

# OVERVIEW OF THE PORTUGUESE BANKING SECTOR

SNAPSHOT

## The Portuguese economy: most important developments - I

- The Economic and Financial Adjustment Programme (EFAP) ended in May 2014.
  - Total funding for the Portuguese State amounted to EUR 78 bn. EUR 12 bn of which went to the banking sector (EUR 5.6 bn used during the programme).
- After three years of contraction, the Portuguese economy started to show positive signs of growth from Q3 2013 onwards.
- Banco de Portugal revised downward its GDP growth estimates to 2.1% and 1.8% in 2018 and 2019, respectively.
- In 2019, Portuguese GDP is expected to be higher than that before the international crisis.
- Portugal exited the Excessive Deficit Procedure (EDP) in May 2017.
- Throughout 2017 and 2018, there were upgrades of Portugal's credit rating.

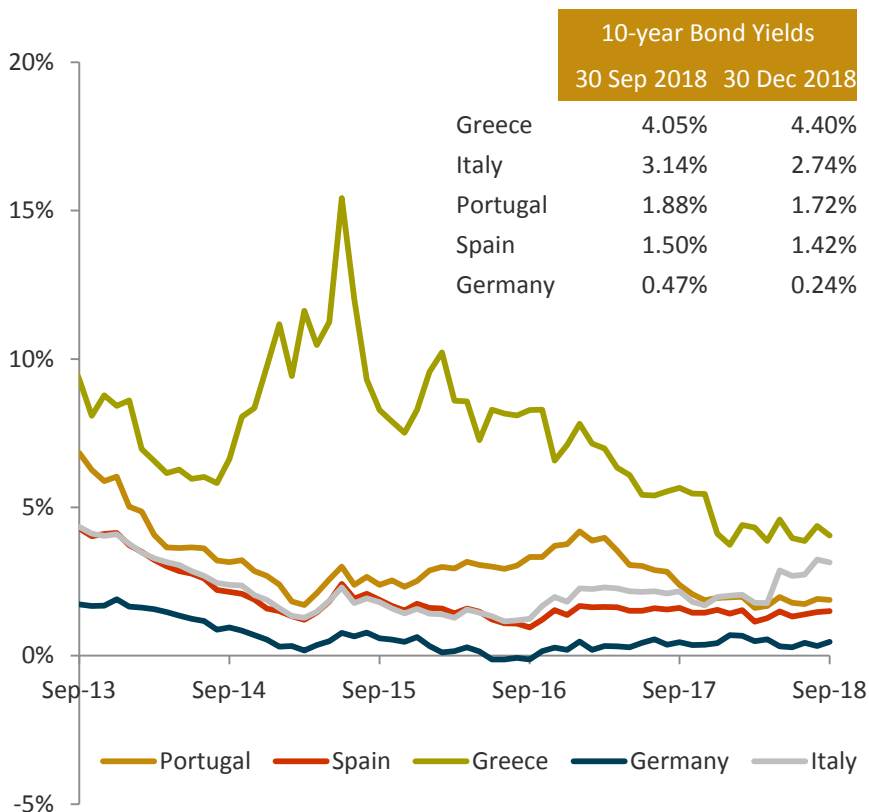
	2015	2016	2017	2018F	2019F
<b>Real GDP and components (% change)</b>					
Real GDP	1.8	1.9	2.8	2.3	2.2
Private consumption	2.3	2.4	2.3	2.3	1.9
Public consumption	1.3	0.8	0.2	1.0	0.2
Investment (GFCF)	5.8	2.3	9.2	5.2	7.0
Exports	6.1	4.4	7.8	6.6	4.6
Imports	8.5	4.7	8.1	6.9	4.8
<b>Contribution to growth (p.p.)</b>					
Domestic demand	2.8	2.0	3.1	2.7	2.5
Net foreign demand	-1.1	-0.2	-0.3	-0.3	-0.3
<b>External sector (% GDP)</b>					
Net lending	0.3	1.0	1.1	1.0	1.2
<b>Labour market</b>					
Employment (% change)	1.1	1.2	3.3	2.5	0.9
Unemployment rate (%)	12.4	11.1	8.9	6.9	6.3
<b>Prices</b>					
HICP	0.5	0.6	1.4	1.3	1.3
<b>Public finances (% GDP)</b>					
Budget balance	-4.4	-2.0	-3.0*	-0.7	-0.2
Gross public debt	128.8	129.2	124.8	121.2	118.5

\* Includes the effect of the CGD's recapitalization. amounting to 3.944 million euros, equivalent to 2.04% of GDP. Without this effect, the general government net borrowing would have stood at 0.92% of GDP.

Source: INE. Eurostat. Estimates for 2018 and 2019 based on the State Budget 2019.

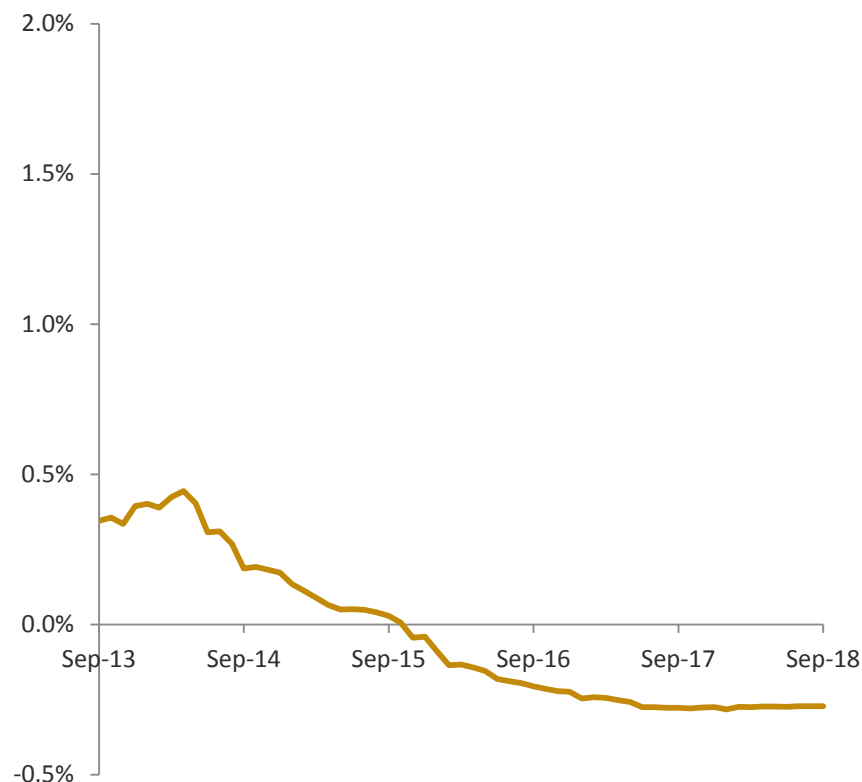
# The Portuguese economy: most important developments - II

## 10-year Government Bond Yields



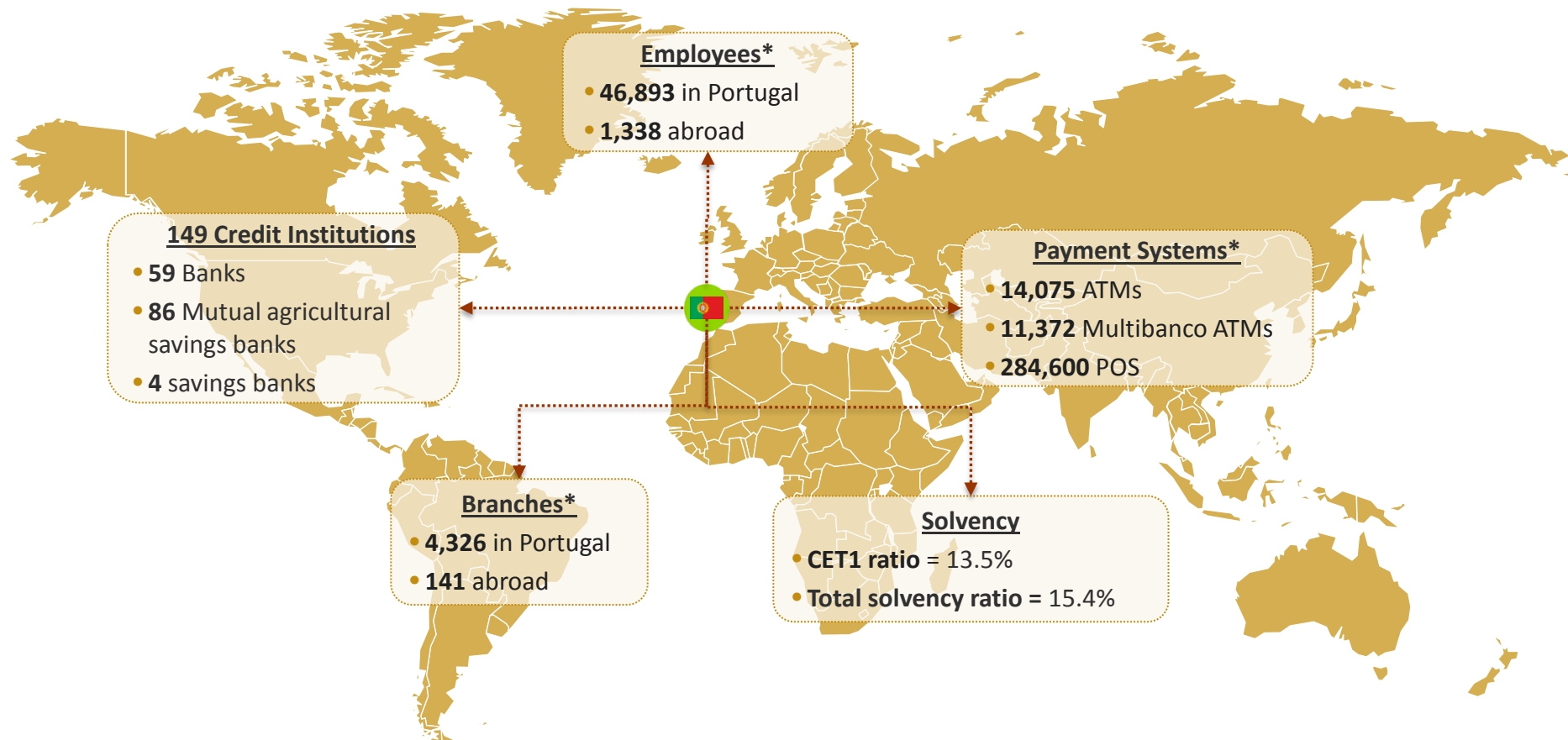
Source: Macrobond. ECB.

## Euribor (6m)



Source: Euribor.

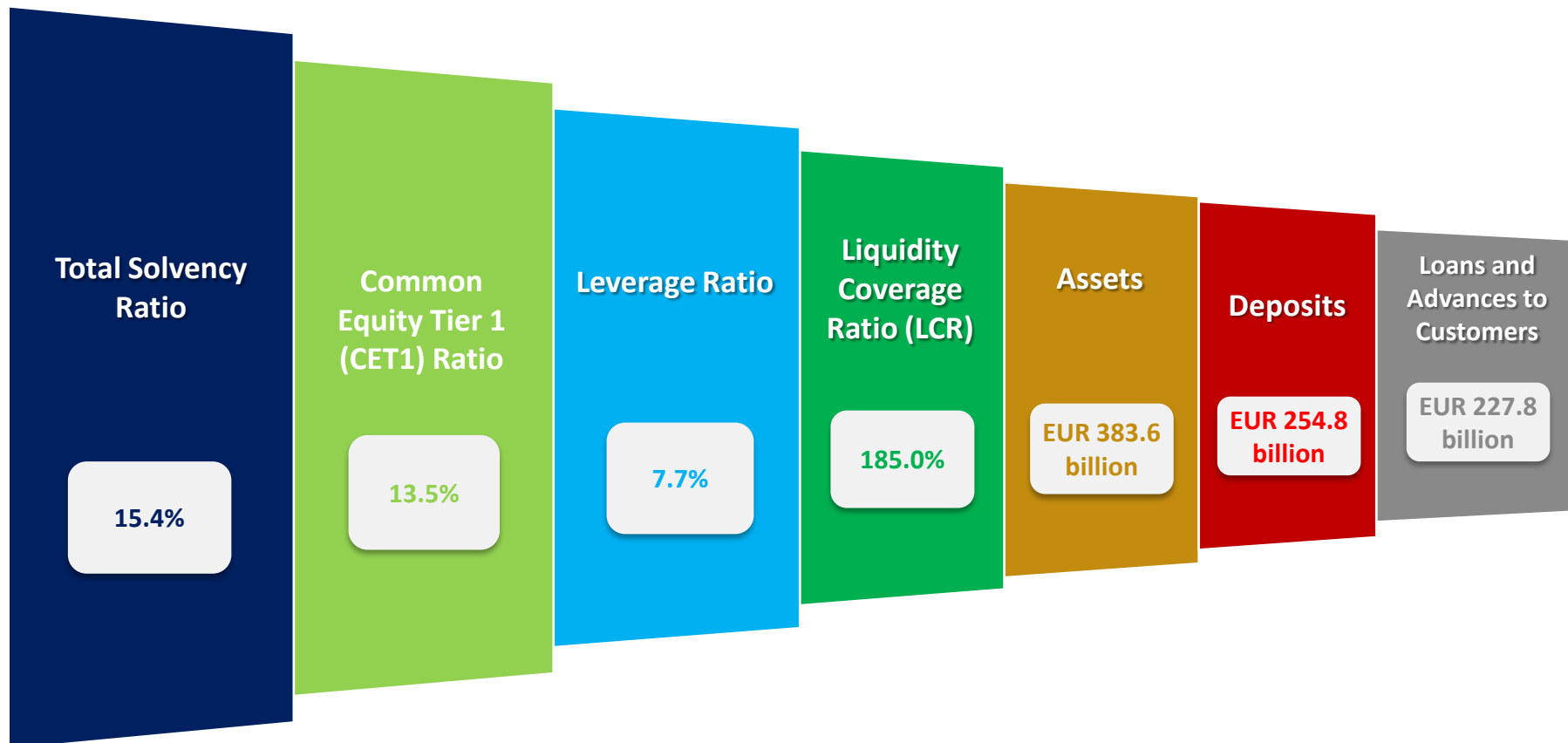
# The Portuguese banking sector



\* Data as at June 2018.

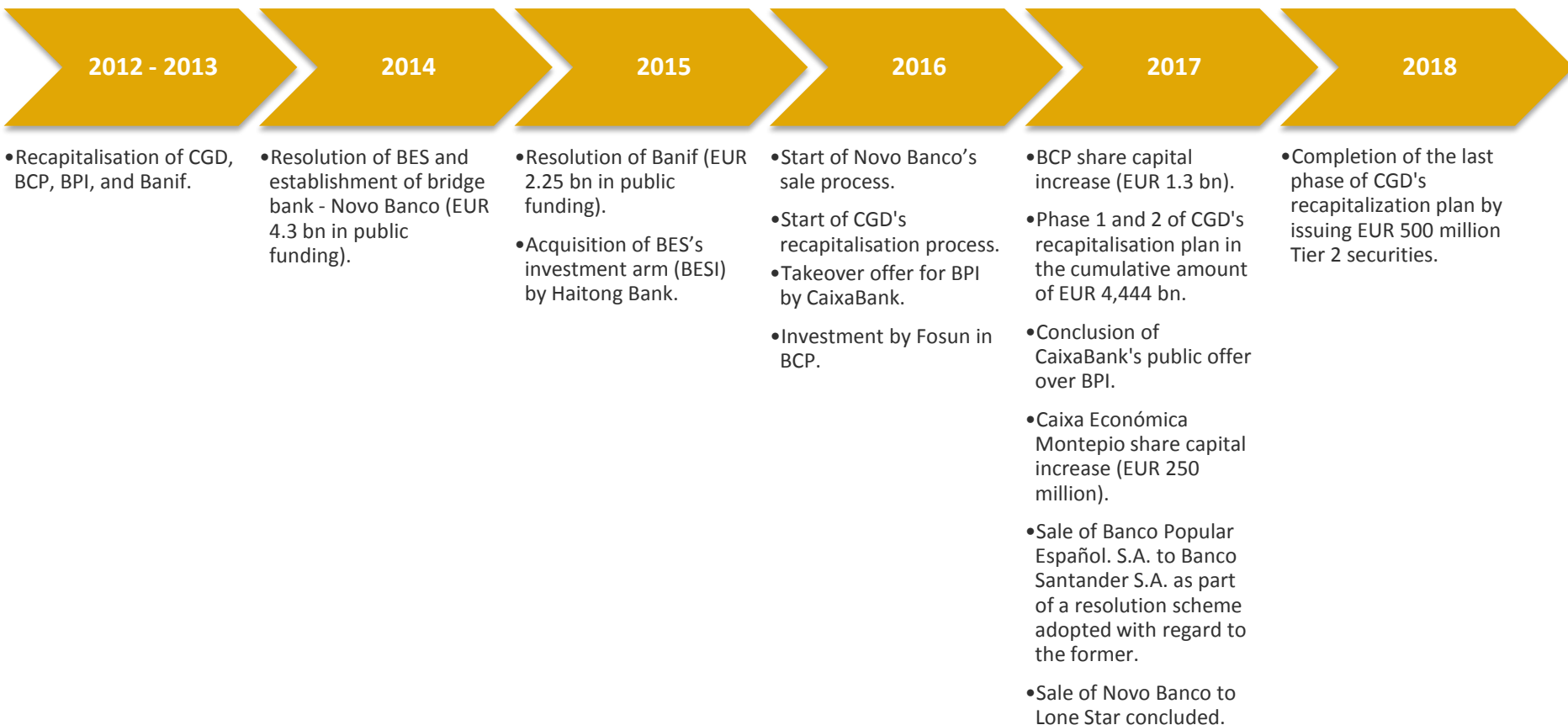
Source: APB (employees, branches and payment systems). Banco de Portugal (credit institutions and solvency).

## The Portuguese banking sector: main financial indicators



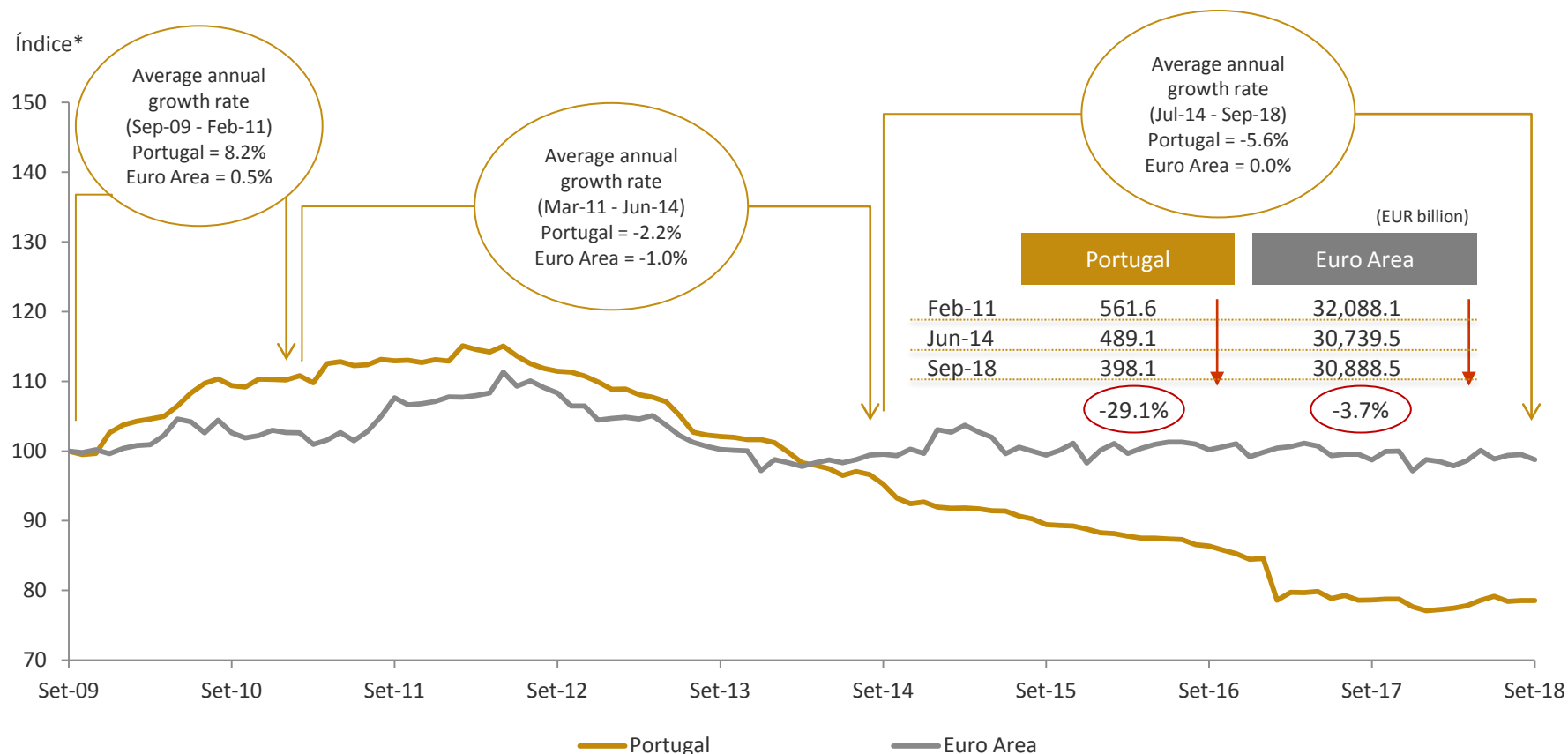
Source: Banco de Portugal – Sistema Bancário Português.

## The Portuguese banking sector: landmarks



## Total assets

Unlike in the Euro Area, deleveraging in the Portuguese banking sector has been proceeding since June 2014.

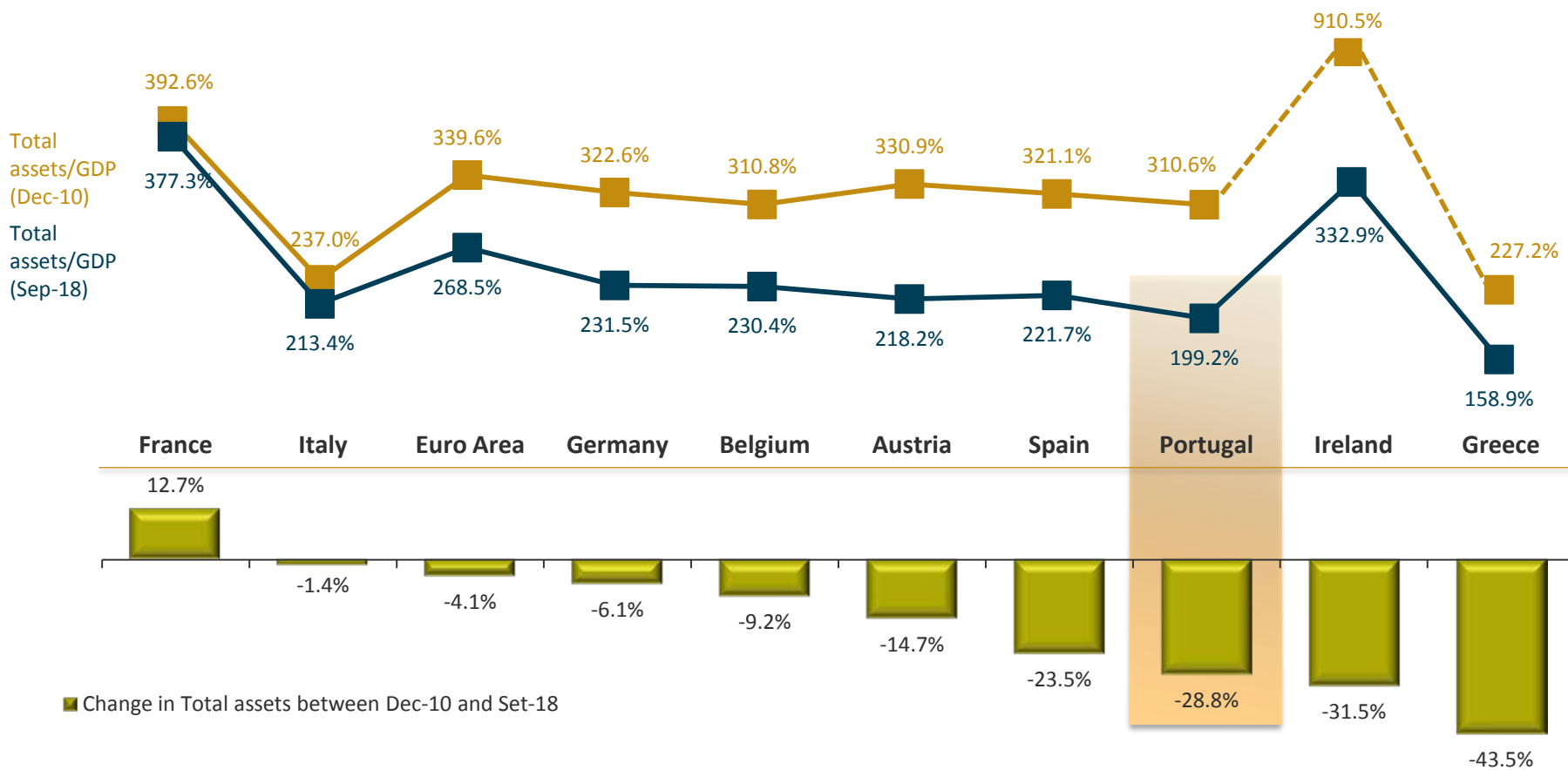


\* Sep-09 = 100.

Source: ECB – MFI Balance Sheet Items Statistics.

## Total assets over GDP\*

The substantial resizing of the banking sector in most Euro Area countries contributed to a significant decline in the weight of total assets to GDP.



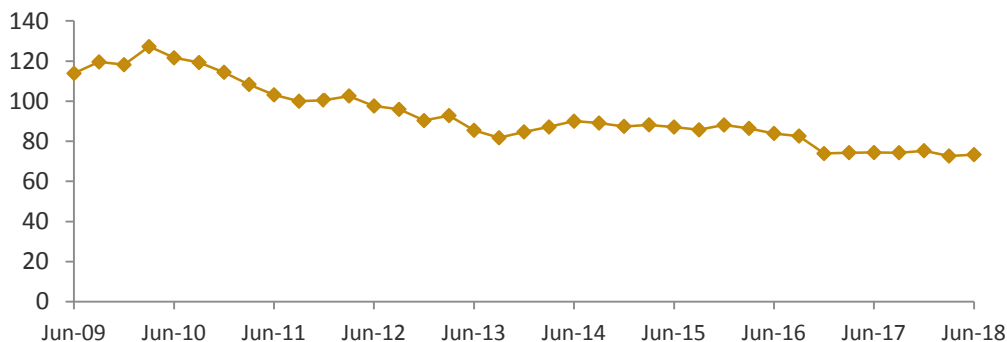
\* Gross Domestic Product (nominal).

Source: ECB – MFI Balance Sheet Items Statistics. Eurostat.



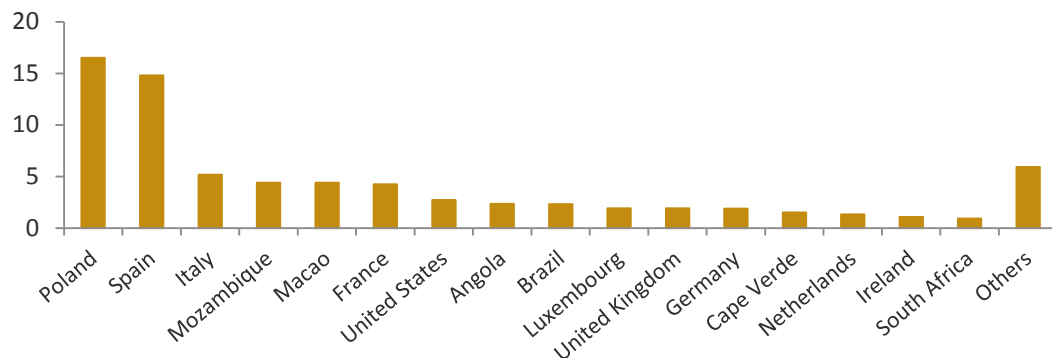
## International exposure\*

### Loans, advances and liabilities of the Portuguese banking sector in relation to international entities (EUR billions)

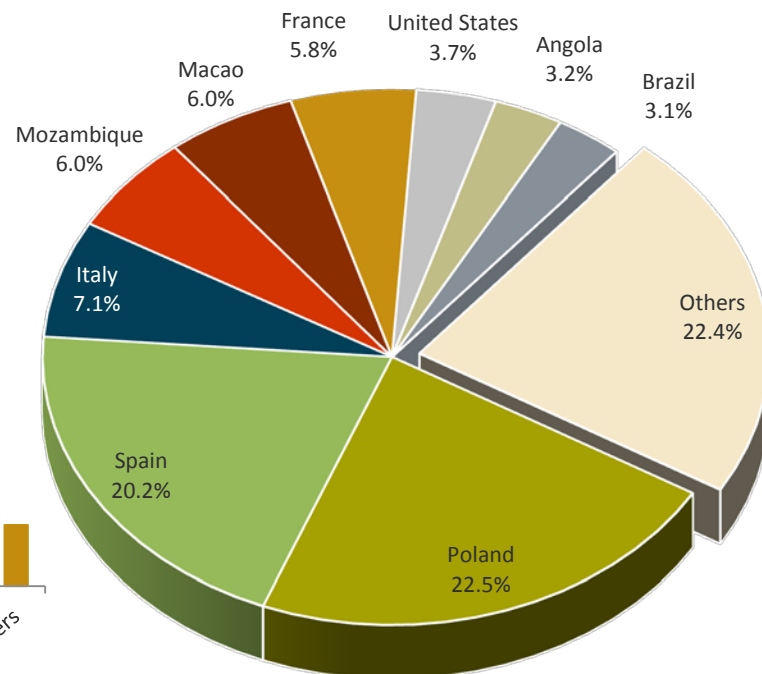


The international exposure of domestic banks declined as a result of the financial crisis.

### Exposure by country: EUR billions



### Exposure by country: %

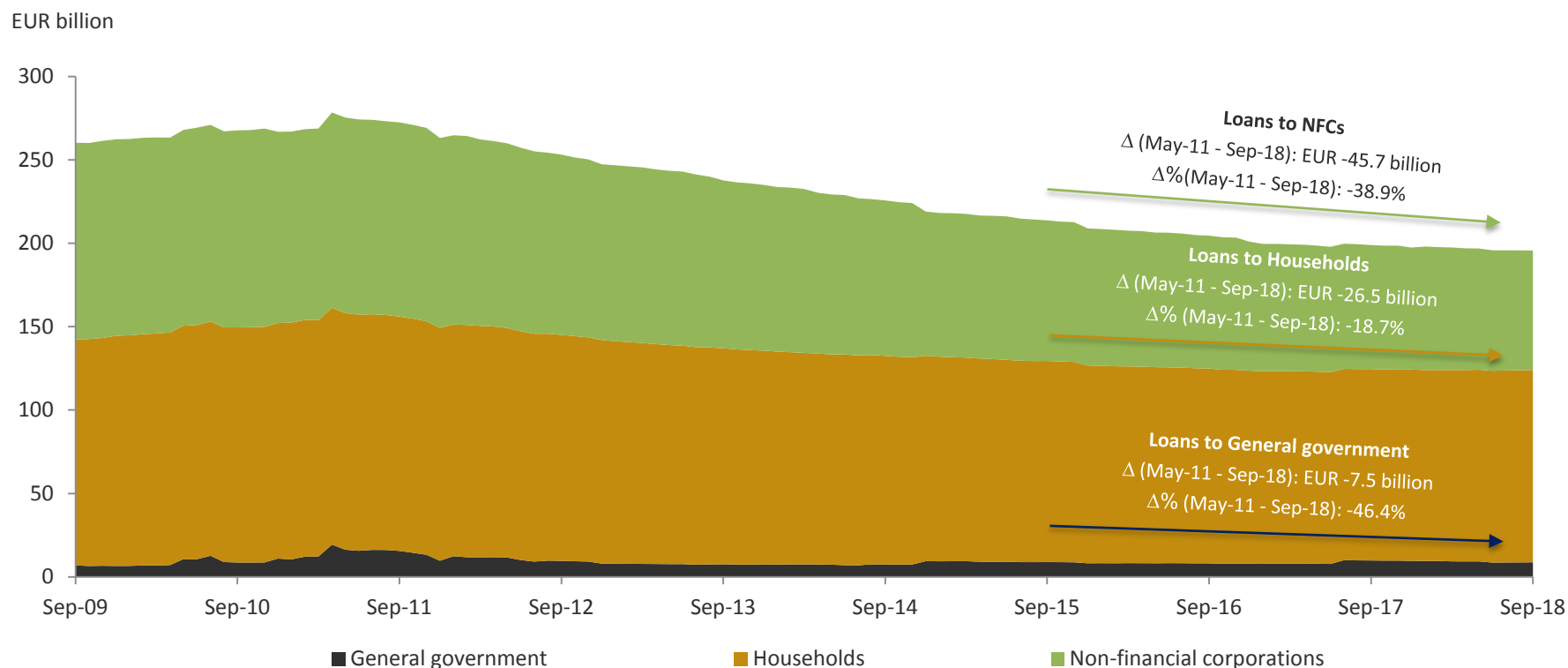


\* Measured by outstanding loans, advances and liabilities of Portuguese banking groups, on a consolidated basis and excluding intra-group exposure, in relation to international entities, but including loans, advances and deposits with other banks, loans and advances to non-banking entities and debt securities. It excludes derivatives and other risk-transfer instruments. Immediate counterparty basis.

Source: Bank for International Settlements. Data as at June 2018.

## Loans and advances\* per institutional sector

The stock of loans has shown a downward trend since 2011, with greater emphasis on the Non-financial corporations (NFCs)\*\* segment when compared to Households.



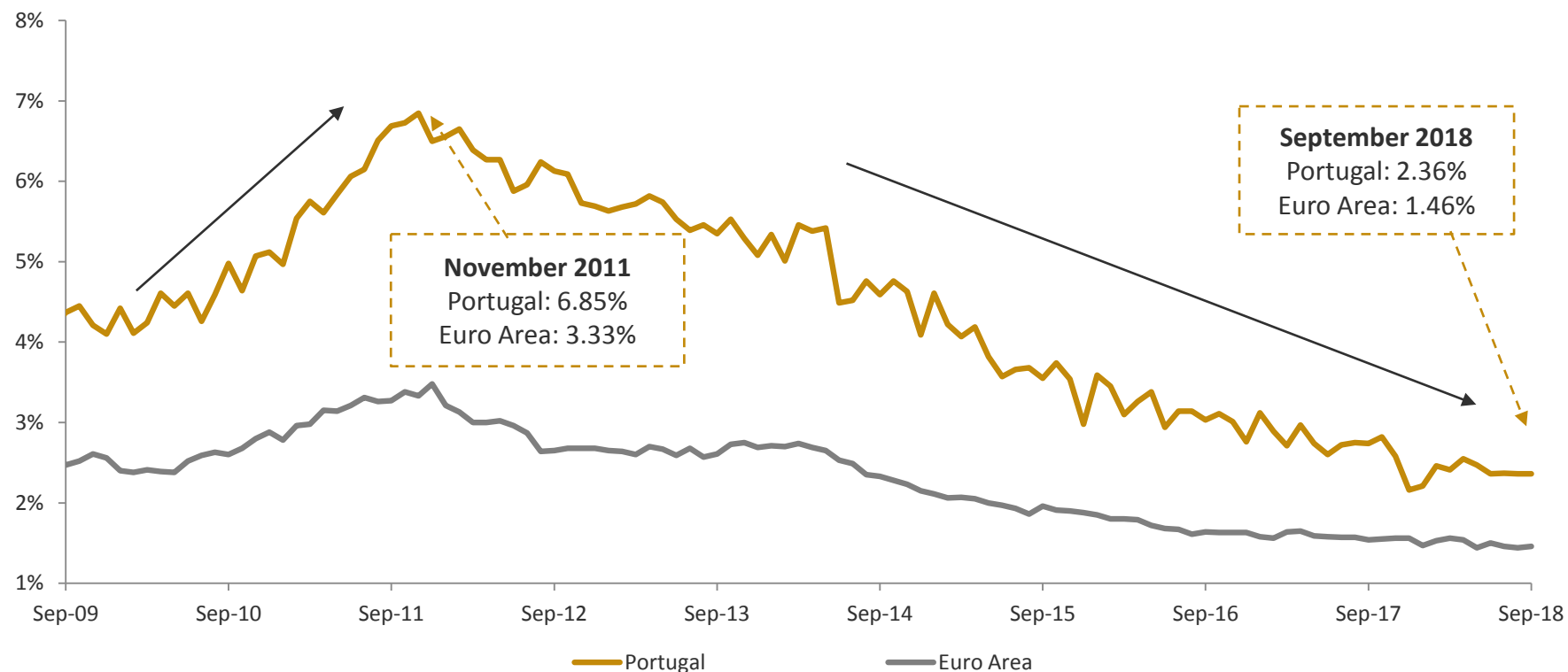
\* This refers to loans granted by resident other monetary financial institutions to the resident non-monetary sector. Gross figures.

\*\* Non-financial corporations include Private corporations and Public corporations not included in general government.

Source: Banco de Portugal – Estatísticas Monetárias e Financeiras.

## Average interest rate on new loans

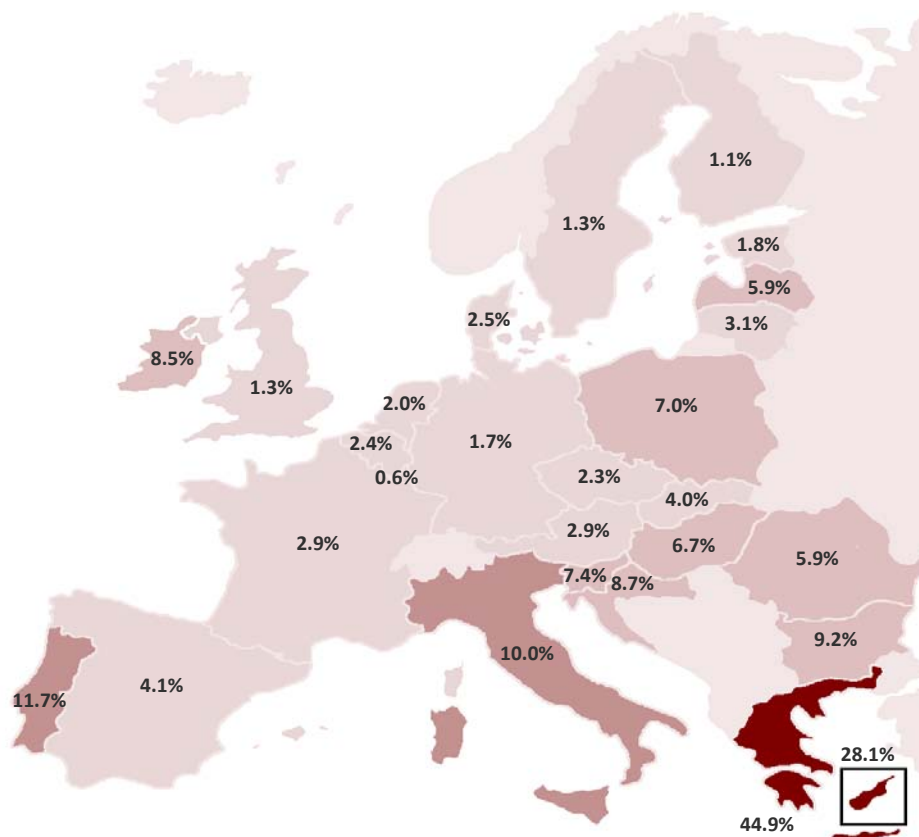
Loan conditions improved. The average interest rate on new loans to NFCs has been steadily decreasing since the beginning of 2012, reaching its lowest level in December 2017.



Source: ECB – MFI Interest Rate Statistics.

## NPL ratio: Portugal vs. other EU countries

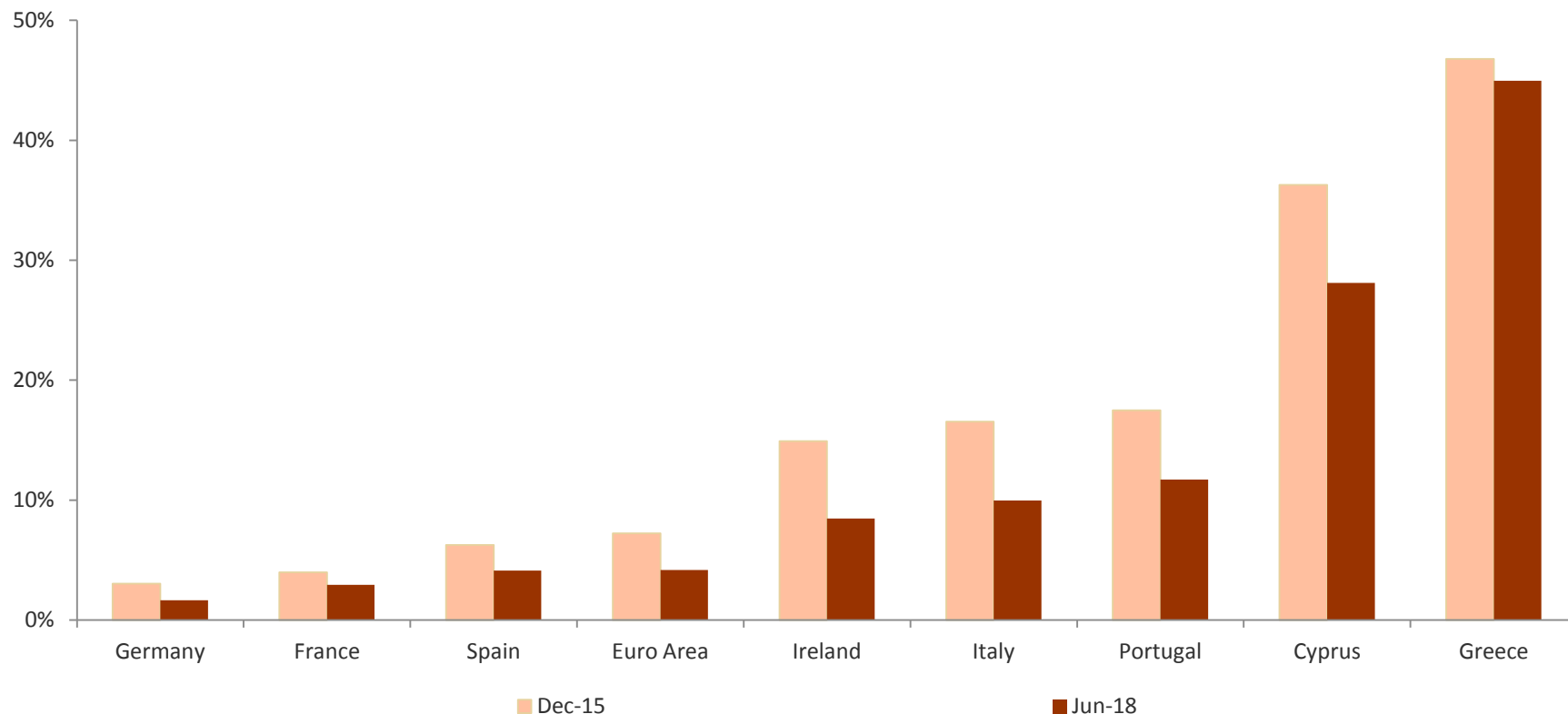
NPLs totalled 715.8 billion euros in the Euro Area in June 2018, corresponding to 6.3% of total GDP. The NPL ratio over credit in the Euro Area was 4.2% at the time.



Source: ECB – Consolidated Banking Data.

## NPL ratio: Portugal vs. other EU countries

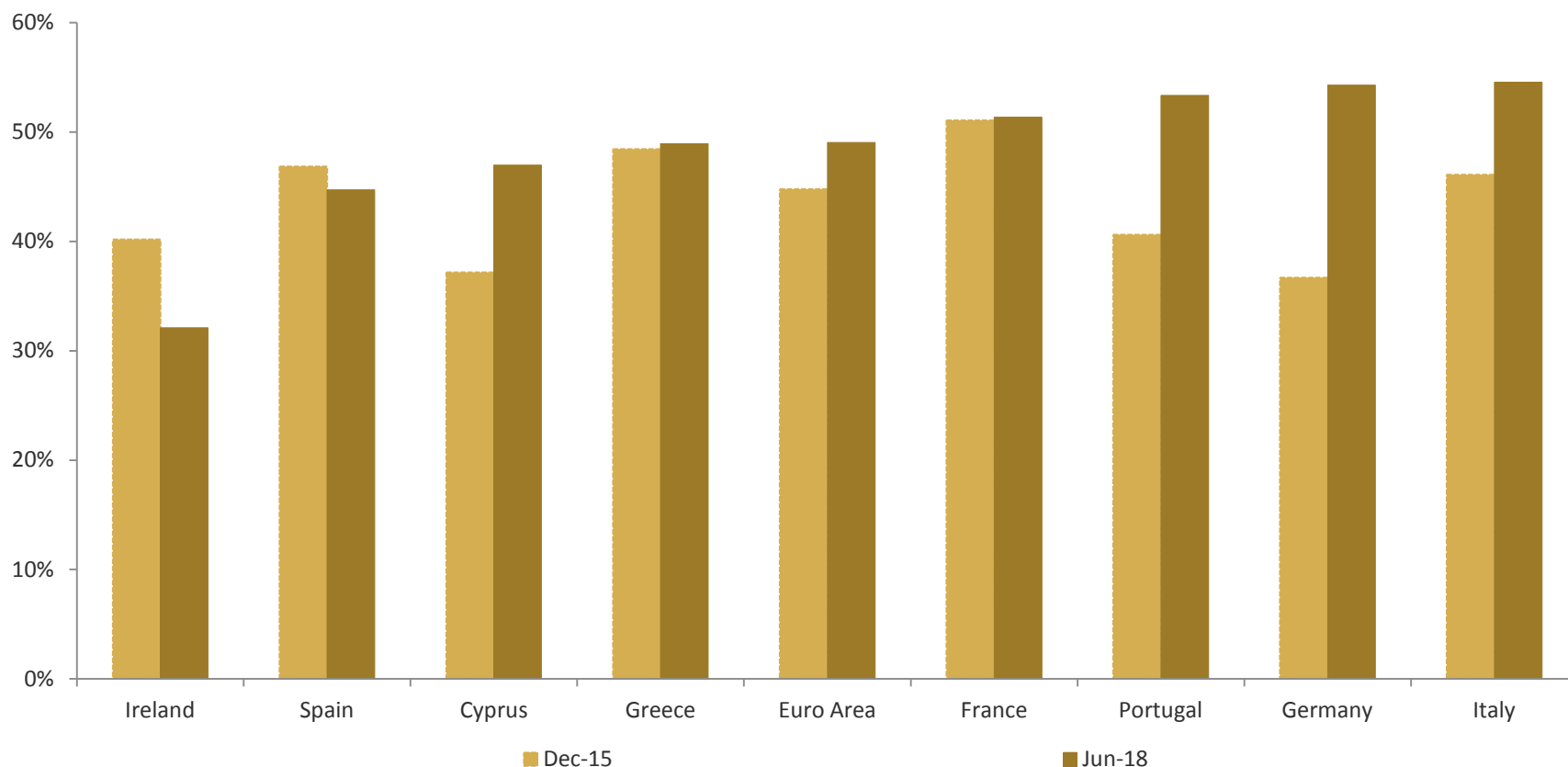
In Portugal, the NPL ratio continued its downward trend across all segments, most particularly in the NFC, and stood at 11.7% at the end of the first half of 2018 (1.6 p.p. down from December 2017 and 3.7 p.p. down year-on-year). \*



\* According to the latest data released by Banco de Portugal, NPL ratio reached 11.3% in September.  
Source: ECB – Consolidated Banking Data.

## NPL coverage ratio: Portugal vs. other EU countries

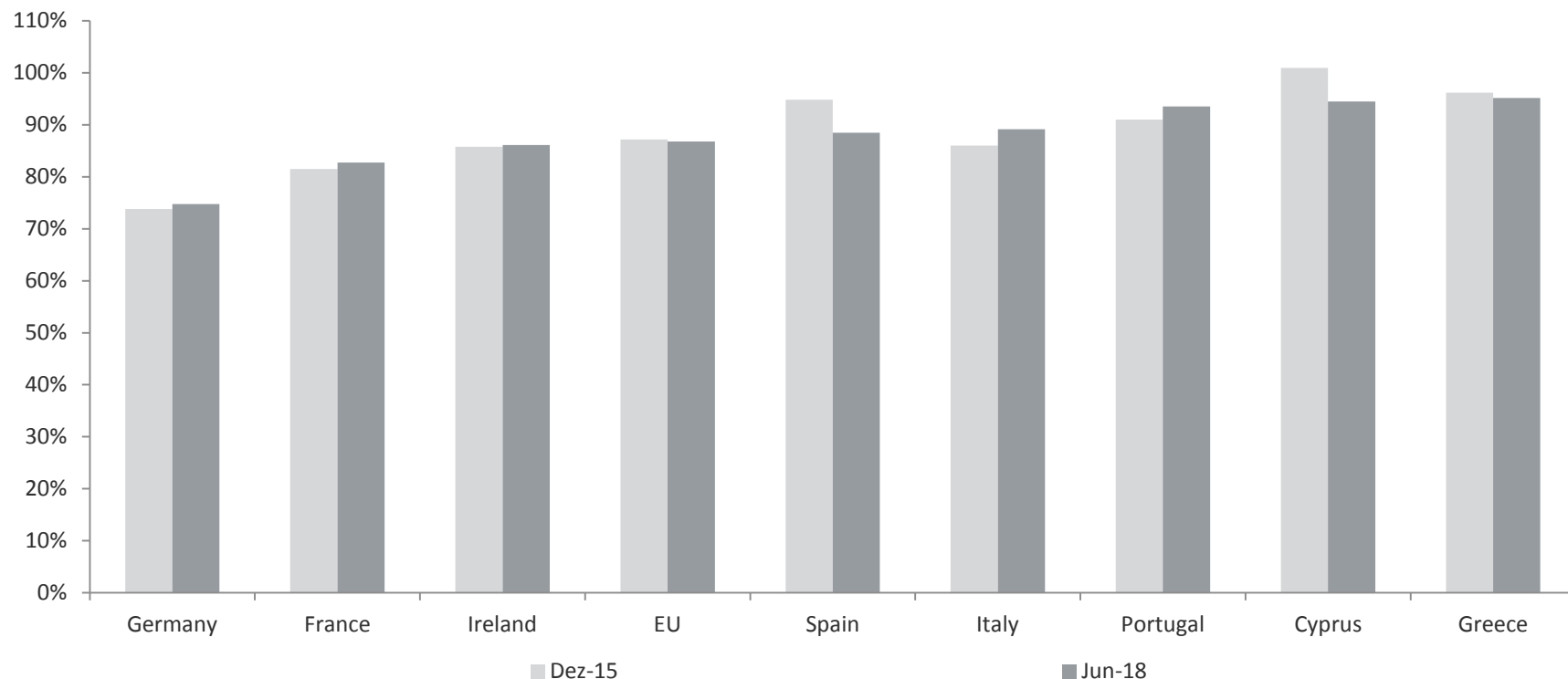
The NPL coverage ratio in Portugal is above the Euro Area average. According to the ECB, in the first half of 2018 the ratio rose to 52.9% (from 52.2% in March 2018).



Source: ECB – Consolidated Banking Data.

## NPL total coverage ratio\*: Portugal vs. other EU countries

The NPL total coverage ratio in Portugal has shown a positive evolution, remaining above the average of the European Union.



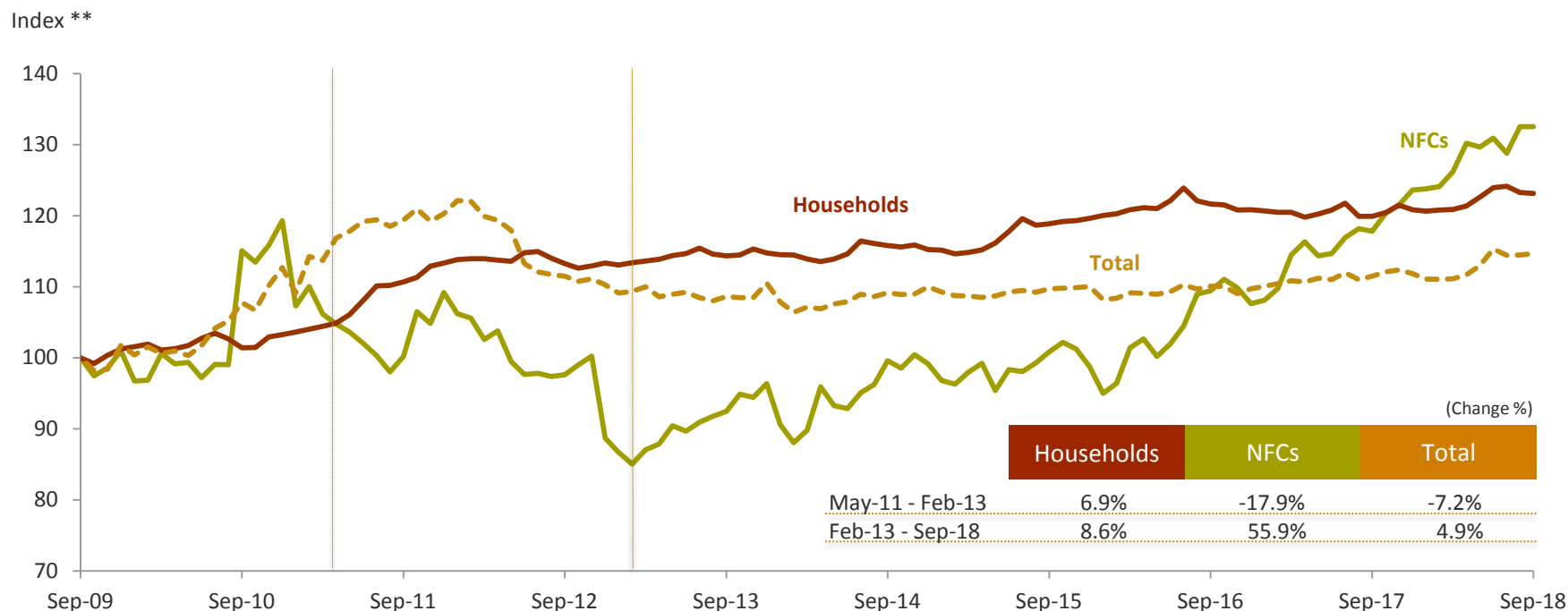
Source: EBA – EU-wide transparency exercise.

\* The NPL total coverage ratio includes the amount of accumulated impairments, collateral and guarantees associated with non-performing loans in relation to total non-performing loans.

The figures for the European Union relate to the EBA's total sample of 131 banks (132 in 2015). For Portugal, the December 2015 sample included BPI, BCP, Crédito Agrícola, Caixa Económica Montepio, CGD and Novo Banco and, in June 2018 the sample included BCP, Crédito Agrícola, Caixa Económica Montepio, CGD and Novo Banco.

## Deposits\* by Institutional sector

Despite the austerity imposed by the EFAP in May 2011, deposits have shown a high level of resilience, with Households' (143.1 billion euros) as well as Non-financial companies' (40.6 billion euros) deposits reaching their highest value in July and August 2018, respectively.



\* Deposits from the non-monetary resident sector. End of period balances. Deposits of Households include emigrants. Total deposits include Households, Non-financial corporations, General government and Non-monetary financial institutions.

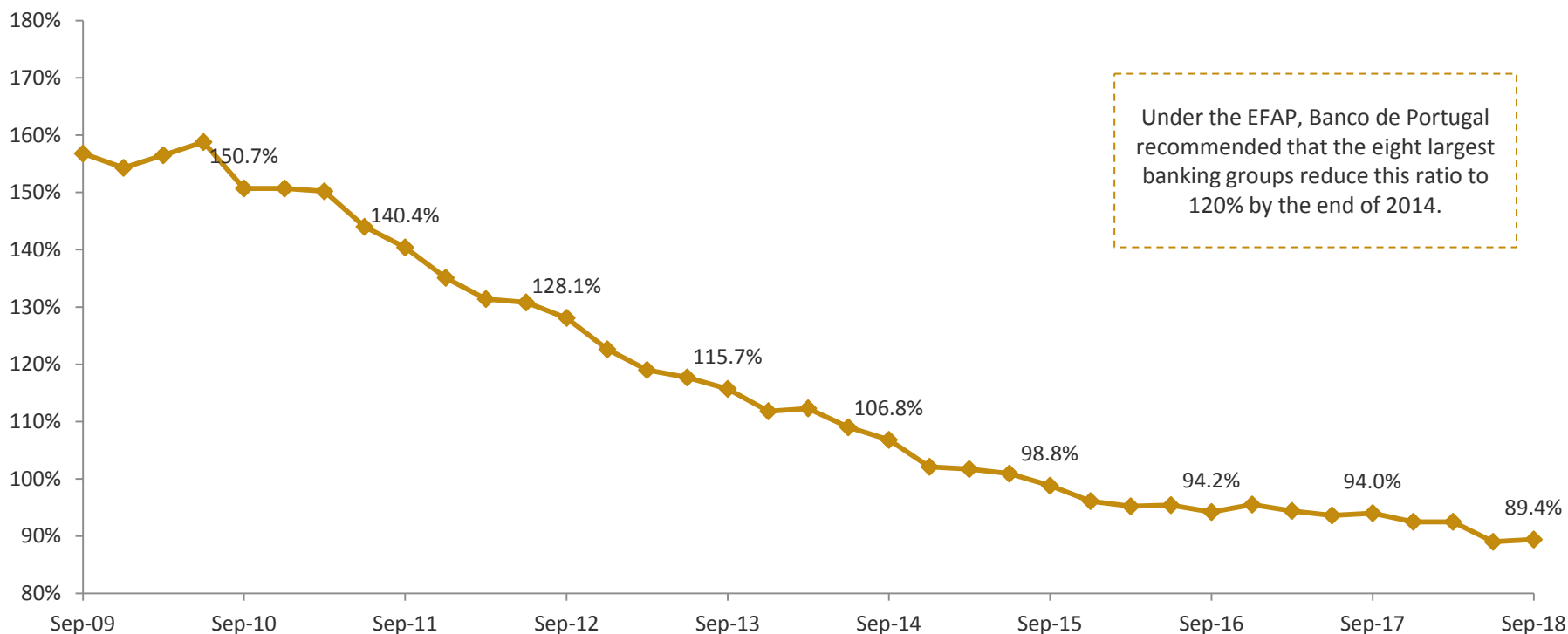
\*\* Sep-09 = 100.

Source: Banco de Portugal – Estatísticas Monetárias e Financeiras.



## Loan-to-deposit ratio\*

The decline in the loan-to-deposit ratio mainly reflects deleveraging in the banking sector. The ratio continued to fall settling down at 89.4% at the end of the third quarter of 2018.

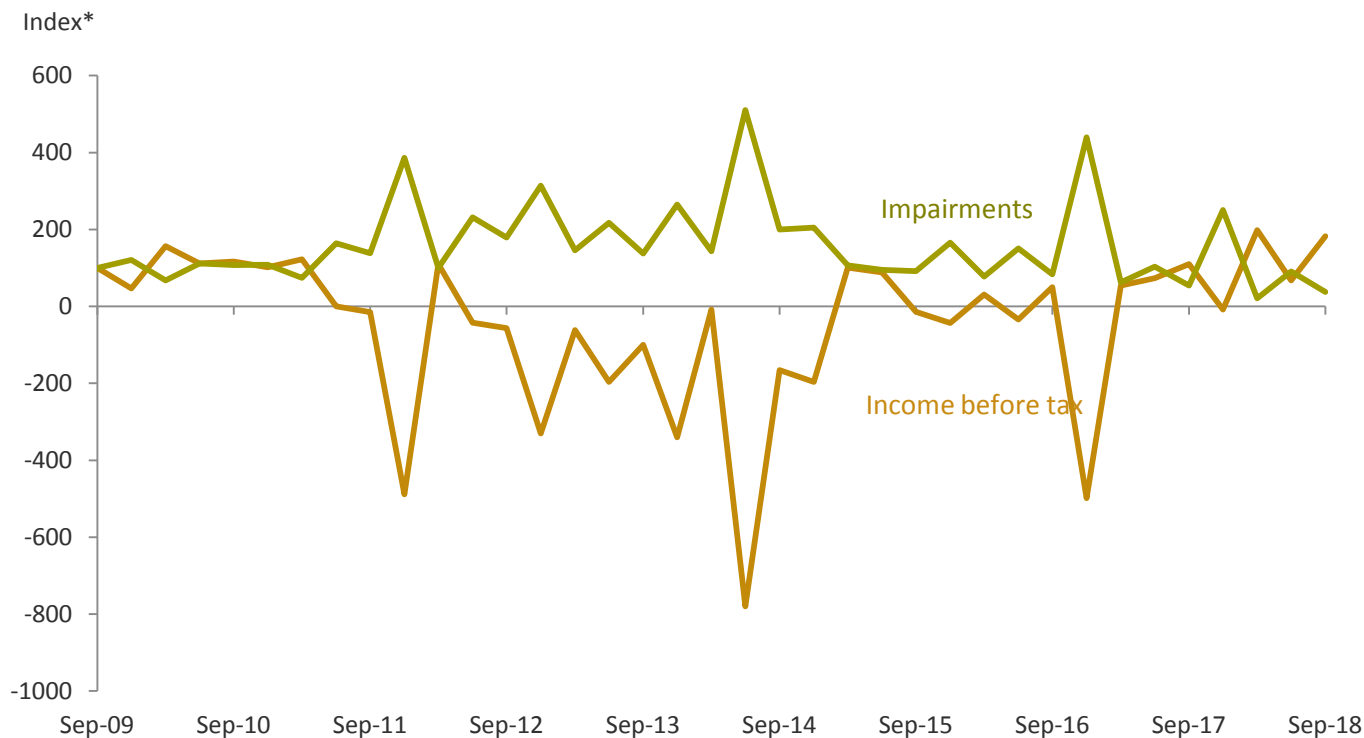


\* Loans and advances net of impairments. End of period balances.

Source: Banco de Portugal – Sistema Bancário Português. From 2008 onwards, the loan-to-deposit ratio reflects the new data requirements set out in the Implementing Technical Standards on Supervisory Reporting.

## Net interest income, impairments and income before tax

Since 2013 onwards, impairments have strongly affected the profitability of the sector. The cost-to-income ratio has been improving since 2014.



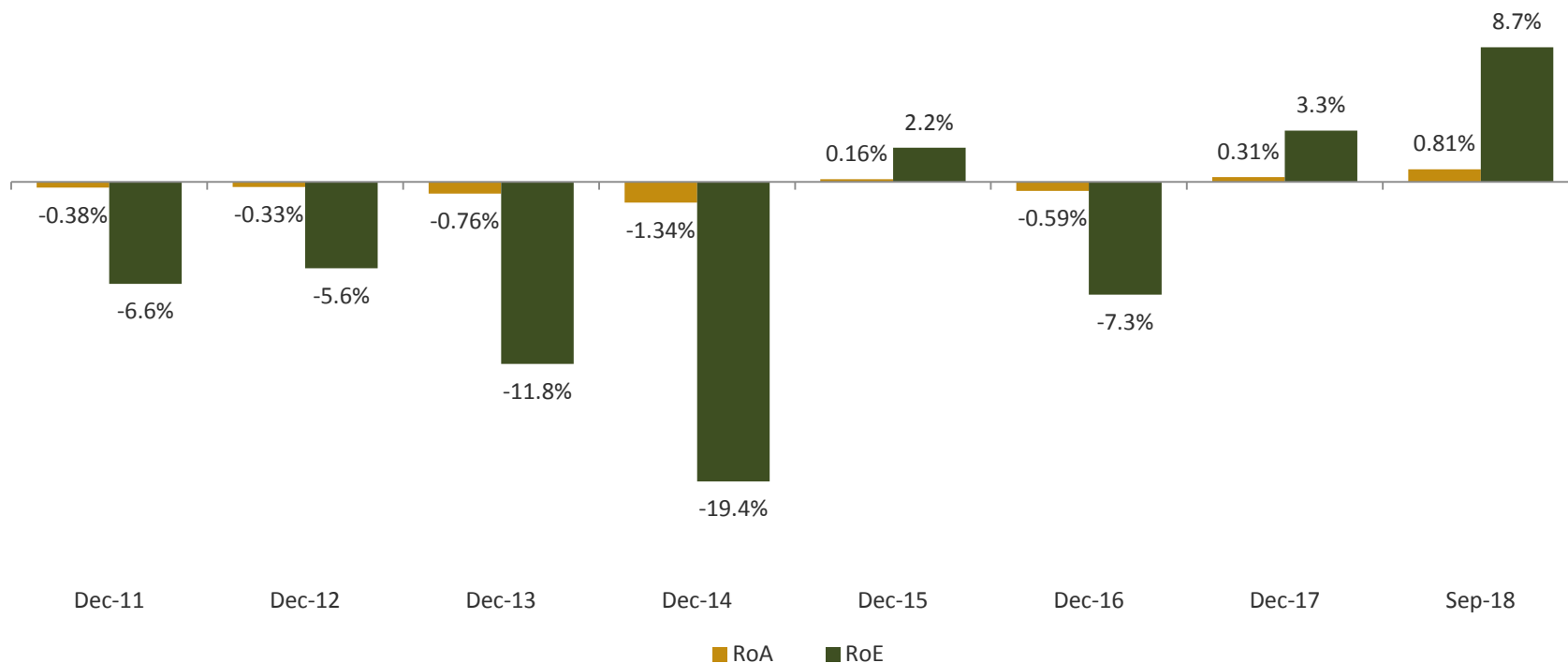
### Cost-to-income ratio

Q4 2011	61.7%
Q4 2014	65.5%
Q4 2015	60.9%
Q4 2016	59.4%
Q4 2017	52.8%
Q3 2018	56.0%

\* Sep-09 = 100. Quarterly figures.  
Source: Banco de Portugal – BPstat.

## Profitability: RoE and RoA

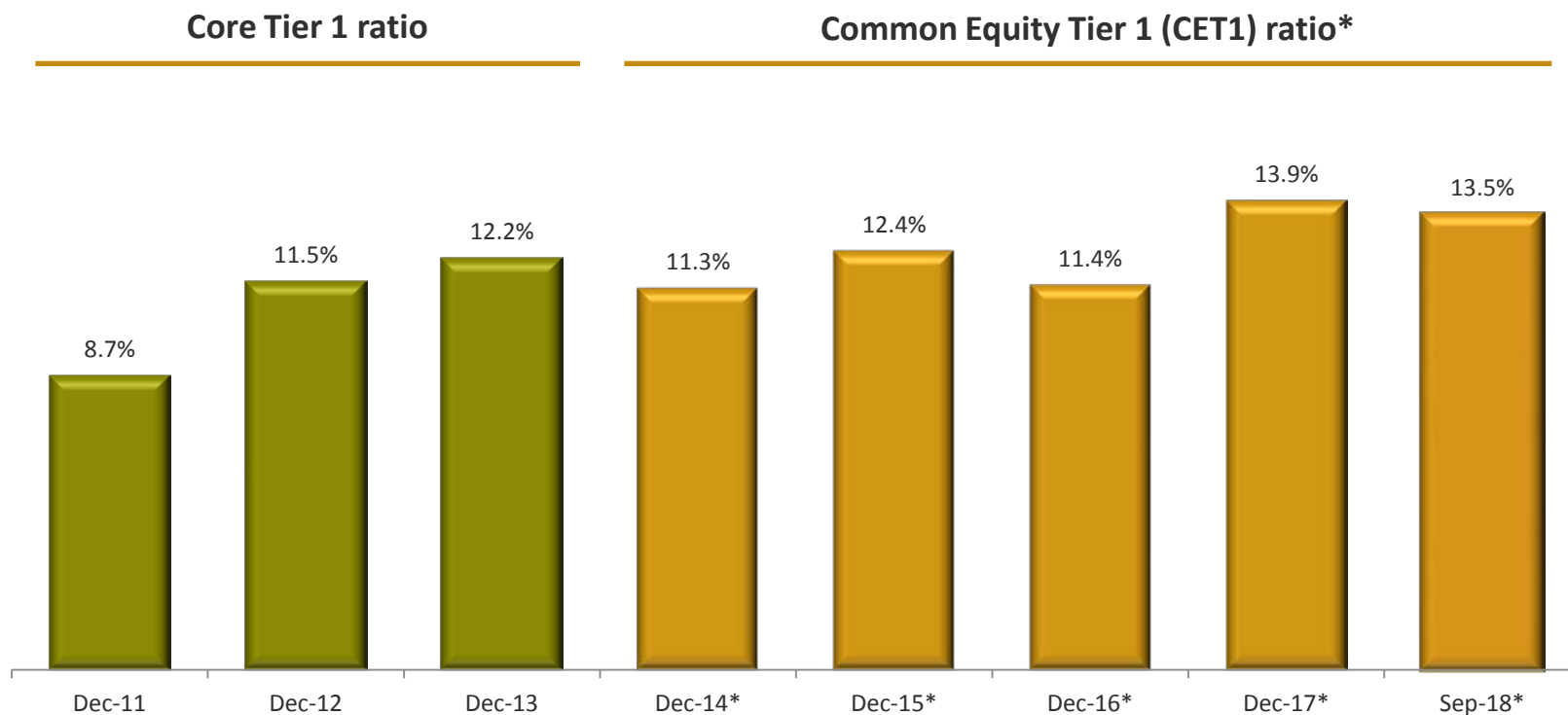
Profitability was positive in the first nine months of 2018 and benefited mainly from a substantial decrease in impairments, as well as in staff expenses.



Source: Banco de Portugal – Sistema Bancário Português. Calculated based on Income before taxes and minority interests. Annualised values.

## Solvency

The Portuguese banks' solvency has improved significantly since 2011.



\* CET 1 ratio calculated in accordance with the new CRR/CRD IV transitional arrangement.  
Source: Banco de Portugal – Sistema Bancário Português.

## The Portuguese banking sector: Q3 2018 – major highlights

- Total assets rose 0.6% in the first nine months of 2018, reversing the downward trend observed in recent years. This evolution can be largely explained by an increase in claims and investment in other credit institutions and in the portfolio of debt securities.
- The NPL ratio continued its downward trend across all segments, most particularly among NFCs. The ratio decreased 3.1 p.p. year-on-year and 2.0 p.p. against December 2017. It reached 11.3% by the end of September 2018, a level that is still high by European standards. The NPL coverage ratio has registered a positive evolution and is above the Euro Area average.
- Deposits increased against December 2017 (+2.0%), maintaining their position as the main source of banks' funding. The loan-to-deposit ratio settled down at 89.4% at the end of September 2018, as opposed to the 158.8% peak reached in June 2010.
- Profitability was positive in the first nine months of 2018 and benefited mainly, on a year-on-year basis, from a substantial decrease in impairments, as well as in staff expenses.
- The Common Equity Tier 1 ratio and the Total Solvency ratio stood at 13.5% and 15.4% respectively, in September. The leverage ratio was 7.7%, as opposed to 7.5% in September 2017.

## Main indicators<sup>1</sup> | Comparison of 2007, 2011 and 2014 – Q3 2018

	2007	2011 <sup>2</sup>	2014 <sup>3</sup>	2015	2016	2017	2018
	Annual	Annual	Annual	Annual	Annual	Annual	3 <sup>rd</sup> Quarter
<b>Balance sheet data (consolidated. EUR M)</b>							
<b>Total assets</b>	443,458	510,332	425,829	407,589	386,076	381,234	383,646
Change %		3.6%	-5.9%	-4.3%	-5.3%	-1.3%	0.6%
<b>Total loans</b>	313,190	330,278	257,383	244,472	234,291	230,862	227,803
Change %		1.3%	-8.0%	-5.0%	-4.2%	-1.5%	-1.3%
Loans to NFCs <sup>4</sup>	101,610	113,808	86,483	82,215	77,323	73,128	71,594
Change %		2.9%	-8.7%	-4.9%	-6.0%	-5.4%	-2.1%
Loans to Households <sup>4</sup>	127,278	139,605	123,122	118,544	115,708	114,692	115,292
Change %		2.3%	-4.1%	-3.7%	-2.4%	-0.9%	0.5%
<b>Liabilities</b>	415,185	484,645	395,085	374,618	356,177	345,148	347,908
Change %		3.9%	-6.6%	-5.2%	-4.9%	-3.1%	0.8%
<b>Deposits</b>	195,604	244,431	252,129	254,421	245,442	249,692	254,785
Change %		5.7%	1.0%	0.9%	-3.5%	1.7%	2.0%
<b>Resources from Central Banks</b>	5,731	50,723	33,717	28,545	24,655	23,883	20,467
Change %		72.5%	-12.7%	-15.3%	-13.6%	-3.1%	-14.3%
<b>Equity</b>	28,273	25,687	30,745	32,971	29,900	36,086	35,738
Change %		-2.4%	6.2%	7.3%	-9.3%	20.7%	-1.0%
<b>Credit quality data (consolidated. % &amp; EUR M)</b>							
<b>NPLs (gross)<sup>5</sup></b>				49,818	46,361	37,001	31,171
<b>NPLs (net)</b>				29,492	25,359	18,723	14,588
<b>NPL ratio</b>			16.6%	17.5%	17.2%	13.3%	11.3%
<b>NPL coverage ratio</b>			38.5%	40.8%	45.3%	49.4%	53.2%
<b>Main funding &amp; liquidity risk indicators (consolidated. % &amp; EUR M)</b>							
<b>Loan to deposit ratio</b>	160.1%	135.1%	102.1%	96.1%	95.5%	92.5%	89.4%
<b>Funding gap</b>	117,586	85,846	5,254	-9,949	-11,151	-18,829	-26,982
<b>Liquidity coverage ratio (LCR)</b>	-	-	-	-	150.8%	173.5%	185.0%

Source: Banco de Portugal – BPstat and Sistema Bancário Português.

## Main indicators<sup>1</sup> | Comparison of 2007, 2011 and 2014 – H1 2018

	2007	2011 <sup>2</sup>	2014 <sup>3</sup>	2015	2016	2017	2018
	Annual	Annual	Annual	Annual	Annual	Annual	3 <sup>rd</sup> Quarter
<b>Income statement data (consolidated. % &amp; EUR M. flows)</b>							
Net income before taxes	4,801	-1,975	-5,960	685	-2,340	1,184	2,316
YoY change %		-141.1%	-201.8%	n.m.	-441.8%	n.m.	88.6%
Net interest income	8,164	7,933	5,597	5,948	5,886	6,109	4,639
YoY change %		-2.8%	-29.5%	6.3%	-1.0%	3.8%	1.7%
Gross income	13,778	12,871	10,252	10,694	9,478	10,803	7,340
YoY change %		-6.6%	-20.8%	4.3%	-11.4%	14.0%	-0.1%
Net interest income (% of gross income)	59.3%	61.6%	54.6%	55.6%	62.1%	56.5%	63.2%
Cost-to-income ratio	55.6%	61.7%	65.5%	60.9%	59.4%	52.8%	56.1%
Impairments (% of gross income)	12.5%	51.6%	79.4%	37.6%	67.0%	31.5%	14.2%
<b>Profitability ratios (%)</b>							
ROE <sup>6</sup>	17.7%	-6.6%	-19.4%	2.2%	-7.3%	3.3%	8.7%
ROA <sup>6</sup>	1.1%	-0.4%	-1.3%	0.2%	-0.6%	0.3%	0.8%
<b>Leverage &amp; solvency indicators (consolidated. % &amp; EUR M)</b>							
Core Tier 1 ratio	n.a.	8.7%	-	-	-	-	-
Common equity Tier 1 ratio (CET1)	-	-	11.3%	12.4%	11.4%	13.9%	13.5%
Total solvency ratio	10.4%	9.8%	12.3%	13.3%	12.3%	15.2%	15.4%
RWAs	296,741	302,776	240,563	233,238	215,500	202,300	200,200
RWAs (as a % of total assets)	66.9%	59.3%	56.5%	57.2%	55.8%	53.1%	52.2%
Leverage ratio	-	-	-	-	6.6%	7.8%	7.7%

<sup>1</sup> Consolidated data as at end of period. except if otherwise stated.

<sup>2</sup> Balance sheet items: average annual change compared to December 2007; income statement items: accumulated variation compared to December 2007.

<sup>3</sup> Balance sheet items: average annual change compared to December 2011; income statement items: accumulated variation compared to December 2011.

<sup>4</sup> Data on an individual basis. Gross figures.

<sup>5</sup> NPL (Non-Performing Loans) - Loans and advances that comply with at least one of the following conditions: (i) material exposures that are more than 90 days past-due; (ii) the debtor is assessed as unlikely to pay its obligations in full without realization of collateral; (iii) impaired assets. except incurred but not reported (IBNR) impairments; and (iv) defaulted credit, in accordance with the CRR prudential concept.

<sup>6</sup> Calculated based on Income before taxes and minority interests. Note: annualised values.

Source: Banco de Portugal – BPstat and Sistema Bancário Português.

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## Annex I: Methodology



## Methodology

- The information provided by Banco de Portugal and the ECB regarding monetary statistics differs from that provided in the consolidated data for the financial system. The main differences are basically due to the fact that the universes surveyed are not exactly the same and to different consolidation procedures. This information is available on the Banco de Portugal and the ECB websites. Among others, the following documents may be consulted: Suplemento ao Boletim Estatístico n.º1/2001, de agosto; Instrução n.º 25/2014, de 15 de dezembro de 2014 and Sistema Bancário Português: desenvolvimentos recentes - 4º trimestre de 2016.
- The data provided by Banco de Portugal – Sistema Bancário Português on loans and advances do not include other credits and debt securities.
- The solvency and profitability analysis of the banking sector is based on consolidated bank data.
- This document was published with updated information until January 11, 2019.

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SNAPSHOT