Activity Report

Portuguese Banking Association

2019 | Annual

Contents

Foreword

The Annual Activity Report is a publication of the Portuguese Banking Association (APB) that analyses the aggregate banking activity developed by its member financial institutions[1]. As of 31 December 2019, the APB represented 23 Members, including 29 financial institutions that together accounted for 94.6% of the total value of the Portuguese consolidated banking assets.

The analysis provided in the Annual Activity Report covers the activity undertaken in Portugal and abroad (through representative offices and branches) by the financial institutions (banks, savings banks and mutual agricultural savings banks) that are Members of the APB, and is based on aggregate, financial and non-financial, information obtained by adding up each institution's individual financial statements and other management indicators. Exceptions are the aggregate information relative to Members' international business activity and solvency, which are based on consolidated data.

The Annual Activity Report includes an Annex in excel format containing the aggregated, financial and non-financial, information about the Members.

The analysis about human resources and banking coverage indicators presented in this Report focuses on the member financial institutions' performance in 2019, viewed in the context of the last three years. However, as regards the financial performance, the comparative analysis was only made vis-à-vis the previous year, given the IFRS 9 adoption by member institutions' in 2018 of – Financial instruments[2], to replace IAS 39 - Financial instruments: Recognition and Measurement (in force up to 31 December 2017).

The 2019 Annual Activity Report is based on the information provided by 19 Members (25 financial Institutions). Where the number of Members on which the analysis is based is different from the sample this is duly indicated.

[1] References to Financial Institutions made throughout this Activity Report refer to the APB's member Banks.

Executive Summary

2019 was marked by a further global economic growth deceleration due to the disruptions in international trade caused by rising geopolitical strains between the US and China. In the financial markets, the main equity market indices registered significant gains, while public debt yields continued to shrink. Toward the end of the year an outbreak of a novel coronavirus was identified in China and rapidly took on global proportions. The COVID-19 pandemic had severe consequences for public health and economic activity in 2020.

The Portuguese economy slowed down once again, with both internal and external demand reducing their contribution to growth. On the public finances front, the fiscal balance was positive for the first time since 1973, while the public debt ratio continued to decline, underpinning the improvement of the ratings on the Portuguese Republic by S&P and DBRS. The year was also marked by the continuing reduction of unemployment and inflation.

In 2019 the Portuguese banking system continued to deliver significant improvements in terms of efficiency, liquidity, asset quality, profitability and solvency. The progress made is particularly relevant as, on top of the significant challenges already affecting the performance of banking activity (environment of low interest rates; new business model framework; growing competition by new operators; the weight of legislation/regulations) the COVID-19 pandemic represented new ones, namely an economic scenario of deep recession, coupled with a high level of uncertainty about a recovery.

At 31 December 2019, the financial institutions' aggregate assets totalled approximately 330.1 billion euros, a slight increase of 0.4% on the previous year. Loans to customers (gross) contracted by 1.1% yoy, continuing to reflect the deleveraging process that followed the sovereign debt crisis, albeit now at a much slower pace than in previous years. In 2019 significant progress continued to be made towards reducing NPL that declined by approximately 8.5 billion euros. The NPL ratio decreased by 4 p.p., to 6.2%, while the impairment coverage ratio rose by 0.5 p.p., to 52.9%.

On the liabilities side, customer deposits increased by 3.8% yoy and continued to reinforce its weight in the financial institutions' funding structure - from 69% in 2018 to 71.6% in 2019.

The aggregate profitability of financial institutions increased, essentially reflecting a net reversal of impairments that more than offset the deterioration in banking income. Net profit was 954 million euros (which compares with 530 million euros in 2018).

The aggregate CET1 ratio and total solvency ratio reached 15.2% and 17.9%, respectively, both showing a significant increase compared to the previous year (+1.7 p.p. and +2.6 p.p.).

I. Macroeconomic Environment

2019 was marked by a further global economic growth deceleration due to the disruptions in international trade caused by rising geopolitical strains between the US and China. The world GDP grew by 2.5%, the lowest growth rate in the decade and 0.5 p.p. lower than in the previous year. From the large economies, only Japan and the United Kingdom registered an increase in the growth rate of GDP, to 0.7% and 1.4%, respectively. Conversely, the US, China, the Euro Area, India and Russia all decelerated, having grown by 2.3%, 6.1%, 1.3%, 5.0% and 1.3%, respectively.

On the monetary policy front, there was a reversal in the previous normalisation trend. The US Federal Reserve made three cuts to the federal funds rate, lowering it to the range of 1.50%-1.75% at the end of 2019. The European Central Bank cut the deposit facility rate by 10 bps, to -0.5%, maintaining the other rates unchanged, and announced that net purchases would be restarted under the asset purchase programme (APP) at a monthly pace of 20 billion euros as from 1 November.

In the financial markets, the FTSE 100, S&P 500, Euro Stoxx 600 and Nikkei 225 indices gained 12.1%, 28.9%, 23.1% and 18.2%, respectively. On the foreign exchange market, the Euro lost 1.9% against the dollar and 4.9% against the sterling. As to the 10-year yields, the US Treasury slid by 77 bps, to 1.92%, hitting a low of 1.47% in August; the German Bund lost 43 bps, to -0.19%, with a low of -0.70% in August; and the British Gilts closed the year at 0.83%, down by 44 bps, reaching a low of 0.41% in September. As to prices, world inflation remained stable, at 2.3%, while the price of oil - of both Brent and WTI - fell by $7/barrel, to $64/barrel and $57/barrel, respectively, on annual average terms.

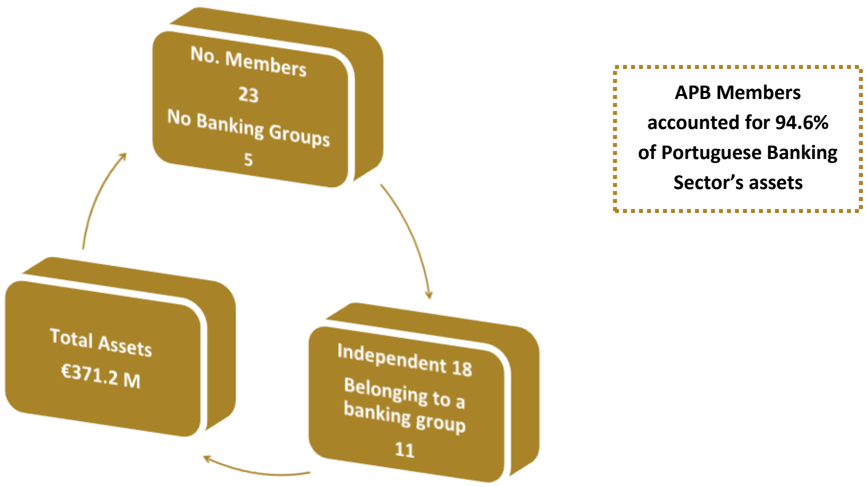
In Portugal, the economy once again slowed down, with GDP growing by 2.2%, which is 0.4 p.p. less than in 2018. Both internal and external demand reduced their contribution to growth. Domestic demand lowered its contribution by 0.3 p.p., to 2.8 p.p., due to the sharp slowdown of private consumption (-0.7 p.p.) and despite the acceleration of investment and public consumption. The contribution of net external demand dropped by 0.2 p.p., to -0.6 p.p., driven by a sharper deceleration of exports than of imports. The year was also marked by the continuing reduction of the unemployment and inflation rates, which fell to 6.5% and 0.3%, respectively. With Gross Capital Formation rising at a higher pace than Gross Savings, the country's net lending capacity declined once again, to 0.6% of GDP. On the public finances front, the fiscal balance was positive for the first time since 1973, standing at 0.2% of GDP, which is 0.6 p.p. more than in 2018. The public debt ratio maintained a downward trend, standing at 117.7% of GDP, or 4.3 p.p. less than in the previous year. This performance underpinned the improvement of the ratings on the Portuguese Republic assigned by S&P (from BBB- to BBB) and DBRS (from BBB to BBB (high)). The ratings assigned by Moody's and Fitch remained stable at Baa3 and BBB, respectively. On the public debt front, the yield on the 10-year Treasury bonds on the secondary market followed a very positive trend, having shrank by 127 bps, to 0.45%. The capital markets performance was also positive, with the PSI-20 index rising by 10.2% in the full year.

Toward the end of the year an outbreak of a novel coronavirus was identified in China and rapidly took on global proportions. The COVID-19 pandemic had severe consequences for public health and on economic activity in 2020.

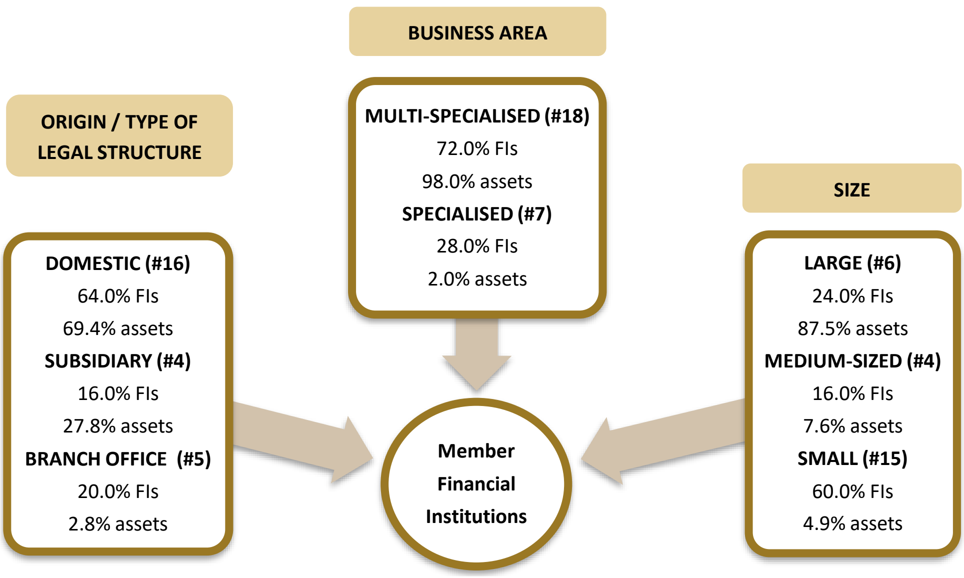
II. Review of the Member Financial Institutions

The APB represents an expressive share of the Portuguese banking sector: at 31 December 2019, it had 23 Members, which comprised 29 financial institutions, which accounted for 94.6% of the Portuguese banking system's consolidated assets.

Figure 1: Main features of APB's members[2]



Source: APB, Bank of Portugal. Data based on information for all the APB members at 31 December 2019. Consolidated data.



Source: IFs, APB. Data based on the information provided by 19 Members (25 financial Institutions) relative to 31 December 2019.

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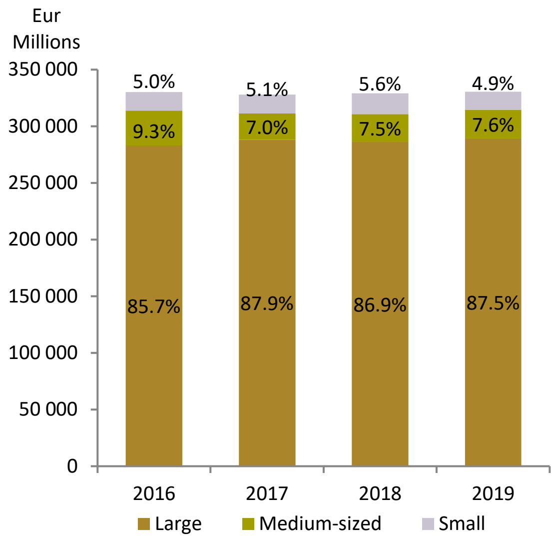
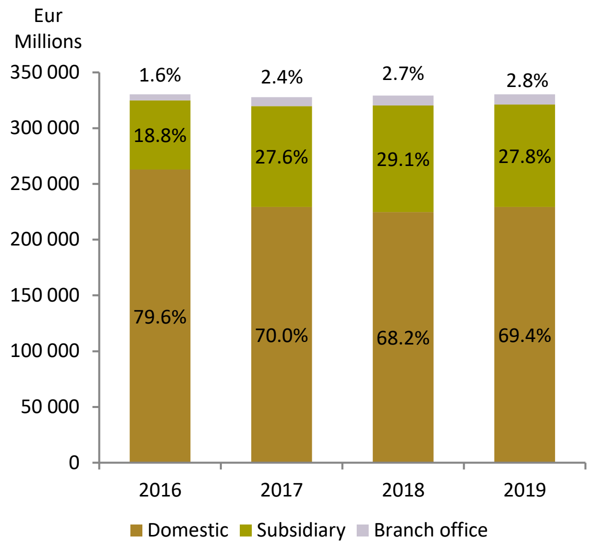
[2] Large financial institutions represent 5% or more of aggregate assets; medium-sized represent between 1% and 5% and small financial institutions represent 1% or less of aggregate assets. Financial institutions' business is classified as "specialised" if they engage exclusively or mostly in one of the following activities: consumer credit, mortgages, car loans and investment banking. In all other cases, they are classified as multi-specialised.

Graph 1: Evolution of aggregate assets

a) By size



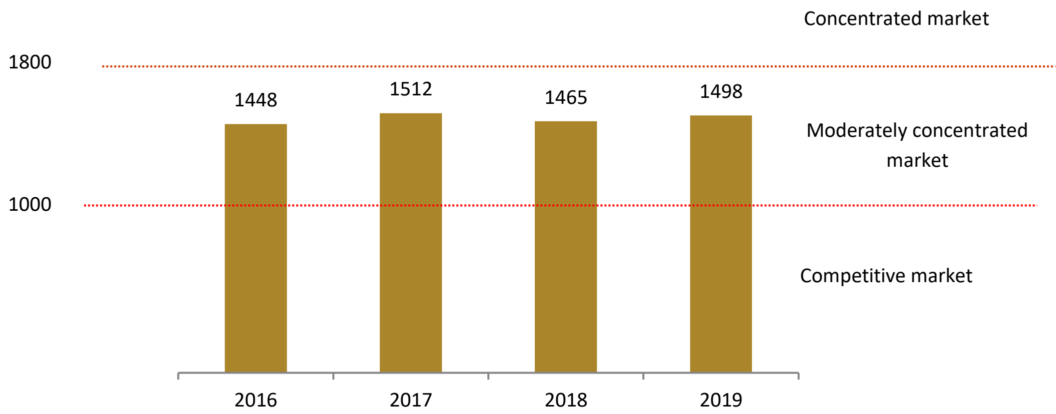
b) By origin / type of legal structure



Source: FIs, APB.

The five largest financial institutions had a market share in terms of total aggregate assets of 81.6%. According to the Herfindahl-Hirschman[3] index, the market is moderately concentrated (1,498), showing an increase of 33 points relative to the previous year.

Graph 2: Herfindahl Index



Source: FIs, APB.

[3] The Herfindahl index is calculated as the sum of the squares of the market shares by assets of the 25 financial institutions included in the sample. As a rule, a score of under 1,000 indicates low concentration, of 1,000 to 1,800 moderate concentration, and of over 1,800 high concentration

III. Human Resources

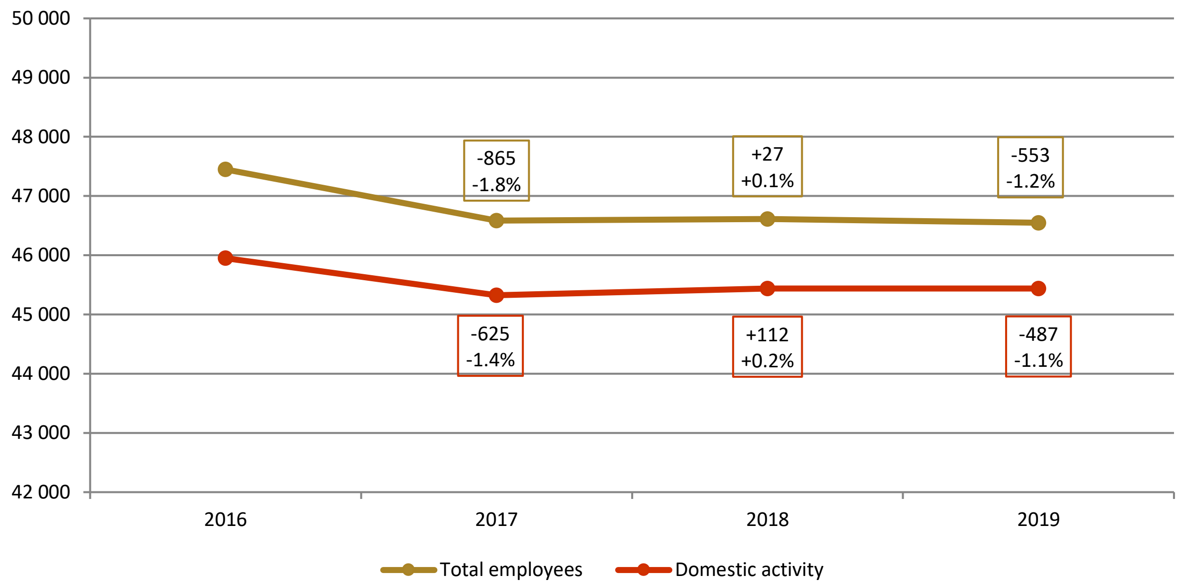
III.1. Evolution

In 2019, the Members of the APB employed 46,549 persons, which is 62 fewer than in December 2018. From the total workforce, 45,441 employees were allocated to the domestic activity and 1,108 to the international activity[4].

The evolution of human resources in the banking sector reflects the ongoing processes of resizing the organisational structures, in a context of profound changes in the banking business model and consequent need to improve operating efficiency. This evolution has also been driven by the need to tackle the challenges posed by the digital transformation processes, technological innovation and increased competition, in a context of growing risks at operational level, namely from money laundering and terrorist financing, and cybercrime.

It should be noted that the data are influenced by the distinct reality and specific nature of the business of one APB's Member, which continues to proceed to the recruitment of employees.

Graph 3: Evolution of total number of employees and annual percentage change



Source: FIs, APB.

As to the profile of the human resources working in the sector, the trends seen in the previous years were maintained, namely: i) increase in the share of the older age brackets (45 or older); ii) increase in the share of specific functions; iii) increase in the share of employees with university-level

[4] Includes branches abroad and representative offices.

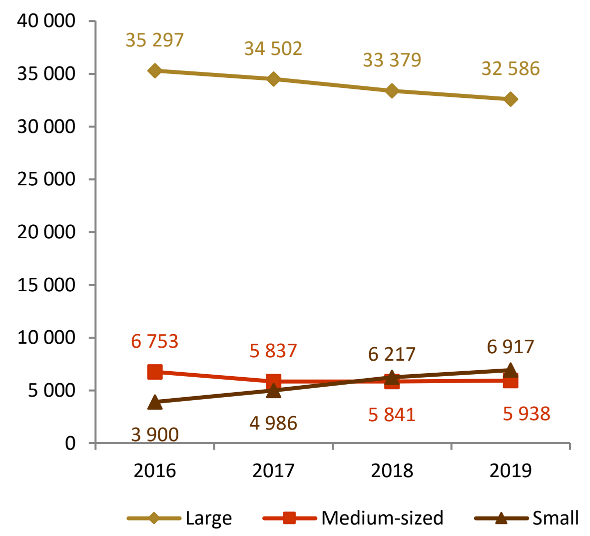
qualifications; and iv) increase in the representativeness of women, who now account for 50% of the total workforce.

More specifically, at the end of 2019, the domestic activity total workforce, of the member financial institutions, was broken down as follows:

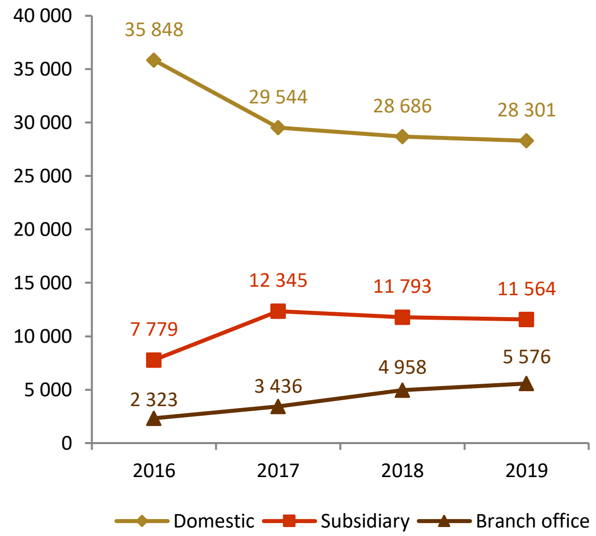
- 50.0% were women
- 50.8% were in the age bracket of 45 or older
  - Employees average age: 48.9 years
  - Employees average seniority: 21.3 years
- 57.3% worked in the banking sector for more than 15 years
- 64.5% had university-level qualifications
- 53.6% held specialised jobs
- 56.5% worked in the commercial area
- 97.4% had permanent employment contracts

Graph 4: Evolution of number of employees in domestic activity

a) By size

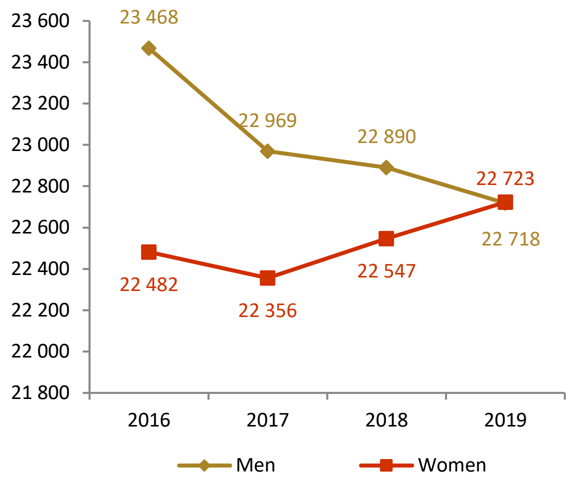


b) By origin / type of legal structure

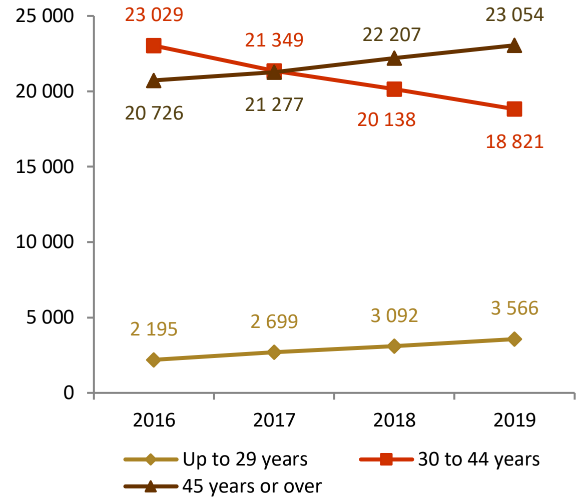


Source: FIs, APB.

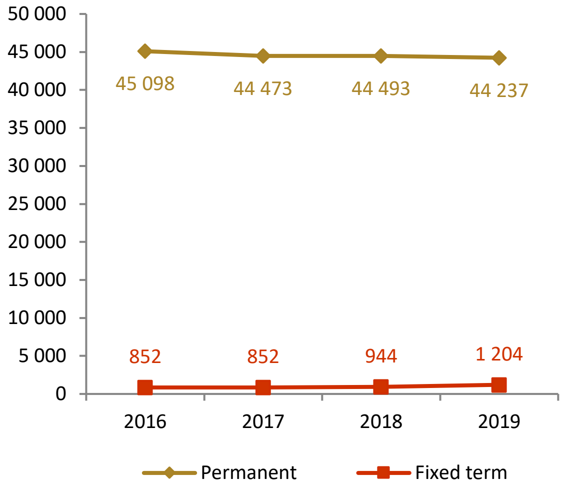
c) By gender



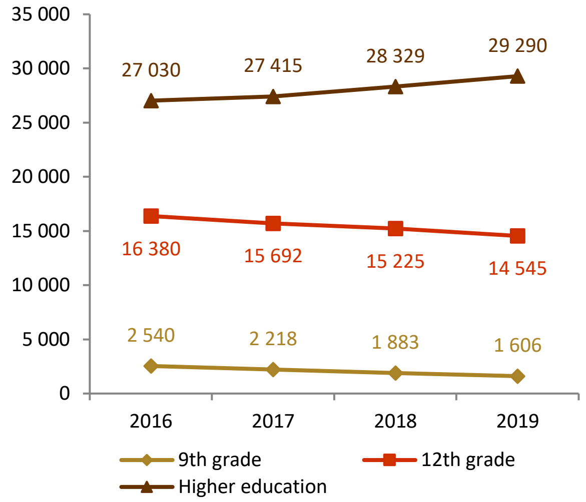
d) By age



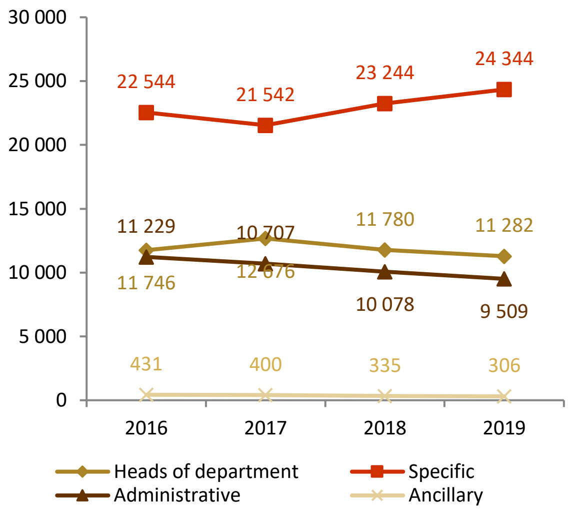
e) By type of employment contract



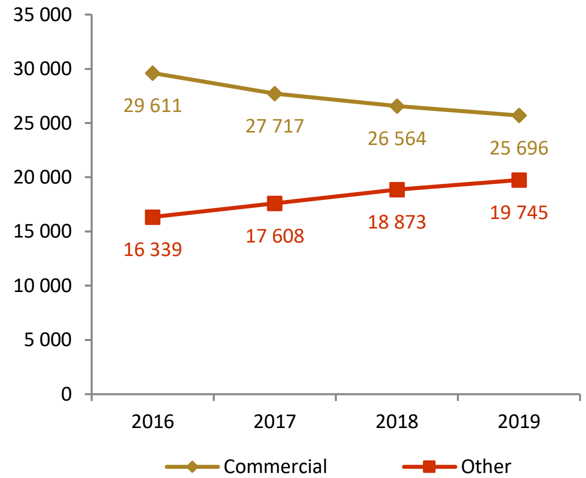
f) By academic qualifications



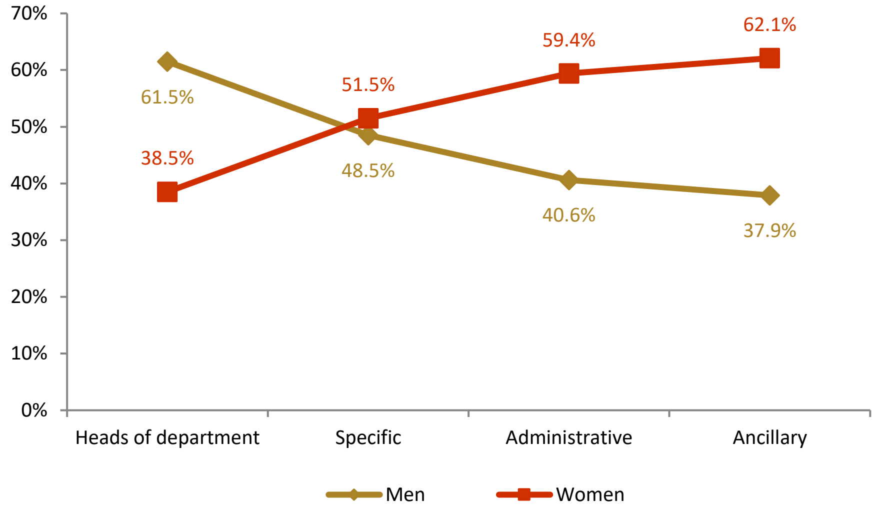
g) By position



h) By activity



i) By position and gender (2019)



Source: FIs, APB.

III.2. Training[5]

Training is more than ever considered a priority in light of the significant challenges that the sector is facing, namely arising from the need to adjust business models in a context of complex regulatory changes, digital transformation, and the emergence of new competitors. In 2019, investment in training totalled approximately 17.4 million euros, having increased by 7% relative to 2018, and corresponding to 1.4% of general administrative expenses.

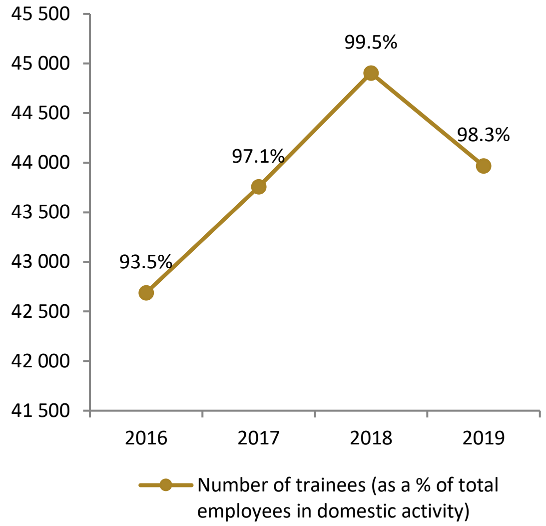
- Global training rate: 98.3%
- Number of trainees 43,969 (-2.1% vs. 2018)
- Total number of training hours 1,921,410 (+20.5% vs. 2018)
- Average number of training courses per trainee: 17.4 training courses (10.7 in 2018)
- Average number of training hours per employee: 43.7 hours/year (35.5 hours/year in 2018)
- Training courses breakdown by type: face-to-face - 47.8%; e-learning - 36.7%; other – 15.5%
- In-house training courses: 88.4% of the total (87.5% in 2018)
- Expenditure with external training entities: +15.0% relative to 2018 (52% of total training costs)

[5] Human resources training indicators are based on a sample of 21 financial institutions.

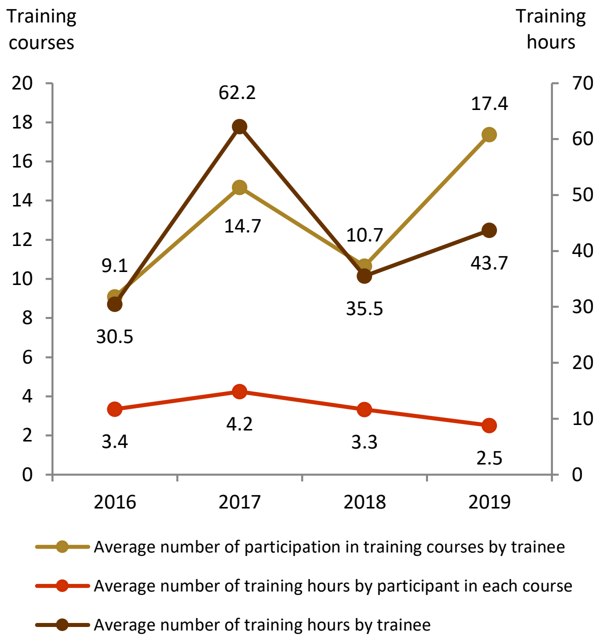
In 2019, regarding the main indicators related to training it is worth highlighting :

Graph 5: Training evolution

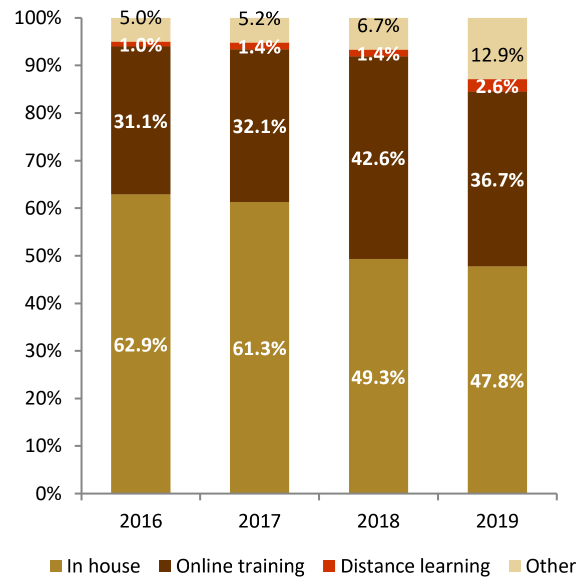
a) Number of trainees



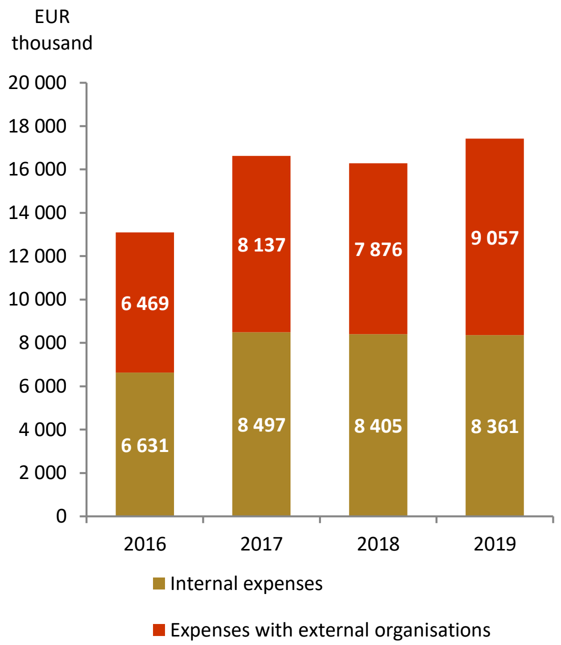
b) Participations and hours in training courses



c) Training methods



d) Training costs



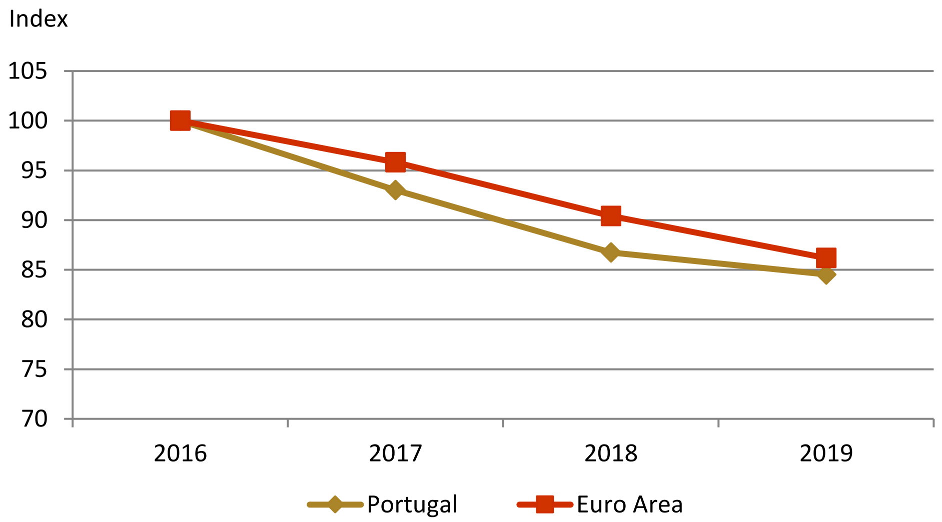
Source: FIs, APB.

IV. Banking Coverage Indicators

IV.1. Branch network in Portugal

At the end of 2019, the Members' branch network comprised 3,931 branches, which represents a yoy reduction of 2.5% (i.e., 102 fewer branches). The distribution networks' resizing process, carried out within a broader scope of deep transformation of the banking sector to address the challenges imposed by a new business model paradigm, resulted in a reduction of 719 branches between 2016 and 2019, which represents an average downsizing rate of 5.4% per year. Notwithstanding this reduction, the number of inhabitants per branch in Portugal (2,545) is still lower than the average in the Euro Area (2,663).

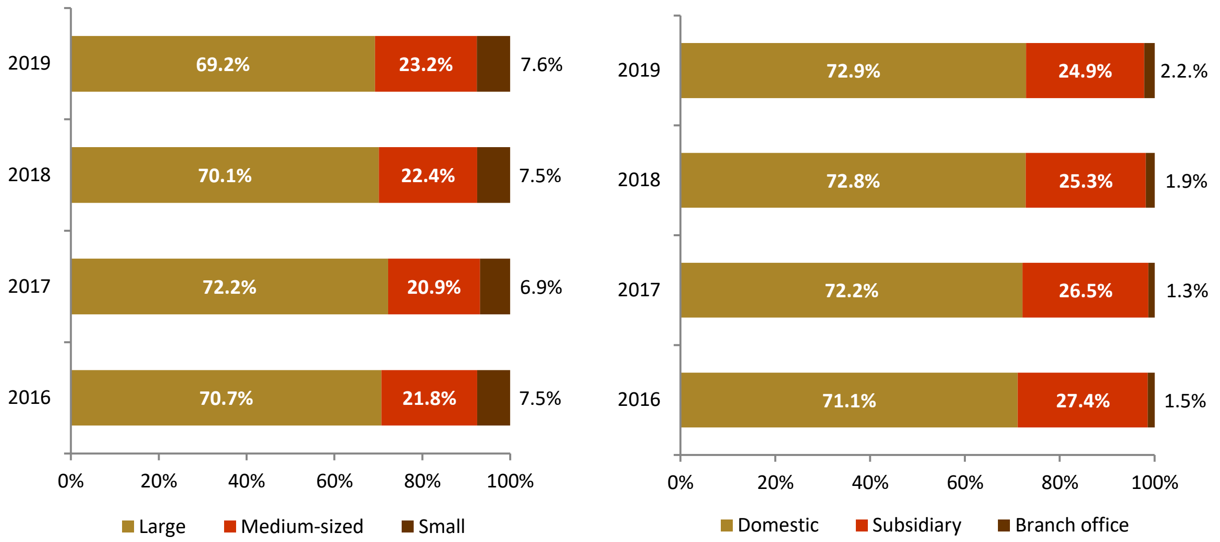
Graph 6: Evolution of total branches (2016 = 100)



Source: FIs, APB.

Graph 7: Representativity in terms of number of branches in Portugal as at 31 December

a) By size **b) By origin / type of legal structure**

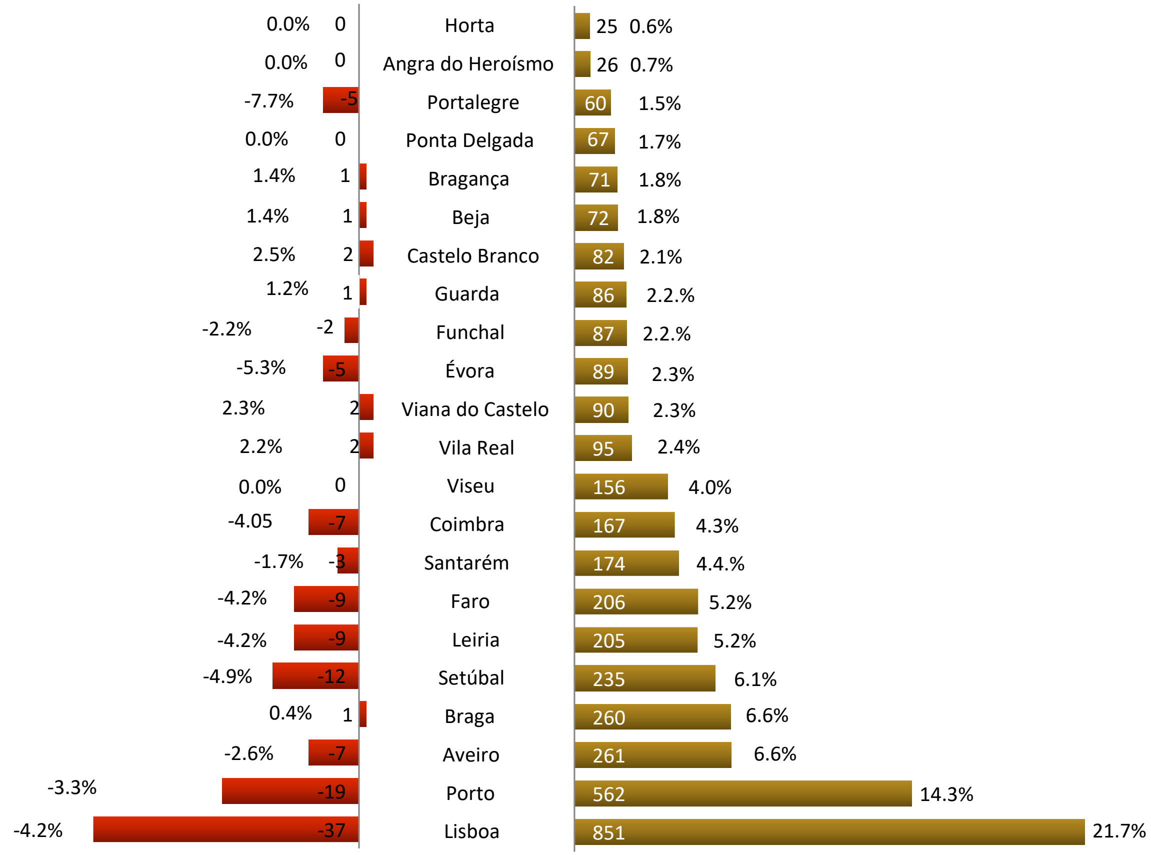


Source: FIs, APB.

Although the closure of branches occurred across all the Portuguese districts, Lisbon and Oporto continued to record the largest annual reductions, accounting together for approximately 55% of all branches closed in 2019. From 2016 to 2019, 320 branches were closed in these two districts, corresponding to 44.5% of the total branches closed in the country.

Graph 8: Branch network per district, as at 31 December 2019

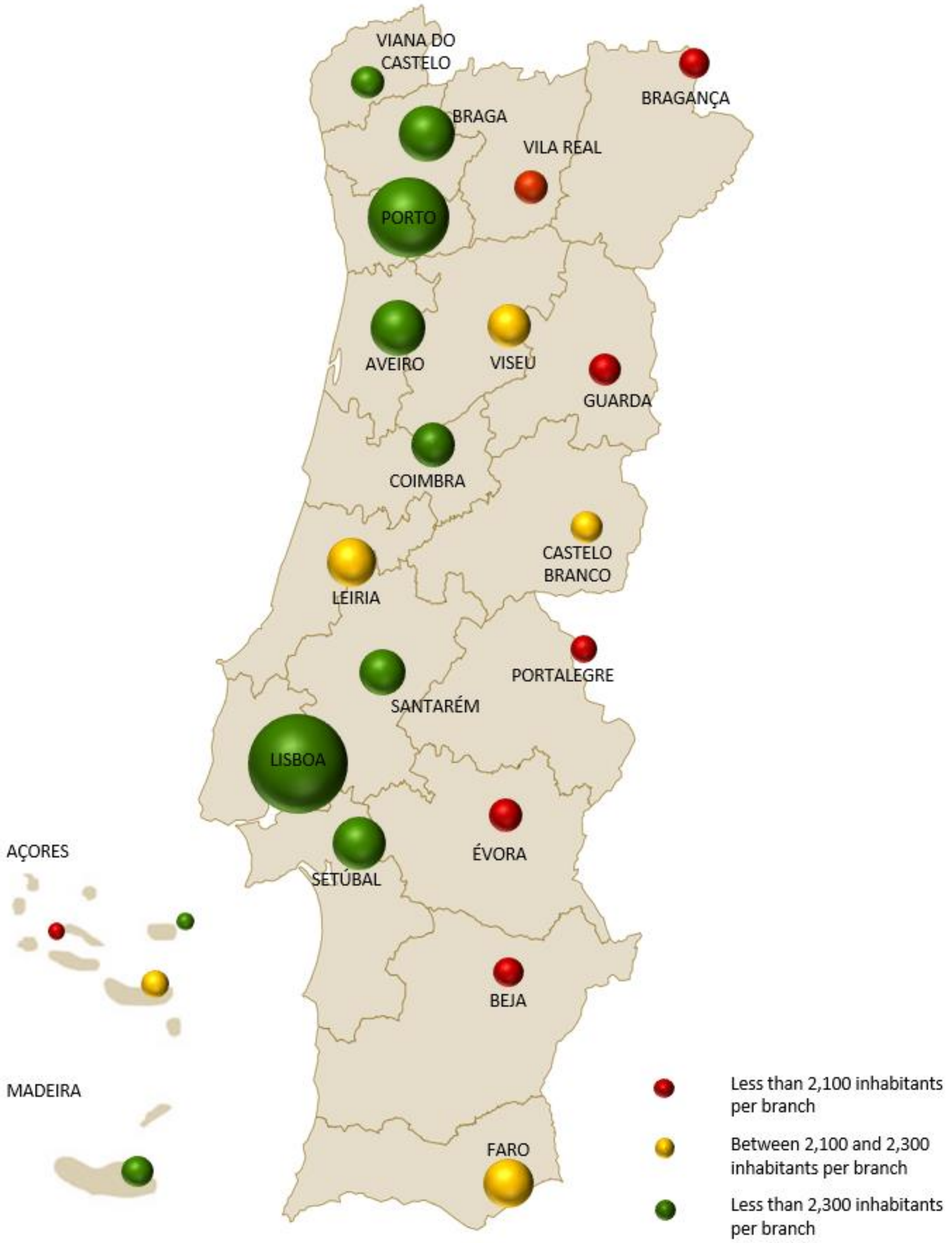
a) Absolute and percentual change in the number of branches against 31 December 2018 | **b) Branch network in absolute and percentual terms**



Source: FIs, APB.

Note: Does not include 4 mobile branches.

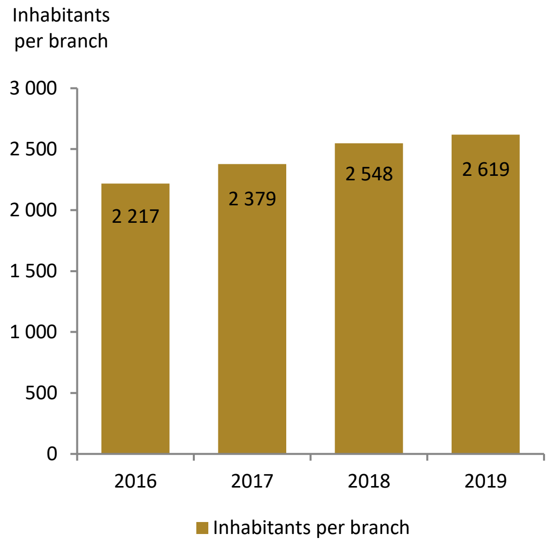
Figure 2: Branch distribution by district and number of inhabitants per branch, in each district at 31 December 2019



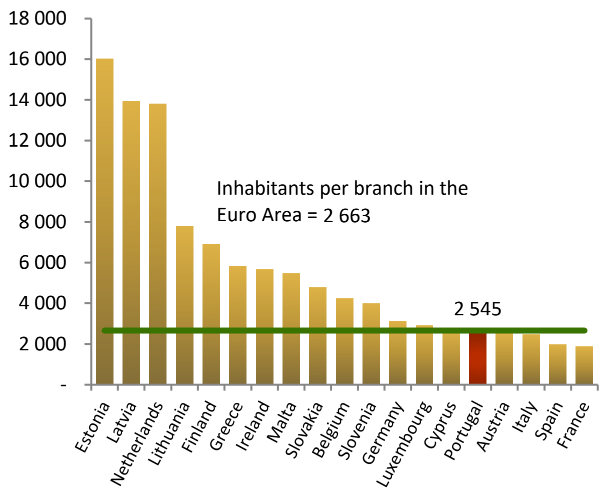
Source: FIs, National Statistics Institute (NSI), APB.

Note: The size of the bubbles indicates the absolute number of branches in the district, while the colour shows the number of inhabitants per branch. Does not include 4 mobile branches.

Graph 9: Change in the number of inhabitants per branch

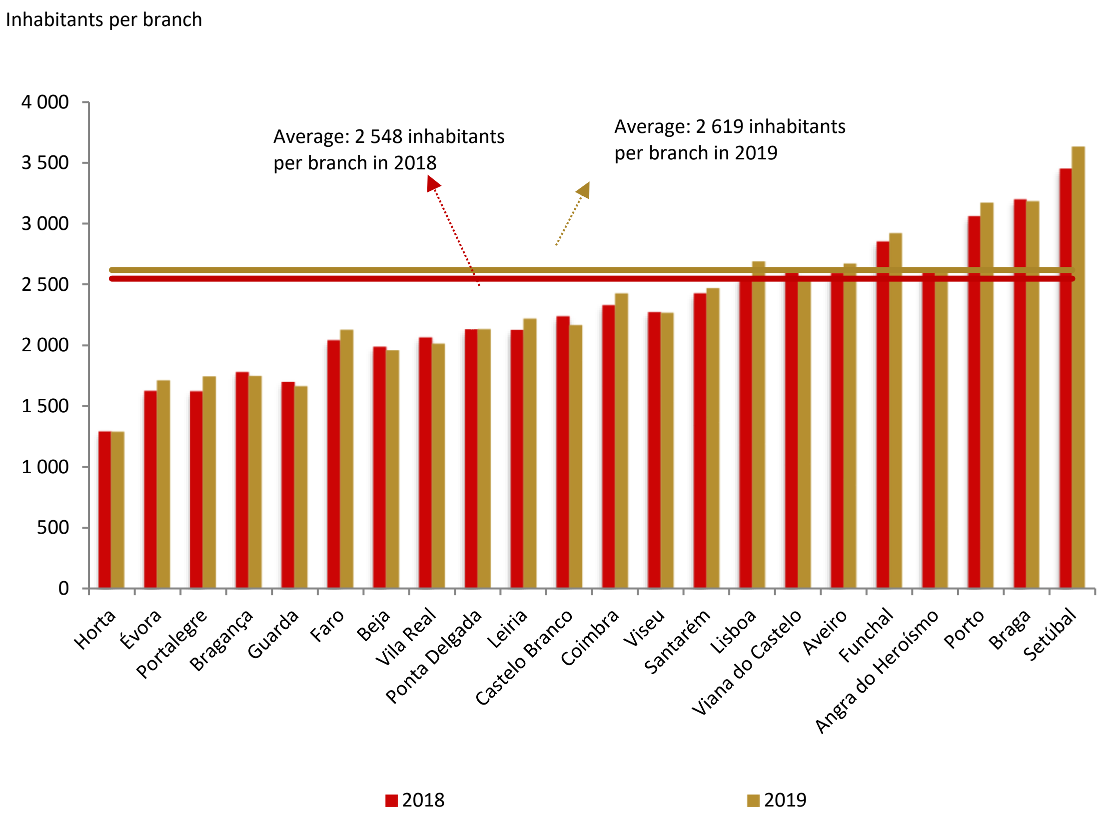


Source: FIs, APB, NSI.



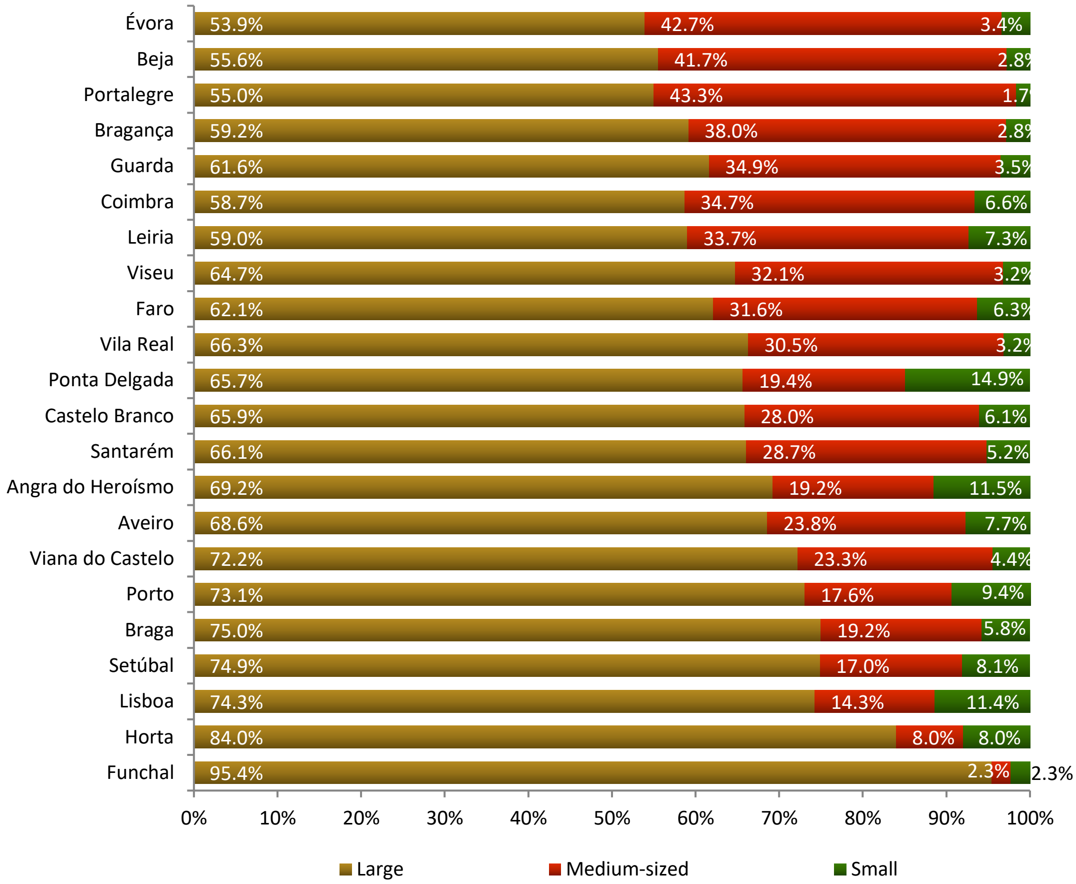
Source: Eurostat, ECB (including data for Portugal).

Graph 10: Number of inhabitants per branch in each district



Source: FIs, APB. Does not include 4 mobile branches.

Graph 11: Percentage breakdown of branches by size and district, at 31 December 2019

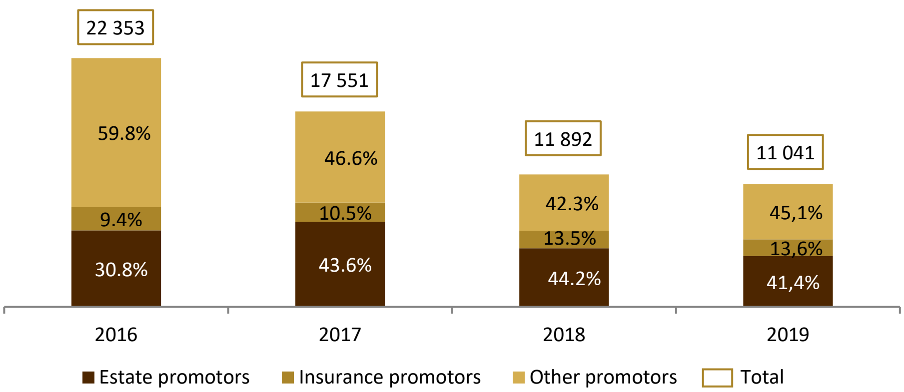


Source: FIs, APB. Does not include 4 mobile branches.

External promoters

Financial institutions also use external promoters as a distribution channel. They sell bank products but are not integrated in the financial institutions. Examples of external promoters are real estate agents and financial consultants.

Graph 12: Number and type of external promotors

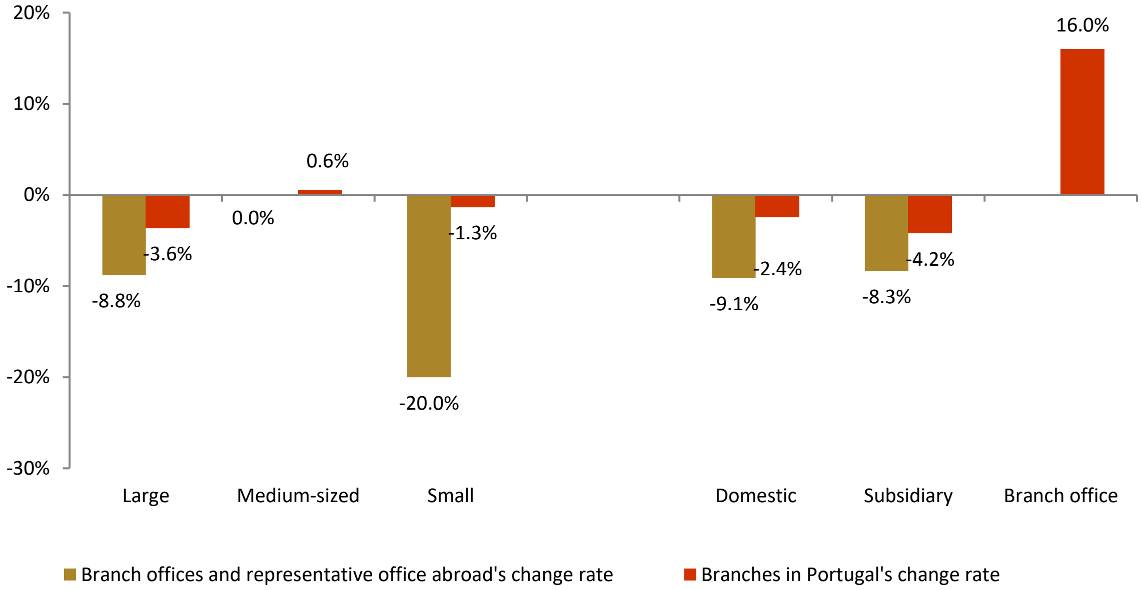


Source: FIs, APB.

IV.2. Branches and representative offices abroad

At the end of 2019, financial institutions' branch network abroad consisted of a total of 121 units (-9% compared to 2018): 90 units in Europe, 10 in the American continent, 19 in Asia, and 2 in Africa. In geographical terms, financial institutions' networks of branches and representative offices are mainly concentrated in Europe, and in particular in France, Spain and Switzerland.

Graph 13: Change in the number of branches in Portugal and in the number of branches and representative offices abroad broken down by size and origin /type of legal structure



Source: FIs, APB.

IV.3. ATMs and homebanking

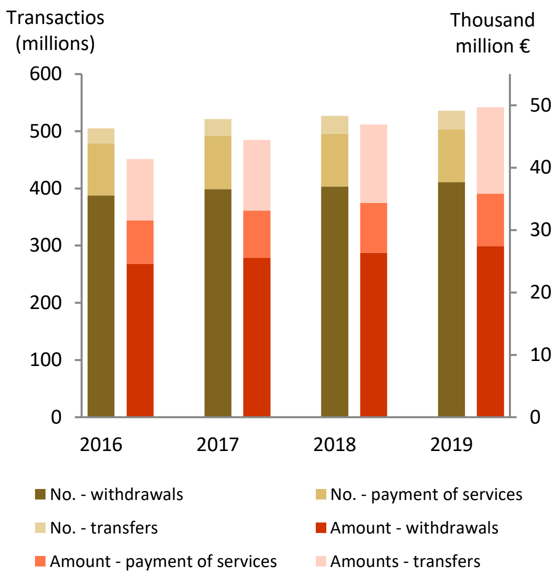
In 2019, financial institutions had a total of 14,481 ATMs[6], which is still one of the highest numbers in Europe[7], despite a small 0.4% reduction compared to 2018,. This year, financial institutions represented 96.1% of the Multibanco network, with 77.3% of Members' ATMs being integrated in the Multibanco system, and the remaining 22.7% belonging to own brand networks.

ATM transactions increased in both amount (+5.8% relative to 2018) and number (+1.7% relative to 2018). In terms of amounts by type of transaction, there was an increase in service payments (5.4%), cash withdrawals (4%), and transfers (10%). By number of transactions, service payments

[6] Automated Teller Machine.
[7] The sample used for the analysis of the ATM network includes 11 member financial institutions.

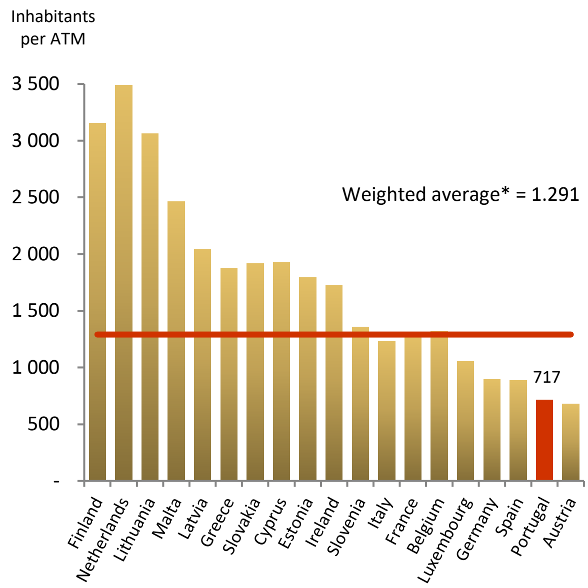
decreased by 0.6%, while transfers increased by 5.2% and cash withdrawals by 2%. These changes resulted in a 4% increase in the average amount per transaction, to 92.65 euros.

Graph 14: Transactions in ATMs



Source: SIBS

Graph 15: Inhabitants per ATM in the Euro Area



Source: Eurostat, ECB.

Note: *Average number of inhabitants per ATM weighted by the population of each country.

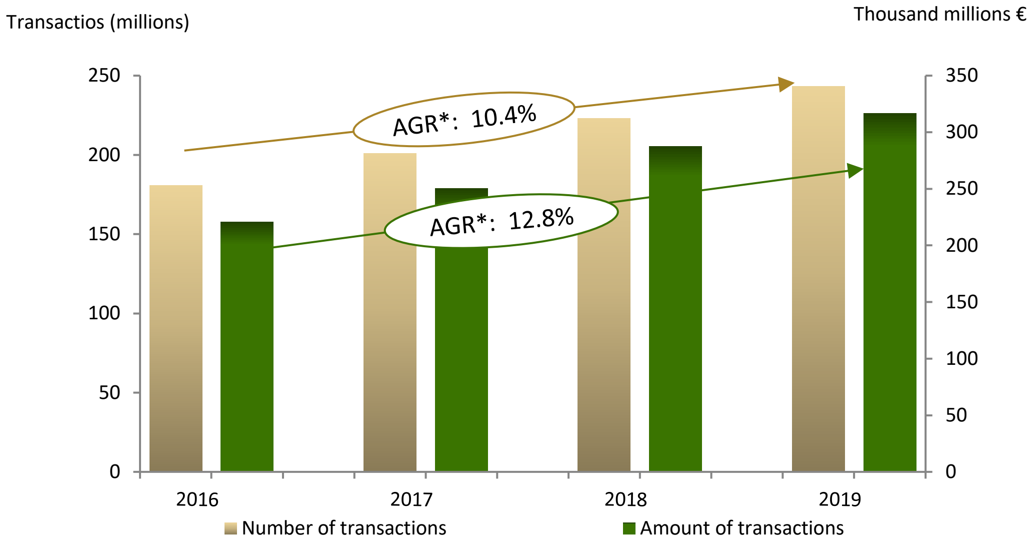
In 2019, the number of users of homebanking[8] services reached 4,206,749, which represents a yoy increase of 9.8%.

The number and amount of transactions carried out[9] increased by 9.1% and 10.2%, respectively, underpinned by the upsurge in digital transformation investments to meet users' growing appetite for these channels. In terms of amount by type of transaction, service payments and transfers increased by 4% and 10.6%, respectively. By number of transactions, payments rose by 12.7% while transfers increased by 6.9%.

[8] Information on users of homebanking services is only available for 15 member financial institutions.

[9] The data concerning the number and volume of transactions cover all the member financial institutions in the sample (25). Data provided by SIBS.

Graph 16: Number and volume of service payments via homebanking

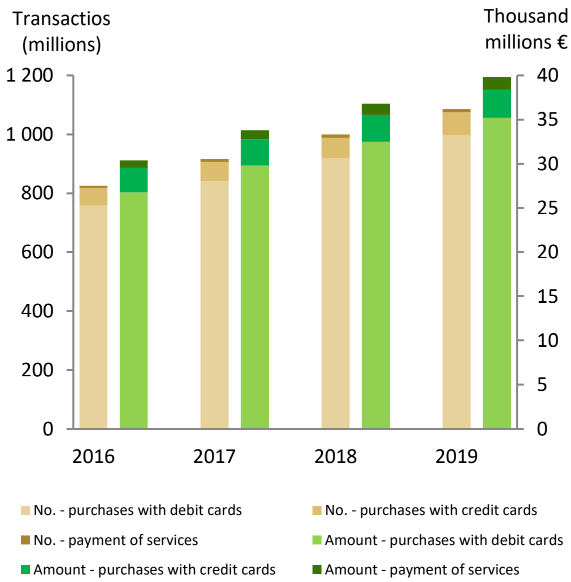


Source: SIBS.
Note: *ARC - Annual average rate of change.

IV.4. POS[10]

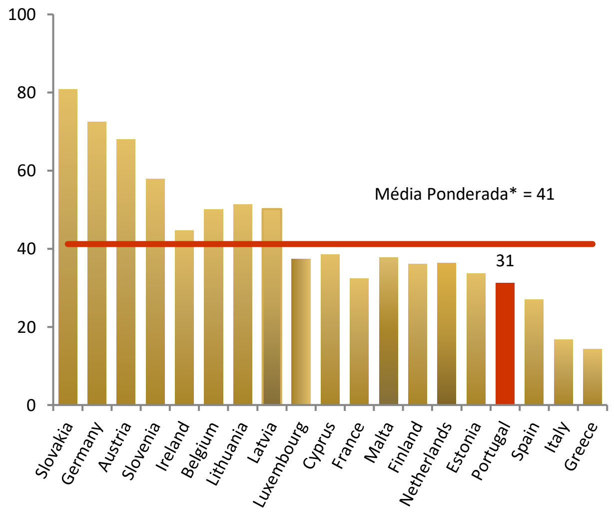
The increase in the number of installed POS[11,12] (+6.2% yoy) went hand in hand with increases in both the number of transactions made through this channel (+8.6% yoy) and in the respective amount (+8.2% yoy).

Graph 17: Transactions via POS



Source: SIBS.

Graph 18: Inhabitants per POS in the Euro Area



Source: Eurostat, ECB, APB.
Note: *Average number of inhabitants per POS weighted by the population of each country.

[10] Point of Sale.
[11] Information on the POS network is only available for 11 member financial institutions.
[12] The data concerning the number and volume of transactions cover all the member financial institutions in the sample (25).

V. Performance analysis

V.1. Balance sheet analysis

At 31 December 2019, financial institutions' aggregate assets totalled approximately 330.5 billion euros, which is a slight 0.4% increase over the previous year. The weight of the banking system in the economy continued to decline, dropping to 155.7% of GDP in 2019, from 161.1% in 2018.

Table 1: Composition and evolution of aggregate assets structure, as at 31 December (2018 – 2019)

	2018	2019
Cash and cash equivalents		
Total (million €)	17 655	21 848
Annual change rate	-	*23.8%*
As % of total assets	*5.4%*	*6.6%*
Financial assets at fair value through profit or loss		
Total (million €)	20 945	19 720
Annual change rate	-	*-5.8%*
As % of total assets	*6.4%*	*6.0%*
Financial assets at fair value through other comprehensive income		
Total (million €)	32 225	33 063
Annual change rate	-	*2.6%*
As % of total assets	*9.8%*	*10.0%*
Financial assets at amortised cost		
Total (million €)	228 800	230 954
Annual change rate	-	*0.9%*
As % of total assets	*69.6%*	*69.9%*
Other assets(1)		
Total (million €)	29 564	24 918
Annual change rate	-	*-15.7%*
As % of total assets	*9.0%*	*7.5%*
Total assets	329 188	330 503
Annual change rate	-	*0.4%*

Source: FIs, APB.

Note: (1) Includes: Hedging derivatives, Fair value changes of the hedged items in portfolio hedge of interest rate risk, Investments in subsidiaries, joint ventures and associated companies, tangible assets, intangible assets, tax assets, other assets and Non-current assets and disposal groups classified as held for sale.

The increase in aggregate assets was mainly driven by the increase in cash and deposits (+23.8%), debt securities (+1.9%), and loans (+0.9%). These increases more than offset the significant contraction in other assets (-15.7% relative to 2018), which was in part due to the decline in non-current assets held for sale, reflecting the sale of Deutsche Bank's loan portfolio to Abanca, and to the reduction in deferred tax assets.

Table 2: Composition of financial assets structure, as at 31 December (2018 – 2019)

	2018				2019			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
Derivatives[1] (million €)	3 657	-	-	3 657	3 392	-	-	3 392
As % of total	*17.5%*	-	-	1.3%	*17.2%*	-	-	*1.2%*
Equity instruments (million €)	6 068	1 165	-	7 233	5 054	1 035	-	6 089
As % of total	*29.0%*	*3.6%*	-	2.6%	*25.6%*	*3.1%*	-	*2.1%*
Debt securities (million €)	11 176	31 052	41 170	83 398	11 178	32 018	41 768	84 964
As % of total	*53.3%*	*96.4%*	*18.0%*	29.6%	*56.7%*	*96.8%*	*18.1%*	*29.9%*
Loans and advances (million €)	44	8	187 630	187 682	96	11	189 186	189 293
As % of total	*0.2%*	*0.0%*	*82.0%*	66.5%	*0.5%*	*0.0%*	*81.9%*	*66.6%*
Total	20 945	32 225	228 800	281 970	19 720	33 064	230 954	283 738

Source: FIs, APB.

Note: [1] Does not include hedging derivatives.

Table 3: Loans and advances to customers, as at 31 December (2018 – 2019)

	2018	2019
Companies and public sector		
Total (million €)	84 557	79 460
Annual change rate	-	*-6.0%*
As % of total loans and advances to customers	*45.1%*	*42.9%*
Mortgages		
Total (million €)	87 405	89 694
Annual change rate	-	*2.6%*
As % of total loans and advances to customers	*46.6%*	*48.4%*
Consumer credit and other		
Total (million €)	15 468	16 203
Annual change rate	-	*4.7%*
As % of total loans and advances to customers	*8.3%*	*8.7%*
Total loans and advances to customers	187 430	185 357
Annual change rate	-	-1.1%
Total impairment of loans and advances to customers	(12 722)	(8 375)
Total net	174 708	176 982
Annual change rate	-	*1.3%*

Source: FIs, APB.

Loans and advances to customers (gross) contracted by 1.1% relative to 2018, continuing to reflect the ongoing deleveraging process, though to a smaller extent now due to the transfer of Deutsche Bank's loan book, which was sold to Abanca and in 2018 was recognised under non-current assets held for sale. This contraction was underpinned by the decline in Loans to Companies and the Public Administration (-6% vs 2018), which continued to be penalised by the effort to reduce non-performing loans (NPL), whose weight in gross loans to customers dropped to 42.9%. It should be noted that in 2019 loans to the construction sector fell by 17.3%, in line with the downward trend in its weight in total gross loans to non-financial companies (NFC), which dropped by 1.6 p.p., to 11.4%. In turn, the stock of loans to real estate related activities remained practically flat, while its weight in total gross loans to NFC increased to 13.5%. It should be noted that these two ectors are the main source of NPL in the NFC segment.

Gross housing loans and consumer credit and other purposes increased in the year by 2.6% and 4.7%, respectively.

Net loans to customers, accounted for 53.5% of aggregate assets, rose by 1.3% compared to the previous year, mainly due to the reduction in provisions and impairments resulting from the sale of NPL portfolios.

Table 4: Asset quality, as at 31 December

	2018				2019			
	Total	Mortgages	Consumer credit and other	Non-financial companies	Total	Mortgages	Consumer credit and other	Non-financial companies
Non-performing loans (million €)	22 109	3 483	1 764	15 054	13 577	2 196	1 208	8 977
NPL Ratio	10.2%	3.9%	13.3%	21.2%	6.2%	2.4%	8.6%	13.4%
NPL Coverage Ratio	52.4%	26.0%	60.7%	57.4%	52.9%	24.0%	63.1%	59.0%

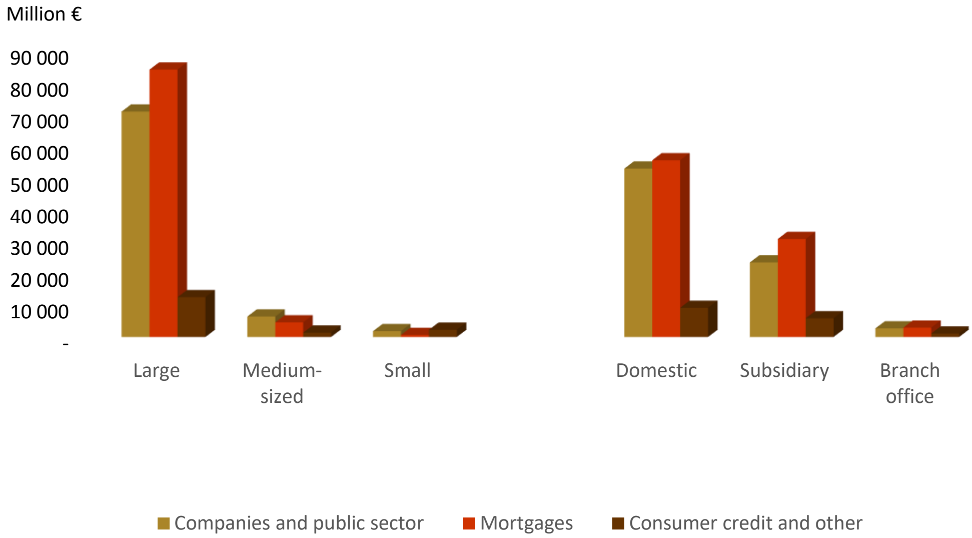
Source: FIs, APB.

Compared to the previous year, NPL contracted by roughly 8.5 billion euros, with the NPL ratio dropping by 4p.p., to 6.2%, and the impairment coverage ratio increasing by 0.5 p.p., to 52.9%. The NPL ratio net of impairments stood at 2.9%. Loans to the companies and Public Administration segment, responsible for 66.1% of the total amount of member FIs' NPL, continued to show the largest contraction (-40.4% yoy), with the respective NPL ratio dropping by 7.8 p.p., to 13.4 %. The impairment coverage ratio in this segment rose by 1.6 p.p., to 59%.

In 2019, significant progress continued to be made towards reducing NPL, even if the NPL ratio remained at a level still considered high relative to the Euro Area average (3.1% in December 2019).

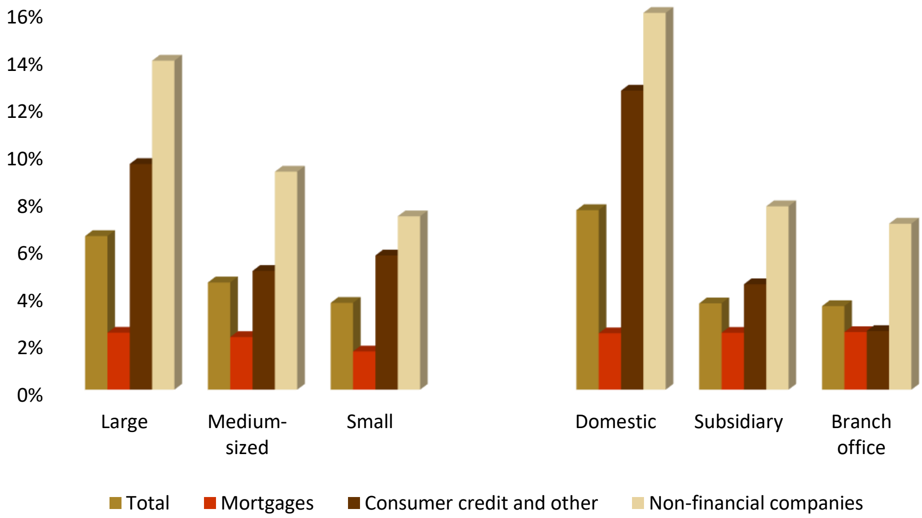
Notwithstanding the results achieved, a deterioration in the banking system's credit quality should be expected in the current scenario of economic downturn caused by the COVID-19 pandemic, with a consequent potential impact in terms of impairments.

Graph 19: Loans and advances to customers, by size and by origin / type of legal structures, as at 31 December, 2019



Source: FIs, APB.

Graph 20: NPL Ratio by size and by origin / type of legal structures, as at 31 December, 2019



Source: FIs, APB.

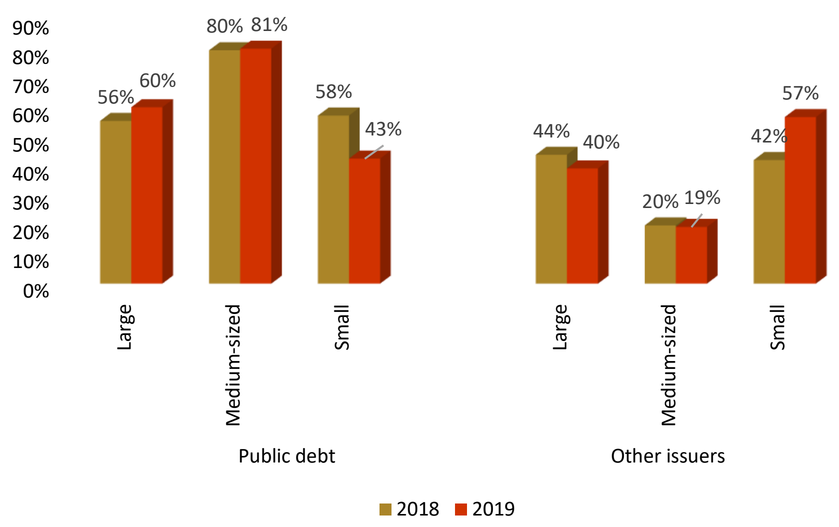
Exposure to public debt securities has been increasing over recent years and accounted for 15.7% of total assets at the end of 2019 (+0.9 p.p. yoy).

Tabela 5: Composition of debt securities portfolio, as at 31 December

	2018	2019
Public debt		
Total (million €)	48 756	52 003
Annual change rate	-	*6.7%*
As % of total	*58.5%*	*61.2%*
Other issuers		
Total (million €)	34 642	32 961
Annual change rate	-	*-4.9%*
As % of total	*41.5%*	*38.8%*
Total debt securities	83 398	84 964
Annual change rate	-	1.9%
Public debt as % of total assets	14.8%	15.7%

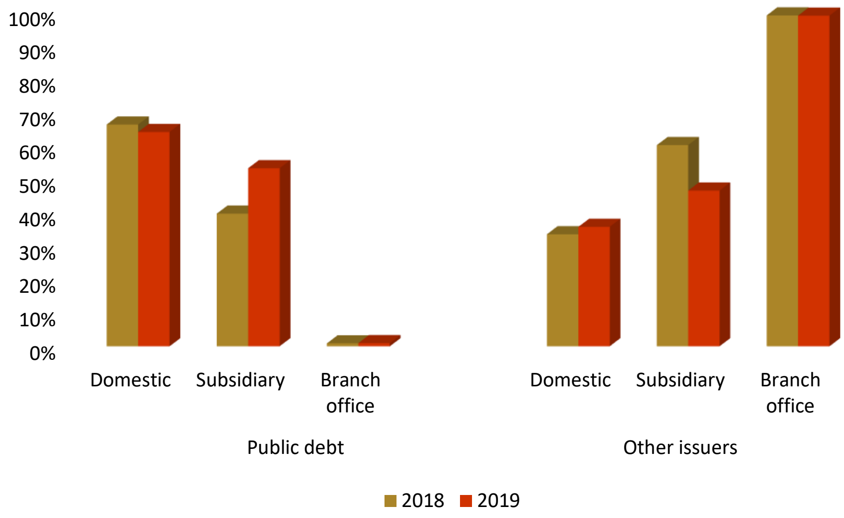
Source:IFIs, APB.

Graph 21: Debt securities of FIs, by size, as at 31 December



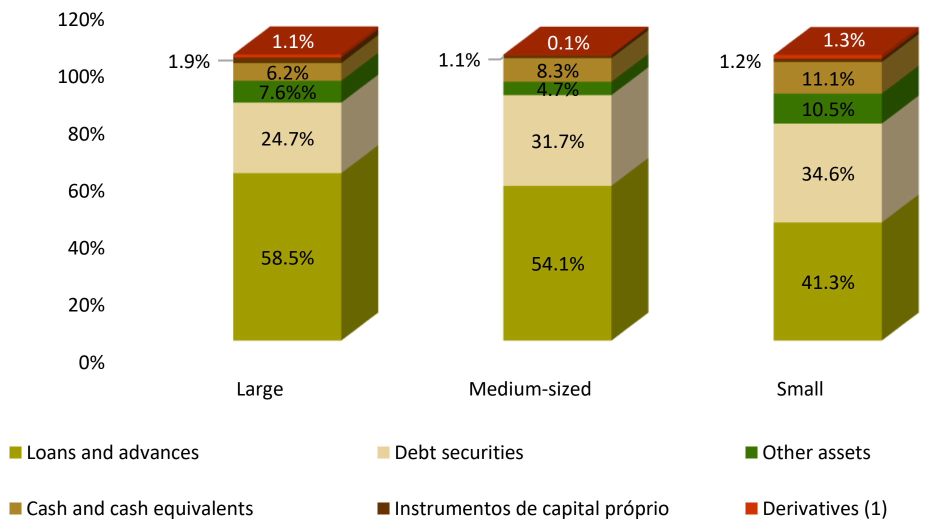
Source: FIs, APB.

Graph 22: Debt securities of FIs, by origin / type of legal structures, as at 31 December



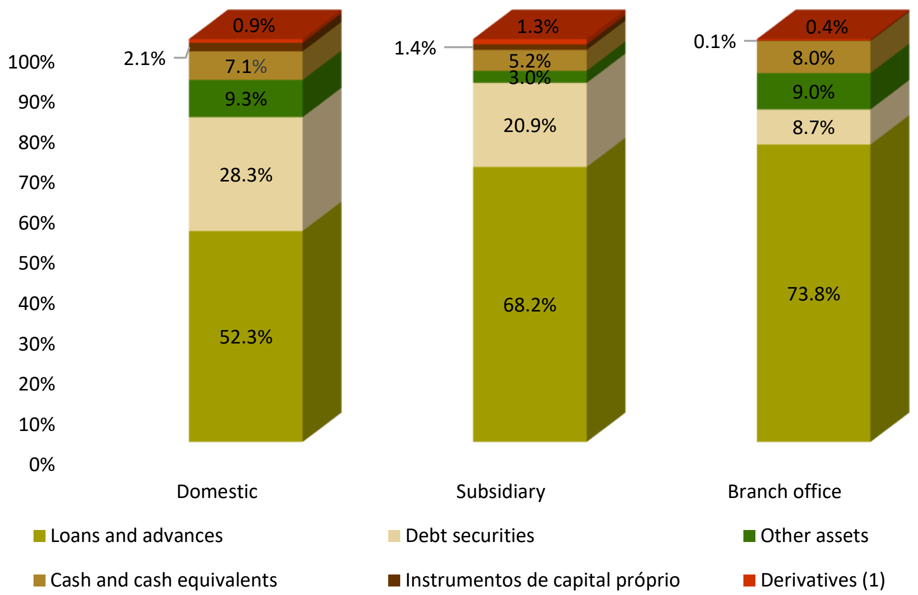
Source: FIs, APB.

Graph 23: Total asset structure by size, as at 31 December 2019



Source: FIs, APB.
Note: (1) Does not include hedging derivatives.

Graph 24: Total asset structure by origin / type of legal structure, as at 31 December 2019



Source: FIs, APB.

Note: (1) Does not include hedging derivatives.

As regards the funding structure of member financial institutions, the weight of liabilities in the total balance sheet dropped by 0.3 p.p., to 91.1% while equity (that rose by 1.1 billion euros) increased its weight in the balance sheet by 0.3 p.p., to 8.9%, due to the reinforcement of own funds' operations carried out by some financial institutions.

Table 6: Composition and evolution of aggregate financing structure, as at 31 December

	2018	2019
Financial liabilities at fair value through profit or loss		
Total (million €)	6 936	6 544
Annual change rate	-	*-5.7%*
As % of total assets	*2.1%*	*2.0%*
Financial liabilities at amortised cost		
Total (million €)	285 576	286 273
Annual change rate	-	*0.2%*
As % of total assets	*86.8%*	*86.6%*
Other liabilities		
Total (million €)	8 211	8 152
Annual change rate	-	*-0.7%*
As % of total assets	*2.5%*	*2.5%*
Total Liabilities	300 723	300 968
Annual change rate	-	*0.1%*
As % of total assets	*91.4%*	*91.1%*
Equity		
Total (million €)	28 464	29 535
Annual change rate	-	*3.8%*
As % of total assets	*8.6%*	*8.9%*
Total Liabilities and Equity	329 188	330 503

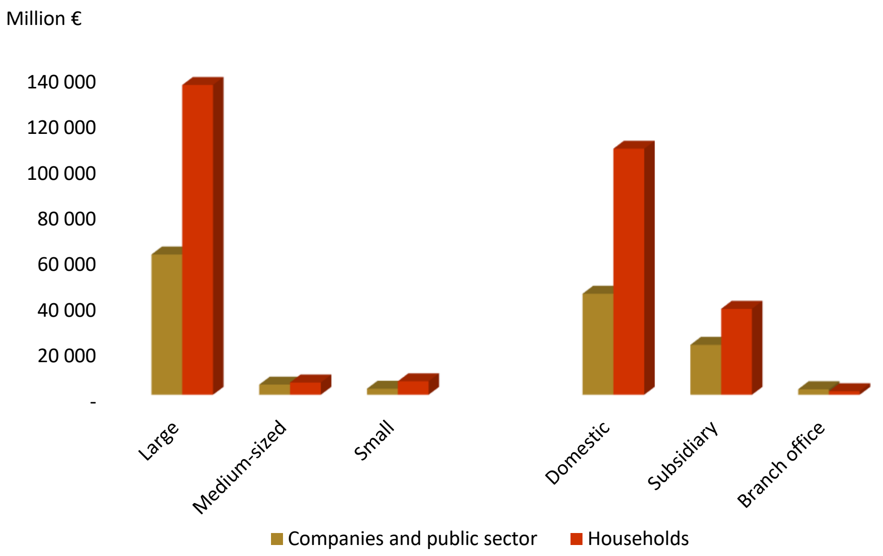
Source: FIs, APB.

Table 7: Deposits from customers, as at 31 December

	2018	2019
Companies and public sector		
Total (million €)	66 077	68 484
Annual change rate	-	*3.6%*
As % of total deposits from customers	*31.9%*	*31.8%*
Households		
Total (million €)	141 385	146 936
Annual change rate	-	*3.9%*
As % of total deposits from customers	*68.1%*	*68.2%*
Total deposits from customers	207 462	215 420
Annual change rate	-	*3.8%*

Source: FIs, APB.

Graph 25: Deposits from customers by size and type of legal structure

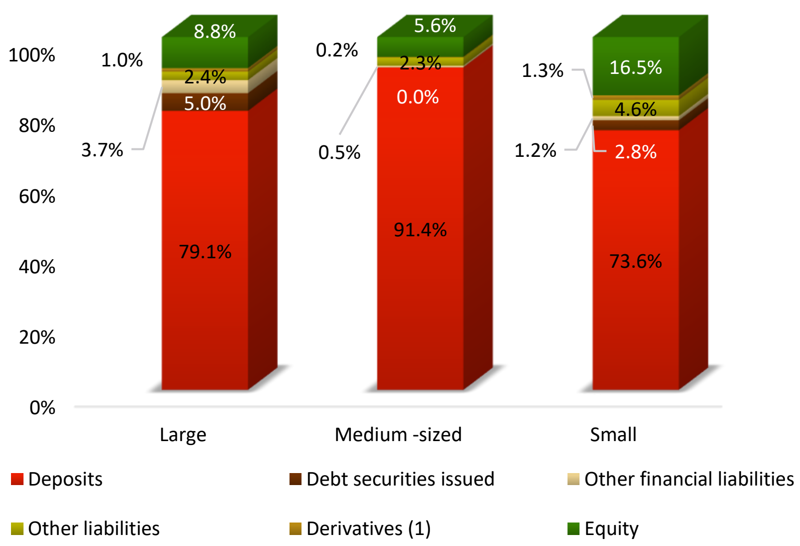


Source: FIs, APB.

Regarding the evolution of liabilities, customer deposits increased by 3.8% yoy and continued to reinforce its weight in financial institutions' funding structure, from 69% in 2018 to 71.6% in 2029. This is explained by the increase in both households customers deposits and corporate and public administration deposits, which rose by 3.9% and 3.6%, respectively. In the context of very low interest rates resulting from the ECB's accommodative monetary policy, the share of deposits with agreed maturity continued to fall (-4.1%) against an increase in the share of demand deposits (+10.6% yoy).

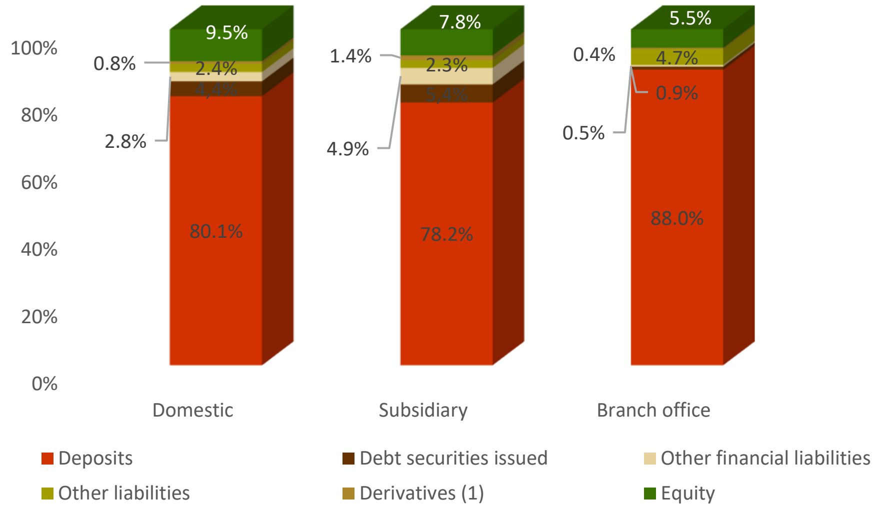
With loans to customers increasing at a slower pace than customer deposits, the loan to deposit ratio dropped to 82.2%, from 84.2% in 2018.

Graph 26: Liabilities structure by size, as at 31 December 2019



Source: FIs, APB.
Note: (1) Does not include hedging derivatives.

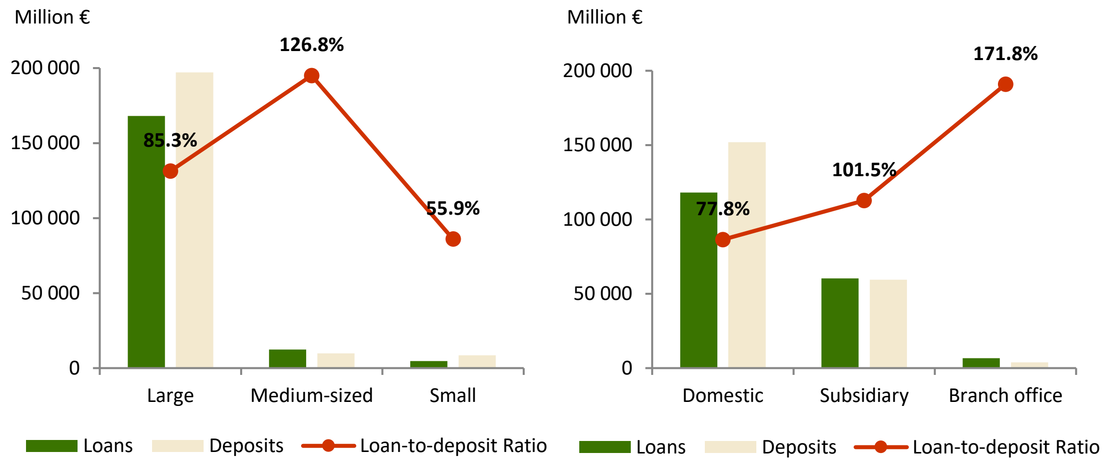
Graph 27: Liabilities structure by origin / type of legal structure, as at 31 December 2019



Source: FIs, APB.

Note: (1) Does not include hedging derivatives.

Graph 28: Loan-to-Deposit ratio by size and by origin / type of legal structure, as at 31 December 2019



Source: FIs, APB.

V.2. Income statement analysis

In 2019 the aggregate profitability of financial institutions increased, essentially underpinned by a net reversal of impairments and a reduction in taxes that more than offset the deterioration in operating income.

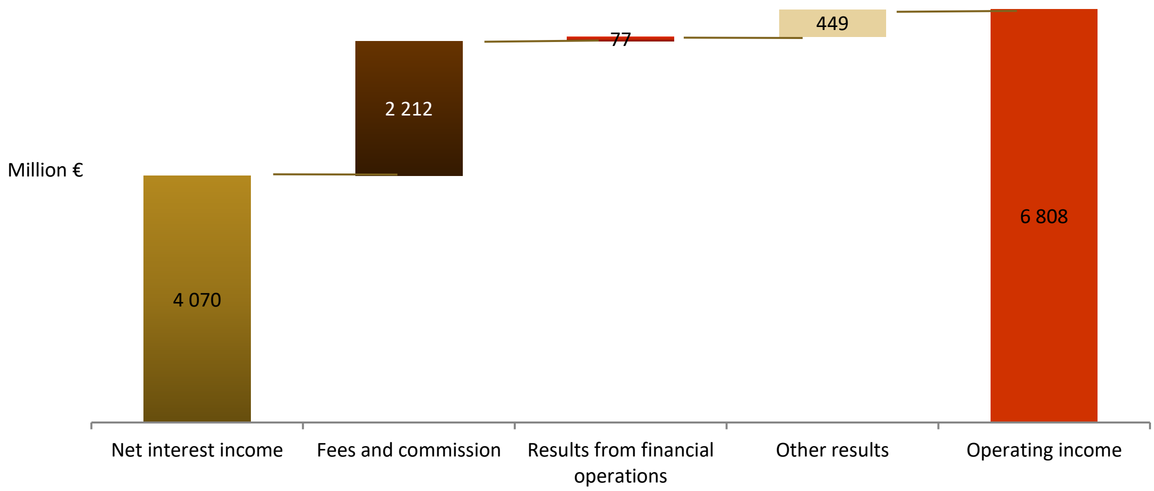
Table 8: Aggregate income statement

	2018	2019	Change	
	Million €	Million €	Million €	%
Interest income	6 253	5 974		
Interest expense	-2 225	-1 904		
Net interest income (NII)	**4 028**	**4 070**	**42**	***1.0%***
Fee and commission income	2 622	2 665		
Fee and commission expense	-458	-453		
Net results from fees and commissions	2 164	2 212	48	*2.2%*
Net results from financial operations	-65	77	142	*-218.5%*
Other results	1 025	449	-576	*-56.2%*
Operating income (OI)	**7 152**	**6 808**	**-344**	***-4.8%***
Staff costs	-2 257	-2 263		
General administrative expenses	-1 393	-1 277		
Depreciation and amortisation	-207	-374		
Operating costs	-3 857	-3 914	-57	*-1.5%*
Gross operating results (GOR)	**3 295**	**2 894**	**-401**	***-12.2%***
Provisions net of reversals	-438	-122		
Impairment of financial assets, net of reversals	-900	-1 064		
Impairment of investments in subsidiaries, joint ventures and associates, net of reversals	-207	25		
Impairment of non-financial assets, net of reversals	-335	-269		
Provisions and impairment	-1 880	-1 430	450	*23.9%*
Negative goodwill recognised in profit or loss	-	52		
Share of profit or loss investments in associates	74	86		
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	95	132		
Other results	169	270	101	*59.8%*
Profit or loss before tax (PLBT)	**1 584**	**1 734**	**150**	***9.5%***
Tax expenses or income related to profit or loss from continuing operations	-1 132	-780	352	*31.1%*
Profit or (-) loss after tax from discontinued operations	78	-	-78	*s.s.*
Net income for the year (NI)	**530**	**954**	**424**	***80.0%***

Source: FIs, APB.

The reduction in taxes resulted from a very significant drop in deferred taxes, which had reached an exceptionally high amount in 2018 due to a very expressive write-off of deferred tax assets in that year.

Graph 28: Composition of Operating income, 2019



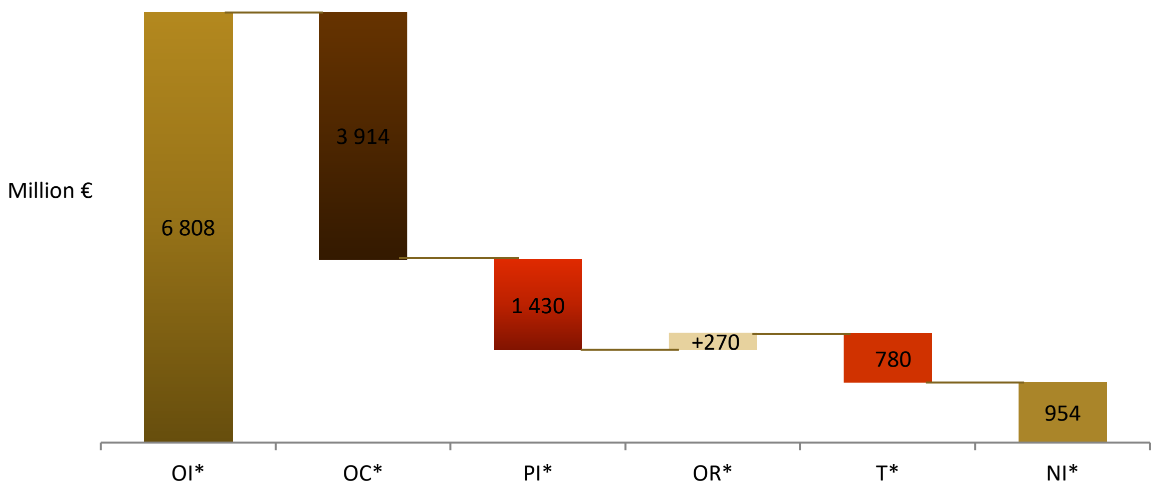
Source: IFs.

The aggregate net interest income of financial institutions totalled 4.1 billion euros, a slight increase relative to 2018 (+1%). This increase reflects the fact that interest paid registered a larger reduction than interest earned. The performance of interest paid is largely explained by the reduction in its deposits-related component (-238 million euros). In turn, the reduction in interest earned largely reflects the drop in the loans and advances component (-165 million euros).

Net fee and commission income expanded by 2.2%, mainly underpinned by the increase in clearance and settlement commissions and commissions on customer resources distributed but not managed, in so far as commissions on payment services decreased.

Gains from financial operations totalled 77 million euros, which compares with 65 million euro losses in 2018. This performance translates an increase in income from public debt securities and a reduction in losses on sales of NPL.

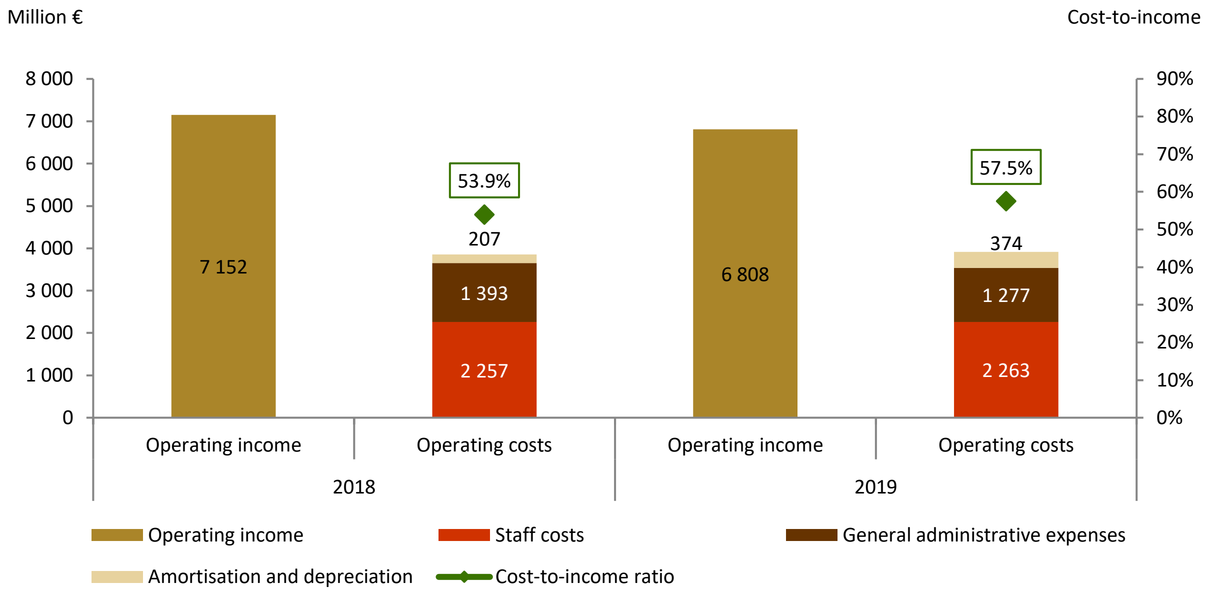
Graph 29: Composition of Net income, 2019



Source: FIs.
OI – operating income; OC – operating costs; PI* – provisions and impairments; OR* – other results; T* - taxes; NI* - net income.

Operating costs were up by 1.5% relative to 2018, with the 167 million euro increase in amortisation and depreciation more than offsetting the decline in general administrative expenses (116 million euros). Staff costs remained practically unchanged.

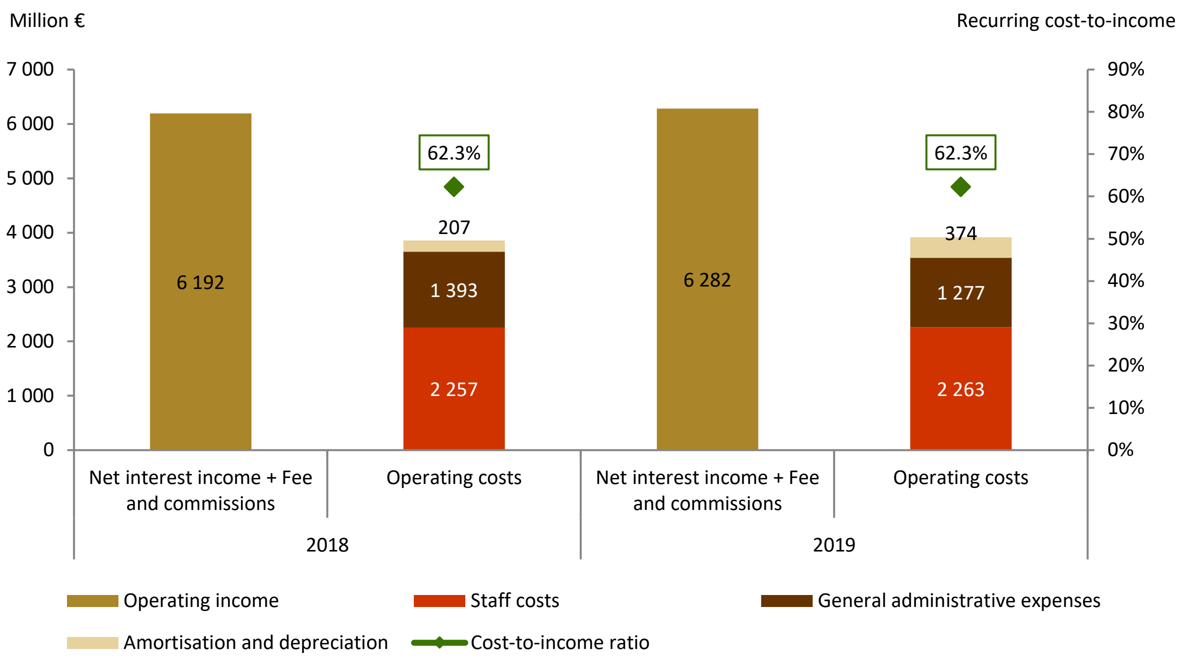
Graph 30: Evolution of operating income, operational costs and cost-to-income ratio



Source: FIs, APB.

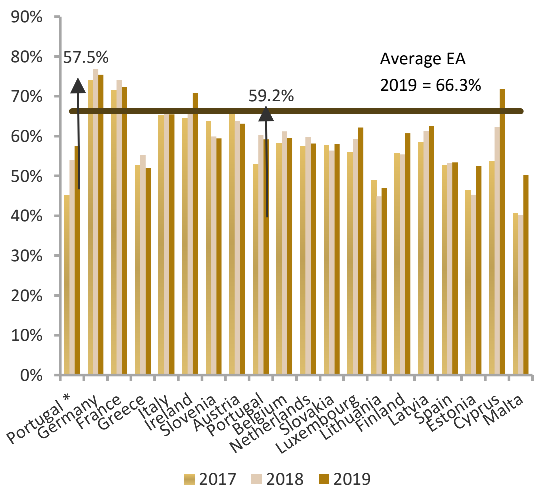
Reflecting the decline in operating income and the increase in operating costs, the efficiency ratio (cost-to-income) rose by 3.6 p.p., to 57.5%. Despite this increase, this ratio stands significantly below the average in the Euro Area.

Graph 31: Recurring Cost-to-income

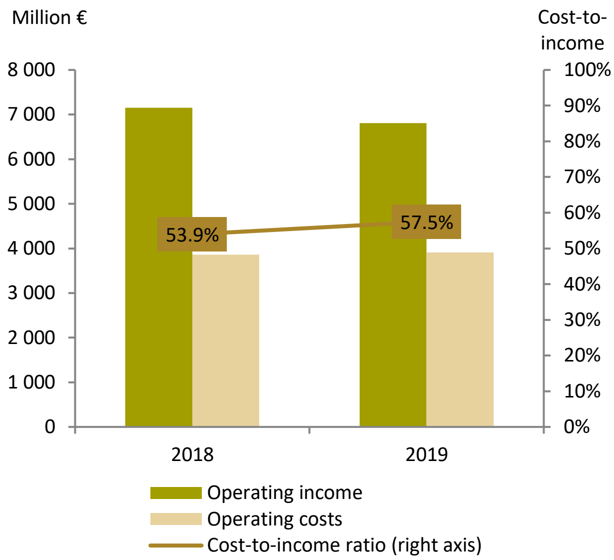


Source: FIs, APB.

Graph 32: Cost-to-income ratio in the Euro Area



Graph 33: Cost-to-income ratio in Portugal

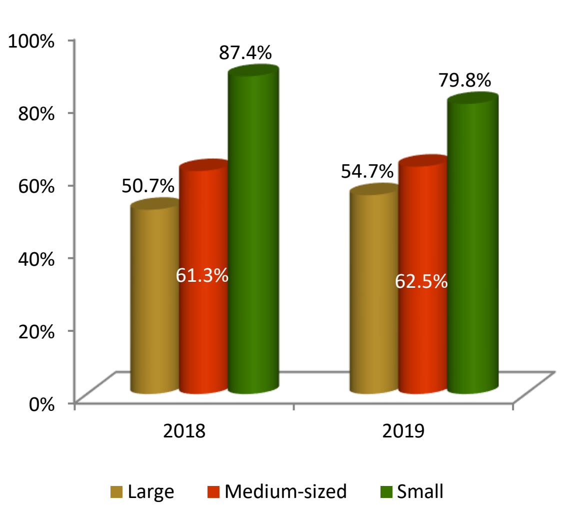


Source: ECB, FIs, APB.

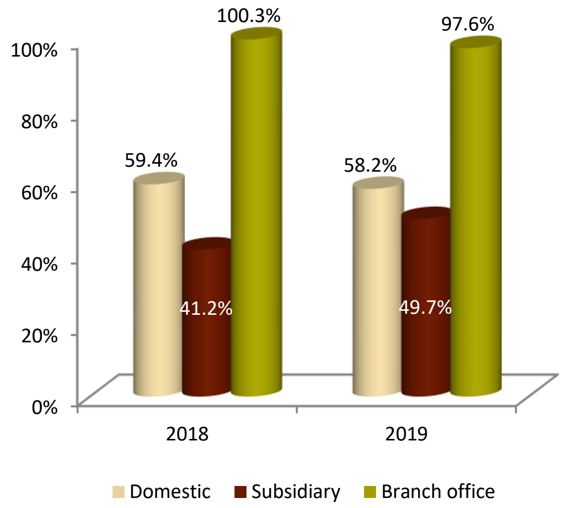
Note*: Efficiency ratio of APB's member financial institutions.

Graph 34: Evolution of cost-to-income ratio

a) By size

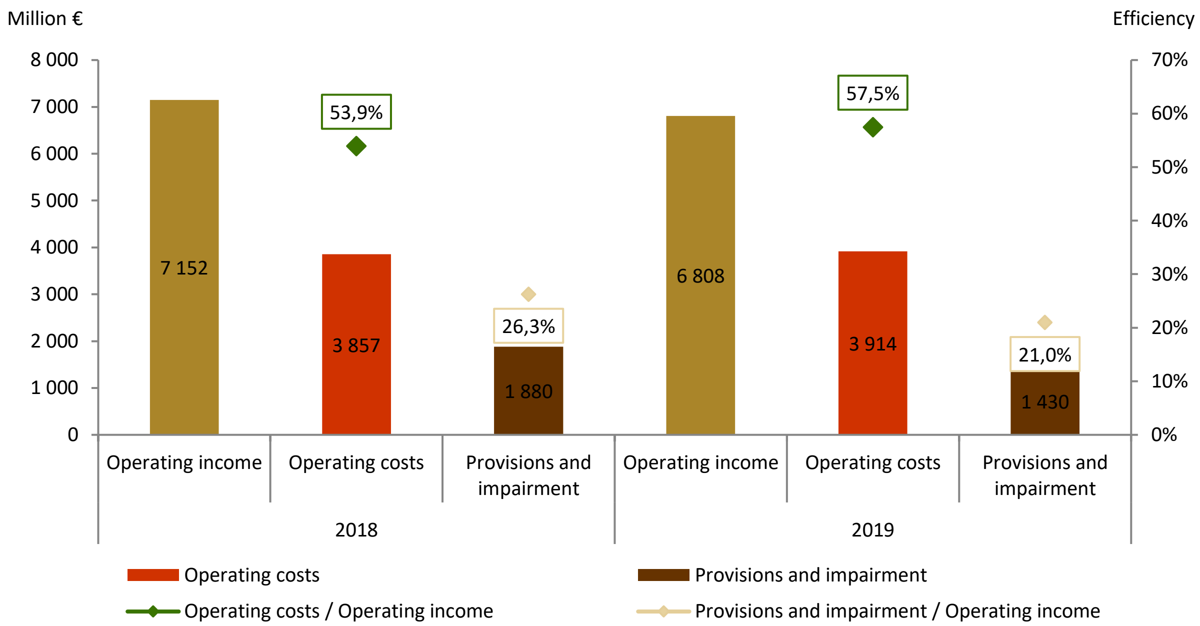


b) By origin / type of legal structure



Source: FIs, APB.

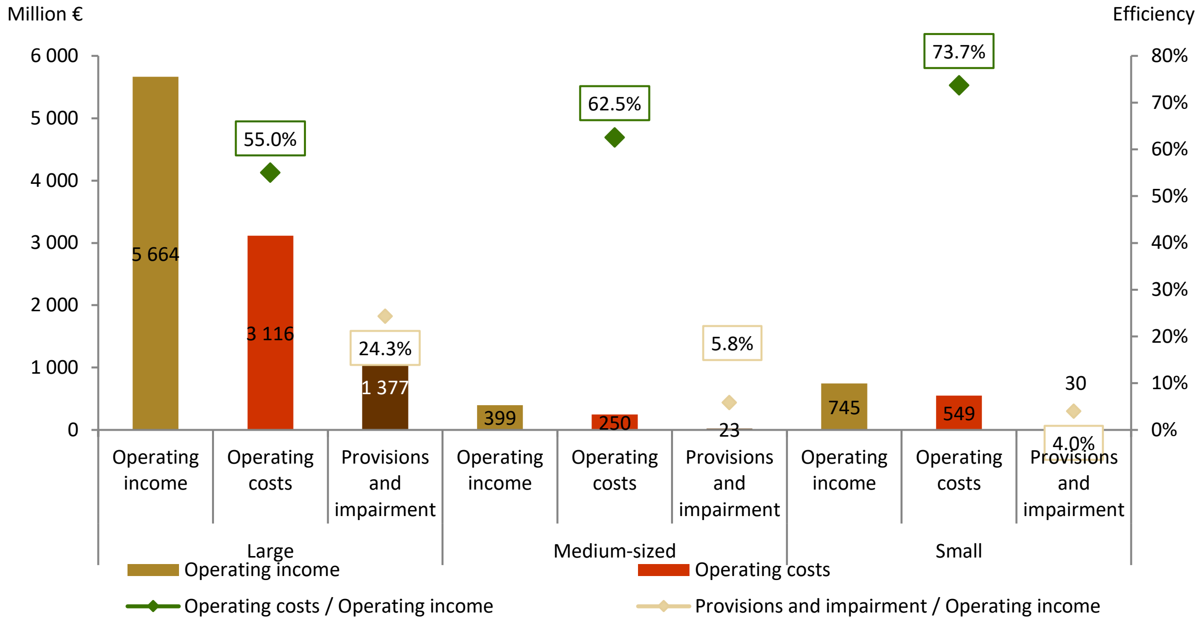
Graph 35: Evolution of operating income, operational costs and impairment



Source: FIs, APB.

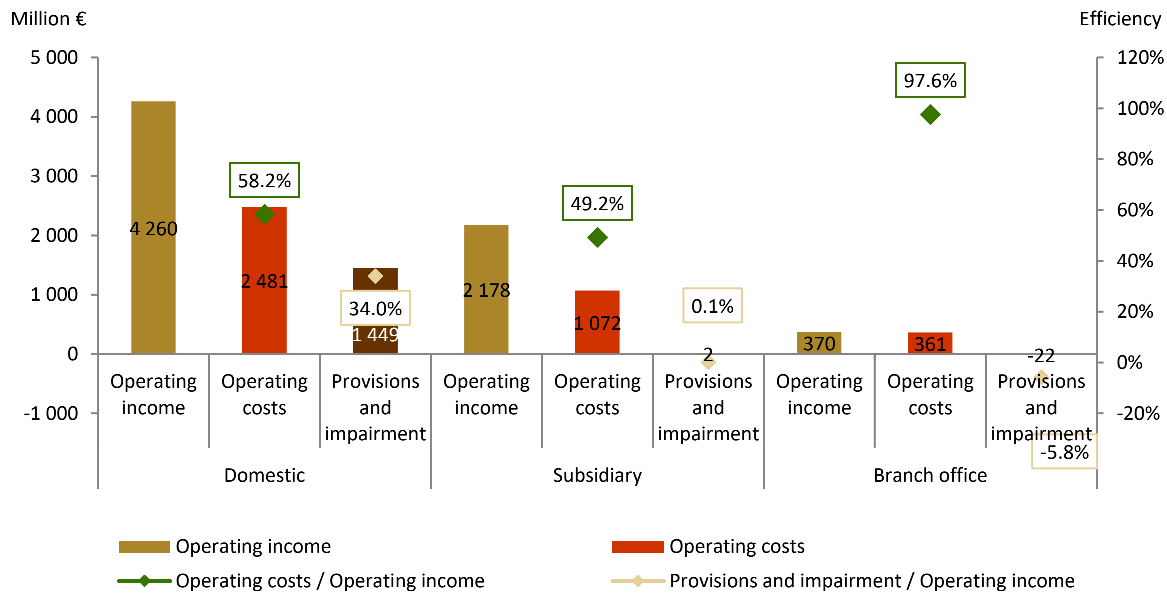
Provisions and impairments registered a sharp reduction compared to 2018, standing at approximately 1.4 billion euros, which compares with 1.9 billion euros in the previous year. This reduction reflects the net reversal of provisions and impairments.

Graph 36 Evolution of operating income, operational costs and impairment, by size, 2019



Source: FIs, APB.

Graph 37: Evolution of operating income, operational costs and impairment, by origin / type pf legal structure, 2019



Source: FIs, APB.

V.3. Taxes and para-fiscal levies analysis

For purposes of this review, an approximate aggregate amount of the total corporate income tax payable to the State by member institutions has been calculated. This calculation considered the estimated tax base for 2018 and 2019 based on profit or loss before tax and changes in equity recognised in reserves and retained earnings and corrected by the adjustments made pursuant to the corporate income tax code ("CIRC").

It should be noted that, although tax benefits for the banking sector are the same as those for other companies, banks are subject to several restrictions. This is the case of the increase from 75% to 90% in the minimum limit of corporate income tax paid, after deduction of the tax credit for international double taxation, and of the reduction in the limit of deductible tax losses, in each taxation period, from 75% to 70% of taxable profit, introduced by Law no. 2/2014 of 16 January, which reformed corporate taxation by amending the CIRC.

The general taxation rate provided for in the CIRC remained unchanged for 2018 and 2019 financial years, at 21%.

Based on our calculations, the total corporate income tax payable to the State by member institutions is estimated at around 155 million euros in 2019 (versus 71 million euros in 2018), which corresponds to an estimated corporate income tax rate of 22.2% (versus 15.0% in 2018).

Table 9: Approximate total amount of tax payable to the State in terms of corporate tax in 2018 and 2019. It is based on estimate figures for the tax base, which were calculated from the net income before tax and changes in equity recognized in reserves and retained earnings

	2018 million €	2019 million €
Net income before tax [a]	**1 683**	**1 664**
Adjustments for calculation of taxable income / tax loss		
Applicable to all tax payers subject to corporate income tax:		
Capital gains and impairment in investments (net)	7	(396)
Elimination of double taxation of distributed profits	(450)	(187)
Tax benefits	(11)	(11)
Non-relevant expenses and income for tax purposes	(8)	239
Provisions for other risks	(701)	(509)
Allocation of profits of non-resident companies subject to special tax schemes	172	70
Employment termination and retirement benefits and other post-employment or long-term benefits	(34)	(284)
Impairment for credit risk	(1 005)	(804)
Other [b]	(1 538)	(395)
Taxable income / Tax loss	**(1 885)**	**(613)**
Use of tax losses from prior years	(35)	(138)
Tax base [c]	**474**	**701**
Income tax	71	155
Income tax rate (%)	**15.0%**	**22.2%**

Source: FIs, APB.

[a] Net income before tax of the 21 financial institutions in the sample in this chapter.

[b] Includes positive and negative changes in equity not reflected in the net income for the year but recognised in reserves and retained earnings.

[c] Aggregate taxable income consists of the sum of taxable income and tax losses of the financial institutions in the sample. The financial institutions that recorded a tax loss in the year have no tax base, and therefore the Tax Base field only includes the aggregate figures for members that record taxable income (even after deduction of losses), this amount being necessarily higher than the amount of aggregate taxable income (which contains said losses).

Financial institutions also contribute to the Portuguese State with local state taxes and autonomous taxation. In addition, they are also subject to tax in the countries where they operate. In 2018 and 2019 the amounts paid under these headings totalled 60 and 69 million euros, respectively.

Table 10: Approximate local taxes, autonomous taxation and income tax levied in foreign countries

	2018 million €	2019 million €
Income tax levied in foreign countries net of the deduction of double taxation	18	8
Autonomous taxation	13	11
Local taxes [a)]	29	50
Total local taxes, autonomous taxation and income tax levied in foreign countries	**60**	**69**

Source: FIs, APB.

[a)] The approximate amount of local surtaxes was calculated by applying a rate of 1.5% to taxable income, plus an additional 3% to 7% depending on the amount of taxable income.

Financial institutions are also subject to other operating taxes, such as stamp duty, non-deductible value added tax (VAT) and municipal property tax ("IMI"). In Table 11, these taxes are grouped under the heading operating tax costs.

In 2010, the State Budget for 2011 (Law no. 55 – A/2010 of 31 December, art. 141) established a special tax on banks (Banking Sector Contribution). As set out in Order no. 121/2011 of the Ministry of Finance and Public Administration, of 30 March, this contribution applies to:

a) liabilities calculated and approved by taxable persons minus Tier 1 and Tier 2 capital, and deposits covered by the Deposit Guarantee Fund, at a rate of 0.05% of the amount calculated.

b) the notional value of off-balance-sheet derivative financial instruments calculated by taxable persons, at a rate of 0.00015% of the amount calculated.

The Banking Sector contribution for the member financial institutions totalled 152 million euros in 2019 (153 million euros in 2018).

Other levies consist of contributions to the Social Security, SAMS (Banking Sector Medical and Social Service) and pension funds.

Table 11: Tax and parafiscal burden

	2018 million €	2019 million €
Tax Burden		
Operating taxes [a)]	250	250
Contributions on the banking sector	153	152
Total	403	402
Parafiscal Burden		
Single social rate	271	272
Pension expenses	307	369
Other expenses	101	99
Total	679	740
Total	**1 082**	**1 142**

Source: FIs, APB.

[a)] Include stamp duty, non-deductible VAT and IMI.

VI. Solvency analysis[13]

Table 12: Capital adequacy as at 31 December

	2018	2019	Change
Total Assets (Million €)			
Total assets [a)]	346 412	353 123	*1.9%*
Own Funds (Million €)			
Common Equity Tier 1 (CET1)	25 262	27 044	*7.1%*
Tier 1	26 580	29 069	*9.4%*
Tier 2	2 237	2 774	*24.0%*
Total eligible own funds	28 817	31 843	*10.5%*
Risk-weighted assets (Million €)			
Credit risk	165 906	155 773	*-6.1%*
Market risk	4 569	5 421	*18.6%*
Operational risk	15 043	15 501	*3.0%*
Exposures – credit valuation adjustment	618	408	*-34.0%*
Other	1 650	788	*-52.2%*
Risk-weighted assets	187 786	177 891	*-5.3%*
Capital Ratios (%)[14]			
CET1	13,5%	15,2%	*+1.7 p.p.*
Tier 1	14,2%	16,3%	*+2.1 p.p.*
Total Capital Ratio	15,3%	17,9%	*+2.6 p.p.*

Source: FIs, APB.

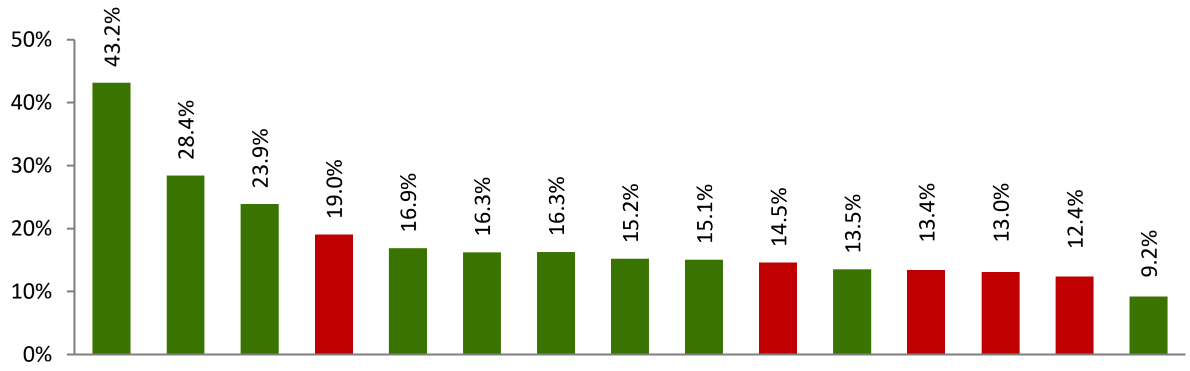
[a)] Does not include off-balance sheet items.

The aggregate CET1 ratio and total solvency ratio reached 15.2% and 17.9%, respectively, both posting a significant increase compared to the previous year (+1.7 p.p. and + 2.6 p.p.).

[13] The solvency review is based on the financial statements subject to prudential requirements of domestic institutions and subsidiaries. This criterion resulted in a sample of 15 member FIs. For two of them we used their individual accounts and for the remainder their consolidated accounts.

[14] Phased-in ratios.

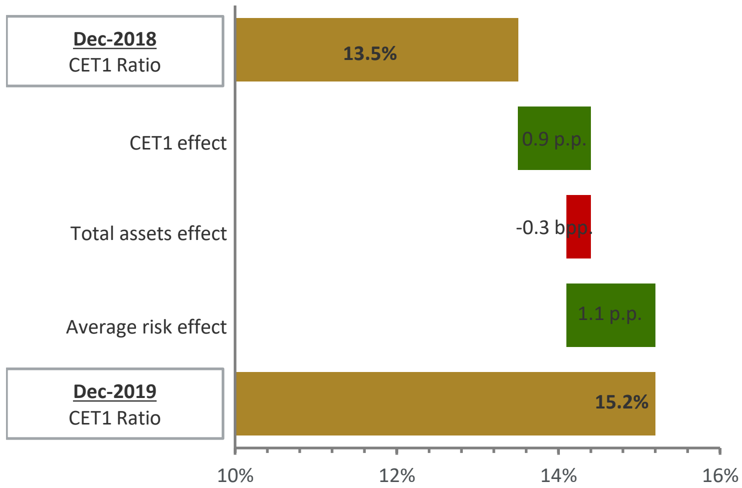
Graph 38: Common Equity Tier 1 Ratio, as at 31 December 2019



Source: FIs, APB.
Note: CET1 ratios sorted in descending order. The red (green) columns identify the institutions whose solvency ratio decreased (increased) from 2018 to 2019.

The CET1 ratio rose by 1.7 p.p. between 2018 and 2019, driven by the joint effect of an increase in own funds (+0.9 p.p.) and a reduction in the average risk of assets (+1.1 p.p.)[15]. In turn, total assets gave a negative, albeit small, contribution (-0.3 p.p.).

Chart 1: Breakdown of the chage in CET1 Ratio



Source: APB.

As in previous years, the main reason behind the contraction in aggregate risk weighted assets (RWAs) was the decrease in RWAs for credit risk (-10.1 billion euros). On the capital front, RWAs for credit risk also remained the main source of capital consumption, absorbing 87.6% of the total requirements.

[15] For an understanding of these three elements, we remind readers that solvency is calculated as: Own funds / (Total assets * Average risk), where average risk, also called the average risk weight of assets, is the ratio of risk-weighted assets to total assets.

Table 13: Composition of Risk-weighted assets

	2018	2019
Risk-weighted assets (Million €)		
Credit risk	165 906	155 773
Annual change rate	-	*-6.1%*
Market risk	4 569	5 421
Annual change rate	-	*18.6%*
Operational risk	15 043	15 501
Annual change rate	-	*3.0%*
Exposures – credit valuation adjustment	618	408
Annual change rate	-	*-34.0%*
Other	1 650	788
Annual change rate	-	*-52.2%*
Total Risk-weighted assets	187 786	177 891
Annual change rate	-	*-5.3%*

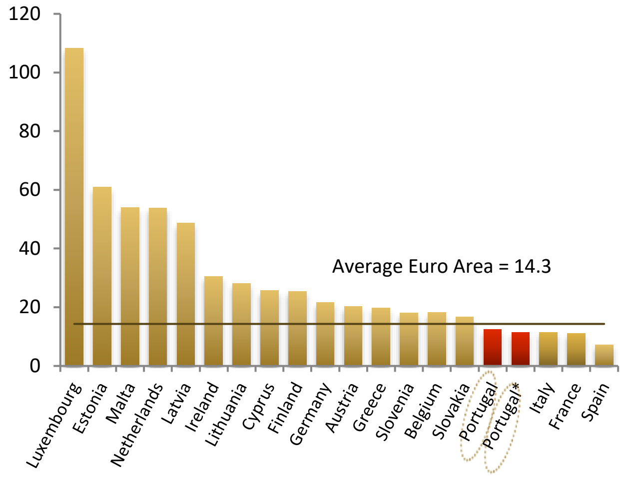
Source: FIs, APB.

VII. Productivity Indicators

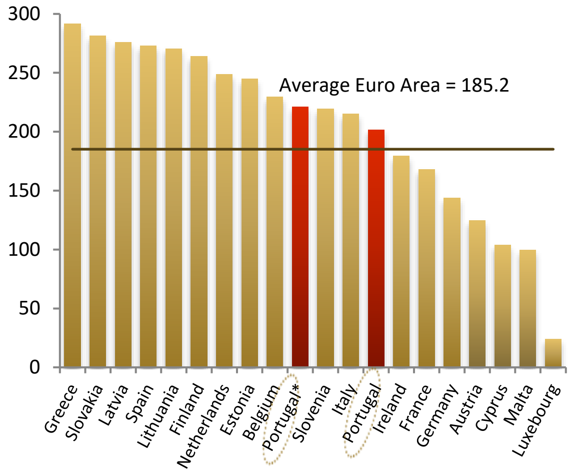
Productivity Indicators[16], namely those that quantify performance per branch or employee, reflect the impact of restructuring or resizing processes of the Portuguese banking system's operating structures implemented over the last years.

The member financial institutions employee per branch ratio is below the average in the Euro Area countries. While the average for Euro Area countries is 14 employees per branch, this ratio is 13 employees per branch for the national financial institutions and 12 employees per branch for the member financial institutions.

Graph 39: Employee per branch in the Euro Area



Graph 40: Inhabitants per employee in the Euro Area



Source: FIs, ECB, APB.
Note: *Employee per branch ratio of APB's member financial institutions.

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[16] This review was based on the total number of employees (in domestic and international activity) and the total number of branches (including bank branches in Portugal and branches and representative offices abroad).

Table 14: Other productivity indicators

	2018	2019
Number of employees [a)]		
Total	46 611	46 549
Annual change rate	-	*-0.1%*
Inhabitants per employee		
Total (number of inhabitants)	220	221
Annual change rate	-	*0.3%*
Average total assets[b)] per employee		
Total (thousands €)	7 048	7 086
Annual change rate	-	*0.5%*
Average cost[c)] per employee		
Total (thousands €)	48	49
Annual change rate	-	*0.4%*
Operating income per employee		
Total (thousands €)	153	146
Annual change rate	-	*-4.7%*
Number of branches [a)]		
Total	4 166	4 052
Annual change rate	-	*-2.7%*
Inhabitants per branch		
Total (number of inhabitants)	2 467	2 541
Annual change rate	-	*3.0%*
Employees per branch		
Total (number of employees)	11,19	11.49
Annual change rate	-	*2.7%*
Average total assets [b)] per branch		
Total (thousands €)	78 856	81 403
Annual change rate	-	*3.2%*
Operating income per branch		
Total (thousands €)	1 717	1 680
Annual change rate	-	*-2.1%*

Source: FIs, APB.

[A)] Number of employees (in domestic and international activity) and number of branches (bank branches in Portugal and branches and representative offices abroad).

[B)] Arithmetic average of assets in period n and assets in period n-1.

[c)]

Table 15: Other productivity indicators, by size and by origin / type of legal structure

	Large		Medium-sized		Small		Domestic		Subsidiary		Branch office	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Number of employees [a)]												
Total	34 830	33 992	5 463	5 944	6 318	6 613	29 530	29 101	12 123	11 872	4 958	5 576
Annual change rate		*-2.4%*		*8.8%*		*4.7%*		*-1.5%*		*-2.1%*		*12.5%*
Inhabitants per employee												
Total (number of inhabitants)	295	303	1 881	1 732	1 627	1 557	348	354	848	867	2 073	1 846
Annual change rate		*2.7%*		*-7.9%*		*-4.3%*		*1.7%*		*2.3%*		*-10.9%*
Average total assets[b)] per employee												
Total (thousands €)	8 309	8 537	4 299	4 166	2 474	2 254	7 685	7 801	7 684	7 896	1 696	1 628
Annual change rate		*2.7%*		*-3.1%*		*-8.9%*		*1.5%*		*2.8%*		*-4.0%*
Average cost[c)] per employee												
Total (thousands €)	53	53	22	23	48	48	49	49	52	51	38	40
Annual change rate		*1.3%*		*1.5%*		*0.0%*		*1.5%*		*-2.1%*		*3.5%*
Operating income per employee												
Total (thousands €)	177	167	63	67	103	113	140	146	225	183	58	66
Annual change rate		*-5.8%*		*6.5%*		*9.6%*		*4.5%*		*-18.5%*		*14.1%*
Number of branches [a)]												
Total	2 951	2 837	850	914	365	301	3 053	2 971	1 038	994	75	87
Annual change rate		*-3.9%*		*7.5%*		*-17.5%*		*-2.7%*		*-4.2%*		*16.0%*
Inhabitants per branch												
Total (number of inhabitants)	3 482	3 629	12 090	11 265	28 155	34 206	3 366	3 465	9 900	10 358	137 022	118 344
Annual change rate		*4.2%*		*-6.8%*		*21.5%*		*3.0%*		*4.6%*		*-13.6%*
Employees per branch												
Total (number of employees)	11,80	11.98	6.43	6.50	17.31	21.97	9.67	9.80	11.68	11.94	66.11	64.09
Annual change rate		*1.5%*		*1.2%*		*26.9%*		*1.3%*		*2.3%*		*-3.0%*
Average total assets [b)] per branch												
Total (thousands €)	98 067	102 283	27 632	27 092	42 826	49 524	74 336	76 415	89 748	94 307	112 120	104 313
Annual change rate		*4.3%*		*-2.0%*		*15.6%*		*2.8%*		*5.1%*		*-7.0%*
Operating income per branch												
Total (thousands €)	2 087	1 996	405	437	1 780	2 475	1 355	1 434	2 627	2 191	3 842	4 252
Annual change rate		*-4.3%*		*7.8%*		*39.1%*		*5.8%*		*-16.6%*		*10.7%*

Source: FIs, APB.

[a)] [A)] Number of employees (in domestic and international activity) and number of branches (bank branches in Portugal and branches and representative offices abroad). [b)] Arithmetic average of assets in period n and assets in period n-1.c) Staff costs only.

VIII. International activity analysis[17]

The analysis of the international activity was based on the aggregate consolidated activity of seven members banking groups (BCP, BPI, CGD, Montepio, Novo Banco, BIG and Haitong). Total net assets of these FIs' international activity amounted to 46.1 billion euros, having decreased by 4.9% relative to 2018 (-2.4 billion euros). This performance, although including the expansion of one institution's international activity, was penalised by the deployment of other FIs' Strategic Plans involving the resizing of their presence abroad to release capital.

The assets of Members' international activity dropped to 17.2% of total consolidated assets, from 18.4% in 2018.

Table 16: Consolidated balance sheet regarding international business activity

	2018	2019
Aggregate Assets		
Total (million €)	48 445	46 057
Annual change rate	-	*-4.9%*
As % of total consolidated net assets	*18.4%*	*17.2%*

Source: FIs, APB.

In terms of profitability, the international activity maintained a positive contribution, with net income from this area totalling 351 million euros, which compares with 488 million euros in 2018 (-28.1%).

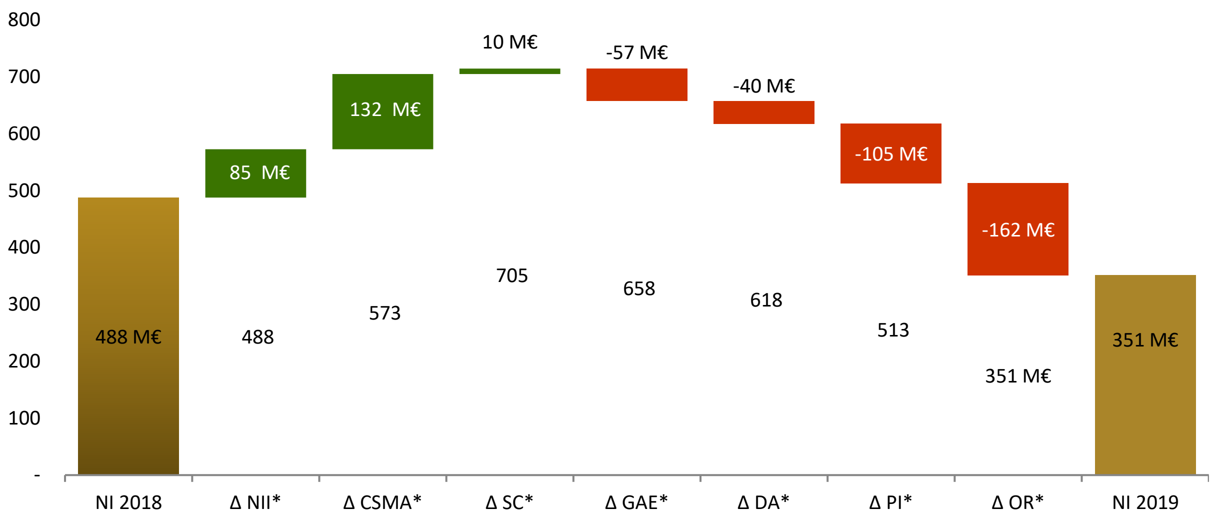
[17] The international activity includes the activity developed by the subsidiaries.

Table 17: Consolidated income statement – international business activity

	2018	2019
Net interest income		
Total (million €)	1 164	1 249
Annual change rate	-	*7.3%*
As % of total consolidated net interest income	*29.7%*	*30.9%*
Operating income		
Total (million €)	1 471	1 688
Annual change rate	-	*14.8%*
As % of total consolidated operating income	*25.7%*	*28.9%*
Operating costs		
Total (million €)	759	846
Annual change rate	-	*11.5%*
As % of total consolidated operating costs	*22.0%*	*24.1%*
Provisions and impairment		
Total (million €)	222	327
Annual change rate	-	*47.3%*
As % of total consolidated provisions and impairment	*15.4%*	*24.0%*
Other results		
Total (million €)	-2	-164
Annual change rate	-	*s.s.*
As % of total consolidated other results	*84.1%*	*41.0%*
Net income		
Total (million €)	488	351
Annual change rate	-	*-28.1%*
As % of total consolidated net income	*-470.9%*	*81.7%*

Source: FIs, APB.

Graph 41: Contribution from the main components of NI from the international activity to the change in NI between 2018 and 2019



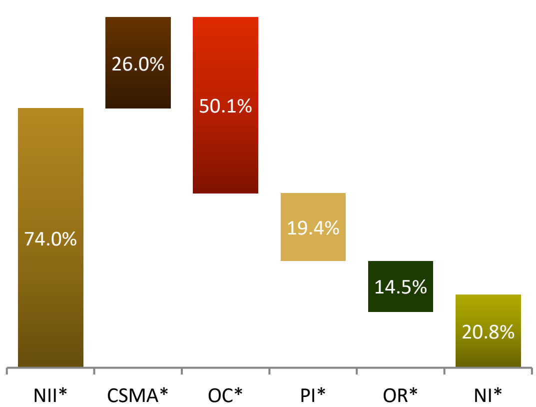
Source: FIs, APB.

Note: * Δ NII – change in net interest income; Δ CSMA – change in customer services and market activities; Δ SC – change in staff costs; Δ GAE – change in general and administrative expenses; Δ DA – Change in depreciation and amortisation; Δ PI – Change in provisions and impairments; Δ OR – Change in other results.

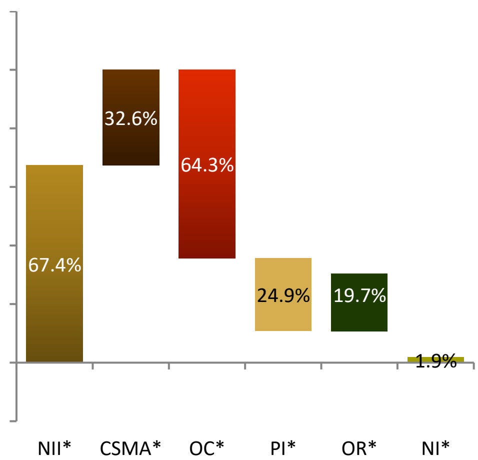
The structure of earnings from the international activity shows significant differences compared to the domestic activity structure, with the former featuring a higher relative share of net interest income and a significantly lower share of operating costs.

Graph 42: Decomposition of NI as a percentage of operating income (2019)

a) International activity



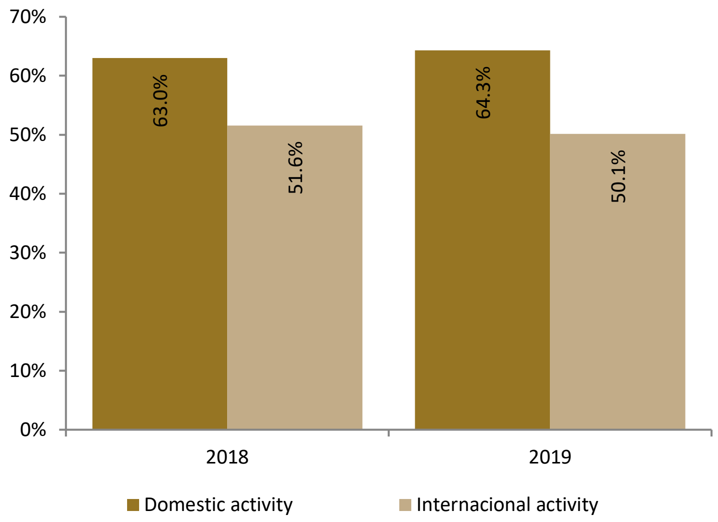
b) Domestic activity



Source: FIs.

Note: * MF – net interest income; CSMA – customer services and market activities; OC – operating costs; PI – provisions and impairments; OR –other results; NIBT – net income before tax.

Graph 43: Cost-to-income: domestic activity vs. international activity



Source: FIs, APB.

Acknowledgements

Associação Portuguesa de Bancos (APB - Portuguese Banking Association) would like to thank all its Members for their contribution to the preparation of this Annual Activity Report.

We also thank Banco de Portugal for providing the information required to analyse the relative positions of our members in the Portuguese banking system as a whole.

Associação Portuguesa de Bancos is also grateful to SIBS – Forward Payment Solutions for providing the information used to prepare part of the chapter on coverage indicators.

List of financial institutions that are members of the APB

Financial institutions - Portugal

Financial Institutions	Name of Group used in the presentation of consolidated accounts
Banco BIC Português, S.A.	
Banco Comercial Português, S.A. Banco ActivoBank, S.A.	Banco Comercial Português Group
Banco CTT S.A.	Banco CTT Group
Banco de Investimento Global, S.A.	Banco de Investimento Global Group
Banco Finantia, S.A.	Banco Finantia Group
Banco Invest, S.A.	Banco Invest Group
Banco Carregosa, S.A.	
Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL (SICAM - Sistema Integrado de Crédito Agrícola Mútuo (Integrated System of Mutual Agricultural Credit))	Crédito Agrícola Group
Caixa Económica da Misericórdia de Angra do Heroísmo	
Caixa Económica Montepio Geral Montepio Investimento, S.A.	Caixa Económica Montepio Geral Group
Caixa Geral de Depósitos, S.A. Caixa - Banco de Investimento, S.A.	Caixa Geral de Depósitos Group Caixa – Banco de Investimento Group
Novo Banco, S.A. BEST – Banco Eletrónico de Serviço Total, S.A. Novo Banco dos Açores, S.A.	Novo Banco Group

Financial institutions - Subsidiaries

Financial Institutions	Name of Group used in the presentation of consolidated accounts
Banco BPI S.A.	BPI Group
Banco Credibom, S.A.	Banco Credibom Group
Banco Santander Totta, S.A.	Santander Totta, SGPS, S.A.
Haitong Bank, S.A.	Haitong Bank Group

Financial institutions – Branch office

Financial Institutions	Name of Group used in the presentation of consolidated accounts
ABANCA Corporación Bancaria, S.A. – Branch in Portugal	
Banco Bilbao Vizcaya Argentaria (Portugal), S.A.	
Banco do Brasil, AG – Sucursal em Portugal	
Bankinter, S.A. – Branch in Portugal	
BNP Paribas – Branch in Portugal BNP Paribas Securities Services, S.A. – Branch in Portugal	
Deutsche Bank, AG – Sucursal em Portugal	
WiZink Bank, S.A. – Branch in Portugal	

Source: APB.

Associação Portuguesa de Bancos
Avenida da República 35 – 5º | 1050–186 Lisboa | Portugal
Tel. 21 351 00 70 | Fax. 21 357 95 33 | apbancos@apb.pt | www.apb.pt