Summary Report

Associação Portuguesa de Bancos

No. 2
2013 | First half

Lisbon | December 2013

Main highlights of the first half of 2013

The member institutions' activity in the first half of 2013 was still seriously conditioned by the adverse economic and financial context in the euro area in general and in Portugal in particular. Even so, in spite of the challenge of deleveraging that the banking sector has had to face, the member institutions' funding structure remained stable, with a comfortable liquidity position and adequate level of solvency.

Slight improvements in a number of Portugal's indicators in the first two quarters of the year, such as a small growth in nominal gross domestic product (0.2% and 1% respectively) (see Graph 1) and a fall in the unemployment rate for the first time since June 2011 were still not enough to improve the economic agents' situation. This situation has been deteriorating particularly since the start of the Financial Adjustment Programme (FAP), due to a slump in economic activity and the austerity measures that have been implemented. As a result, investment and households' spending either fell or rose only negligibly in the first two quarters of 2013 (see Graphs 2 and 3).

Nonetheless, these measures made it possible to reduce external and fiscal imbalances in the Portuguese economy, with a consequent improvement in perception of Portugal's implicit risk. This resulted in a reduction in yields on public debt (see Graph 4) and provided the Treasury with access to the medium- and long-term markets. There were two public debt issues in the first half of the year, at 5 and 10 years.

The stock markets were volatile in the period (see Graph 5), due to fears that the Fed would reduce stimuli to the United States economy and doubts as to the sustainability of the single currency and European institutions. They were accentuated when the euro area crisis spread to Cyprus, and the financial aid that it received in March meant that all classes of creditors had to participate in the bailout of the Cypriot banks. These doubts underscored the need for the ECB to maintain an accommodating monetary policy (which reduced the interest rate on the main funding operations in May). This helped to reduce Euribor (see Graph 6) and highlighted the need to speed up efforts to create banking union.

As a result of the economic and financial situation in Portugal and also the requirements imposed by the Portuguese and European authorities, including agreements with the DG COMP approved in early 2013 about plans for restructuring the institutions that used state funds to recapitalise, the deleveraging in the banking sector, which began in 2011, continued and resulted in a 4% contraction in total gross aggregate assets to 452.8 billion euros at the end of the period (see Graphs 7 and 8).

This reduction in assets resulted essentially from a decrease in the stock of loans and advances to customers, which fell by around 4.8 billion euros, or 1.9%. This was mainly due to a contraction in loans and advances to private customers, especially consumer credit, due to its high risk. There was deceleration in the downward trend in place since 2011 in the stock of loans and advances to companies and the public administration, even though it fell 0.5% in the period (see Graph 9).

At the same time, customer deposits rose 1.8% in the period, against a 0.8% drop year-on-year. This was the result of a very similar growth in absolute terms in demand and term deposits of around 1.8 billion euros each. This scenario meant that at the end of the period customer deposits accounted for 56% of all the institutions' borrowing, making it even sounder and more stable, in line with the supervisory authorities' recommendations (see Graph 11).

Thanks to the joint performance of loans and deposits, the transformation ratio fell again to 124.1% at the end of June 2013. This was very close to the 120% recommended by Banco de Portugal for the eight largest banking groups in 2014 (see Graph 12).

There was also a reduction from 47.8 billion euros at the end of 2012 to 39.4 billion in June 2013 in the amount of loans funded by deposits. In the absence of alternative finance, there was an ongoing need to resort to the ECB to fill the funding gap. It went down, however, and this was reflected in a 5.6% reduction in funding from central banks and greater autonomy for the member institutions in terms of funding and liquidity management (see Graph 13).

Where wholesale funding was concerned, the fragmentation of the financial markets in the euro area and the difficulty experienced by institutions in the peripheral countries in placing debt on the international markets continued to adversely affect debt securities and other capital instruments issued by the member institutions. The overall total fell by 13.7%. This reduction meant that the weight of this type of funding in the financial institutions' borrowing structure went down for the first time since 2011 (see Graph 14).

For the same reasons, deposits from other credit institutions decreased in gross terms. Even so, in net terms, they increased almost 5 billion euros, due to a sharp fall in investments, and accounted for 3.7% of the member institutions' total borrowing (see Graph 11).

All together, market funding, which consists of debt securities, the interbank market and financial liabilities continued the downward trend of 2012, though at the end of June 2013 it fully covered the stock of financial investments, which reflected the member institutions' market activity. Given the ongoing external restrictions on access to wholesale funding, it is still important for the member institutions to resize their financial investment portfolio for the overall balance of their funding structure. Nonetheless, the contraction in this item at the end of 2012 was negligible (only 0.7%) and so the considerable reduction in deposits at other credit institutions, the decrease in cash and cash equivalents and part of the release of funds by the reduction in the trade gap were essential in achieving this balance.

Where the composition of the financial investment stock was concerned, the amount of the portfolio of held-to-maturity investments fell by more than a third, while the portfolio of available-for-sale financial assets rose by a similar amount in absolute terms. At the same time, there was an increase of around 6.8 billion in public debt securities in the total portfolio, against a similar reduction (6.5 billion euros) in debt securities from other issuers.

Regarding the member institutions' solvency, their capital ratio went back up, albeit slightly, in the first half of the year in line with the trend in place since 2011. The aggregate core Tier 1 capital ratio was 11.8% in June 2013 (11.7% at the end of 2012), above the 10% needed to meet Portuguese supervisory authorities' requirements. Even though core capital fell 2.7% due to absorption of losses

by the member institutions, the decrease in total assets and especially their average risk more than offset the effect (see Graph 15).

While the financial institutions' solvency, funding structure and liquidity position showed stability and even some improvement, the same cannot be said for their return. Because of the unfavourable economic situation in Portugal, the member institutions' net income before tax in the first half of 2013 was -2.8 billion euros, 545.2% less than the first half of 2012 (see Graph 16). These losses were partly offset, however, by their international business and non-banking activities, as their consolidated income before tax was -1.3 billion euros.

The results of the first six months of the year were particularly affected by downward pressure on net interest income, which fell almost 40% year on year. This reduction was mainly the result of two effects on lending operations. On the one hand, there a fall in interest received due to low interest rates and a reduction in loans granted. On the other hand, overdue loans increased 15.1% against the end of 2012 (after growing 29.9% in the first half of the year), reflecting the ongoing difficulty experienced by companies and households in fulfilling their obligations to the financial sector. In line with this, the default and credit at risk ratios grew to 7.4% and 11% respectively in the first half of 2013 (see Graph 17 and 18). At the same time, the higher cost of some sources of funding, such as debt issued, at the end of 2012 and in 2013 and hybrid instruments subscribed by the state also placed negative pressure on net interest income. On the other hand, interest and similar expenses paid fell substantially due to the volume effect of the reduction in liabilities and the low interest rate on ECB funds (see Graph 19).

At the same time, net gains from financial operations were 39.4% lower than in the first half of 2012, as the increase in net gains from the portfolio of available-for-sale financial assets, coming mainly from gains on the sale of public debt securities, failed to offset a sharp reduction in net gains from assets and liabilities at fair value through profit or loss. Income from capital instruments was also affected by a reduction in dividends from the share portfolio, while income from fees and commissions remained practically unchanged.

This performance naturally affected operating income, which went down 36.2%, and led to an increase of almost 30 percentage points in the cost-to-income ratio against the first half of 2012 (see Graph 20). A 6% rise in personnel costs also contributed to the deterioration in this ratio. Although the number of employees went down by around 950, this item was adversely affected by non-recurring events, such as reintroduction of holiday and Christmas subsidies and the cost of early retirement agreements and severance pay in restructuring programmes (see Graphs 21 and 22).

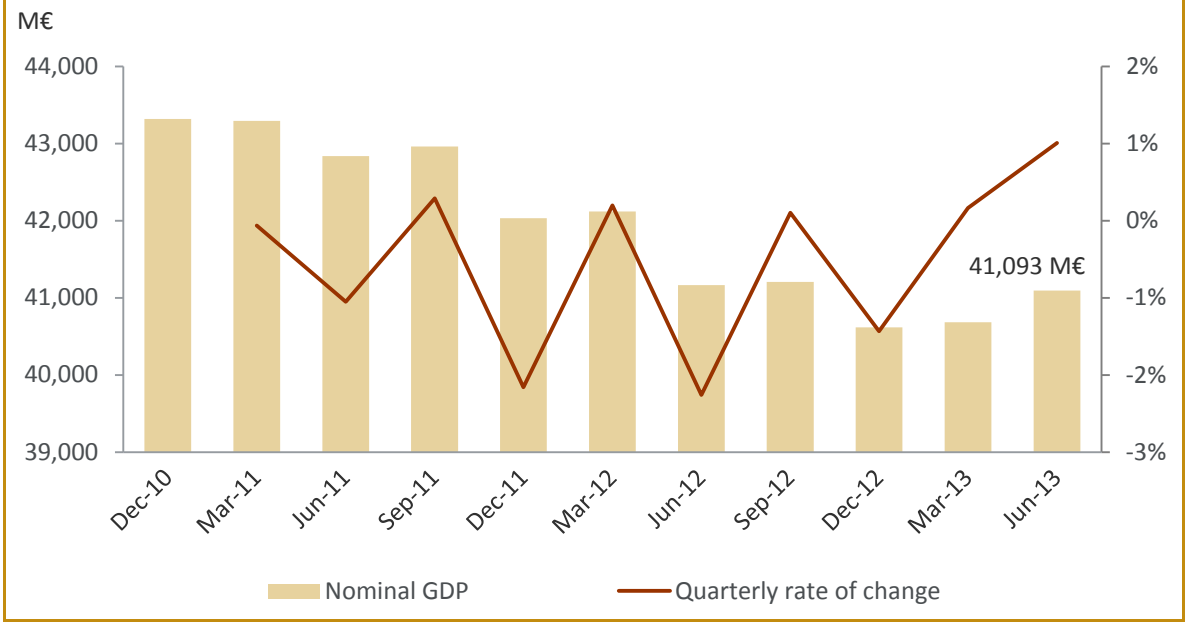
Finally, impairments and provisions net of reversals in the first half of 2013 were 425 million euros higher year on year, essentially due to an increase in impairments of non-financial assets, as credit impairments went down slightly. While this item's performance was affected by the result of Banco de Portugal's general revision of credit portfolio impairments for the eight largest banking groups in the period, which identified the need to increase impairments by 1.1 billion euros, it was positively influenced by the discontinuation of one Member's foreign operations and the fact that there was a substantial increase in the item.

The member institutions have continued to pursue their policy of rationalising their branch networks in order to achieve greater efficiency and competitiveness. This policy, which has resulted

in the closure of a number of branches since 2011, continued in the first half of 2013, when there was a reduction of 241 branches in Portugal (see Graph 23).

Graph 1

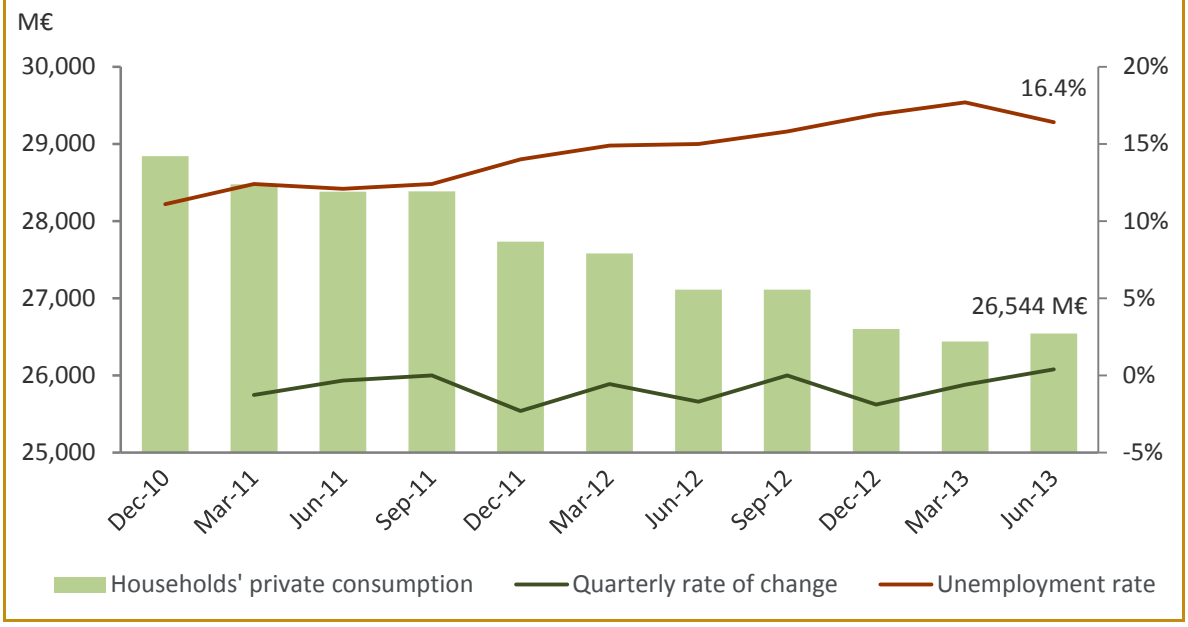
Nominal quarterly GDP and its rate of change



Source: Eurostat, via Macrobond.

Graph 2

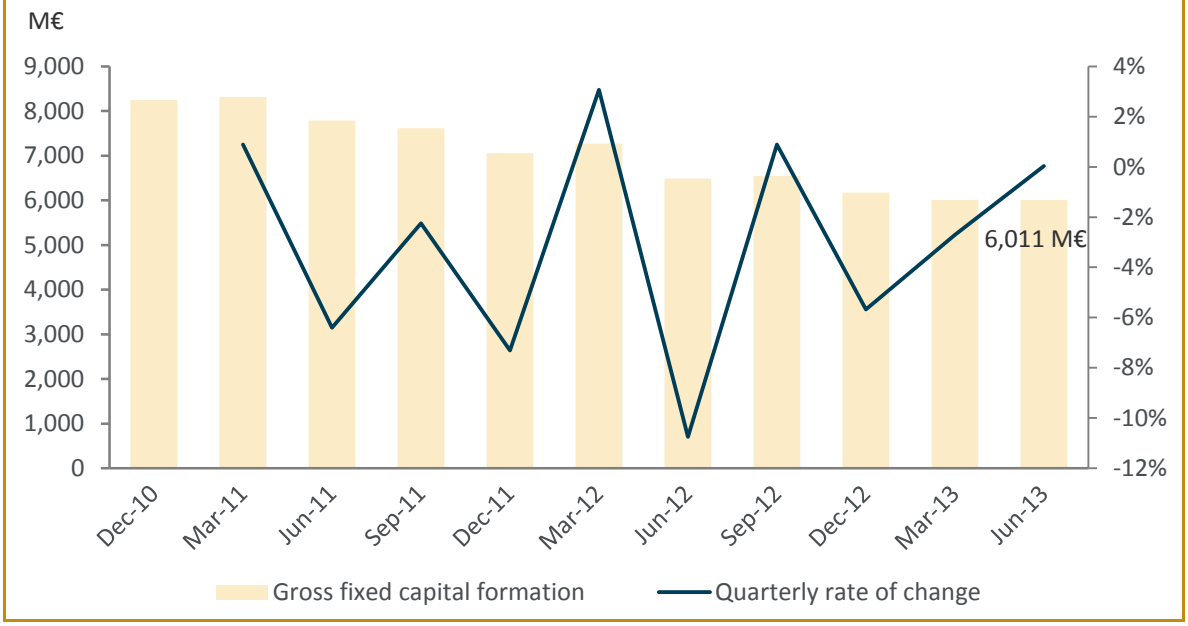
Households' private consumption, its respective rate of change and unemployment rate (quarterly data)



Source: Eurostat, Statistics Portugal, via Macrobond.

Graph 3

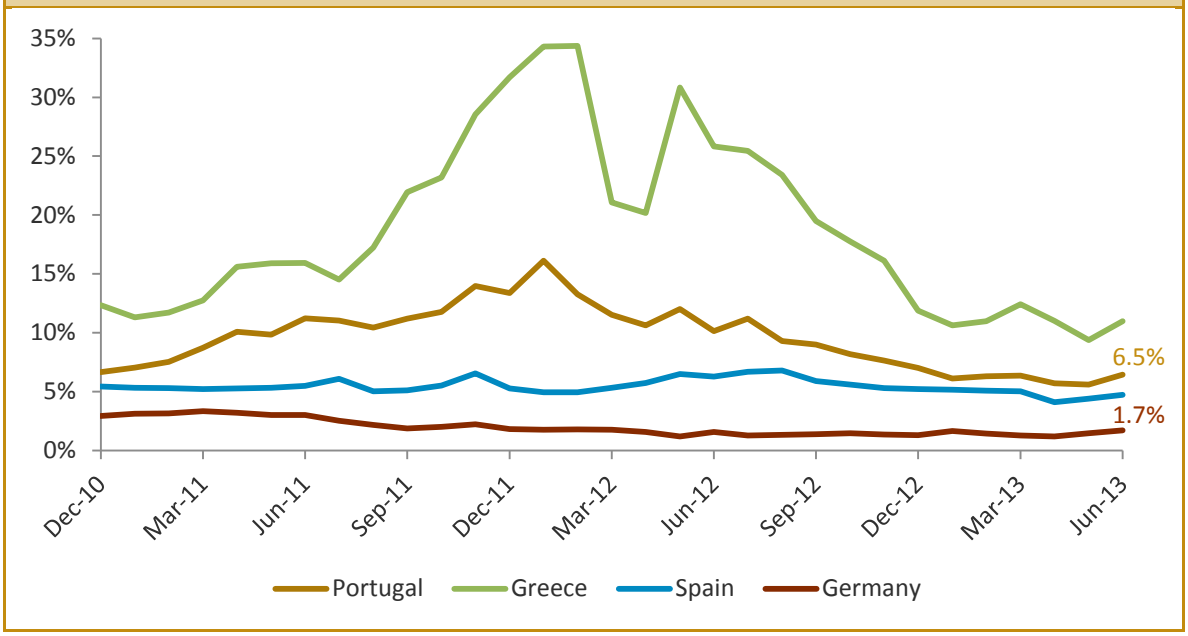
Gross fixed capital formation (quarterly data) and its rate of change



Source: Eurostat, via Macrobond.

Graph 4

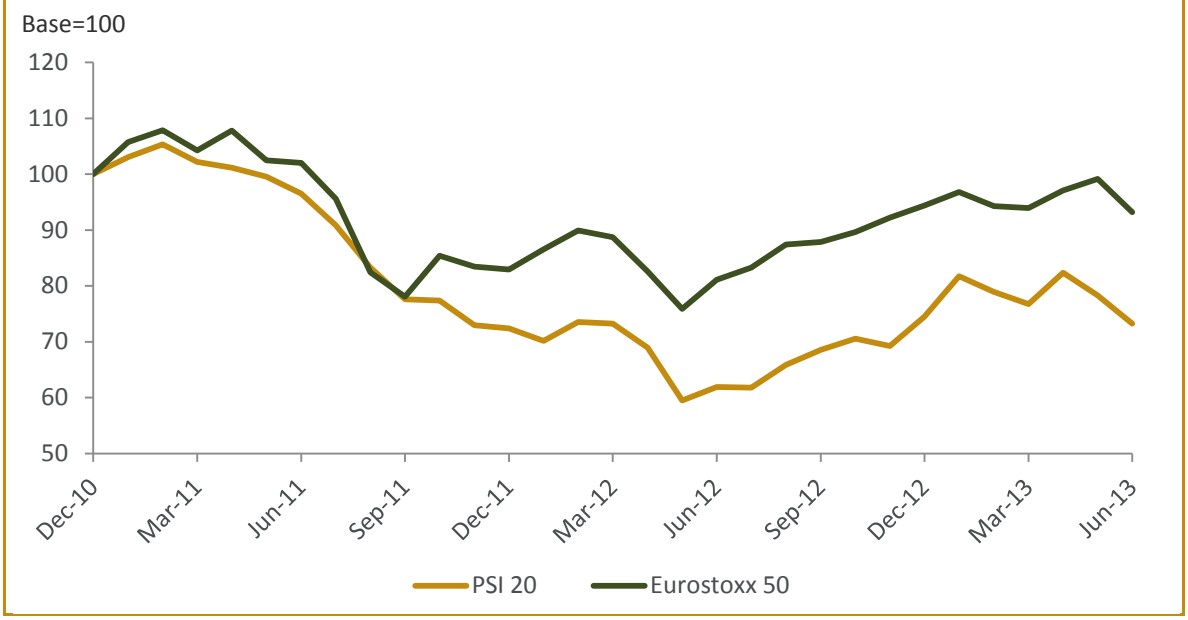
Yield-to-maturity for Portuguese, Greek, Spanish and German ten-year sovereign bonds



Source: Bloomberg.

Graph 5

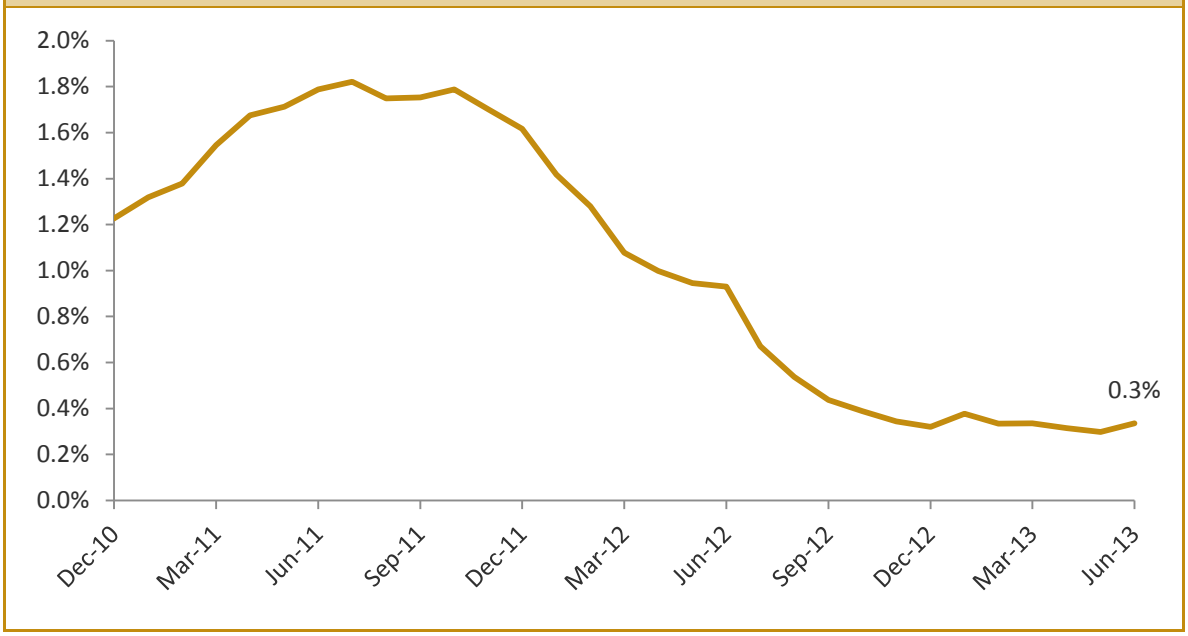
Main share indexes



Source: Bloomberg.

Graph 6

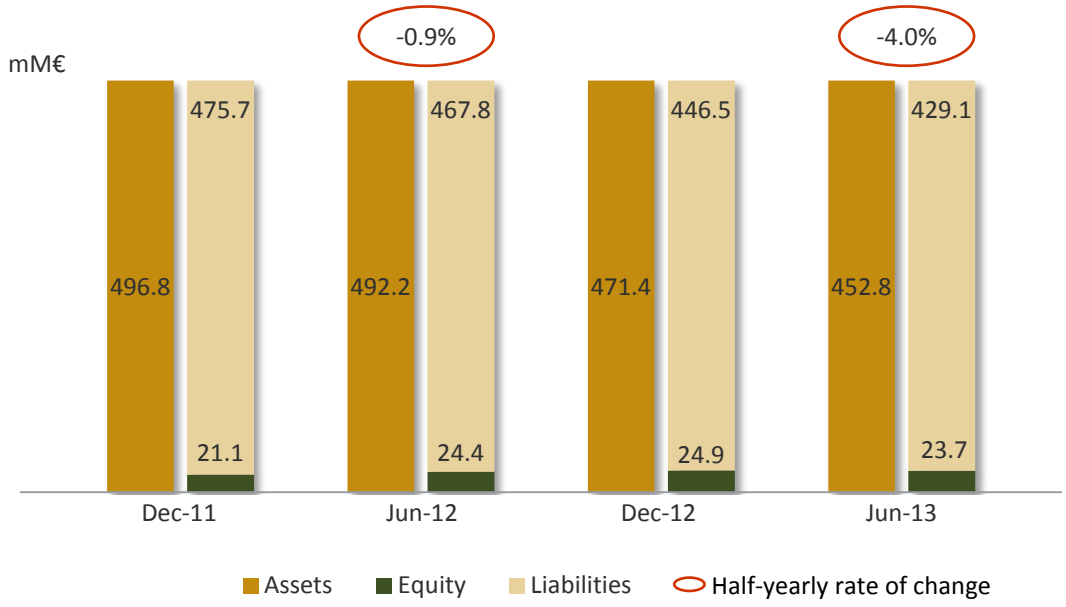
Euribor (6m)



Source: Bloomberg.

Graph 7

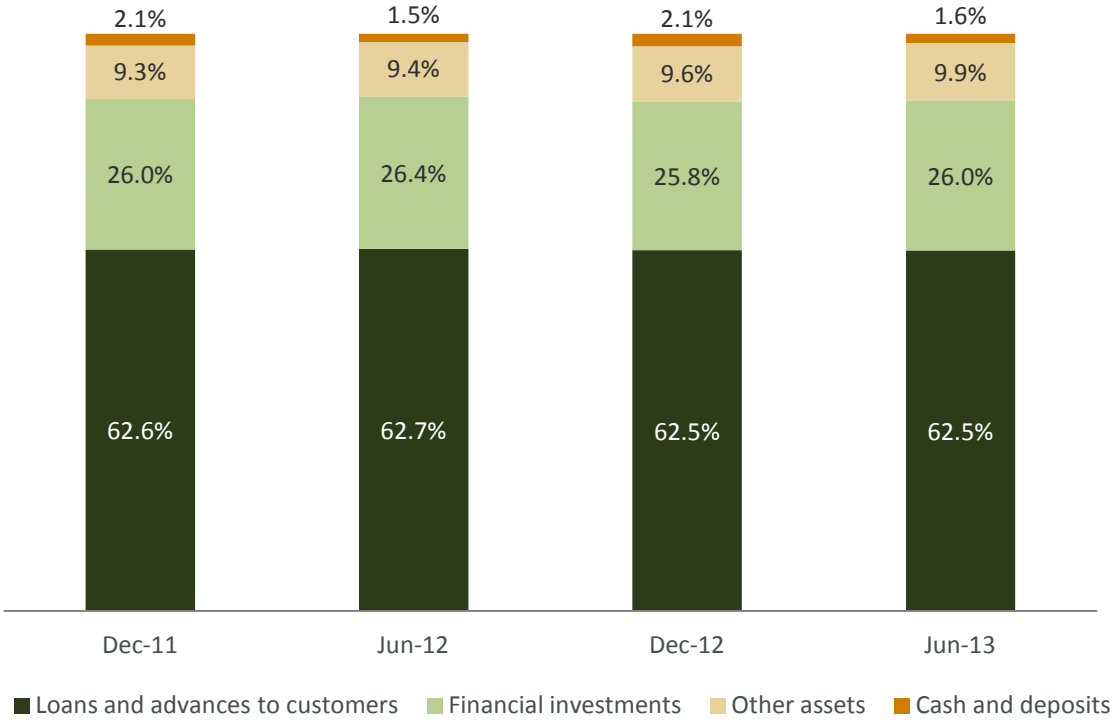
Aggregate balance sheet structure



Source: FIs, APB.

Graph 8

Aggregate assets structure*

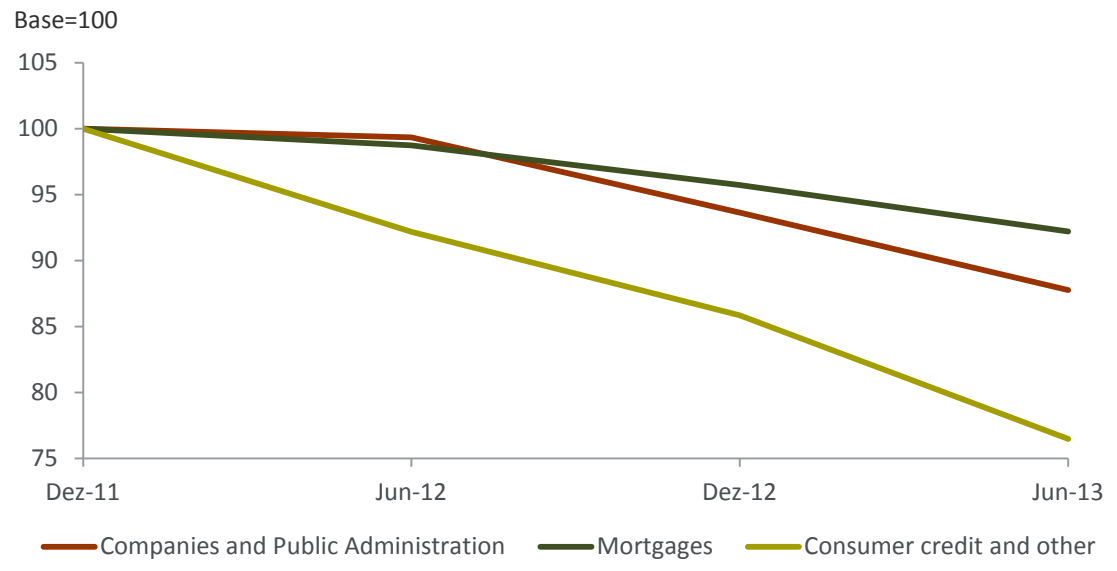


Source: FIs, APB.

* Item loans and advances to credit institutions was reduced from liabilities in the item deposits from other credit institutions.

Graph 9

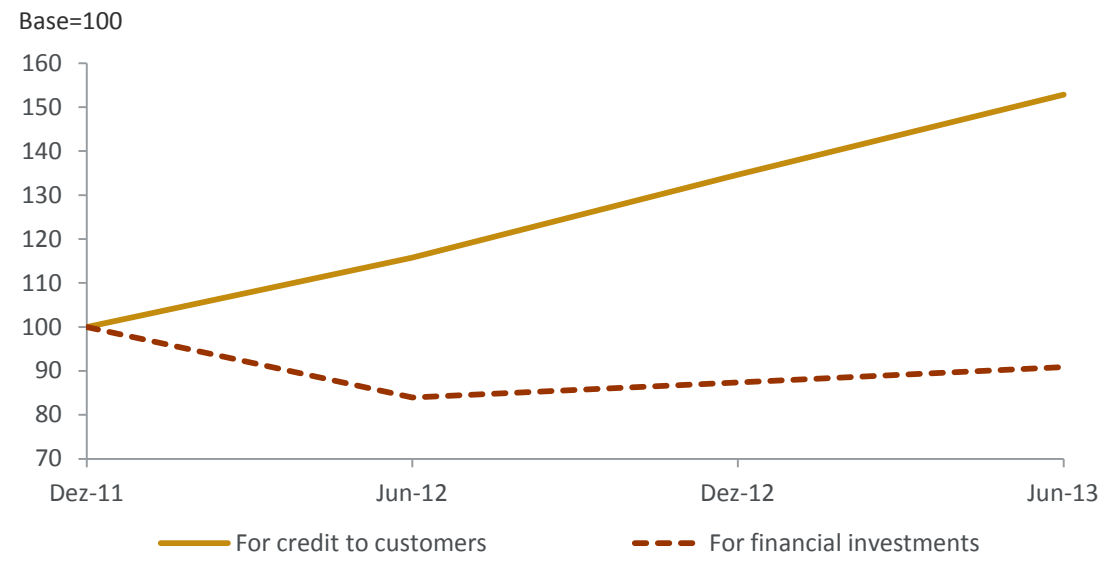
Gross credit to customers by borrower



Source: FIs, APB.

Graph 10

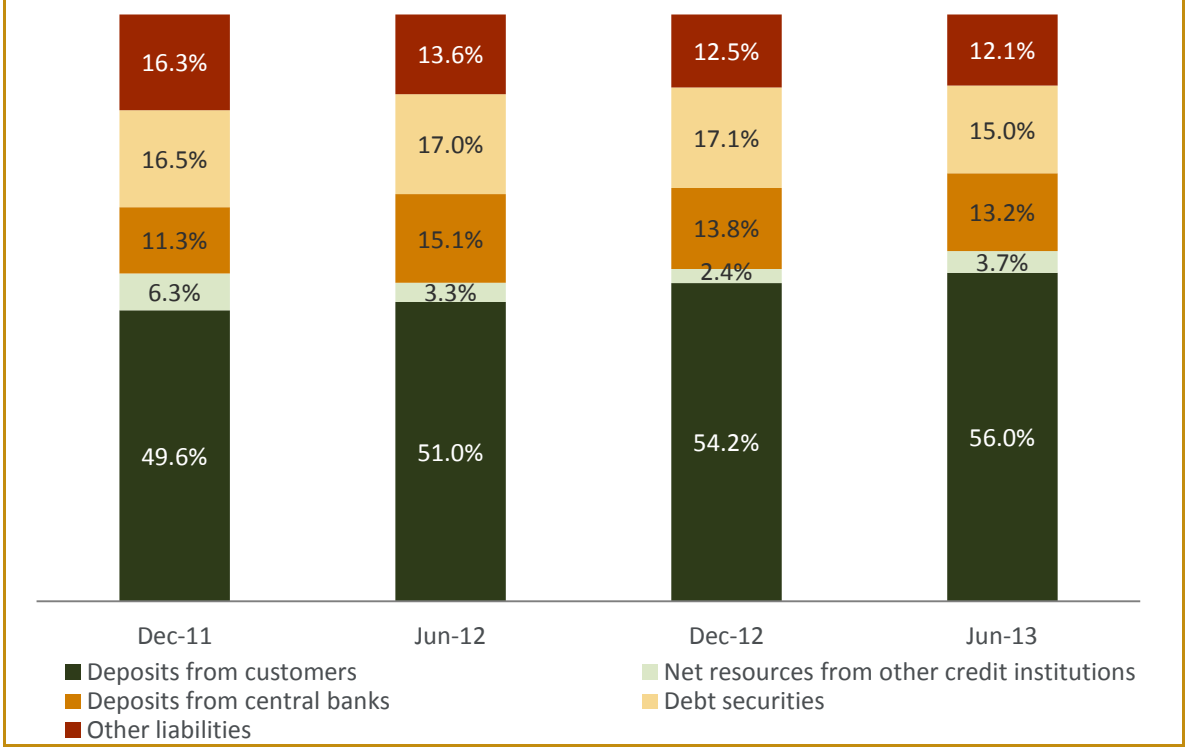
Provision and impairments for credit and financial investments



Source: FIs, APB.

Graph 11

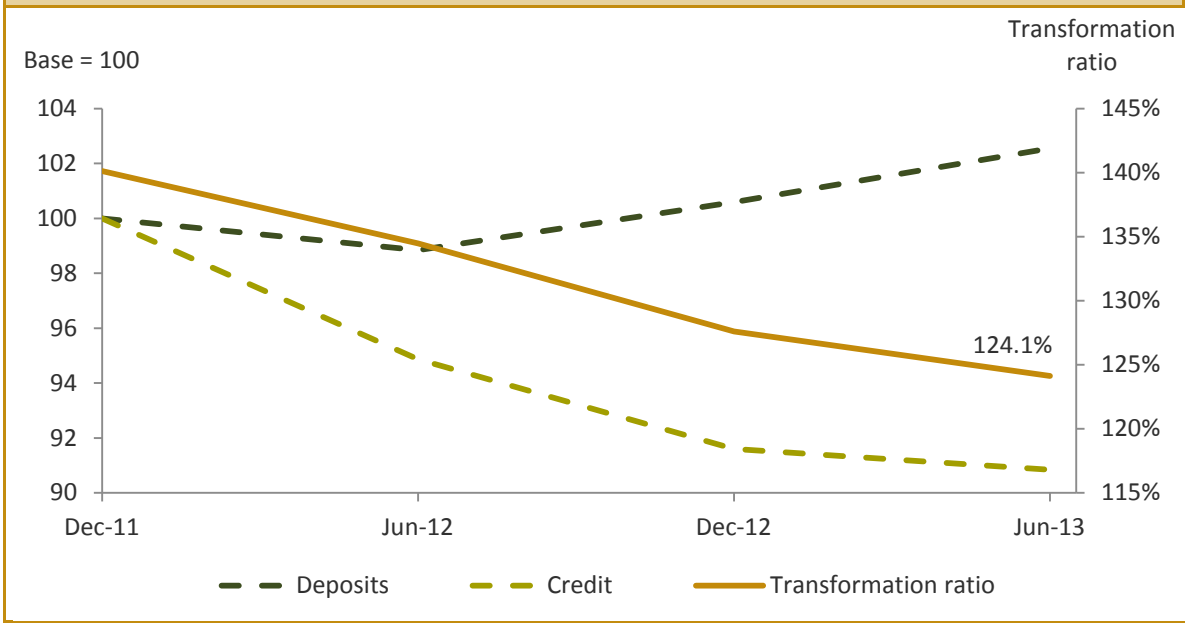
Aggregate borrowing structure



Source: FIs, APB.

Graph 12

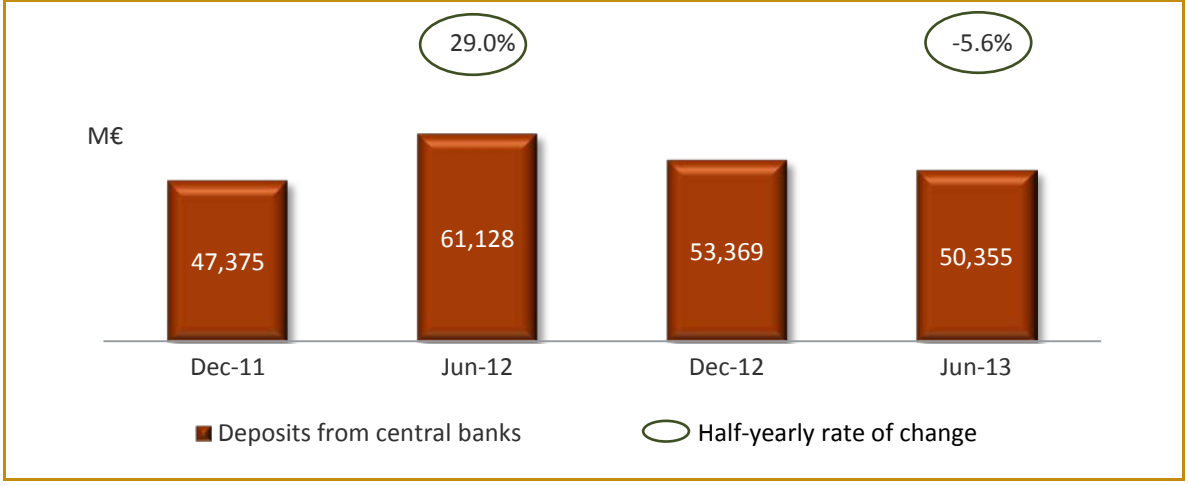
Transformation ratio



Source: FIs, APB.

Graph 13

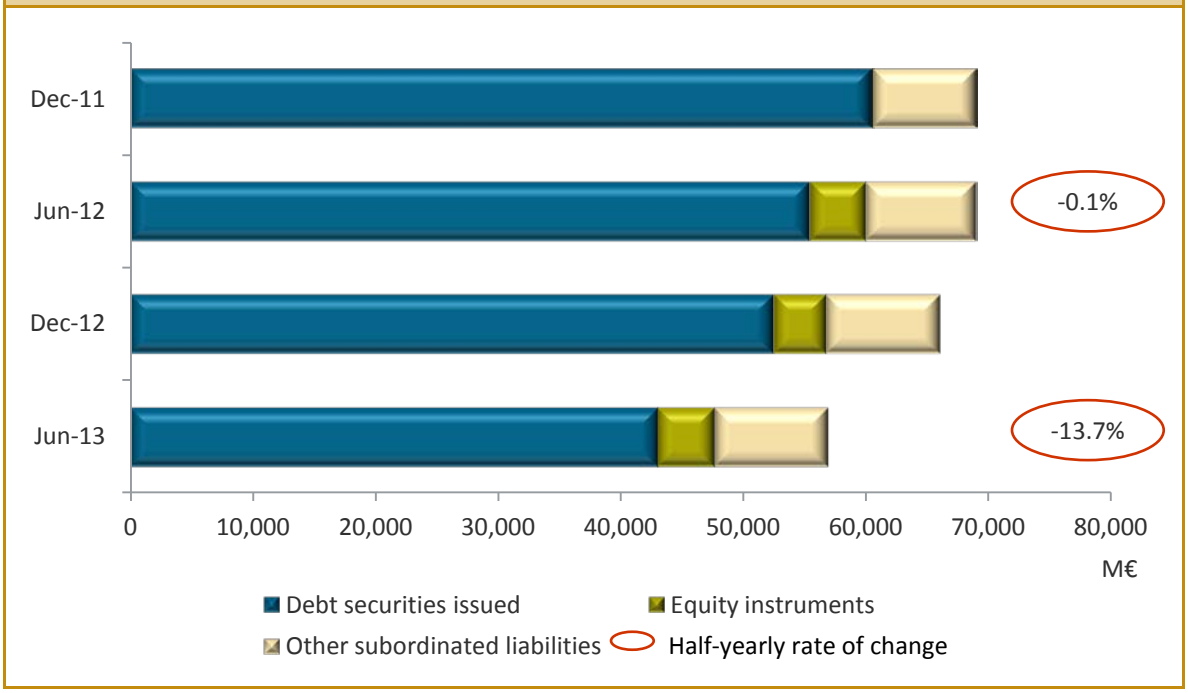
Deposits from central banks



Source: FIs, APB.

Graph 14

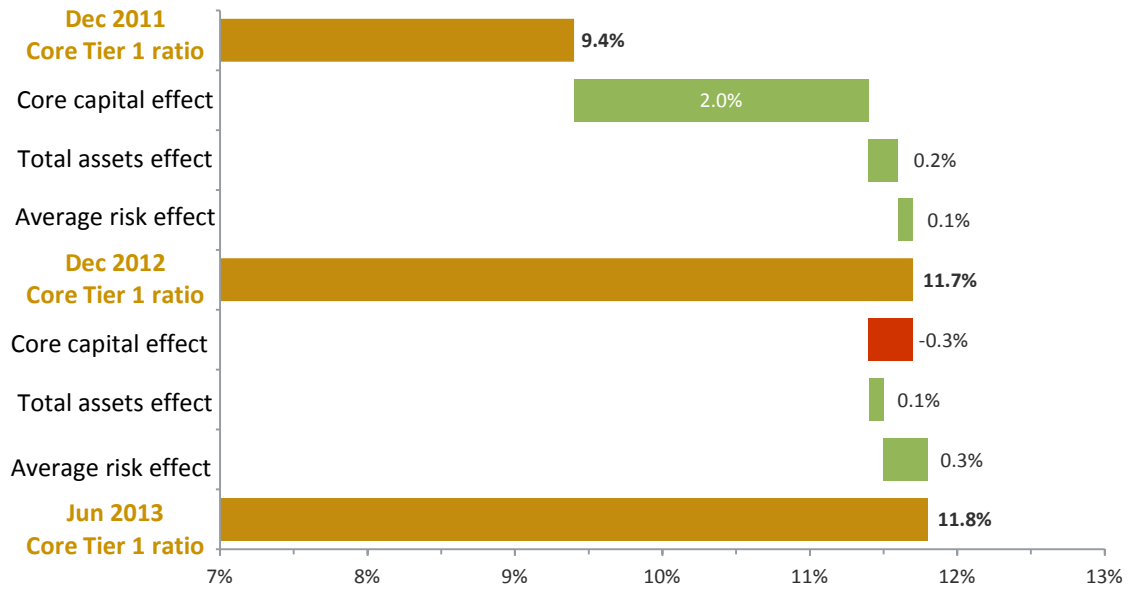
Debt securities issued and other equity instruments



Source: FIs, APB.

Graph 15

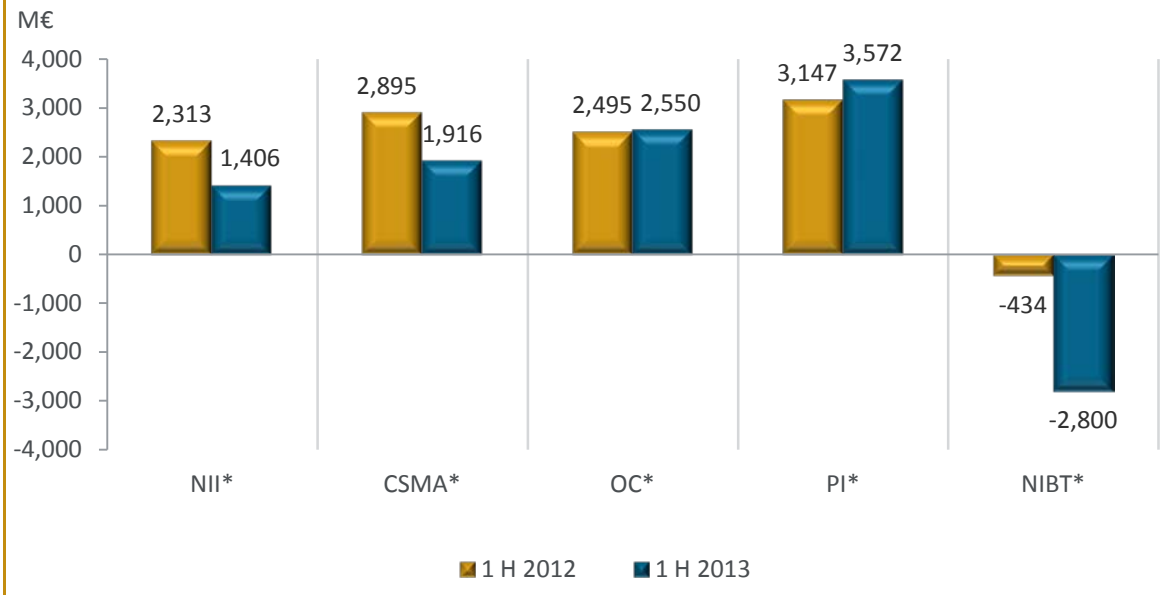
Core Tier 1 ratio



Source: FIs, APB.

Graph 16

Income statement

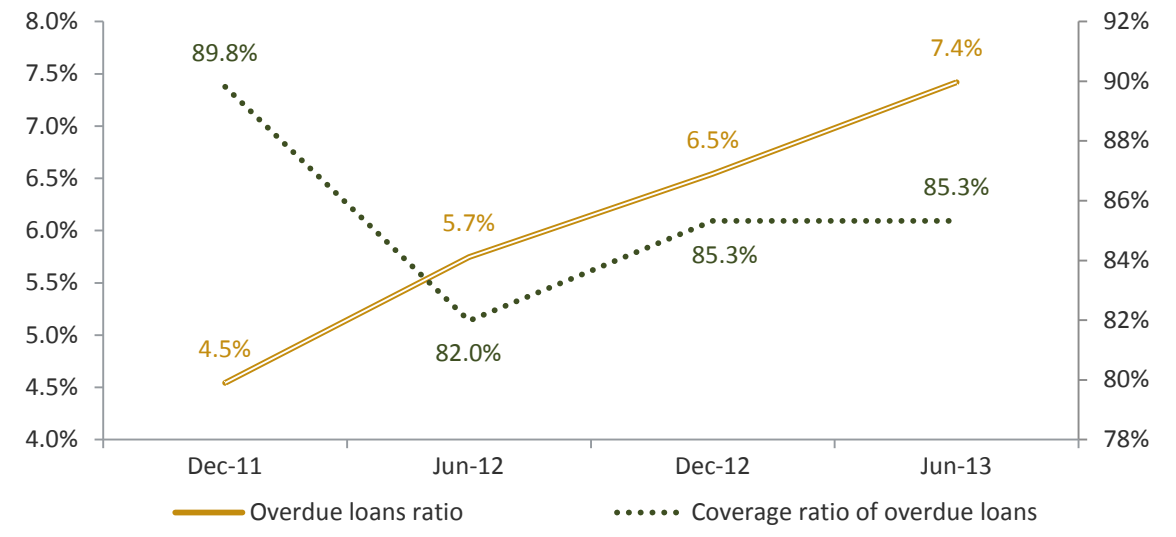


Source: FIs, APB.

* NII – net interest income; CSMA – customer service and market activities; OC – operating costs; PI – provisions and impairment; NIBT – net income before tax.

Graph 17

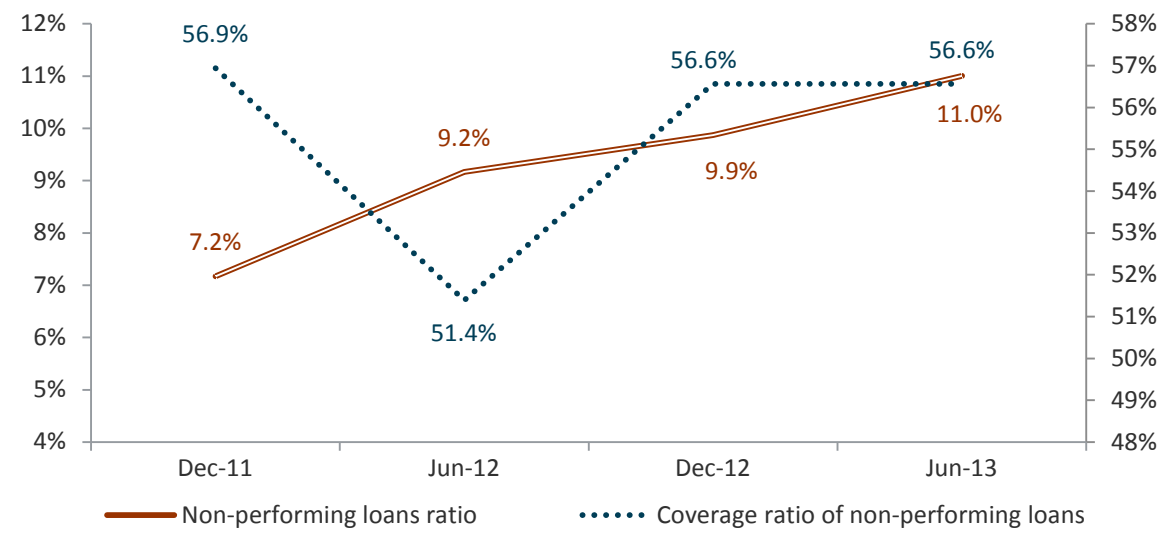
Overdue loans ratio and coverage ratio of overdue loans
Evolução dos rácios de crédito com incumprimento e de cobertura do crédito com incumprimento



Source: FIs, APB.

Graph 18

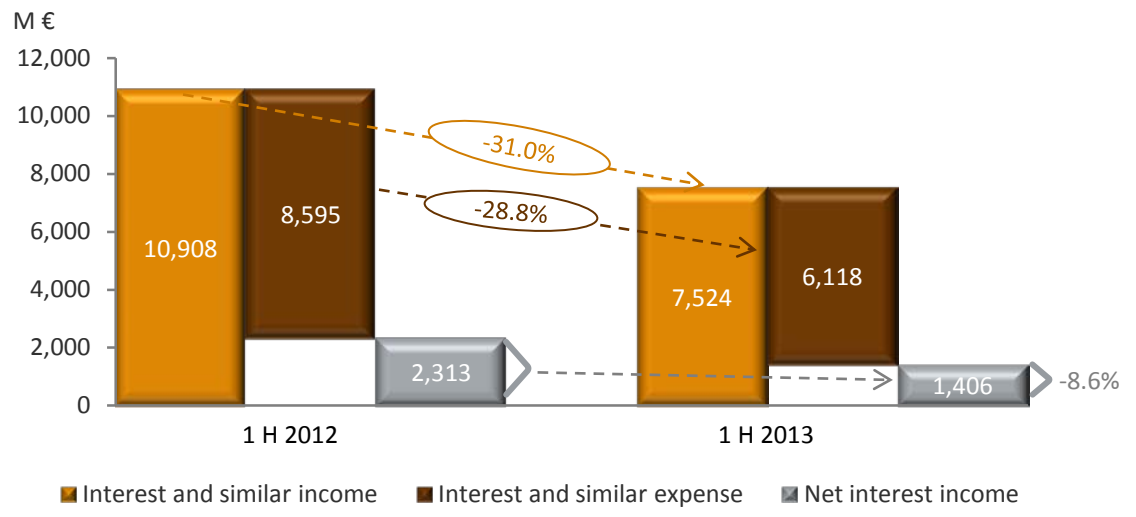
Non-performing loans ratio and coverage ratio of non-performing loans
Evolução dos rácios de crédito em risco e de cobertura do crédito em risco



Source: FIs, APB.

Graph 19

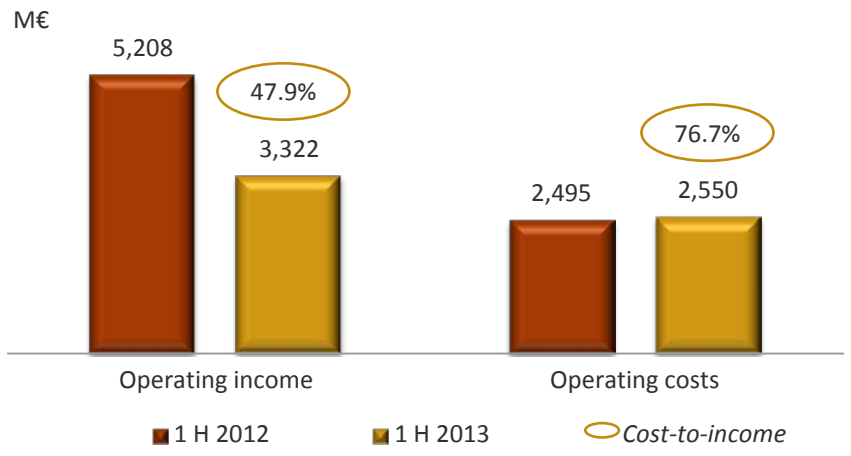
Net interest income



Source: FIs, APB.

Graph 20

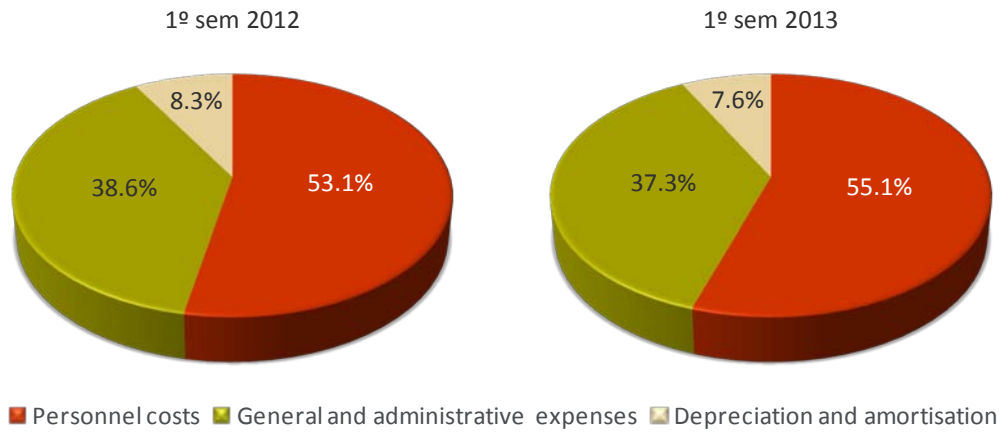
Cost-to-income and its main components



Source: FIs, APB.

Graph 21

Operating costs



Source: FIs, APB.

Graph 22

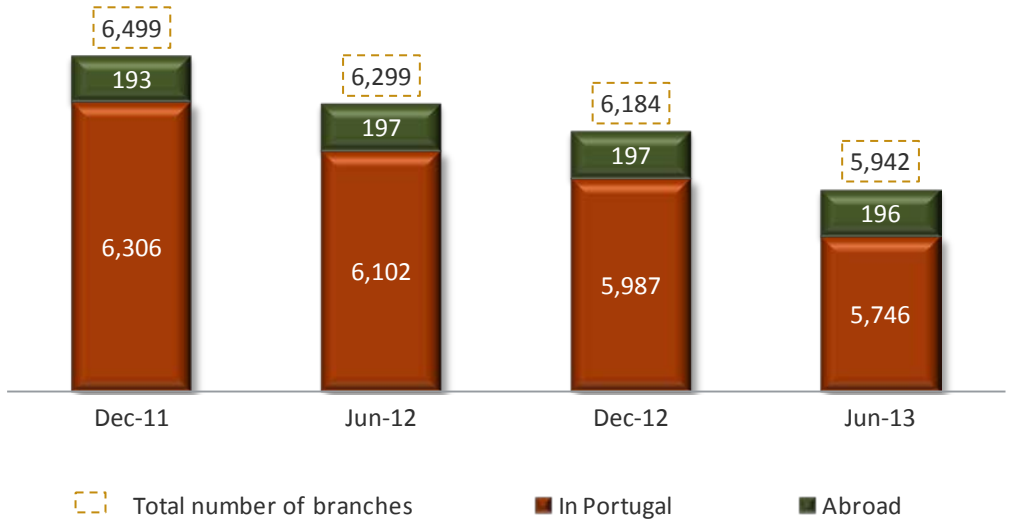
Total number of employees

	Dec-2011	Jun-2012	Dec-2012	Jun-2013
Domestic Activity	56,911	55,900	54,568	53,621
International Activity	1,807	1,873	1,865	1,941

Source: FIs, APB.

Graph 23

Total number of branches



Source: FIs, APB.

Table 1: Aggregate assets structure at the end of the period (million euros)

	Dec 2011	Jun 2012	Dec 2012	Jun 2013
Cash and Deposits [a)]				
Total (million €)	9,041	6,253	8,842	6,557
Half-yearly rate of change	-	*-30.8%*	-	*-25.8%*
Annual rate of change	-	-	-	*4.9%*
Financial Investments				
Total (million €)	114,722	113,417	106,015	105,230
Half-yearly rate of change	-	*-1.1%*	-	*-0.7%*
Annual rate of change	-	-	-	*-7.2%*
Loan and Advances to Credit Institutions				
Total (million €)	56,361	62,635	59,824	48,515
Half-yearly rate of change	-	*11.1%*	-	*-18.9%*
Annual rate of change	-	-	-	*-22.5%*
Loans and Advances to Customers				
Total (million €)	275,915	269,512	257,263	252,491
Half-yearly rate of change	-	*-2.3%*	-	*-1.9%*
Annual rate of change	-	-	-	*-6.3%*
Other Assets				
Total (million €)	40,810	40,404	39,481	39,986
Half-yearly rate of change	-	*-1.0%*	-	*1.3%*
Annual rate of change	-	-	-	*-1.0%*
Balance sheet total	496,849	492,221	471,425	452,779
Half-yearly rate of change	-	*-0.9%*	-	*-4.0%*
Annual rate of change	-	-	-	*-8.0%*

[a)] At central banks and other credit institutions.

Source: APB.

Table 2: Aggregate financing structure at the end of the period (million euros)

	Dec 2011	Jun 2012	Dec 2012	Jun 2013
Deposits from Central Banks				
Total (million €)	47,375	61,128	53,369	50,355
Half-yearly rate of change	-	*29.0%*	-	*-5.6%*
Annual rate of change	-	-	-	*-17.6%*
Deposits from Other Credit Institutions				
Total (million €)	82,833	76,267	69,119	62,750
Half-yearly rate of change	-	*-7.9%*	-	*-9.2%*
Annual rate of change	-	-	-	*-17.7%*
Deposits from Customers				
Total (million €)	208,087	206,448	209,445	213,120
Half-yearly rate of change	-	*-0.8%*	-	*1.8%*
Annual rate of change	-	-	-	*3.2%*
Debt Securities Issued and Other Equity Instruments [a)]				
Total (million €)	68,988	68,946	66,034	56,976
Half-yearly rate of change	-	*-0.1%*	-	*-13.7%*
Annual rate of change	-	-	-	*-17.4%*
Other Financial Liabilities				
Total (million €)	56,316	42,257	37,371	34,546
Half-yearly rate of change	-	*-25.0%*	-	*-7.6%*
Annual rate of change	-	-	-	*-18.2%*
Other Liabilities				
Total (million €)	12,180	12,749	11,162	11,297
Half-yearly rate of change	-	*4.7%*	-	*1.2%*
Annual rate of change	-	-	-	*-11.4%*
Equity				
Total (million €)	21,070	24,426	24,925	23,735
Half-yearly rate of change	-	*15.9%*	-	*-4.8%*
Annual rate of change	-	-	-	*-2.8%*
Balance sheet total	496,849	492,221	471,425	452,779
Half-yearly rate of change	-	*-0.9%*	-	*-4.0%*
Annual rate of change	-	-	-	*-8.0%*

[a)] Includes subordinated liabilities.

Source: APB.

Table 3: Aggregate income statement (million euros)

	1st Half 2012	1st Half 2013	Annual rate of change (%)
+ Interest and similar income	10,908	7,524	
- Interest and similar expense	8,595	6,118	
Net Interest Income (NII)	2,313	1,406	*-39.2%*
+ Fee and commission income	1,653	1,691	
- Fee and commission expense	-335	-356	
Net Gains from Fees and Commissions	1,318	1,335	*1.3%*
+ Net gains from assets and liabilities at fair value through profit or loss	320	-145	
+ Net gains from available-for-sale financial assets	355	547	
+ Net gains from foreign exchange differences	34	28	
Net Gains from Financial Operations	709	430	*-39.4%*
+ Income from equity instruments	661	274	
+ Net gains from sale of other assets	3	-15	
+ Other operating income and expense	204	-108	
Other Results	868	151	*-82.6%*
Operating Income (OI)	5,208	3,322	*-36.2%*
-Personnel costs	1,324	1,404	
-General administrative expenses	963	952	
-Depreciation and amortisation	208	194	
Operating Costs	2,495	2,550	*2.2%*
Gross Operating Results (GOR)	2,713	772	*-71.5%*
-Provisions net of reversals	0	24	
-Value adjustments relating to loans and advances to customers and receivables from other debtors (net of reversals)	2,738	2,694	
-Impairment on other financial assets net of reversals	214	187	
-Impairment on other assets net of reversals	195	667	
Provisions and Impairment	3,147	3,572	*13.5%*
Net Income Before Tax (NIBT)	-434	-2,800	*545.2%*

Source: APB.

Methodological Note

This summary is based on the information reported as at 30 June 2013 by 30 of the 32 APB member institutions (those excluded are Banco L.J. Carregosa, S.A. and NCG Banco, S.A., Sucursal em Portugal due to lack of data). The figures obtained are the result of aggregating figures from the separate balance sheets and income statements of each institution.

The sample in the graph showing details of loans and advances to customers (Graph 9) includes only 28 of the 30 member institutions due to lack of data from Banco Finantia and Barclays. Banco BIC, BIG and Banif Investimento were not included in Graphs 17 and 18 on credit quality ratios for the same reasons, as were subsidiaries, as they are not obliged to report this information to Banco de Portugal.

The financial statements subject to prudential requirements were used in the analysis of the member institutions' solvency. The sample therefore consists of 14 institutions. The separate accounts were used for three of them (Banco BIC, Popular and Sant Consumer) and the consolidated accounts for the rest (Banco BPI, Millennium bcp, BIG, Finantia, Invest, CCCAM, Montepio, CGD, BBVA, Santander Totta and Espirito Santo Financial Group). The last group mentioned takes the place of BES due to the scope of supervision in this case. Banif was not included não foi incluído as its historical data have been distorted by its restructuring in 2012.

Chart 1: Index of the APB Members and of the financial institutions that belonged to them as at 30 June 2013

Financial institutions – Domestic

Members	Financial Institutions	Acronyms
Banco BIC Português, S.A.	Banco BIC Português, S.A.	Banco BIC
Banco BPI, S.A.	Banco BPI, S.A.	Banco BPI
	Banco Português de Investimento, S.A.	BPI
Banco L.J. Carregosa, S.A.	Banco L.J. Carregosa, S.A.	Carregosa
Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Millennium bcp
	Banco ActivoBank, S.A.	Activobank
	Banco de Investimento Imobiliário, S.A.	BII
Banco de Investimento Global, S.A.	Banco de Investimento Global, S.A.	BIG
Banco Espírito Santo, S.A.	Banco Espírito Santo, S.A.	BES

	Banco Espírito Santo de Investimento, S.A.	Besi
	Banco Espírito Santo dos Açores, S.A.	BAC
	BEST - Banco Electrónico de Serviço Total, S.A.	Best
Banco Finantia, S.A.	Banco Finantia, S.A.	Finantia
Banco Invest, S.A.	Banco Invest, S.A.	Invest
Banif - Banco Internacional do Funchal, S.A.	Banif - Banco Internacional do Funchal, S.A.	Banif
	Banif - Banco de Investimento, S.A.	Banif Inv
	Banco Banif Mais, S.A.	Banif Mais
Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL	Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL	CCCAM
Caixa Económica Montepio Geral	Caixa Económica Montepio Geral	Montepio
	Finibanco, S.A.	Finibanco
Caixa Geral de Depósitos, S.A.	Caixa Geral de Depósitos, S.A.	CGD
	Caixa - Banco de Investimento, S.A.	CBI

Financial institutions – Subsidiaries

Members	Financial Institutions	Acronyms
Banco Bilbao Vizcaya Argentaria (Portugal), S.A.	Banco Bilbao Vizcaya Argentaria (Portugal), S.A.	BBVA
Banco Popular Portugal, S.A.	Banco Popular Portugal, S.A.	Popular
Banco Santander Consumer Portugal, S.A.	Banco Santander Consumer Portugal, S.A.	Sant Consumer
Banco Santander Totta, S.A.	Banco Santander Totta, S.A.	Santander Totta

Financial institutions – Branch offices

Members	Financial Institutions	Acronyms
Banco do Brasil AG - Sucursal em Portugal	Banco do Brasil AG - Sucursal em Portugal	BB
Barclays Bank PLC, Sucursal em Portugal	Barclays Bank PLC, Sucursal em Portugal	Barclays
BNP Paribas	BNP Paribas	BNP
	BNP Paribas Securities Services, S.A. - Sucursal em Portugal	BNP SS
NCG Banco, S.A., Sucursal em Portugal	NCG Banco, S.A., Sucursal em Portugal	NCG
Deutsche Bank AG, Sucursal em Portugal	Deutsche Bank AG, Sucursal em Portugal	Deutsche Bank

Source: APB.

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