

Portuguese Banking System: latest developments

3rd quarter 2019



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Portuguese banking system – 3rd quarter of 2019

Balance-sheet structure

Compared to the previous quarter, banking system's total assets increased by 0.2%, mainly via loans to other credit institutions, which increased by 9.7%, and debt securities held (a 0.6% increase), particularly of non-financial corporations. Conversely, cash balances at central banks declined by 5.5%.

Funding from central banks decreased by 4.5%, standing at 4.7% of assets in September 2019. Net interbank funding declined by 8.8%, due to the aforementioned increase in loans to other credit institutions and the 2.9% decrease in deposits from other credit institutions, standing at 4.9% of assets.

The loan-to-deposit ratio posted a 0.2 p.p. decline to 88%, and the liquidity coverage ratio decreased by 1.4 p.p. to 210.9%, remaining considerably above the minimum regulatory requirement (100%).

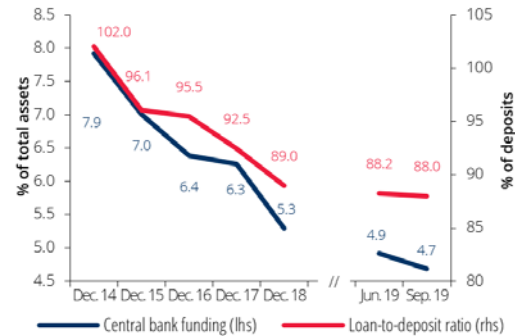
Asset quality

Non-performing loans (NPLs) decreased by €1.7 billion (7.3%) in the third quarter of 2019. The NPL ratio declined by 0.6 p.p. to 7.7%. The NPL ratio net of impairments decreased by 0.4 p.p. to 3.6%.

The stock of non-performing loans in the NFC segment declined by €1.1 billion (7%), with a 0.9 p.p. decrease in the NPL ratio, to 15.7%. The stock of NPLs in the household segment decreased by €596 million (9.4%), with a 0.4 p.p. decrease in the NPL ratio, to 4.0%.

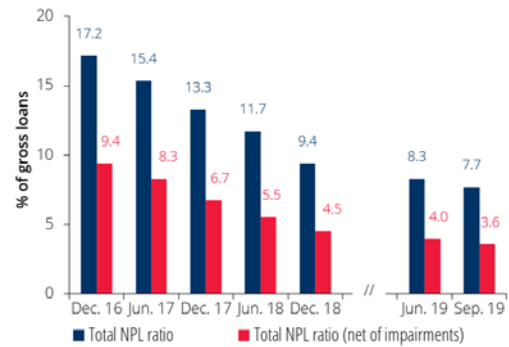
The NPL impairment coverage ratio increased by 1.2 p.p. to 53.5%. The impairment coverage ratio increased by 1.5 p.p. in the NFC segment and 1.1 p.p. in the household segment, to 58.5% and 42.2% respectively.

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



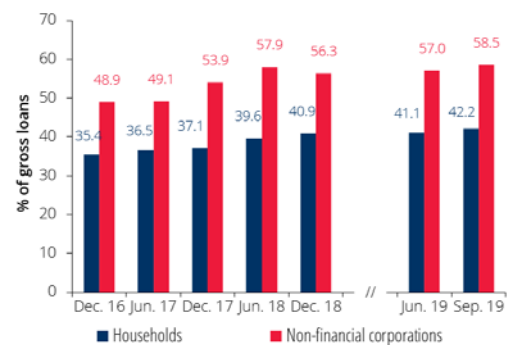
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

Until the end of the third quarter of 2019, banking system's return on assets (ROA) remained stable compared to the same period in 2018, standing at 0.8%. Return on equity (ROE) rose 0.4 p.p. to 9.1%.

The stability of ROA reflected, on the one hand, the 4.2% increase in net interest income and, to a lesser extent, the 20.5% decrease in the net flow of provisions and impairments. On the other hand, these positive contributions were offset by a 36.3% deterioration in income from financial operations, a 2.4% increase in operational costs and a 26.2% decrease in other results.

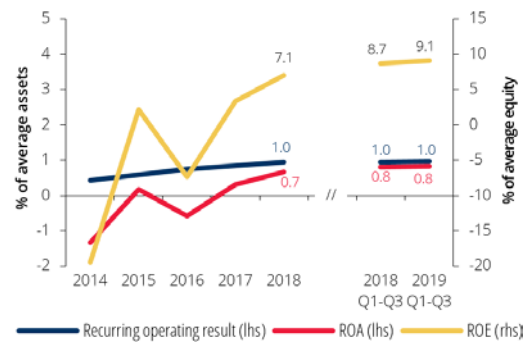
The banking system's efficiency, as measured by the cost-to-income ratio, decreased year on year, reflecting the said increase in operational costs, which was greater than growth in total operating income.

Solvency

In the third quarter of 2019, the total capital ratio rose by 0.3 p.p. to 16.4% as a reflection of the issue of additional Tier 1 and Tier 2 eligible instruments by two larger institutions.

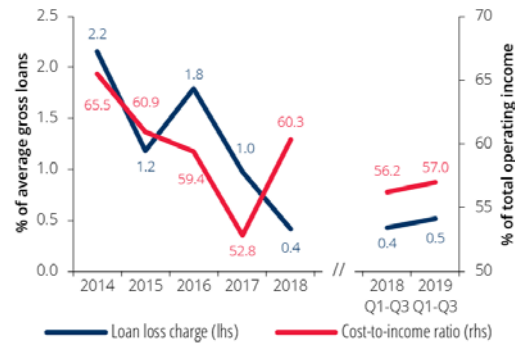
The leverage ratio rose by 0.1 p.p. to 7.8%, remaining above the minimum benchmark defined by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021).

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



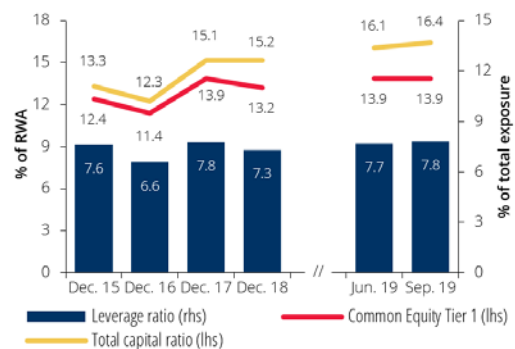
Source: Banco de Portugal.

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	Sep. 18	Jun. 19	Sep. 19
Assets									
Loans to customers (net of impairments)	(1)	%	60.0	60.7	60.6	59.7	59.4	59.9	59.8
Debt securities (net of impairments)	(1)	%	18.3	18.5	19.2	21.4	21.3	22.2	22.3
Portuguese government debt securities (gross value)	(2)	%	7.1	7.6	8.3	8.8	8.8	8.7	8.4
Total assets		€ billion	407.6	386.2	381.3	384.7	384.0	396.4	397.2
Total assets / GDP (nominal)		%	226.8	207.1	194.6	188.7	190.0	191.1	189.8
Liquidity and funding									
Central bank funding	(1)	%	7.0	6.4	6.3	5.3	5.3	4.9	4.7
Interbank financing (net of interbank assets)	(1)	%	4.7	5.5	5.6	6.1	6.4	5.6	5.1
Customer deposits	(1)	%	62.4	63.6	65.5	67.1	66.4	67.9	67.9
Liabilities represented by debt securities	(1)	%	7.5	6.1	4.8	4.2	4.3	3.8	3.9
Equity	(1)	%	8.1	7.7	9.5	9.1	9.3	9.1	9.3
Loan-to-deposit (Ltd) ratio	(3)	%	96.1	95.5	92.5	89.0	89.5	88.2	88.0
Highly liquid assets	(4)	%	n.d.	11.3	14.8	17.1	15.8	18.6	18.6
Liquidity coverage ratio (LCR)	(5)	%	n.d.	150.8	173.5	196.4	184.9	212.3	210.9
Asset quality									
Non-performing loans (gross value)		€ million	49,818	46,361	37,001	25,856	31,171	23,452	21,736
Non-performing loans (net of impairments)		€ million	29,512	25,364	18,728	12,435	14,541	11,208	10,118
NPL ratio - Total	(6)	%	17.5	17.2	13.3	9.4	11.3	8.3	7.7
NPL ratio - Households	(6)	%	9.4	8.7	7.1	5.1	6.1	4.4	4.0
NPL ratio - Non-financial corporations	(6)	%	28.3	29.5	25.2	18.5	22.1	16.6	15.7
NPL ratio net of impairments - Total	(7)	%	10.4	9.4	6.7	4.5	5.3	4.0	3.6
NPL impairment coverage ratio - Total	(8)	%	40.8	45.3	49.4	51.9	53.4	52.2	53.5
Coverage ratio - Households	(8)	%	36.2	35.4	37.1	40.9	39.7	41.1	42.2
Coverage ratio - Non-financial corporations	(8)	%	44.4	48.9	53.9	56.3	58.7	57.0	58.5
Profitability ^(b)									
Return on assets (ROA)	(9)	%	0.2	-0.6	0.3	0.7	0.8	0.8	0.8
Recurring operating result	(10)	%	0.6	0.7	0.8	1.0	1.0	1.0	1.0
Return on equity (ROE)	(11)	%	2.2	-7.3	3.3	7.1	8.7	9.2	9.1
Profit or loss for the year		€ million	324	-1,244	-88	1,078	2,256	2,178	2,272
Cost-to-Income	(12)	%	60.9	59.4	52.8	60.3	56.2	57.2	57.0
Loan loss charge	(13)	%	1.2	1.8	1.0	0.4	0.4	0.4	0.5
Solvency									
Common Equity Tier 1 (CET 1)	(14)	%	12.4	11.4	13.9	13.2	13.5	13.9	13.9
Additional Tier 1 (AT 1)	(14)	%	0.2	0.3	0.6	0.8	0.7	1.0	1.1
Tier 2	(14)	%	0.7	0.6	0.7	1.2	1.2	1.2	1.5
Leverage ratio	(15)	%	7.0	7.6	7.8	7.3	7.5	7.7	7.8
Average risk weight	(16)	%	60.6	58.9	56.0	54.4	55.2	53.7	53.6

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.

