Portuguese Banking System: latest developments

1st quarter 2019

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Portuguese banking system – 1st quarter of 2019

Balance-sheet structure

The banking system's total assets increased by 1.2% from the last quarter of 2018, due to a rise of 5.9% in the debt securities portfolio (particularly public debt securities). This was partly offset by the reduction in cash and claims on central banks and cash balances at other credit institutions (-0.35 p.p. and -0.14 p.p. of the change in assets respectively).

Central bank funding dropped by 0.2 p.p. of assets to 5.1% in the first quarter, which was the lowest value recorded since the first quarter of 2010.

The loan-to-deposit ratio posted a 1.3 p.p. decline to 87.7%, and the liquidity coverage ratio rose by 28.2 p.p., to 224.6%.

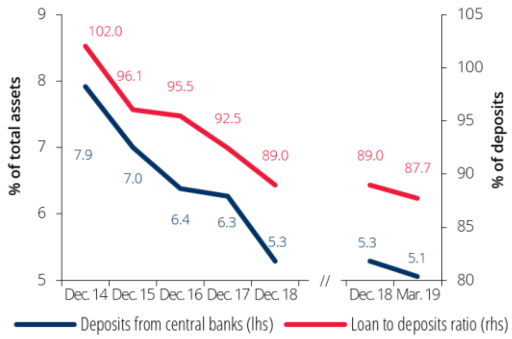
Asset quality

The stock of non-performing loans of NFCs and Households fell by around €900 million and €500 million respectively in the first quarter of 2019. This led to a total NPL ratio of 8.9% (4.3% net of impairments), a 0.5 p.p. drop from the end of 2018.

Since its peak in June 2016, the NPL ratio fell 9.0 p.p. (NFCs: -12.7 p.p.; Households: -4.5 p.p.). This reflects a 52% reduction of the total NPL stock (NFCs: -51%; Households: -49%), i.e. a €26.0 billion decrease (NFCs: -€17.0 billion; Households: -€6.4 billion).

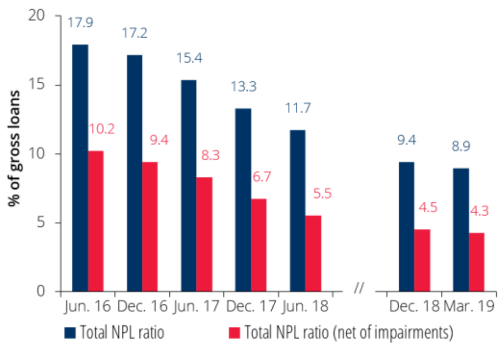
In the first quarter of 2019, the NPL impairment coverage ratio increased by 0.3 p.p. to 52.2%. The coverage ratio increased for both NFCs and Households.

Chart 1 • Central bank funding and loan-to-deposit ratio



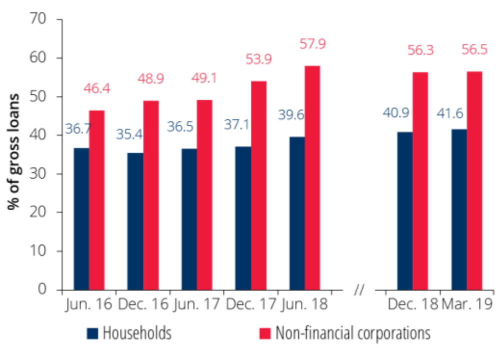
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

The banking system's return on equity (ROE) and return on assets (ROA) in the first quarter of 2019 posted a 0.7 p.p. and 0.1 p.p. decrease year on year respectively, to stand at 10.7% and 1.0%.

The ROA decrease reflected the decline in profits from financial operations and the increase in provisions and impairments. The latter led to a 0.1 p.p. rise in the loan loss charge, to 0.4%.

The cost-to-income ratio fell to 57.1% (57.9% in the first quarter of 2018) due to an increase in total operating income, against a background of stabilising operating costs.

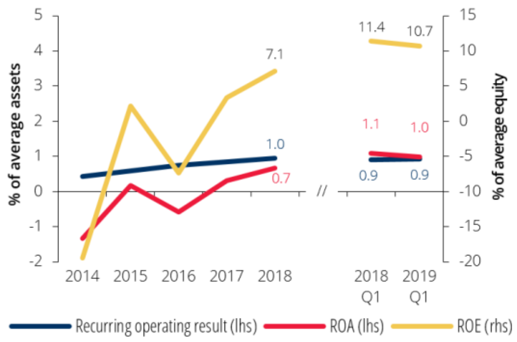
Solvency

In the first quarter of 2019 solvency ratios recorded a sharp increase against the end of 2018, with the total capital ratio and the Common Equity Tier 1 (CET1) ratio standing at 16.0% and 13.8% respectively. This reflects the incorporation of profits for 2018. The first ratio also reflected the issue of Additional Tier 1 instruments.

The average risk weight dropped 0.2 p.p. vis-à-vis the end of 2018 on account of, among other factors, the increase in the portfolio of public debt securities, which carry a 0% risk weight in the calculation of risk-weighted assets.

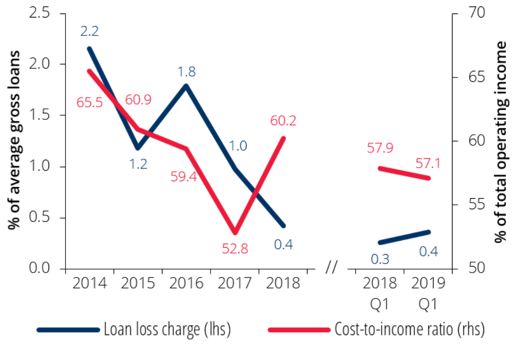
The leverage ratio rose by 0.4 p.p. to 7.7%, remaining above the minimum benchmark defined by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021).

Chart 4 • Return on equity (ROE), return on assets (ROA) and recurring operating result



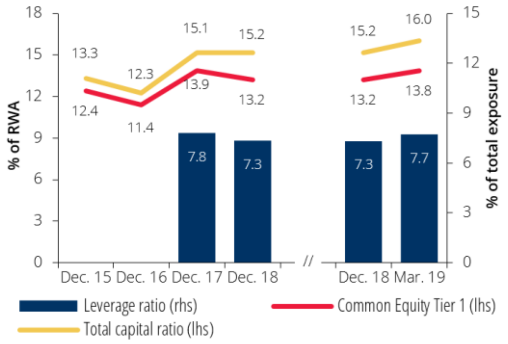
Source: Banco de Portugal.

Chart 5 • Cost-to-income and credit risk cost ratios



Source: Banco de Portugal.

Chart 6 • Own funds ratios and leverage ratio



Source: Banco de Portugal.

Note: RWA means risk-weighted assets. Total exposure includes total assets, derivatives and off-balance sheet positions.

Quadro 1 • Portuguese banking system indicators [a]

	Notes	Unit	Dec. 14	Dec. 15	Dec. 16	Dec. 17	Dec. 18	Mar. 18	Mar. 19
Assets									
Loans to customers (net of impairments)	(1)	%	60.4	60.0	60.7	60.6	59.7	60.4	58.8
Debt securities (net of impairments)	(1)	%	17.5	18.3	18.5	19.2	21.4	20.4	22.4
Portuguese government debt securities (gross value)	(2)	%	6.4	6.6	7.1	8.3	8.8	8.7	8.9
Total assets		€ billion	425.7	407.6	386.1	381.3	384.7	377.3	389.4
Total assets / GDP (nominal)		%	246.0	226.7	207.0	195.9	190.8	191.9	191.3
Liquidity and funding									
Central bank funding	(1)	%	7.9	7.0	6.4	6.3	5.3	6.2	5.1
Interbank financing (net of interbank assets)	(1)	%	4.9	4.7	5.5	5.6	6.1	6.2	5.5
Customer deposits	(1)	%	59.2	62.4	63.6	65.5	67.1	65.3	67.0
Liabilities represented by debt securities	(1)	%	8.8	7.5	6.1	4.8	4.2	4.3	4.1
Equity	(1)	%	7.2	8.1	7.7	9.5	9.1	9.4	9.3
Loan-to-deposit (Ltd) ratio	(3)	%	102.0	96.1	95.5	92.5	89.0	92.4	87.7
Highly liquid assets	(4)	%	n.d.	n.d.	11.3	14.8	17.1	14.9	18.1
Liquidity coverage ratio (LCR)	(5)	%	n.d.	n.d.	150.8	173.5	196.4	189.9	224.6
Asset quality									
Non-performing loans (gross value)		€ million	n.d.	49 818	46 361	37 001	25 856	34 675	24 429
Non-performing loans (net of impairments)		€ million	n.d.	29 512	25 364	18 728	12 435	16 587	11 672
NPL ratio - Total	(6)	%	n.d.	17.5	17.2	13.3	9.4	12.7	8.9
NPL ratio - Households	(6)	%	n.d.	9.4	8.7	7.1	5.1	6.7	4.8
NPL ratio - Non-financial corporations	(6)	%	n.d.	28.3	29.5	25.2	18.5	23.8	17.6
NPL ratio net of impairments - Total	(7)	%	n.d.	10.4	9.4	6.7	4.5	6.1	4.3
NPL impairment coverage ratio - Total	(8)	%	n.d.	40.8	45.3	49.4	51.9	52.2	52.2
Coverage ratio - Households	(8)	%	n.d.	36.2	35.4	37.1	40.9	40.1	41.6
Coverage ratio - Non-financial corporations	(8)	%	n.d.	44.4	48.9	53.9	56.3	56.7	56.5
Profitability [b]									
Return on assets (ROA)	(9)	%	-1.3	0.2	-0.6	0.3	0.7	1.1	1.0
Recurring operating result	(10)	%	0.4	0.6	0.7	0.8	1.0	0.9	0.9
Return on equity (ROE)	(11)	%	-19.4	2.2	-7.3	3.3	7.1	11.4	10.7
Profit or loss for the year		€ million	-5 311	324	-1 249	-88	1 080	2 933	2 386
Cost-to-Income	(12)	%	65.5	60.9	59.4	52.8	60.2	57.9	57.1
Loan loss charge	(13)	%	2.2	1.2	1.8	1.0	0.4	0.3	0.4
Solvency									
Common Equity Tier 1 (Core Tier 1 / CET 1)	(14), (15)	%	12.2	12.4	11.4	13.9	13.2	13.5	13.8
Additional Tier 1 (AT 1)	(14)	%	0.1	0.2	0.3	0.6	0.8	0.7	1.0
Tier 2	(14)	%	0.9	0.7	0.6	0.7	1.2	0.8	1.2
Leverage ratio	(16)	%	6.9	6.9	7.6	7.8	7.3	7.7	7.7
Average risk weight	(17)	%	60.9	60.6	58.9	56.0	54.4	56.4	54.1

Notes:

(a) Banking system data are based on accounting information on a consolidated basis from credit institutions and investment firms, reported to Banco de Portugal for supervisory purposes.

(b) Profitability indicators are calculated with annualised flows accumulated from january up to the reference period.

(1) As a percentage of total assets.

(2) Monetary and financial statistics. As a percentage of other monetary financial institutions' assets.

(3) Ratio of customer loans (net of impairments) to customer deposits.

(4) Corresponds to the amount of liquid assets held by credit institutions that satisfy requirements set in the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. As a percentage of total assets.

(5) Ratio of available highly liquid assets and net cash outflows calculated under a 30-day stress scenario.

(6) Ratio of the gross value of non-performing loans to the total gross value of loans.

(7) Ratio of non-performing loans net of impairments to the total gross value of loans.

(8) Ratio of impairments for non-performing loans to their gross value.

(9) Profit and loss before taxes as a percentage of average assets.

(10) Net interest income and net commissions less operational costs; as a percentage of average assets.

(11) Profit and loss before taxes as a percentage of average equity.

(12) Ratio of operational costs to total operating income.

(13) Flow of credit impairments as a percentage of total average gross credit granted to customers.

(14) As a percentage of risk-weighted assets.

(15) The transition to a new prudential regime in 2014 led to structural breaks in solvency indicators, accounted for by methodological differences in the calculation of own funds components, affecting the comparability of ratios vis-à-vis previous years.

(16) Up to June 2016 it corresponds to the ratio of Tier 1 capital to total assets. From September 2016 onwards it corresponds to the ratio of Tier 1 capital to total exposure (including on- and off-balance sheet assets and derivatives).

(17) Ratio of risk-weighted assets to total assets.