

Portuguese Banking System: latest developments

2nd quarter 2019



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Cut-off date: 20 September 2019, except for data regarding Gross Domestic Product, which is based on the new 2016 benchmark year, available on 23 September 2019.

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Portuguese banking system – 2nd quarter of 2019

Balance-sheet structure

Compared to the previous quarter, total assets increased by 1.8%, chiefly due to a 3.7% rise in loans to customers, which partly reflected the expansion of an institution's international activity. Conversely, loans to credit institutions declined by 7.2%. In turn, customer deposits increased by 3.2% in the quarter under review.

The evolution of credit and customer deposits was influenced by the sale of Deutsche Bank's retail operation in Portugal to Abanca. This transaction resulted in the transfer of non-current assets/liabilities available for sale to items related to continuing operations. Excluding this effect, loans to customers and deposits would increase by 2.5% and 2.8% respectively.

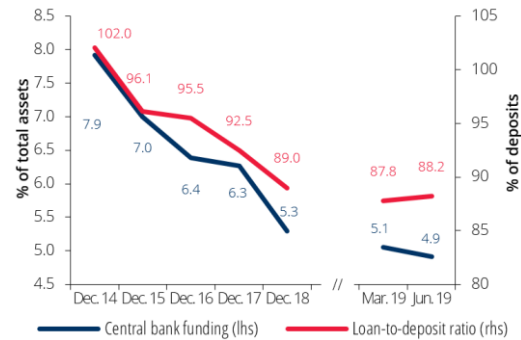
The loan-to-deposit ratio rose by 0.4 p.p. to 88.2%, while the liquidity coverage ratio decreased by 12 p.p. to 212%, remaining above the minimum requirement (100%).

Asset quality

The stock of non-performing loans continued on a downward path in the second quarter of 2019, with a decline of around €200 million for households and €650 million for non-financial corporations. This translated into a reduction of the total NPL ratio from 8.9% to 8.3% compared to the previous quarter (4.3% to 4.0% net of impairments) and a 1.1 p.p. decline from the end of 2018.

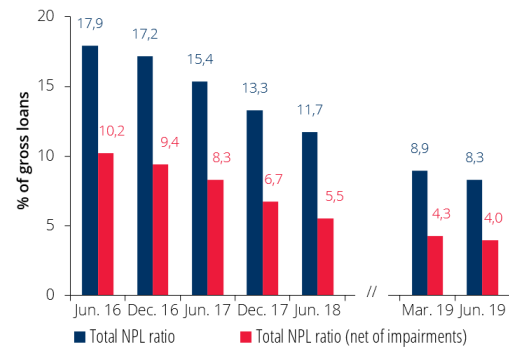
The NPL impairment coverage ratio remained at 52.2%. At sector level, there was an increase in the coverage ratio for NFCs (from 56.5% to 57.0%) and a reduction of the coverage ratio for households (from 41.6% to 41.1%).

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



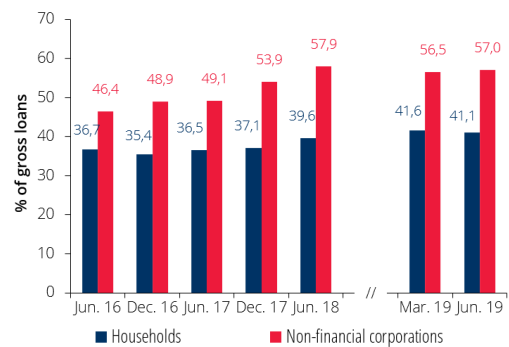
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In the first half of 2019 the banking system's return on assets (ROA) rose by 0.05 p.p. from the first half of 2018, to stand at 0.8%. Return on equity (ROE) rose by 0.74 p.p., to stand at 8.4%.

The rise in ROA reflected (i) an increase in other operating income, (ii) a decline in the net flow of provisions, and to a lesser extent (iii) an increase in net interest income. This was partly offset by a deterioration in income from financial operations.

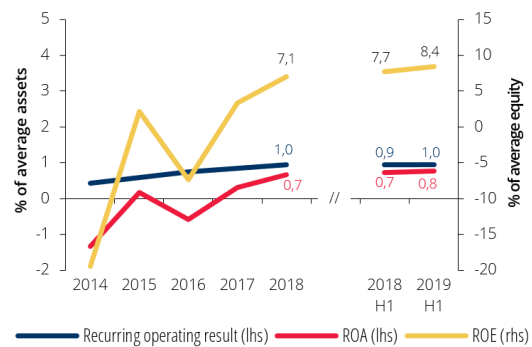
The banking system's efficiency, as measured by the cost-to-income ratio, rose as a reflection of a greater increase in total operating income than in operational costs.

Solvency

In the second quarter of 2019 the total capital ratio and the Common Equity Tier 1 (CET1) ratio stood at 16.1% and 13.9% respectively, increasing slightly from the previous quarter.

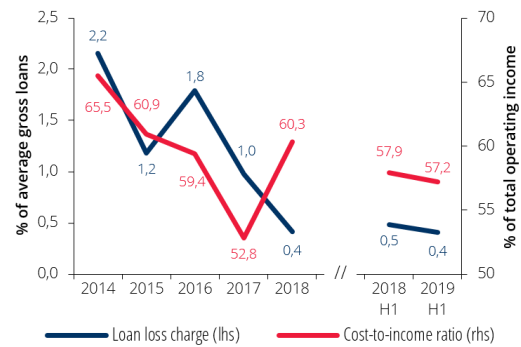
The leverage ratio declined slightly from 7.7% to 7.6%, remaining above the minimum benchmark defined by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021).

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



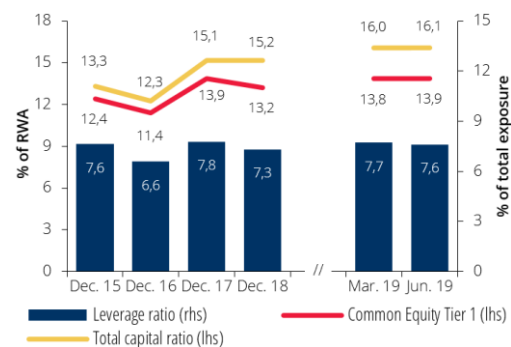
Source: Banco de Portugal.

Chart 5 • Cost-to-income and loan loss charge 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.

Table 1 • Portuguese banking system indicators ^(a)

	Notes	Unit	Dec. 15	Dec. 16	Dec. 17	Dec. 18	Jun. 18	Mar. 19	Jun. 19
Assets									
Loans to customers (net of impairments)	(1)	%	60.0	60.7	60.6	59.7	58.9	58.8	59.9
Debt securities (net of impairments)	(1)	%	18.3	18.5	19.2	21.4	21.0	22.4	22.2
Portuguese government debt securities (gross value)	(2)	%	6.6	7.1	8.3	8.8	8.8	8.9	9.0
Total assets		€ billion	407.6	386.2	381.3	384.7	385.6	389.6	396.5
Total assets / GDP (nominal)		%	226.8	207.1	194.6	188.7	192.7	189.2	191.1
Liquidity and funding									
Central bank funding	(1)	%	7.0	6.4	6.3	5.3	5.5	5.1	4.9
Interbank financing (net of interbank assets)	(1)	%	4.7	5.5	5.6	6.1	6.3	5.5	5.6
Customer deposits	(1)	%	62.4	63.6	65.5	67.1	66.2	67.0	67.9
Liabilities represented by debt securities	(1)	%	7.5	6.1	4.8	4.2	4.2	4.1	3.8
Equity	(1)	%	8.1	7.7	9.5	9.1	9.2	9.3	9.1
Loan-to-deposit (Ltd) ratio	(3)	%	96.1	95.5	92.5	89.0	89.1	87.8	88.2
Highly liquid assets	(4)	%	n.d.	11.3	14.8	17.1	16.1	18.1	18.6
Liquidity coverage ratio (LCR)	(5)	%	n.d.	150.8	173.5	196.4	189.7	224.7	212.3
Asset quality									
Non-performing loans (gross value)		€ million	49,818	46,361	37,001	25,856	32,476	24,429	23,447
Non-performing loans (net of impairments)		€ million	29,512	25,364	18,728	12,435	15,319	11,672	11,204
NPL ratio - Total	(6)	%	17.5	17.2	13.3	9.4	11.7	8.9	8.3
NPL ratio - Households	(6)	%	9.4	8.7	7.1	5.1	6.4	4.8	4.4
NPL ratio - Non-financial corporations	(6)	%	28.3	29.5	25.2	18.5	22.3	17.6	16.6
NPL ratio net of impairments - Total	(7)	%	10.4	9.4	6.7	4.5	5.5	4.3	4.0
NPL impairment coverage ratio - Total	(8)	%	40.8	45.3	49.4	51.9	52.8	52.2	52.2
Coverage ratio - Households	(8)	%	36.2	35.4	37.1	40.9	39.6	41.6	41.1
Coverage ratio - Non-financial corporations	(8)	%	44.4	48.9	53.9	56.3	57.9	56.5	57.0
Profitability ^(b)									
Return on assets (ROA)	(9)	%	0.2	-0.6	0.3	0.7	0.7	1.0	0.8
Recurring operating result	(10)	%	0.6	0.7	0.8	1.0	0.9	0.9	1.0
Return on equity (ROE)	(11)	%	2.2	-7.3	3.3	7.1	7.7	10.7	8.4
Profit or loss for the year		€ million	324	-1,244	-88	1,078	2,176	2,388	1,911
Cost-to-Income	(12)	%	60.9	59.4	52.8	60.3	57.9	57.1	57.2
Loan loss charge	(13)	%	1.2	1.8	1.0	0.4	0.5	0.4	0.4
Solvency									
Common Equity Tier 1 (CET 1)	(14)	%	12.4	11.4	13.9	13.2	13.4	13.8	13.9
Additional Tier 1 (AT 1)	(14)	%	0.2	0.3	0.6	0.8	0.7	1.0	1.0
Tier 2	(14)	%	0.7	0.6	0.7	1.2	1.1	1.2	1.2
Leverage ratio	(15)	%	7.0	7.6	7.8	7.3	7.5	7.7	7.6
Average risk weight	(16)	%	60.6	58.9	56.0	54.4	55.4	54.1	53.7

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 Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. As a percentage of total assets.

(5) Ratio of liquidity buffer to 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) 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).

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

