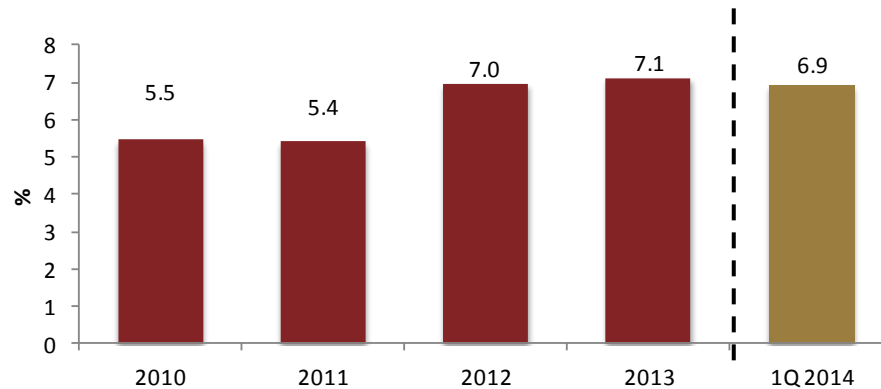


Chart 21

## Core Tier 1 ratio (until 2013) and CET 1 ratio (1Q2014) - Value at end of period

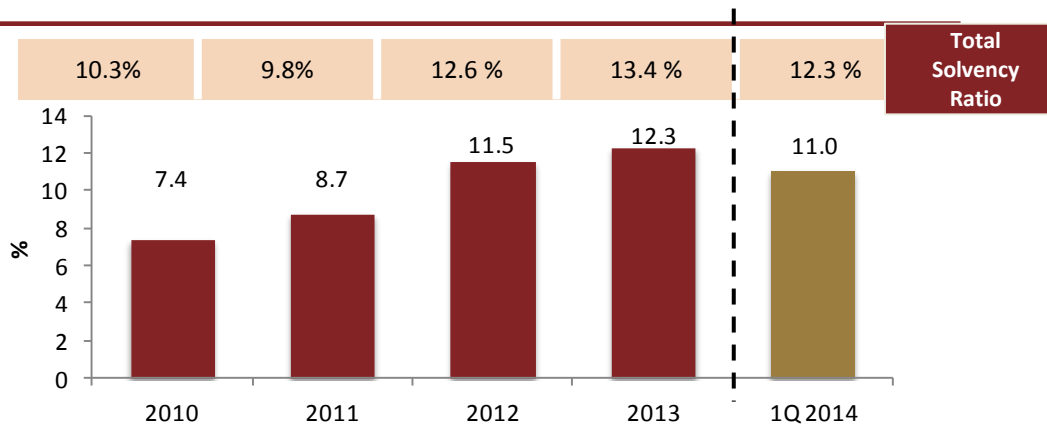


Chart 22

▪ The leverage of the banking system, measured by the ratio between capital tier I and total assets, stood close to 7%, in the end of the first quarter of 2014.

▪ The CET 1 ratio reached 11% for the Portuguese banks aggregate, comfortably above the regulatory minimum of 7%\*.

\*Since 1 January 2014 is in effect the Notice of Banco de Portugal 6/2013 which establishes a new, transitory, regime of own funds adequacy. The new regime establishes inter alia that credit institutions and investment firms preserve a common equity Tier 1 (CET 1 ratio) not below 7% until the Directive 2013 / 36/UE (or CRD IV - Capital Requirements Directive) is transposed to the Portuguese legal framework.

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