# PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

4TH QUARTER 2019

BANCO DE PORTUGAL
EUROSYSTEM

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### Balance-sheet structure

Total assets decreased by 1.3% in the 4th quarter of 2019. This was largely linked to the sale of subsidiaries abroad by one of the major Portuguese banks. Developments in assets reflected the reduction in the portfolio of loans to customers (-1.3%) and exposure to public debt securities (-3.9%).

Central bank funding decreased by 7.0% to 4.4% of assets. The loan-to-deposit ratio reached 87.3% (-0.7 p.p.), due to a higher decrease in the loan portfolio than in customer deposits (0.5%). These decreases were also linked to the aforementioned activity abroad.

The liquidity coverage ratio increased by 7.5 p.p. to 218.4%, benefiting from the performance of highly liquid assets.

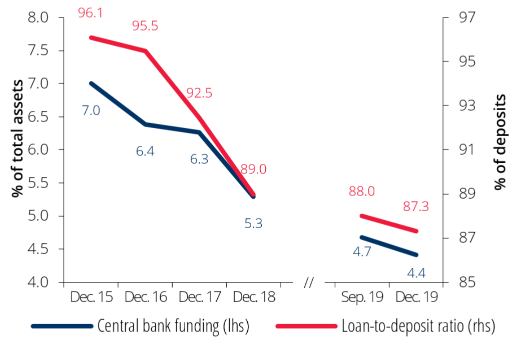
### Asset quality

Non-performing loans (NPLs) decreased by around €4.5 billion (20.9%) in the 4th quarter of 2019. This resulted in a decline in the NPL ratio to 6.1% (-1.6 p.p.). The NPL ratio net of impairments reached 3.0% (-0.6 p.p.).

At the sectoral level, NPL stocks decreased by around €3.7 billion for non-financial corporations (NFCs) and €0.4 billion for households, as the respective NPL ratios fell by 3.5 p.p. and 0.3 p.p. to 12.3% and 3.7%.

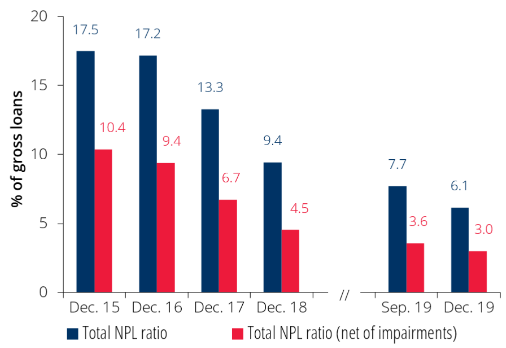
The NPL impairment coverage ratio declined from 53.5% to 51.3%. This coverage ratio fell by 2.2 p.p. to 56.3% in the NFC segment, while in the household segment it increased by 0.2 p.p., to stand at 42.3%.

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



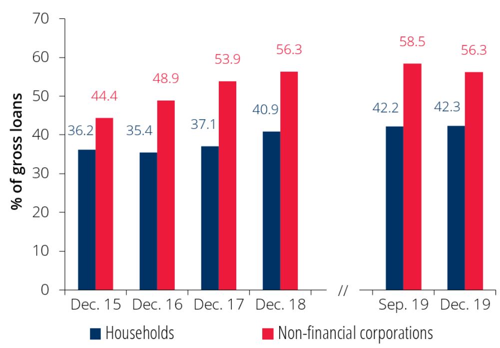

Source: Banco de Portugal.

**Chart 2 • NPL ratios**




Source: Banco de Portugal.

**Chart 3 • NPL coverage ratios**




Source: Banco de Portugal.

## Profitability

In 2019 return on assets (ROA) increased from 2018, to stand at 0.75%. Return on equity (ROE) rose to 8.1%.

ROA developments chiefly reflected a net reversal of provisions and, to a lesser extent, the increase in profits from financial operations and net interest income. However, this positive contribution to ROA was mitigated by an increase in impairment and less so by an increase in operational costs and a deterioration of the item other profit or loss.

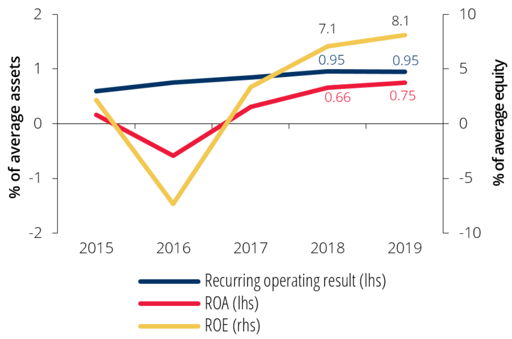
The cost-to-income ratio fell 1.1 p.p. to 59.2% as a result of a higher increase in total operating income than in operational costs. The loan loss charge stood at 0.50%, up by 0.09 p.p. from 2018 due to an increase in credit impairments above that of the portfolio of loans to customers.

## Solvency

In the 4th quarter of 2019 the total capital ratio and the Common Equity Tier 1 (CET1) ratio stood at 16.7% and 14.1% respectively, both increasing by 0.3 p.p. The 1.8% decrease in risk-weighted assets was the main driver behind this increase.

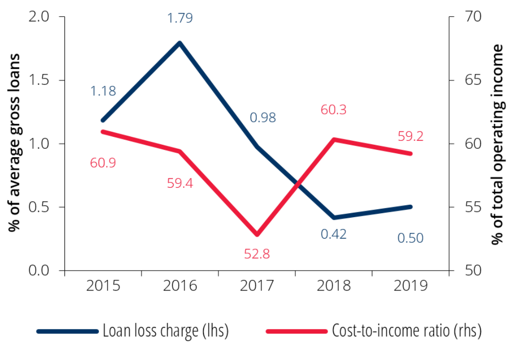
The leverage ratio remained well above the minimum benchmark set by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021).

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



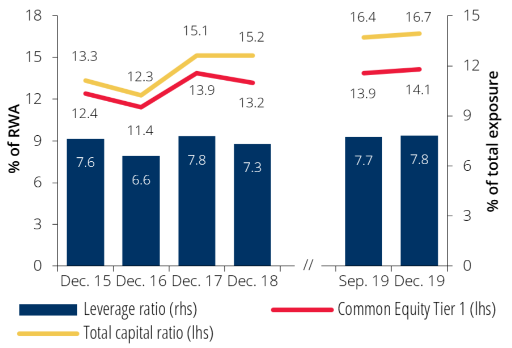

Source: Banco de Portugal.

**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. 19 | Dec. 19 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Loans to customers (net of impairments) | (1) | % | 60.0 | 60.7 | 60.6 | 59.7 | 59.8 | 59.7 |
| Debt securities (net of impairments) | (1) | % | 18.3 | 18.5 | 19.2 | 21.4 | 22.3 | 21.9 |
| Portuguese government debt securities (gross value) | (2) | % | 7.1 | 7.6 | 8.3 | 8.8 | 8.4 | 8.0 |
| Total assets | | € billion | 407.6 | 386.2 | 381.3 | 384.7 | 397.2 | 392.2 |
| Total assets / GDP (nominal) | | % | 226.8 | 207.1 | 194.6 | 188.3 | 188.9 | 184.8 |
| **Liquidity and funding** | | | | | | | | |
| Central bank funding | (1) | % | 7.0 | 6.4 | 6.3 | 5.3 | 4.7 | 4.4 |
| Interbank financing (net of interbank assets) | (1) | % | 4.7 | 5.5 | 5.6 | 6.1 | 5.1 | 5.9 |
| Customer deposits | (1) | % | 62.4 | 63.6 | 65.5 | 67.1 | 67.9 | 68.4 |
| Liabilities represented by debt securities | (1) | % | 7.5 | 6.1 | 4.8 | 4.2 | 3.9 | 4.1 |
| Equity | (1) | % | 8.1 | 7.7 | 9.5 | 9.1 | 9.3 | 9.3 |
| Loan-to-deposit (Ltd) ratio | (3) | % | 96.1 | 95.5 | 92.5 | 89.0 | 88.0 | 87.3 |
| Highly liquid assets | (4) | % | n.d. | 11.3 | 14.8 | 17.1 | 18.6 | 19.5 |
| Liquidity coverage ratio (LCR) | (5) | % | n.d. | 150.8 | 173.5 | 196.4 | 210.9 | 218.4 |
| **Asset quality** | | | | | | | | |
| Non-performing loans (gross value) | | € million | 49,818 | 46,361 | 37,001 | 25,852 | 21,736 | 17,194 |
| Non-performing loans (net of impairments) | | € million | 29,512 | 25,364 | 18,728 | 12,432 | 10,118 | 8,372 |
| NPL ratio - Total | (6) | % | 17.5 | 17.2 | 13.3 | 9.4 | 7.7 | 6.1 |
| NPL ratio - Households | (6) | % | 9.4 | 8.7 | 7.1 | 5.1 | 4.0 | 3.7 |
| NPL ratio - Non-financial corporations | (6) | % | 28.3 | 29.5 | 25.2 | 18.5 | 15.7 | 12.3 |
| NPL ratio net of impairments - Total | (7) | % | 10.4 | 9.4 | 6.7 | 4.5 | 3.6 | 3.0 |
| NPL impairment coverage ratio - Total | (8) | % | 40.8 | 45.3 | 49.4 | 51.9 | 53.5 | 51.3 |
| Coverage ratio - Households | (8) | % | 36.2 | 35.4 | 37.1 | 40.9 | 42.2 | 42.3 |
| Coverage ratio - Non-financial corporations | (8) | % | 44.4 | 48.9 | 53.9 | 56.3 | 58.5 | 56.3 |
| **Profitability** [b] | | | | | | | | |
| Return on assets (ROA) | (9) | % | 0.16 | -0.59 | 0.31 | 0.66 | 0.84 | 0.75 |
| Recurring operating result | (10) | % | 0.59 | 0.75 | 0.85 | 0.95 | 0.97 | 0.95 |
| Return on equity (ROE) | (11) | % | 2.2 | -7.3 | 3.3 | 7.1 | 9.1 | 8.1 |
| Profit or loss for the year | | € million | 324 | -1,244 | -88 | 1,078 | 2,272 | 1,792 |
| Cost-to-Income | (12) | % | 60.9 | 59.4 | 52.8 | 60.3 | 57.0 | 59.2 |
| Loan loss charge | (13) | % | 1.18 | 1.79 | 0.98 | 0.42 | 0.52 | 0.50 |
| **Solvency** | | | | | | | | |
| Common Equity Tier 1 (CET 1) | (14) | % | 12.4 | 11.4 | 13.9 | 13.2 | 13.9 | 14.1 |
| Additional Tier 1 (AT 1) | (14) | % | 0.2 | 0.3 | 0.6 | 0.8 | 1.1 | 1.1 |
| Tier 2 | (14) | % | 0.7 | 0.6 | 0.7 | 1.2 | 1.5 | 1.5 |
| Leverage ratio | (15) | % | 7.0 | 7.6 | 7.8 | 7.3 | 7.7 | 7.8 |
| Average risk weight | (16) | % | 60.6 | 58.9 | 56.0 | 54.4 | 53.6 | 53.3 |

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.