

# PORTUGUESE BANKING SECTOR OVERVIEW

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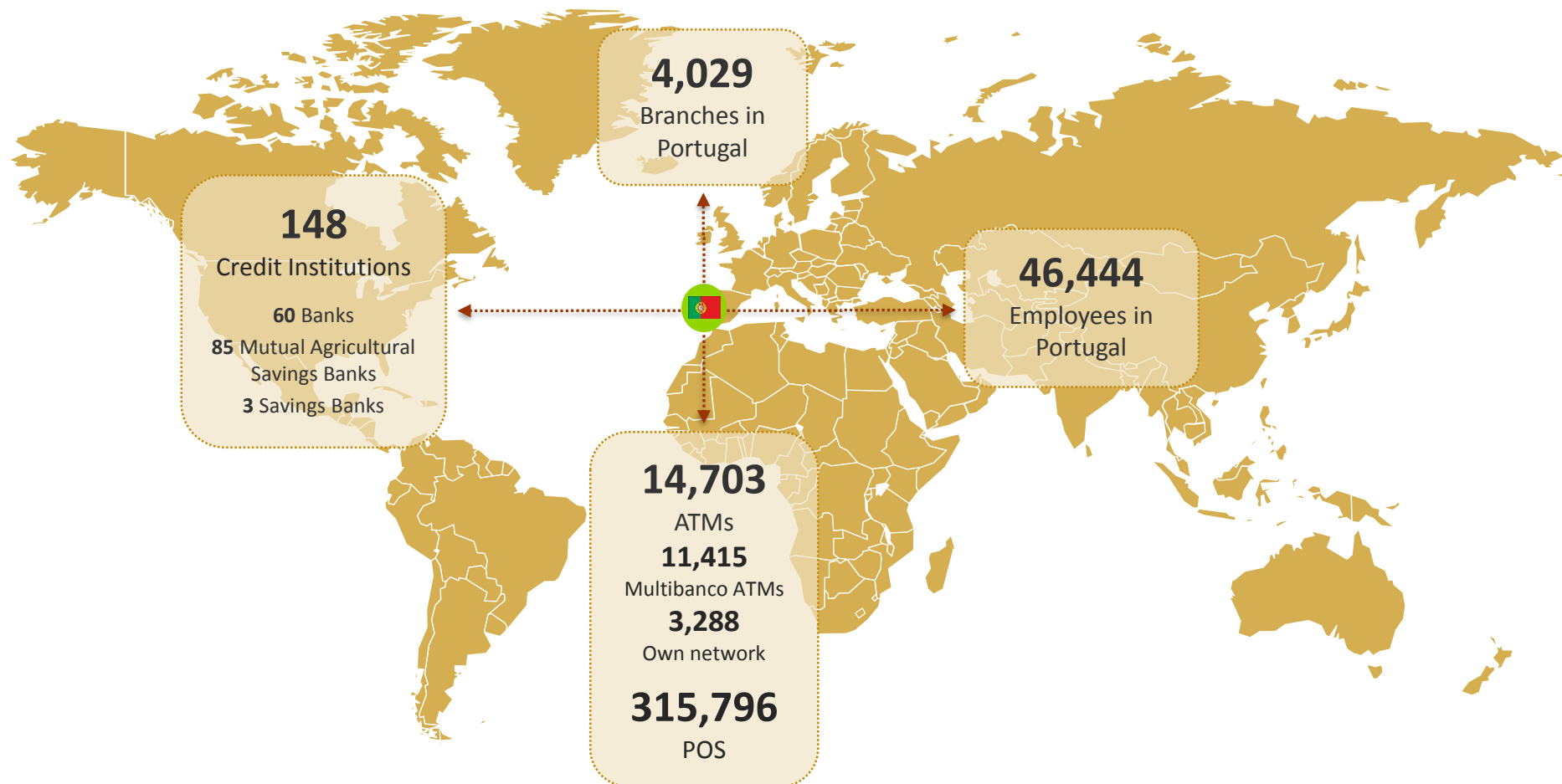


## I. Recent Evolution and Main Indicators



- ❑ **The progress made by the Portuguese banking sector, in the period that followed the sovereign debt crisis, was significant.** At the end of 2019, the sector showed considerable improvement, in terms of efficiency, liquidity, asset quality, profitability, and solvency, which is especially relevant given the current context arising from the COVID-19 pandemic.
- ❑ In terms of balance-sheet structure, on the asset side, it is worth highlighting **the positive evolution of the stock of loans to customers**, which rose in year-on-year terms. In this context, it is worth mentioning **the strong progress in NPL reduction**: since the peak reached in June 2016, NPL have decreased by 33.3 billion euros.
- ❑ On the liability side, **there has been a reinforcement of customer deposits** as the main source of funding, despite the very low interest rate environment.
- ❑ **The system's liquidity situation is at extremely comfortable levels.** Both the funding gap and the loan-to-deposit ratio have been declining, and the liquidity coverage ratio has been increasing.
- ❑ **Solvency has been improving**, reflecting the strengthening, by several financial institutions, of own funds, the favorable evolution of risk-weighted assets, and improved profitability. The leverage ratio is considerably higher than the Euro Area average and the reference minimum (3%).
- ❑ **Profitability has been recovering.** However, when compared to most of the Euro Area countries, profitability remains at a low level and below the cost of capital.
- ❑ **To the important challenges that were already conditioning the performance of banking activity** (low interest rate environment, new business model framework, growing competition from new operators, the weight of legislation/regulation), **the COVID-19 pandemic resulted in an economic environment of a deep recession which is associated with a high level of uncertainty regarding its recovery.**

# RECENT EVOLUTION AND MAIN INDICATORS

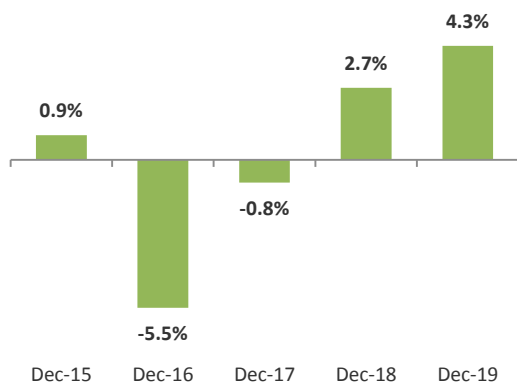


Source: APB's Associates (branches, employees and payment systems) and Banco de Portugal (credit institutions).

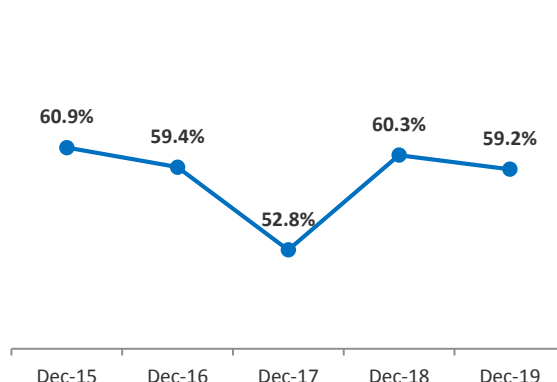
# RECENT EVOLUTION AND MAIN INDICATORS

The Portuguese banking sector is more resilient compared to the pre-crisis period, showing considerable progress in terms of solvency, liquidity, asset quality, efficiency, and profitability. However, the current crisis context arising from the COVID-19 pandemic will pose important challenges for the sector.

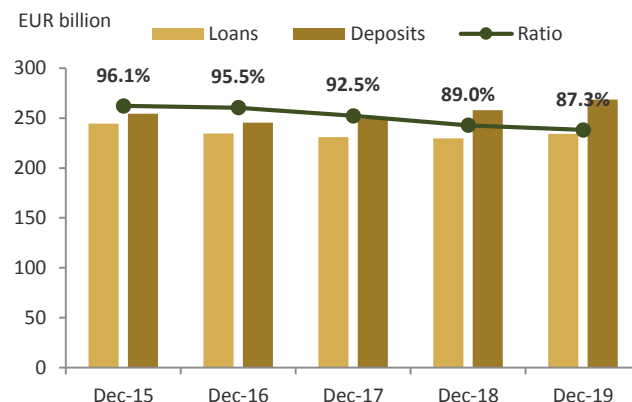
**Return on Equity**



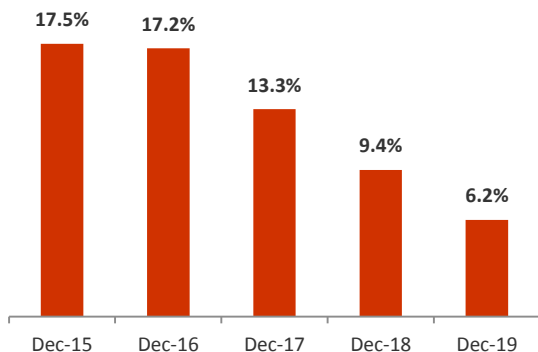
**Cost-to-Income**



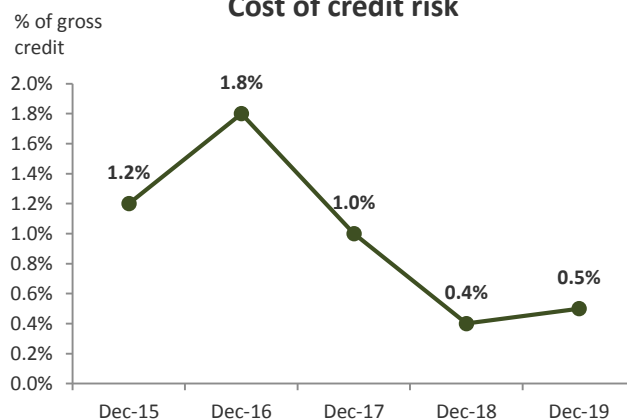
**Loan-to-deposit ratio**



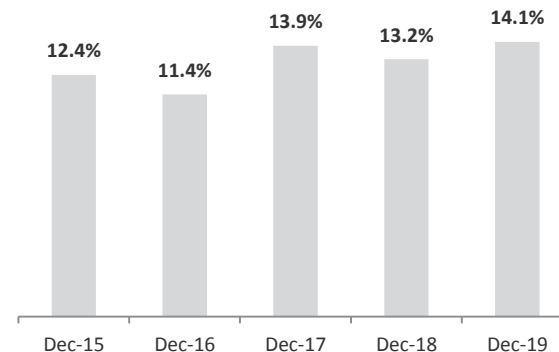
**Non-Performing Loans ratio**



**Cost of credit risk**



**Common Equity Tier 1 ratio**



Source: Banco de Portugal, except for the Return on Equity (ECB). Consolidated data.

## RECENT EVOLUTION AND MAIN INDICATORS

As a result of the recapitalization measures undertaken since the economic and financial crisis, shareholder structures of the main financial institutions have changed significantly and there has been a reinforcement of equity.

2012 - 2015

2016

2017

2017 (cont'd)

2018

2019

- 2012-2013:**
  - Recapitalization of CGD, BCP, BPI, and Banif.
- 2014:**
  - Resolution of BES and establishment of bridge bank - Novo Banco (EUR 4.3 bn in public funding).
- 2015:**
  - Resolution of BANIF (EUR 2.25 bn in public funding).
  - Acquisition of BES's investment arm (BESI) by Haitong Bank.
- Start of Novo Banco's sale process.
  - Start of CGD's recapitalization process.
  - Takeover offer for BPI by CaixaBank..
  - Investment by Fosun in BCP.
- BCP share capital increase (EUR 1.3 bn).
  - CGD recapitalization totalling EUR 4.44 bn (EUR 3.94 bn through share capital increase; EUR 500 mn through Additional Tier 1 instruments)
  - Conclusion of CaixaBank's public offer over BPI.
  - Montepio share capital increase (EUR 250 mn).
- Sale of Banco Popular to Banco Santander S.A. as part of a resolution measure adopted with regard to the former.
  - Conclusion of the sale of Novo Banco to Lone Star.
  - Issuance, by BPI, of subordinated notes, intended to be qualified as Tier 2 instruments, in the amount of EUR 300 mn.
  - Issuance, by BCP, of subordinated notes, intended to be qualified as Tier 2 instruments, in the amount of EUR 300 mn.
- Completion of the last phase of CGD's recapitalization plan: issuance of EUR 500 mn Tier 2 securities.
  - Issuance, by Novo Banco, of subordinated notes, intended to be qualified as Tier 2 instruments, and of a Tender and Exchange Offer, in the amount of EUR 400 mn.
- Issuance, by BCP, of perpetual subordinated notes, intended to be qualified as Additional Tier 1 instruments, in the amount of EUR 400 mn.
  - Issuance, by Banco Montepio, of subordinated notes, intended to be qualified as Tier 2 instruments, in the amount of EUR 100 mn.

## II. Financial Position

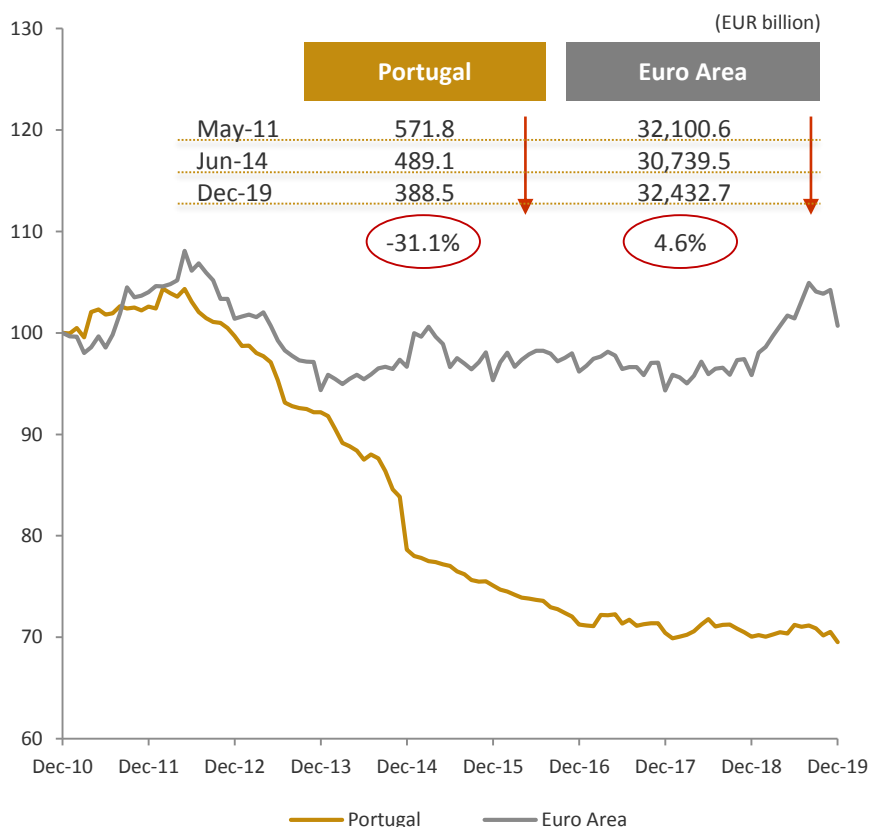
### Lending



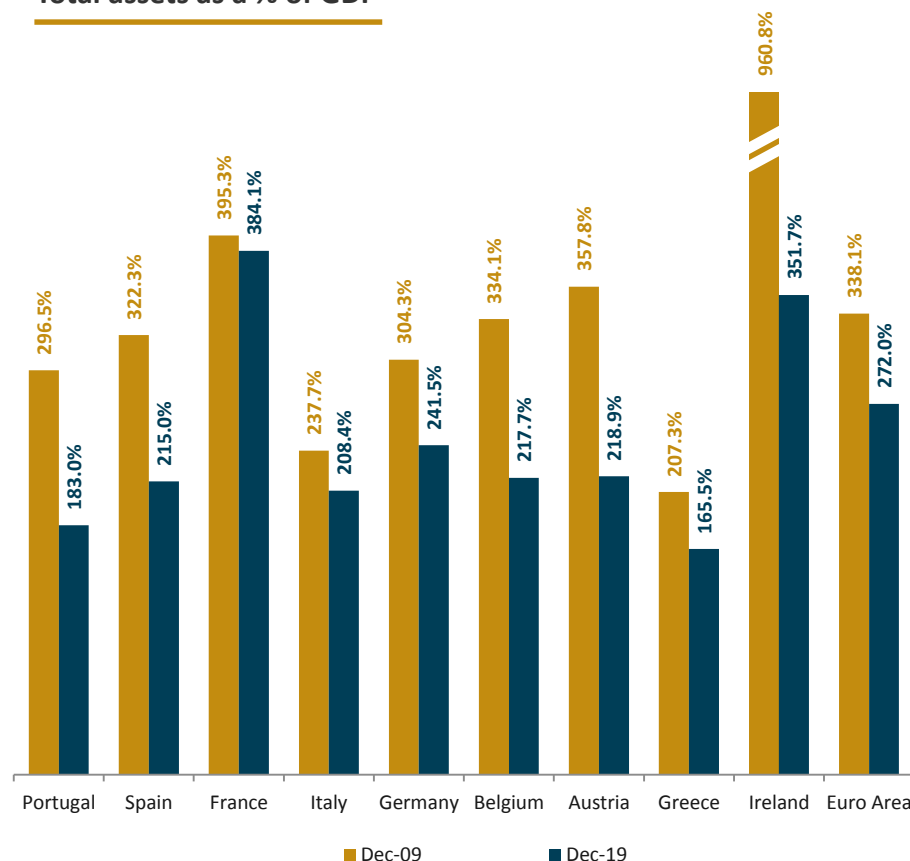


The economic and financial crisis resulted in a strong deleverage of the Portuguese economy, especially in what refers to funding from the banking sector, which led to a decline in the weight of total assets to GDP.

**Total assets evolution (Dec-10=100)**



**Total assets as a % of GDP**

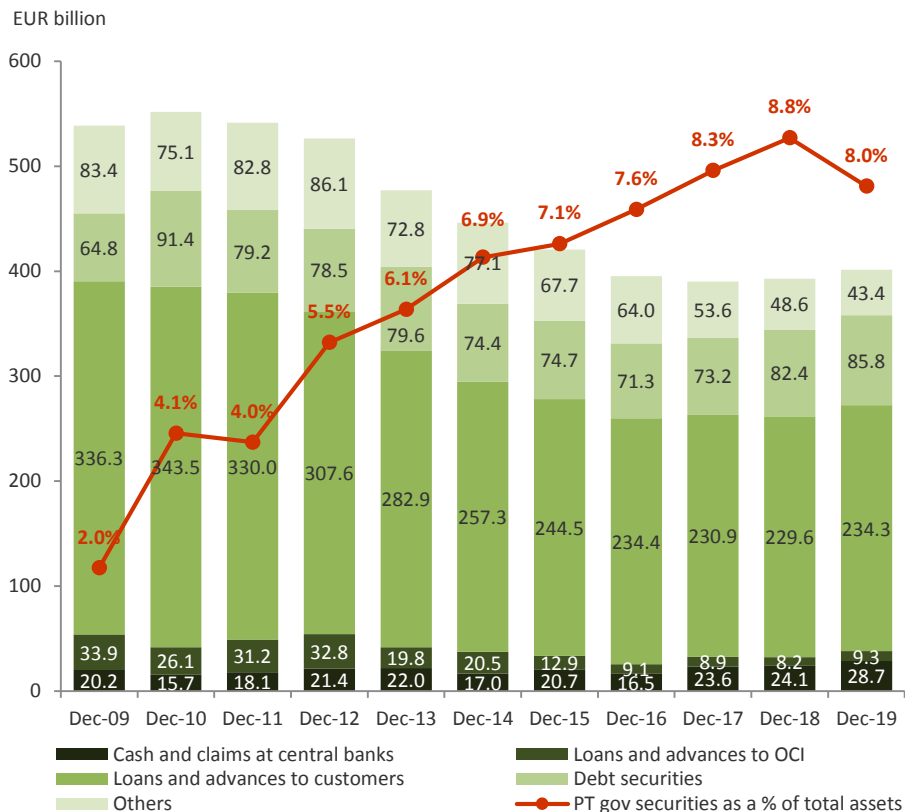


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat.

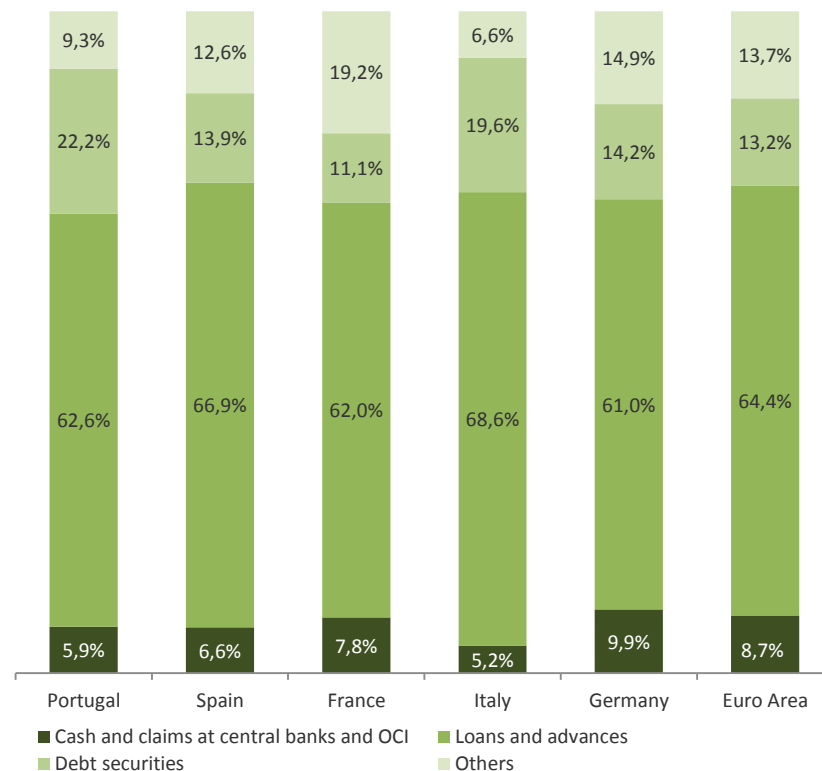
# FINANCIAL POSITION

The significant reduction in the banking sector's total assets was driven mainly by the contraction in loans to customers. However, in 2019, loans to customers increased by 1.8% in year-on-year terms.

## Total assets breakdown



## Portugal vs. Euro Area as a % of total assets



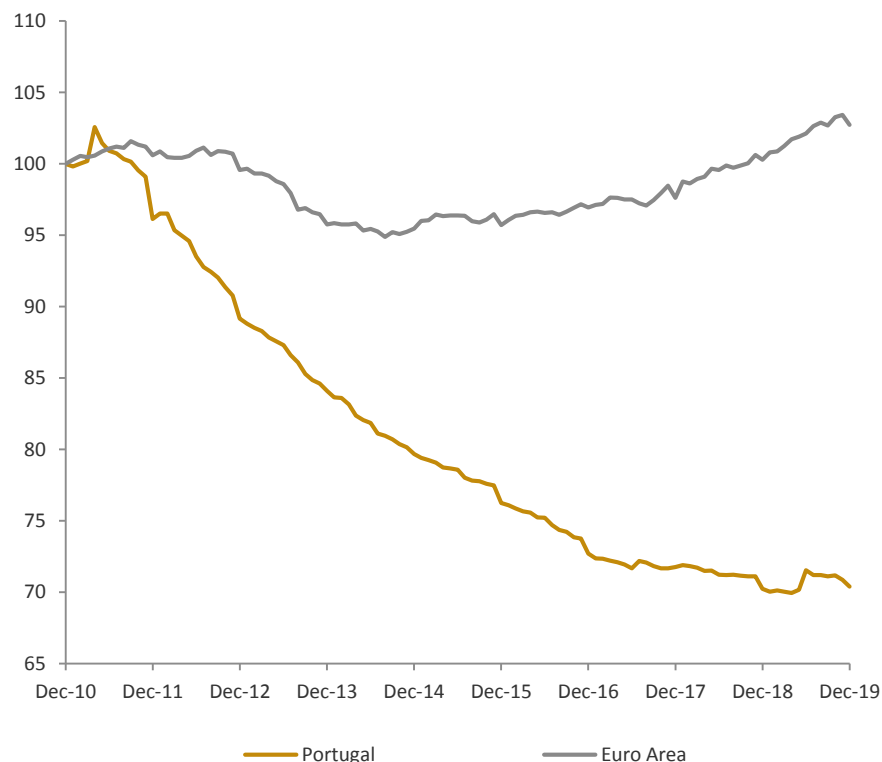
Source: Banco de Portugal (consolidated data) and ECB – MFI Balance Sheet Items (Monetary and Financial Statistics).

Source: ECB – Consolidated Banking Data.

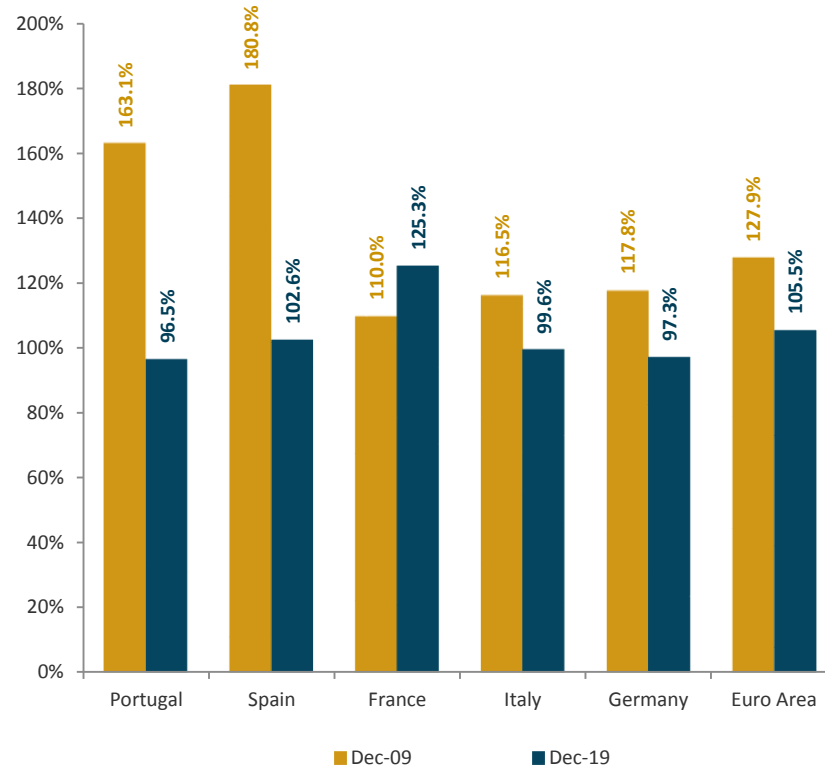
# LENDING

The stock of loans to customers, as a percentage of GDP, progressively converged towards the Euro Area average and, in 2019, was already below that level.

Loans to customers (Dec-10=100)



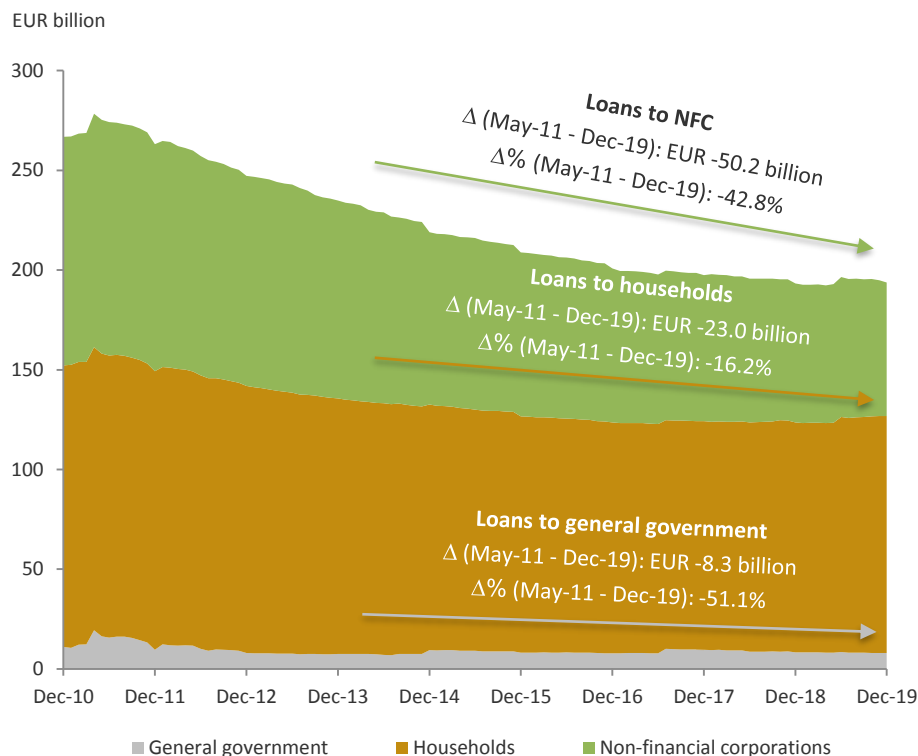
Loans to customers as a % of GDP



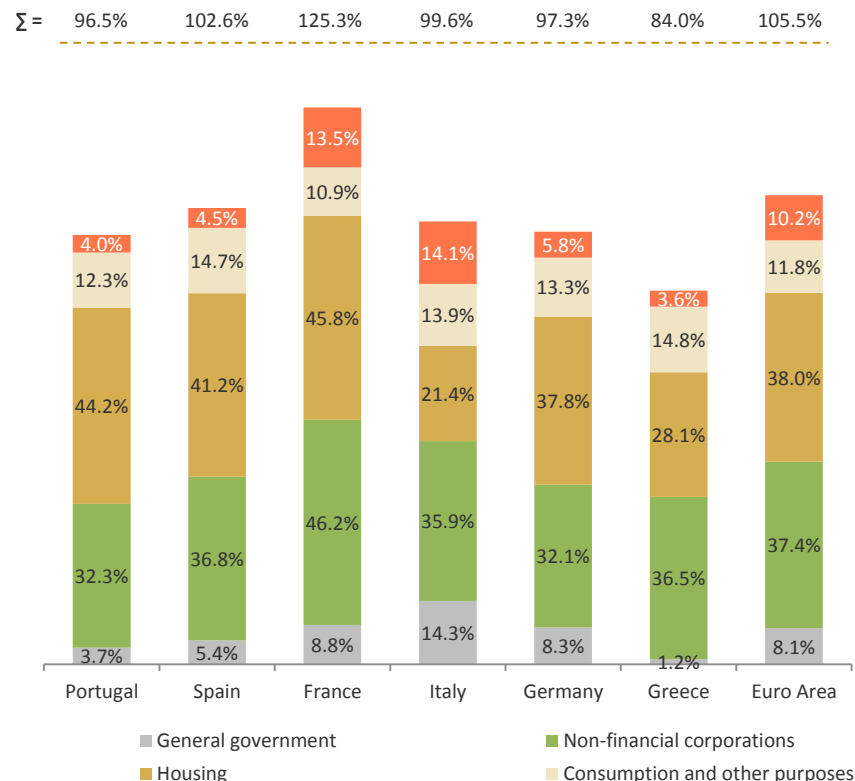
Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat. Loans granted to the non-monetary sector (end of period balances). Gross figures.

The deleveraging has been considerably intense on the non-financial corporations (NFC) segment. In the households segment, lending for house purchase has a significant weight.

## Loans per institutional sector



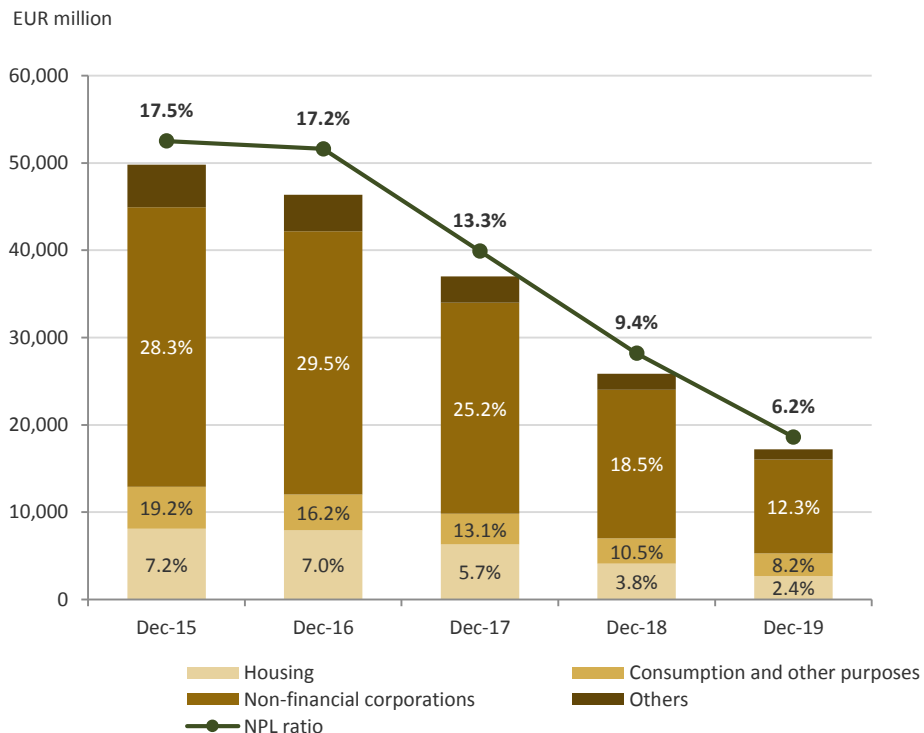
## Loans per institutional sector as a % of GDP



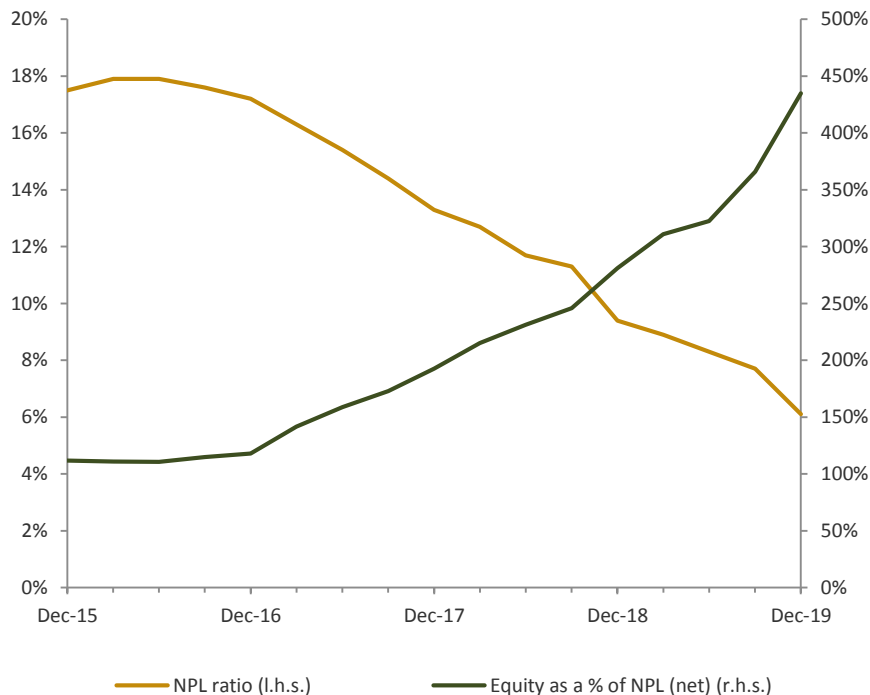
Source: Banco de Portugal (Monetary and Financial Statistics), ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat. Non-financial corporations include Private corporations and Public corporations not included in general government. Other include Non-monetary financial institutions: Other Financial Intermediaries, Financial Auxiliaries, Insurance Companies and Pension Funds.

In Portugal, progress in reducing NPL has been quite significant. NPL have decreased by 33.3 billion euros since its June 2016 peak. In December 2019, the NPL ratio reached 6.2%.

## NPL amount and ratio in Portugal



## Equity vs. NPL (net)

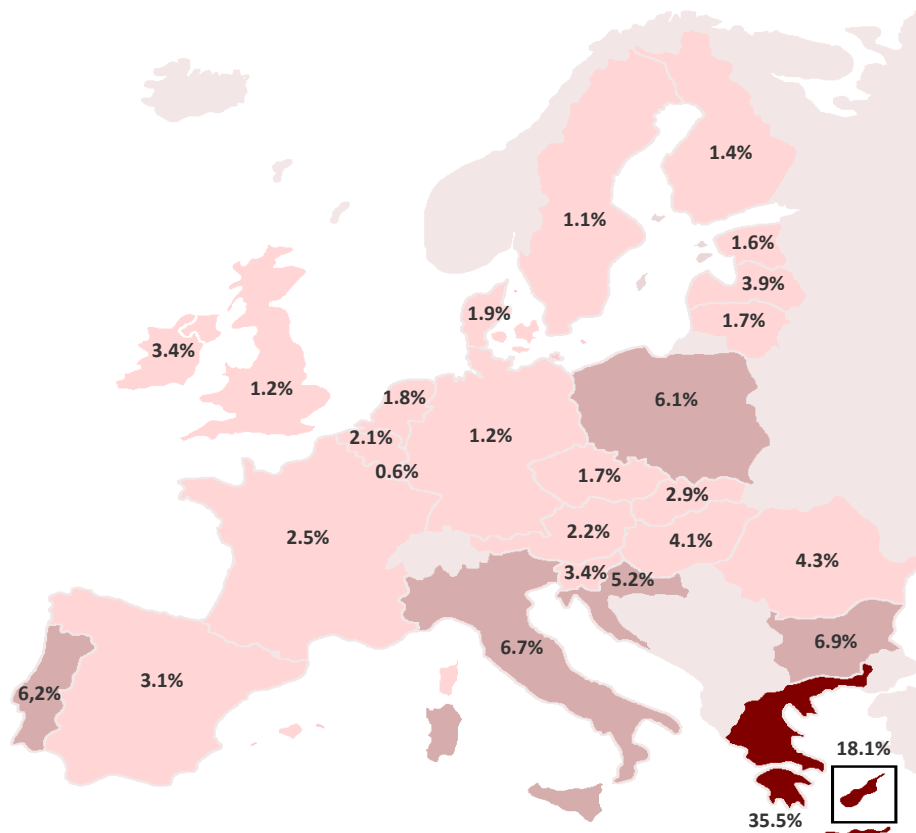


Non-Performing Loans – Loans that comply with at least one of the following conditions: i) material exposures that are more than 90 days past-due; ii) the debtor is assessed as unlikely to pay its obligations in full without realization of collateral; iii) impaired assets, except incurred but not reported (IBNR) impairments; and iv) defaulted credit, in accordance with the CRR prudential concept.

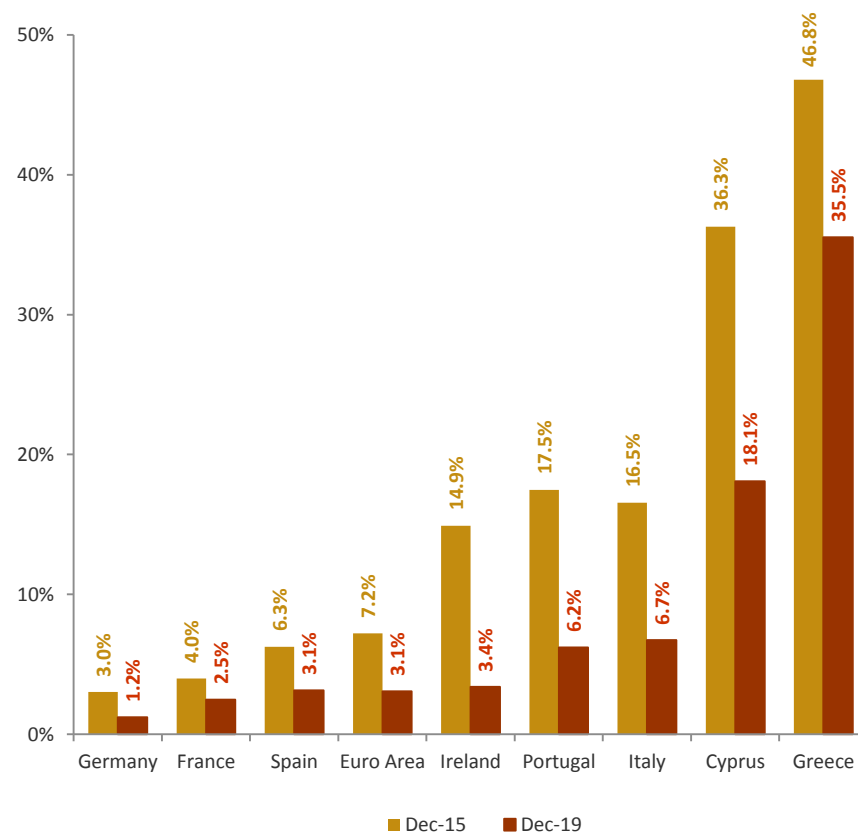
Source: Banco de Portugal (consolidated data).

Despite the progress attained, the reduction of NPL remains a priority for the Portuguese banking sector, which continues to present an NPL ratio above the majority of the Euro Area countries.

## NPL ratio in the EU



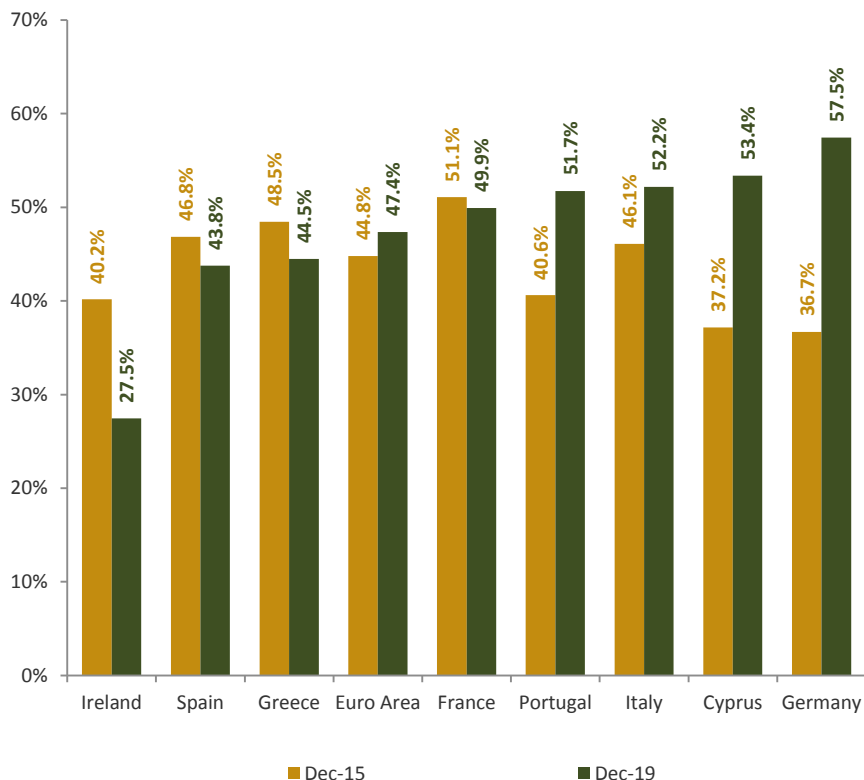
## Evolution of the NPL ratio in the EU



Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data.

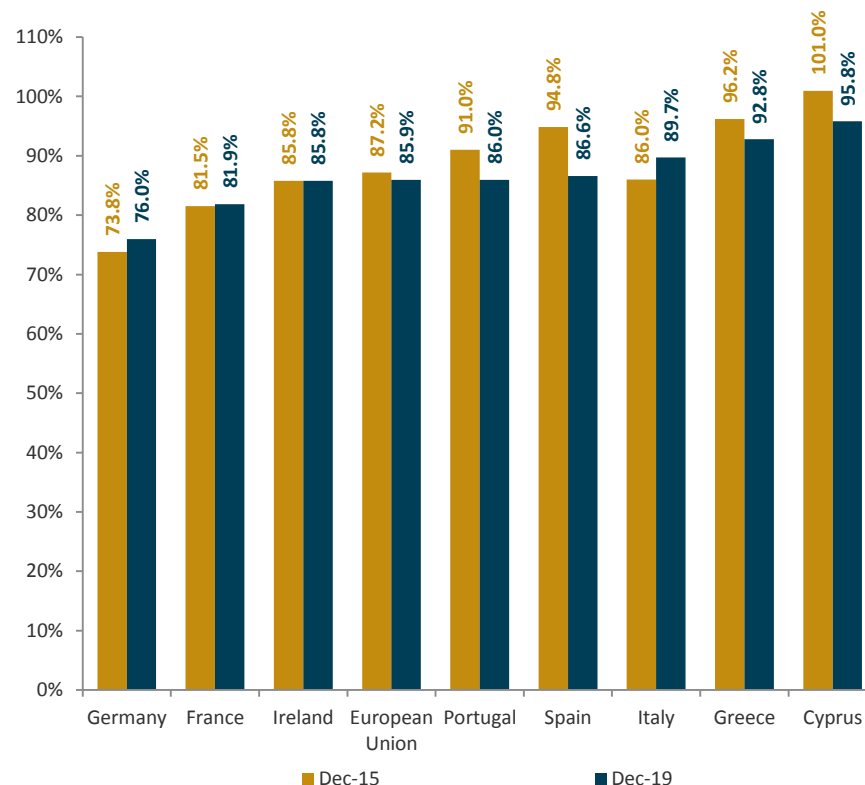
The NPL impairment coverage ratio and total coverage ratio are evolving positively and compare favorably with the EU average.

## Impairment coverage ratio



Source: ECB – Consolidated Banking Data. The impairment coverage ratio refers to non-performing loans and debt securities.

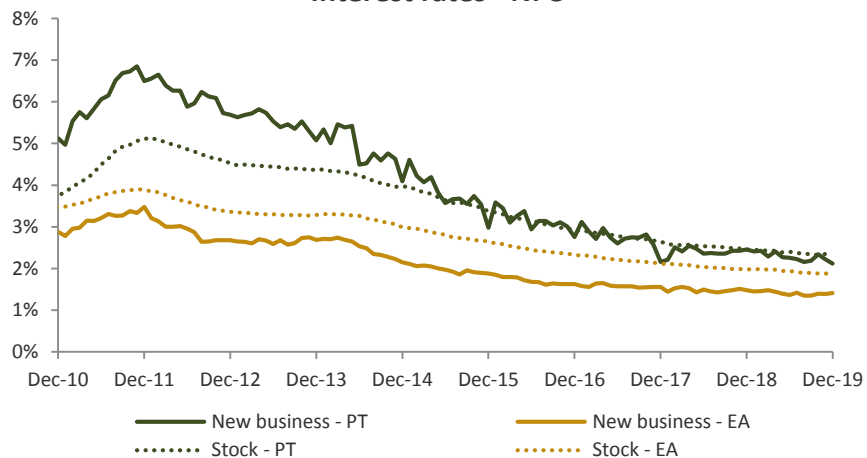
## Total NPL coverage ratio



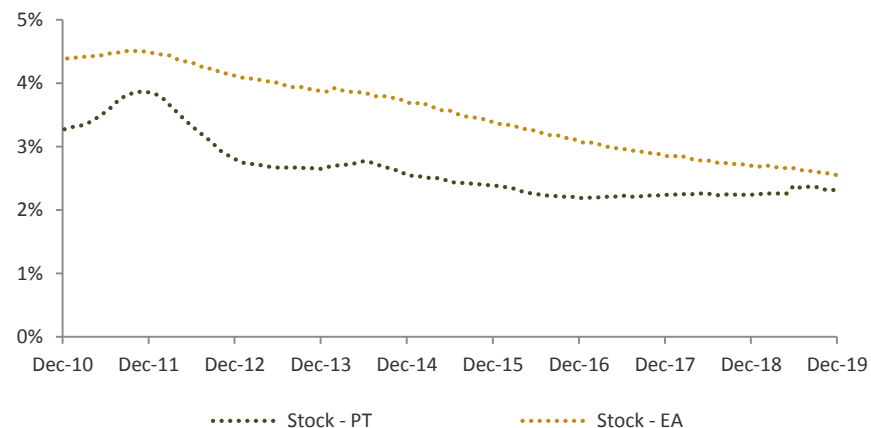
Source: EBA – EU-wide transparency exercise. Total coverage ratio includes cumulative impairments, collateral, and financial guarantees associated with non-performing loans. EBA sample includes 127 banks for Dec-19 (Portugal: BCP, CCCAM, CGD, LSF Nani Investments e Montepio).

Interest rates have been converging towards the Euro Area average.

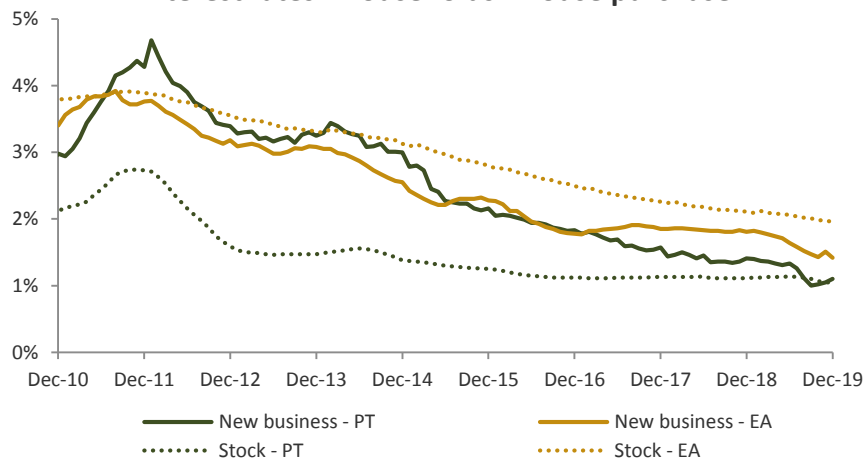
### Interest rates - NFC



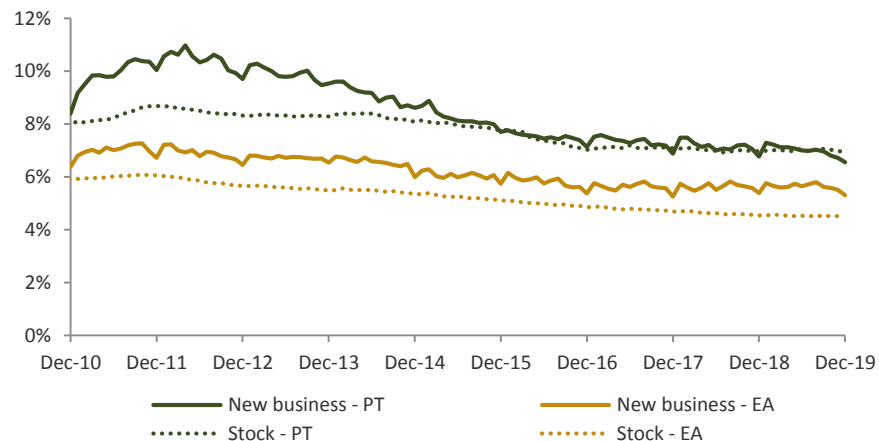
### Interest rates - Households



### Interest rates - Households - House purchase



### Interest rates - Households - Consumption



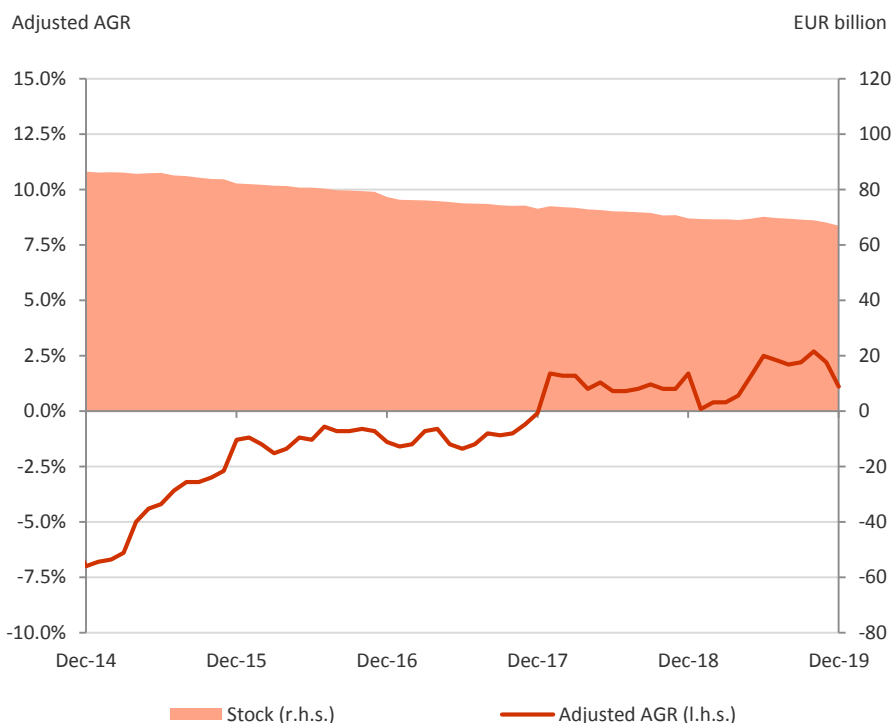
Source: BCE – MFI Interest Rate Statistics.



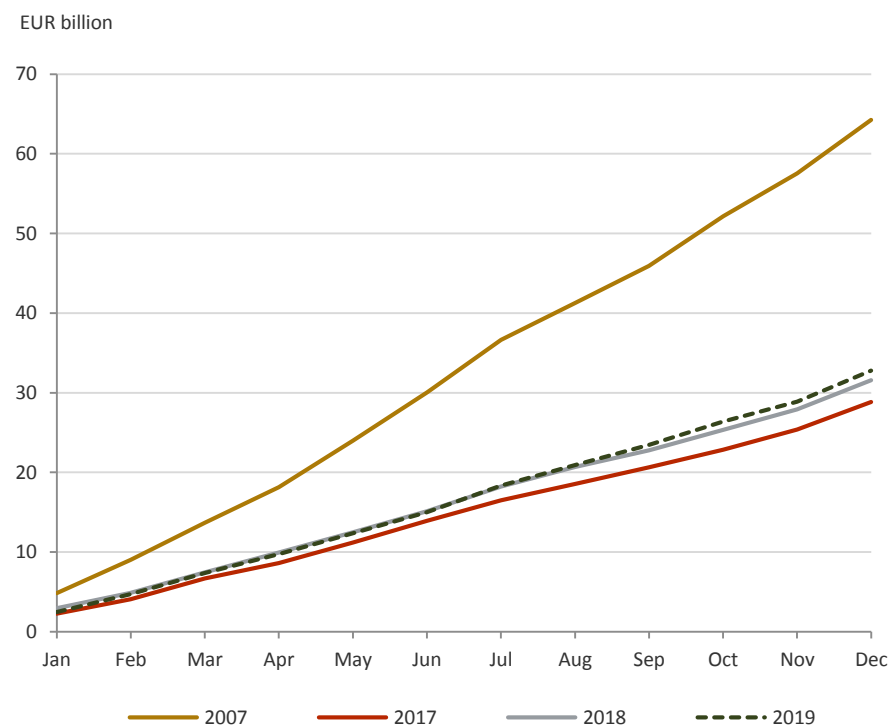
The evolution of the stock of loans to NFC has been penalized by the strong efforts to reduce NPL. However, performing loans show a positive evolution since the beginning of 2018.

New business lending is still lower than before the financial crisis, but has recorded positive growth rates.

## Stock of loans to NFC



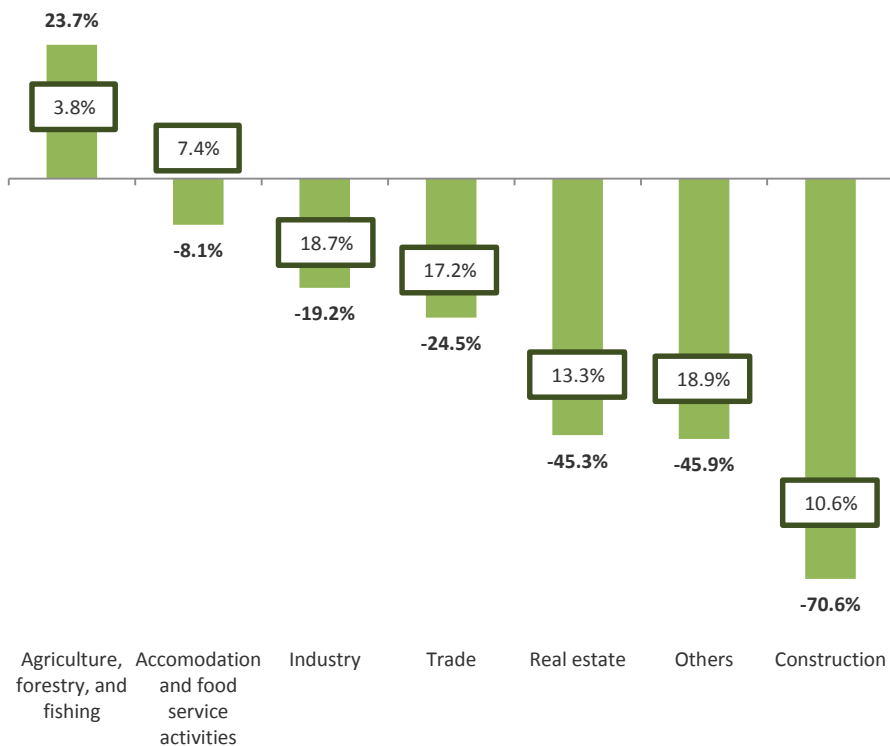
## New business lending to NFC (accumulated amounts)



Source: Banco de Portugal (Monetary and Financial Statistics). Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

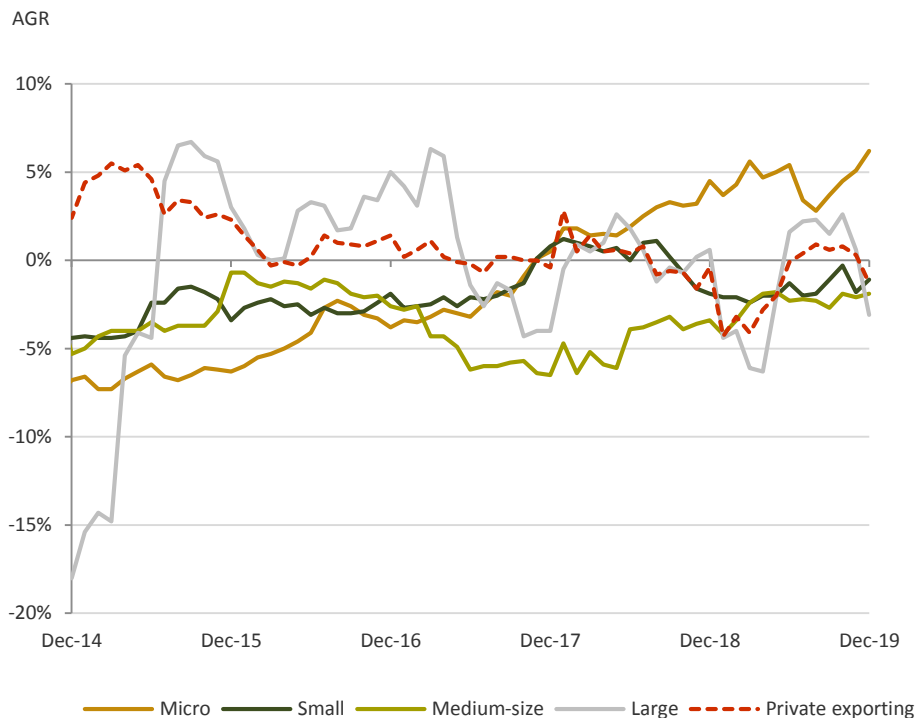
The reduction of the exposure of the banking sector has been more significant in the construction and real estate sectors.

**Change of the stock of loans to NFC by sector (Dec-10 – Dec-19)**



  - As a percentage of total NFC lending in December 2019

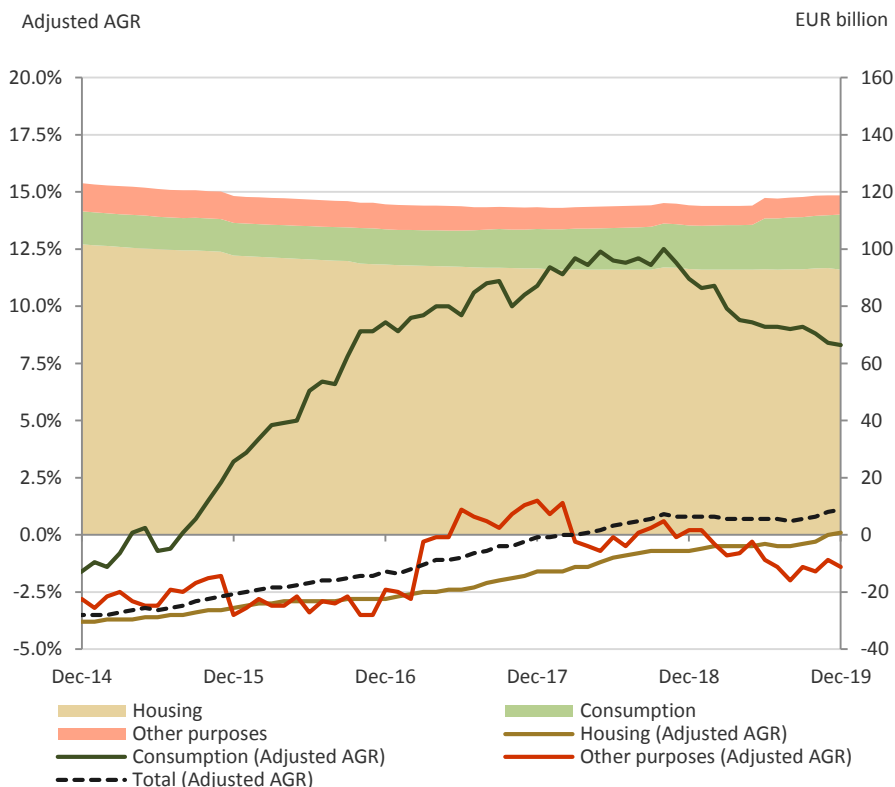
**AGR of loans to NFC by size**



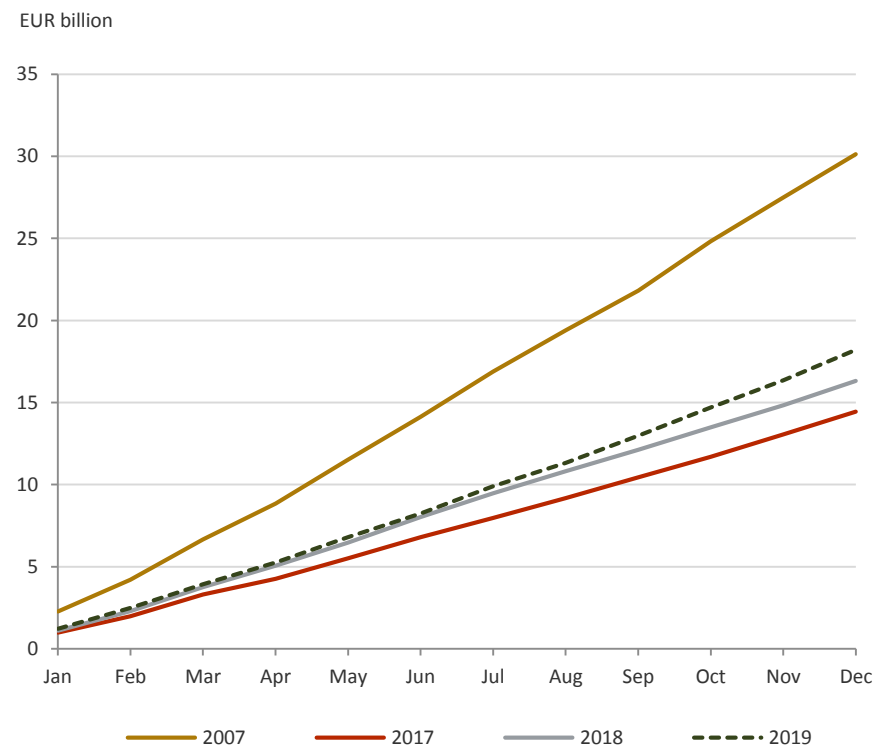
Source: Banco de Portugal (Monetary and Financial Statistics). AGR = Annual growth rate.

The evolution of the stock of loans to households mainly reflects the dynamism of consumer credit, as well as some recovery of housing loans, in a more favourable economic environment, improvement of housing market perspectives, and low interest rates.

## Stock of loans to households



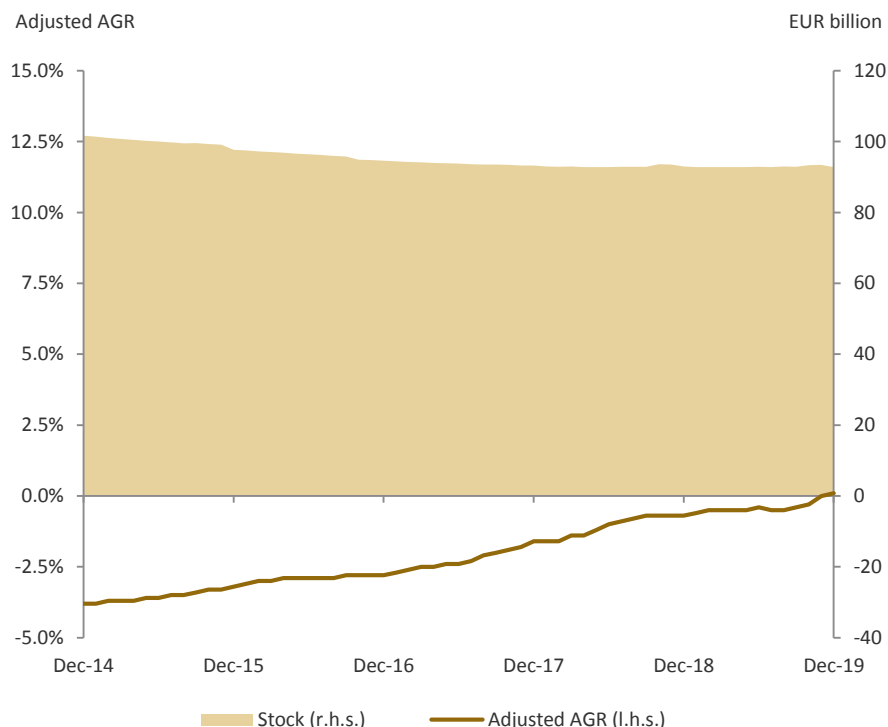
## New business lending to households (accumulated amounts)



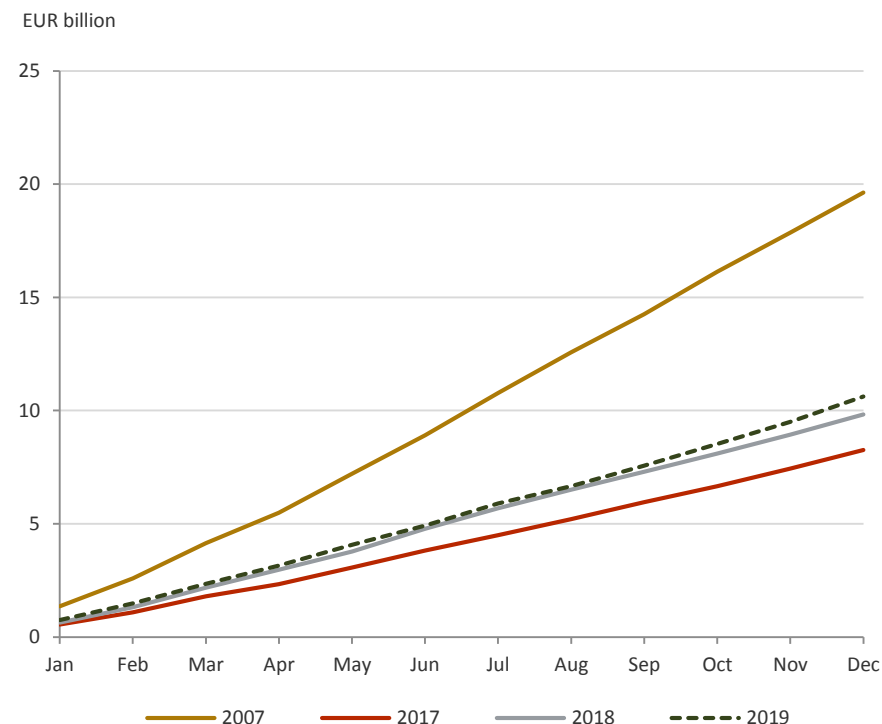
Source: Banco de Portugal (Monetary and Financial Statistics). Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

Flows of new loans for house purchase, although still below the pre-financial crisis level, increased and contributed to a less negative evolution of the stock of these loans.

## Stock of loans for house purchase



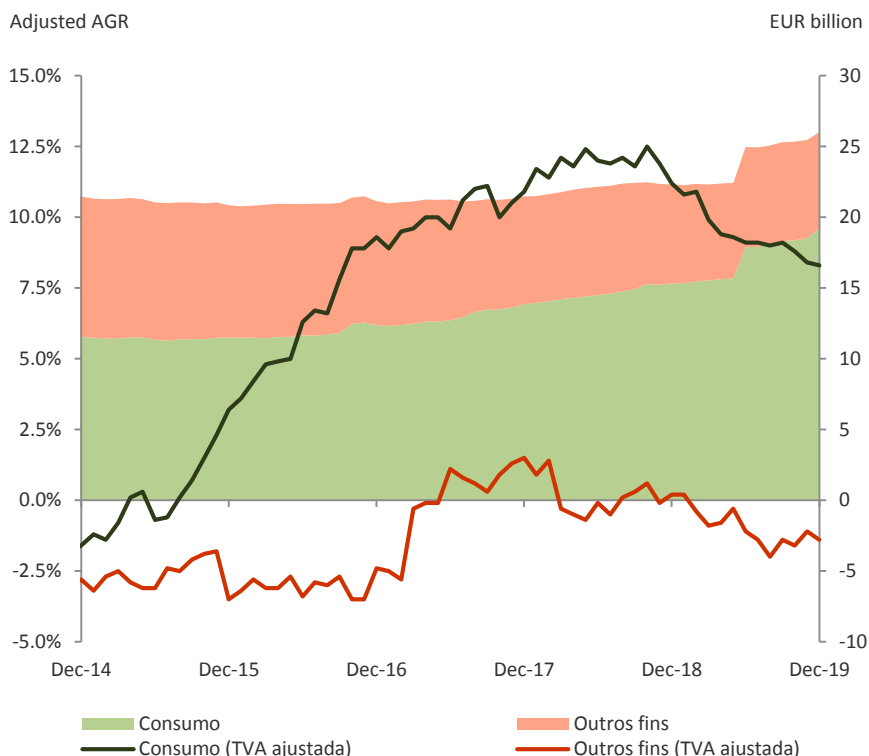
## New business lending for house purchase (accumulated amounts)



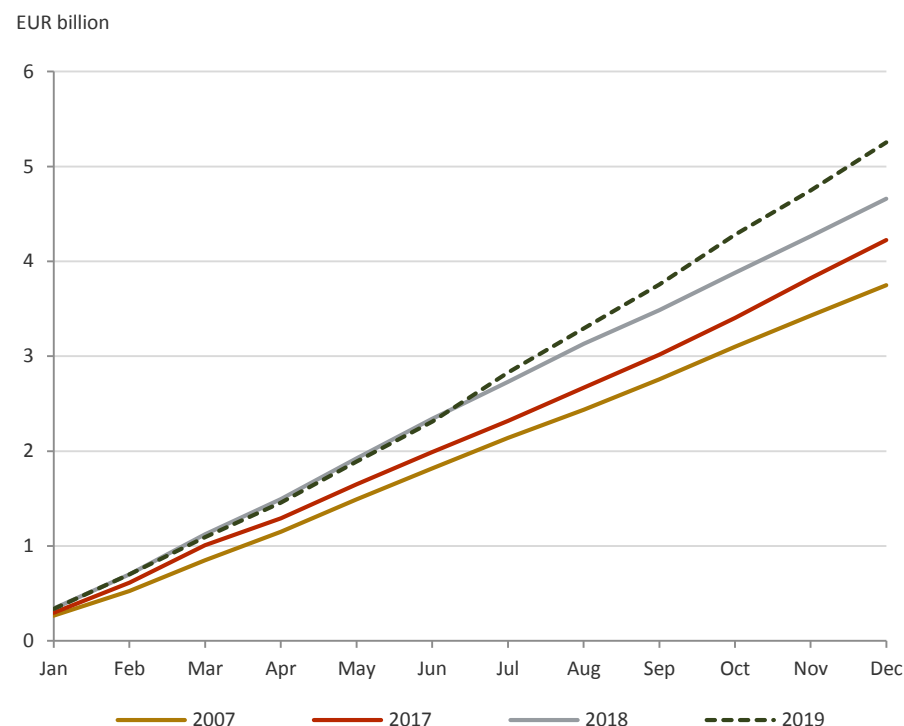
Source: Banco de Portugal (Monetary and Financial Statistics). Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

The stock of credit for consumption, which has been increasing since early 2016, is associated with the upward phase of the economic cycle.

## Stock of loans for consumption and other purposes



## New business lending for consumption (accumulated amounts)



Source: Banco de Portugal (Monetary and Financial Statistics). Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

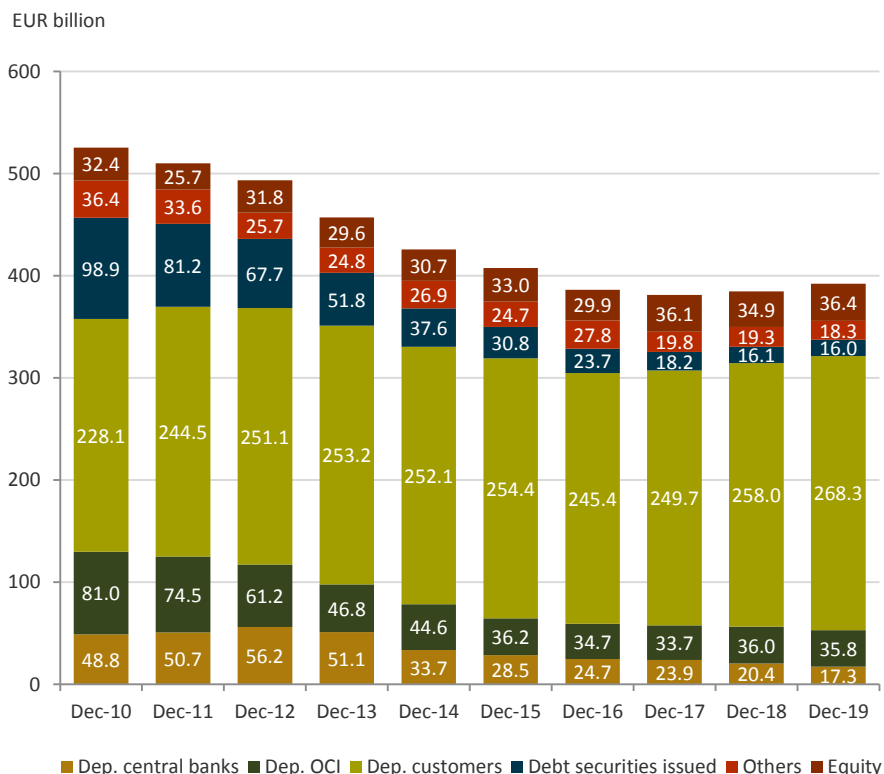
### III. Funding and Liquidity Structure



# FUNDING AND LIQUIDITY STRUCTURE

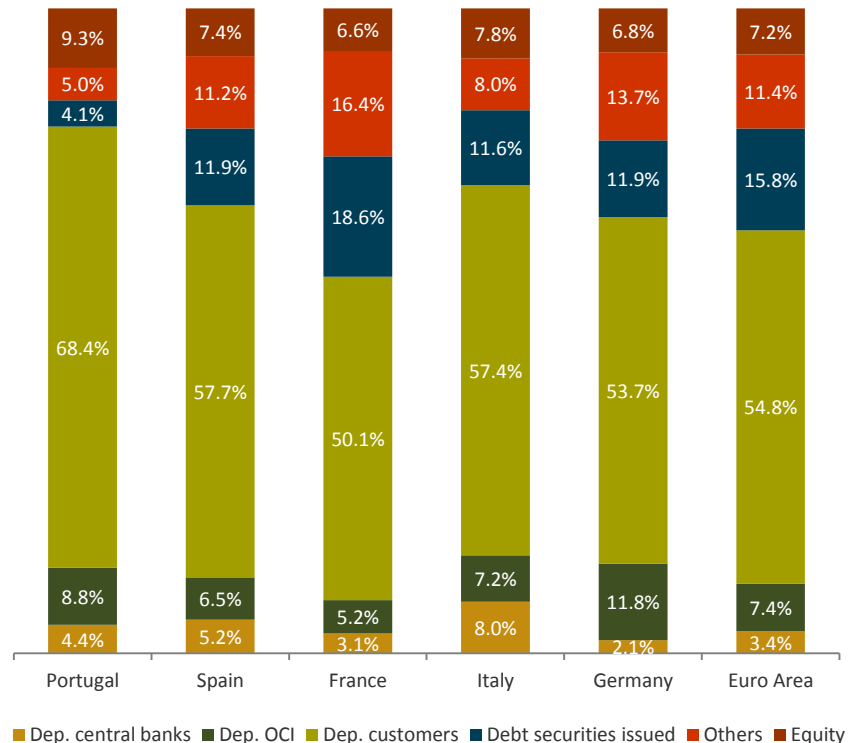
The evolution of liabilities reflects the reinforcement of customer deposits as the main sources of funding. Conversely, there has been a decrease in terms of market funding. The weight of deposits in the funding structure is above the Euro Area average and the majority of the remaining member states.

## Funding structure



Source: Banco de Portugal (consolidated data). OCI = Other Credit Institutions.

## Portugal vs. Euro Area (Dec-19)



Source: ECB – Consolidated Banking Data.

# FUNDING AND LIQUIDITY STRUCTURE

Despite the austerity imposed by the EFAP, deposits showed a high level of resilience, reflecting the depositors' confidence in the banking system. Households' deposits reached their highest value in December 2019, totaling 150.1 billion euros.

## Evolution of households' deposits (Dec-10=100)



Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics). Deposits of households include emigrants.

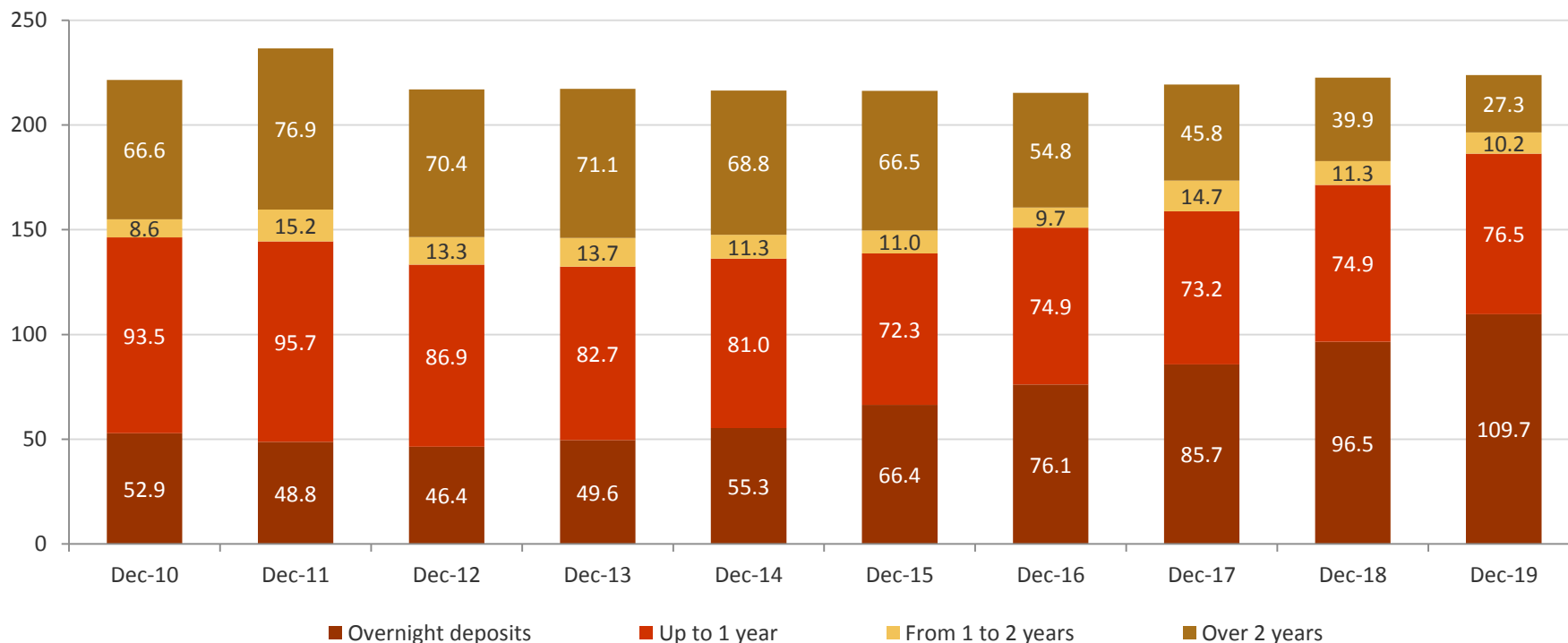


# FUNDING AND LIQUIDITY STRUCTURE

In a context of very low interest rates on deposits, as a consequence of ECB's accommodative monetary policy, time deposits continued to fall while demand deposits continued to increase.

## Evolution of time deposits

EUR billion

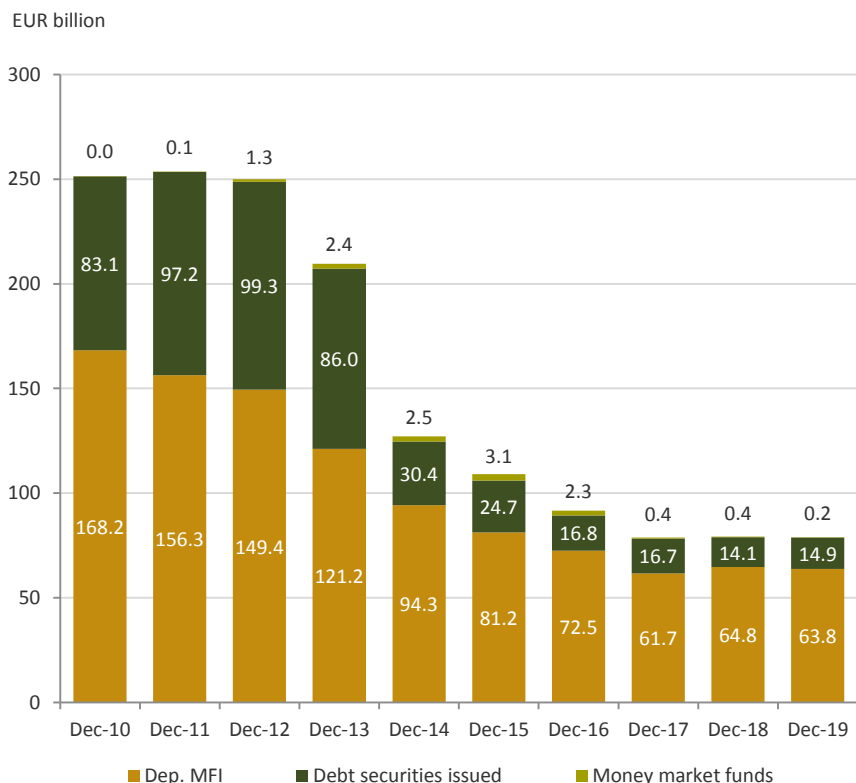


Source: Banco de Portugal (Monetary and Financial Statistics). Deposits from the non-monetary sector (end-of-period balances).

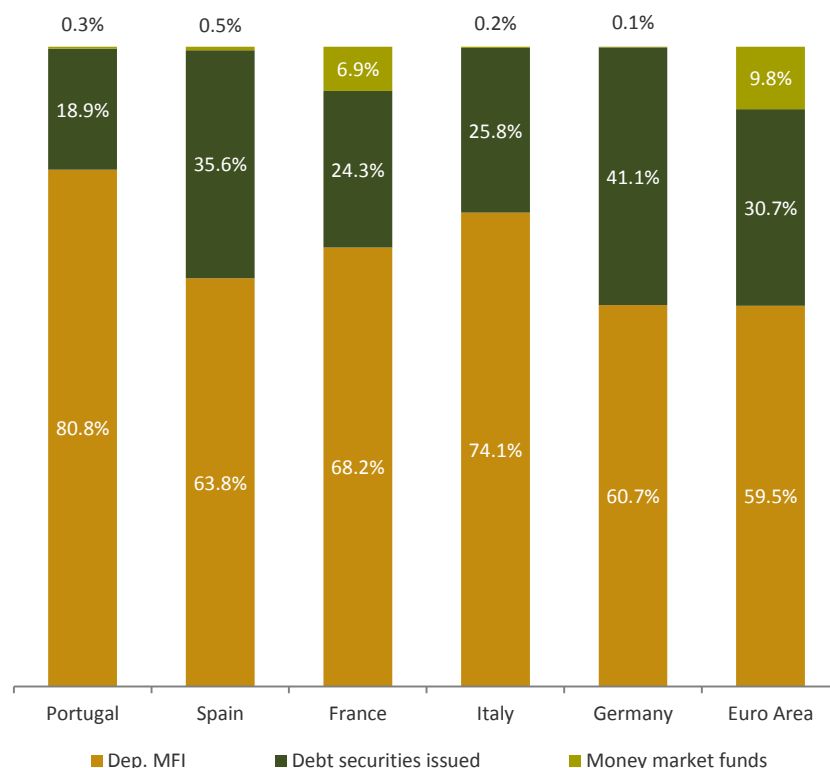
# FUNDING AND LIQUIDITY STRUCTURE

Recourse to wholesale funding has decreased substantially. Both in Portugal and the Euro Area, deposits from the monetary sector is the main component of wholesale funding of the banking sector.

## Wholesale structure funding



## Portugal vs. Euro Area

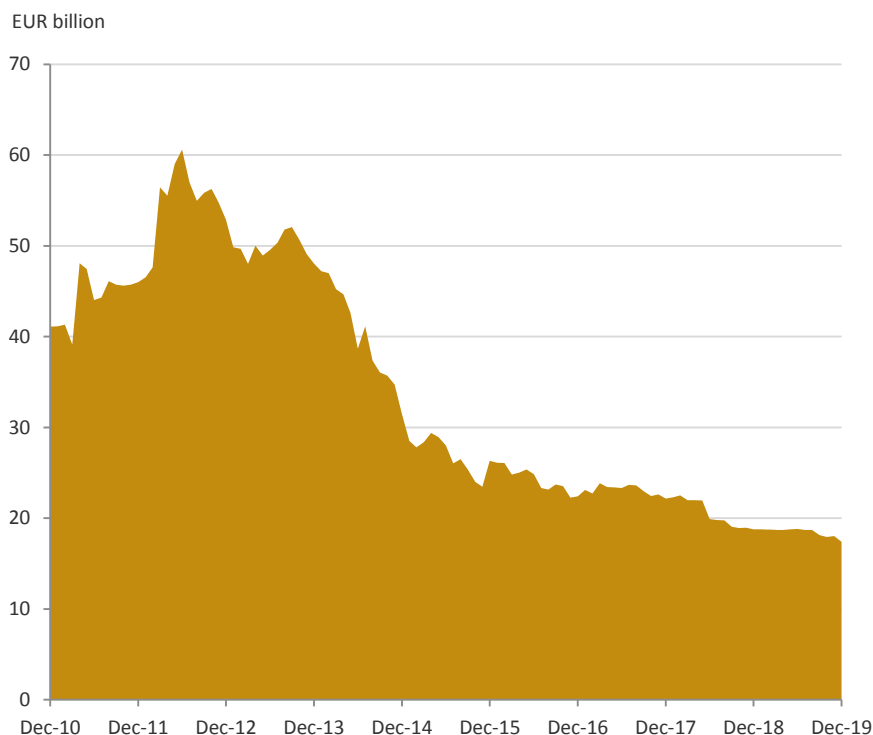


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics).  
 Monetary Financial Institutions (MFI) include the Central Bank and Other Monetary Financial Institutions (OMFI).

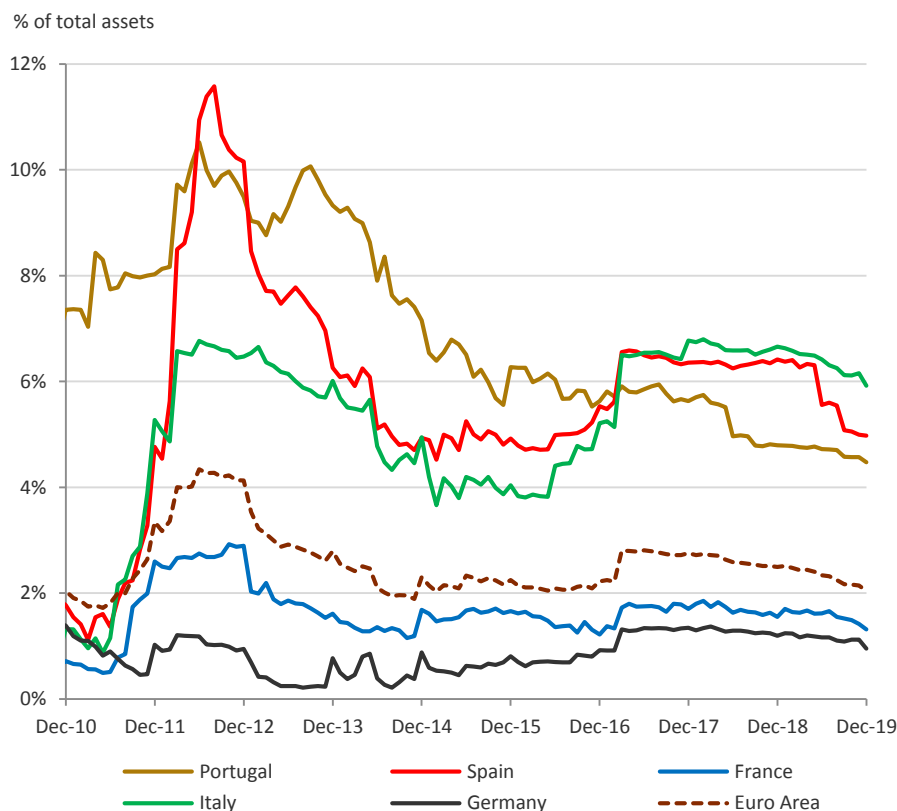
# FUNDING AND LIQUIDITY STRUCTURE

The reliance on ECB funding has been decreasing steadily since the maximum level attained in June 2012. In this period, the weight of this funding source in total assets has decreased significantly from 10.5% to 4.7%.

## Borrowing from the European Central Bank

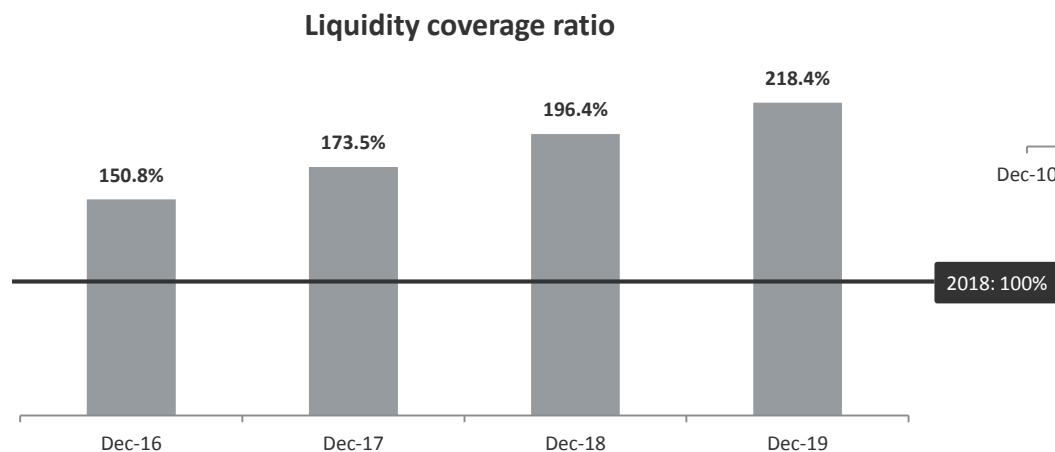
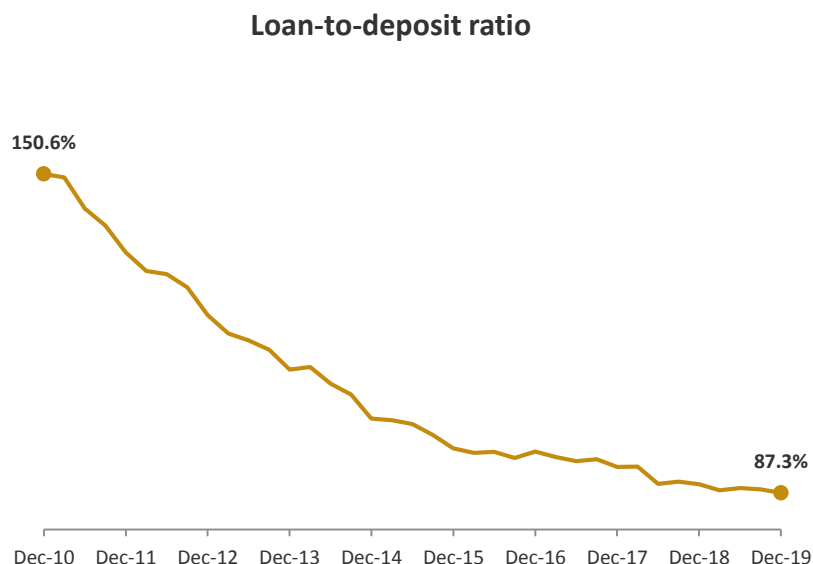
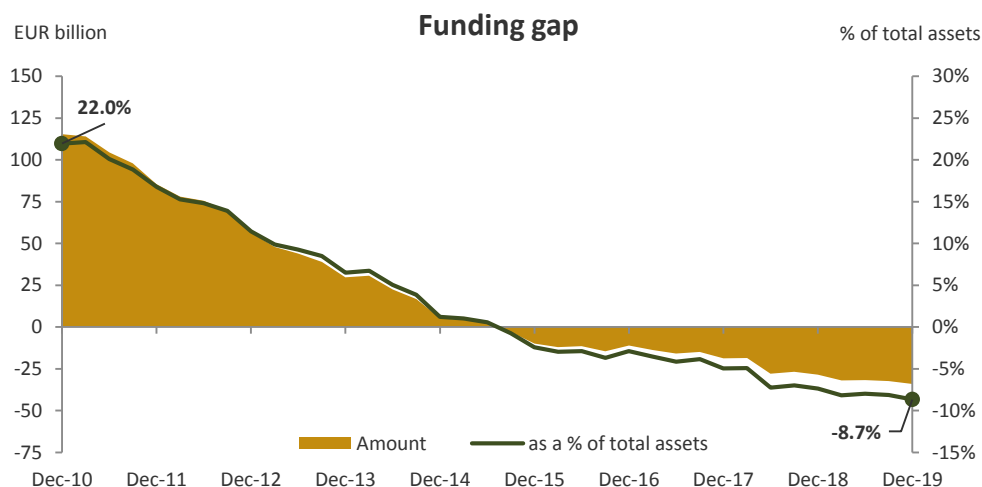


## Portugal vs. Euro Area as a % of total assets



Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics).

Liquidity continues to show a positive trend: both the funding gap and the loan-to-deposit ratio have been declining, and the liquidity coverage ratio has been increasing.



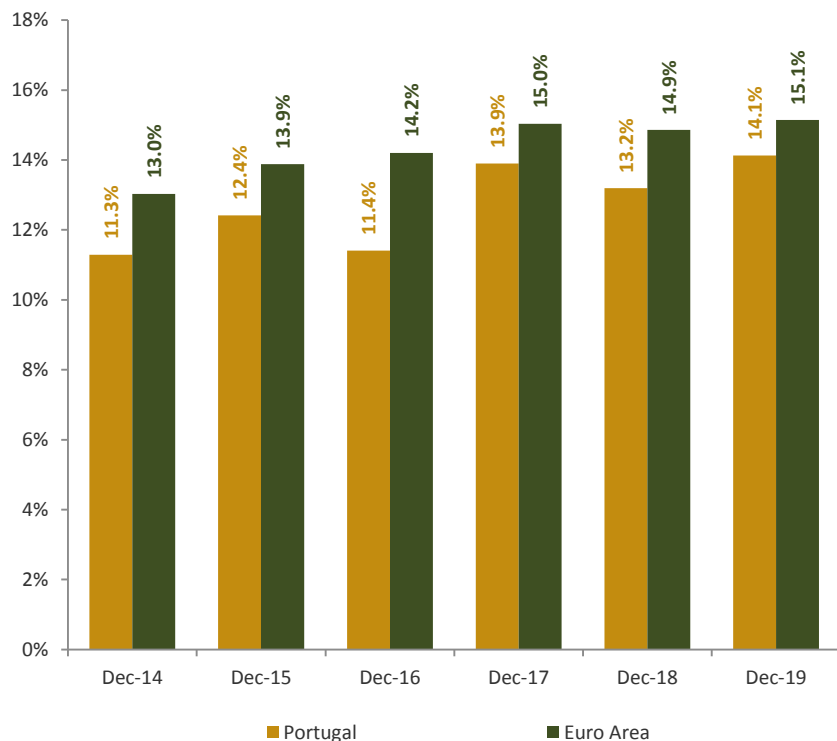
Source: Banco de Portugal (consolidated data).

## IV. Solvency

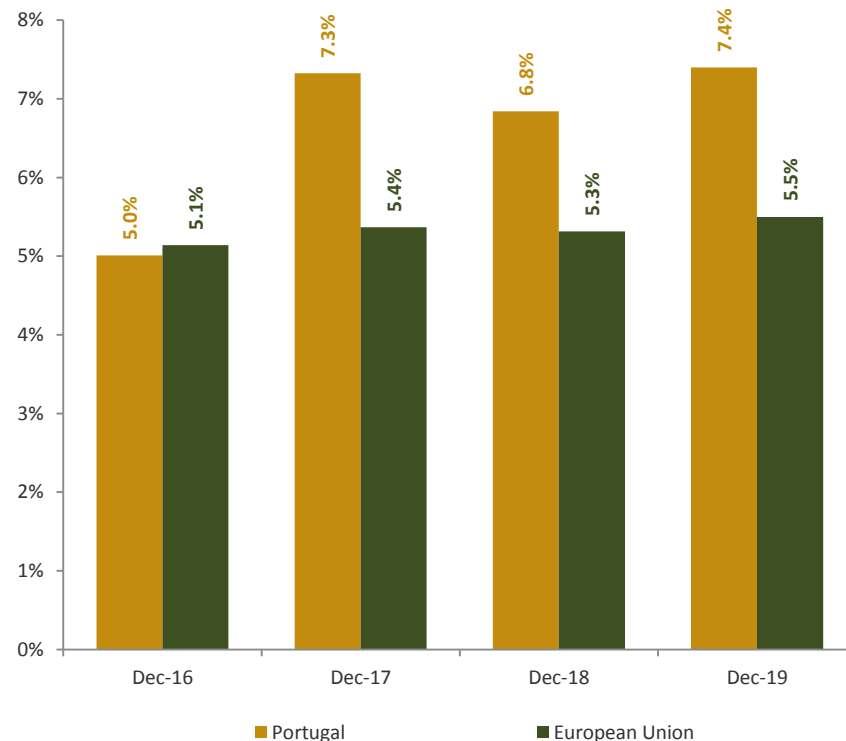


Solvency has been improving, reflecting the strengthening of own funds by several institutions favorable evolution of risk-weighted assets, and improved profitability. The leverage ratio is considerably higher than the EU average and the reference minimum (3%).

## Common Equity Tier 1 (CET1) ratio



## Leverage ratio

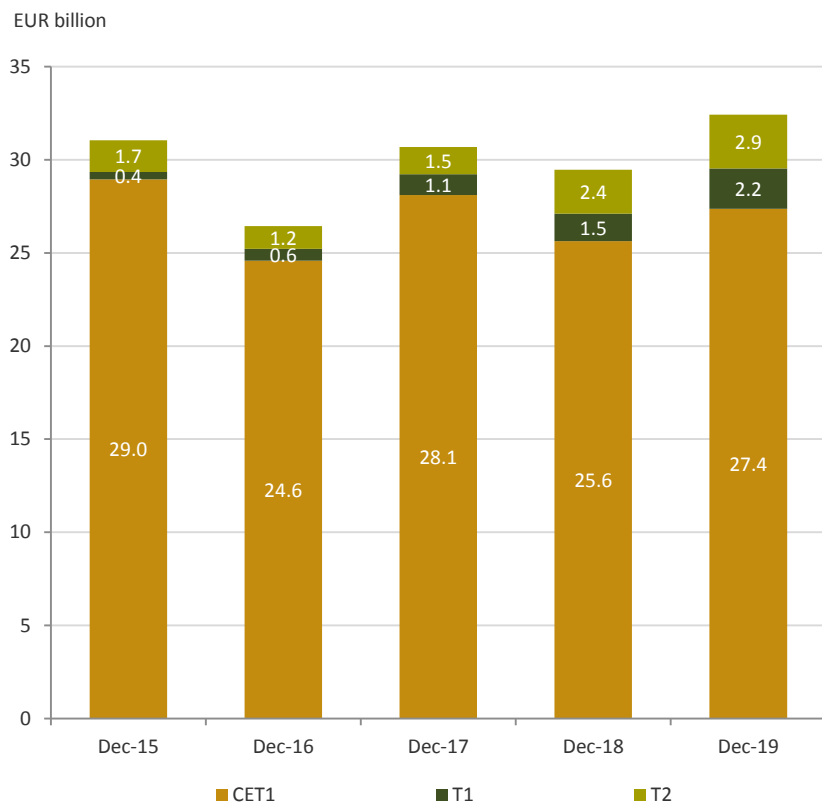


Source: ECB – Consolidated Banking Data.

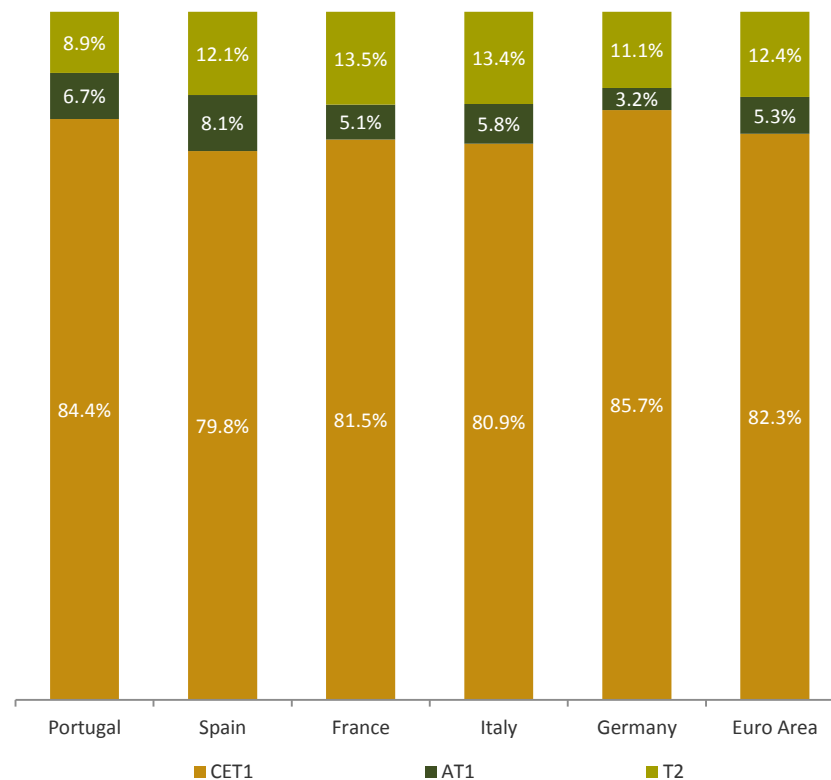
Source: EBA – Risk Dashboard (fully phased-in definition of Tier 1 in the Leverage ratio).

In Portugal, the weight of Common Equity Tier 1 (CET1) in the own funds' structure is above the Euro Area average and there has been an increase in Additional Tier 1 (AT1) and Tier 2 (T2) capital as a result of issuances by several institutions.

## Evolution and structure of own funds



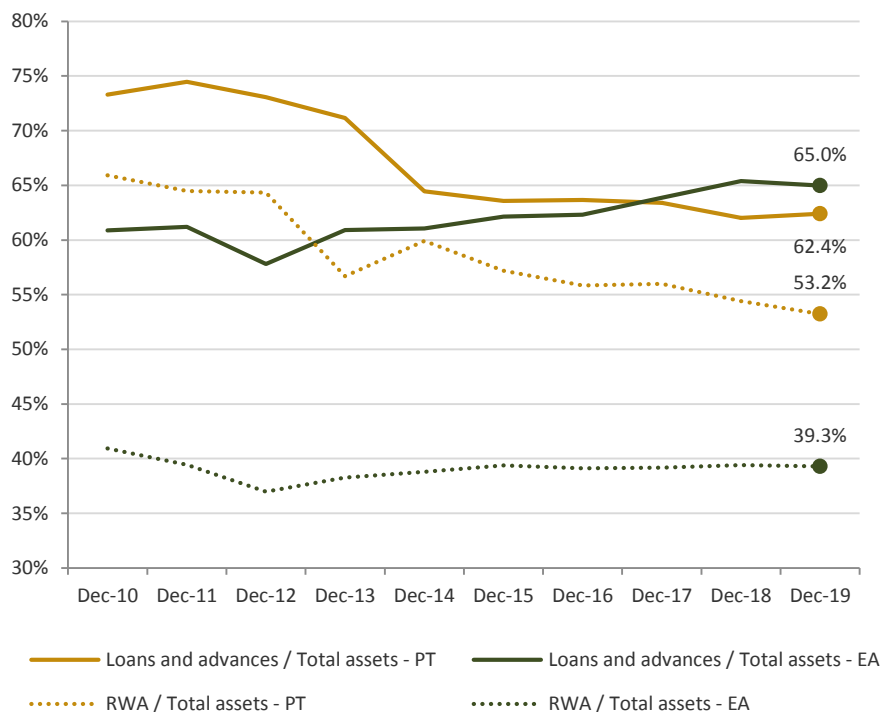
## Portugal vs. Euro Area



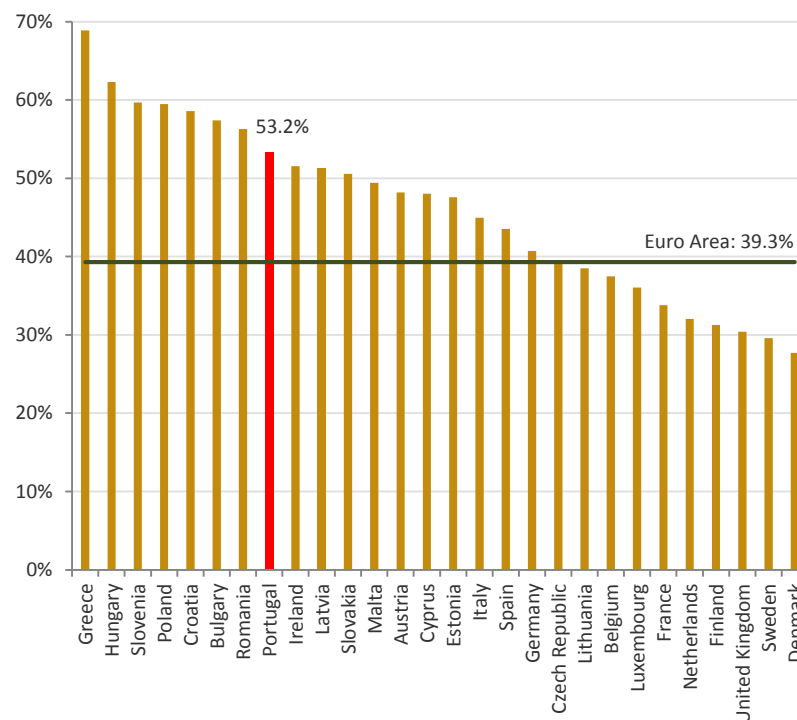
Source: ECB – Consolidated Banking Data.

The ratio of risk-weighted assets (RWA) per unit of assets continues to compare unfavorably to the Euro Area, despite the reduction experienced in the last years.

## Portugal vs. Euro Area



## RWA as a % of total assets, by country



Source: ECB – Consolidated Banking Data.



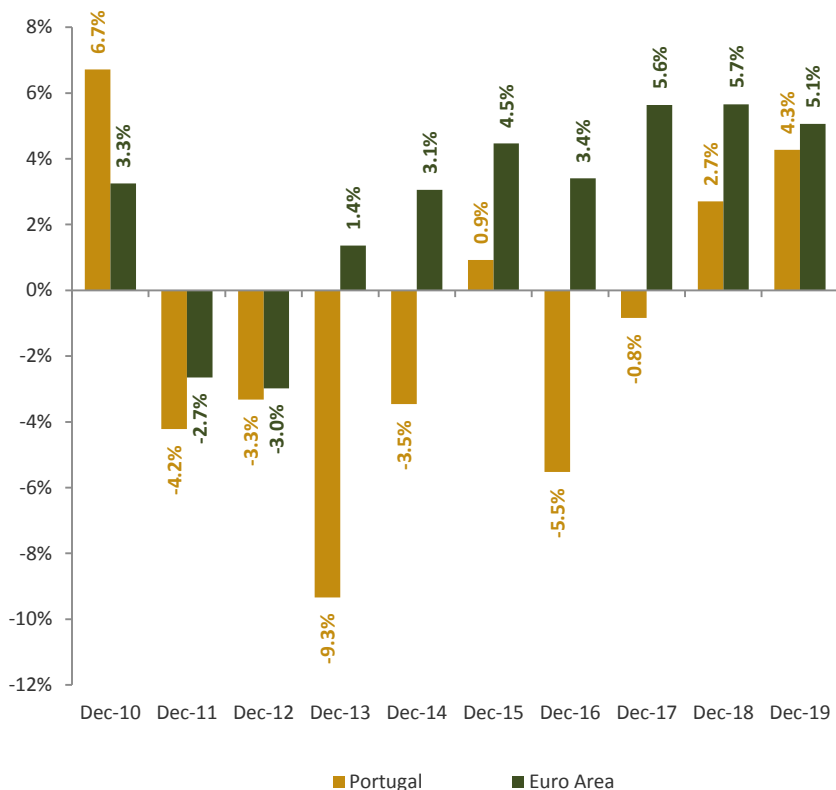
## V. Profitability



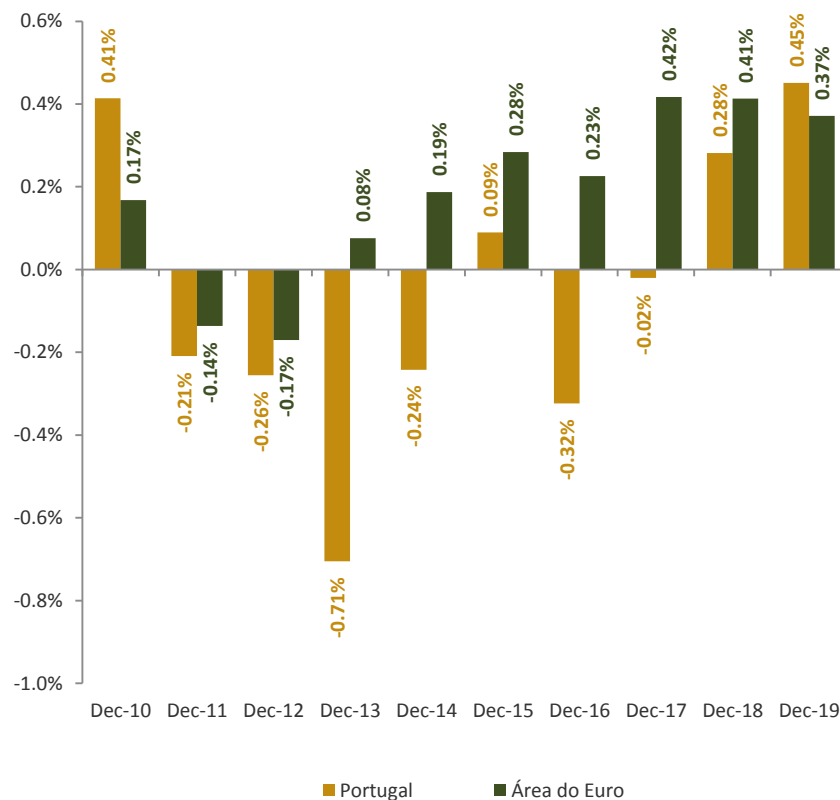
# PROFITABILITY

After being strongly penalized by the financial and sovereign debt crisis effects, the sector profitability is on a recovery path.

### Return on Equity (ROE)



### Return on Assets (ROA)

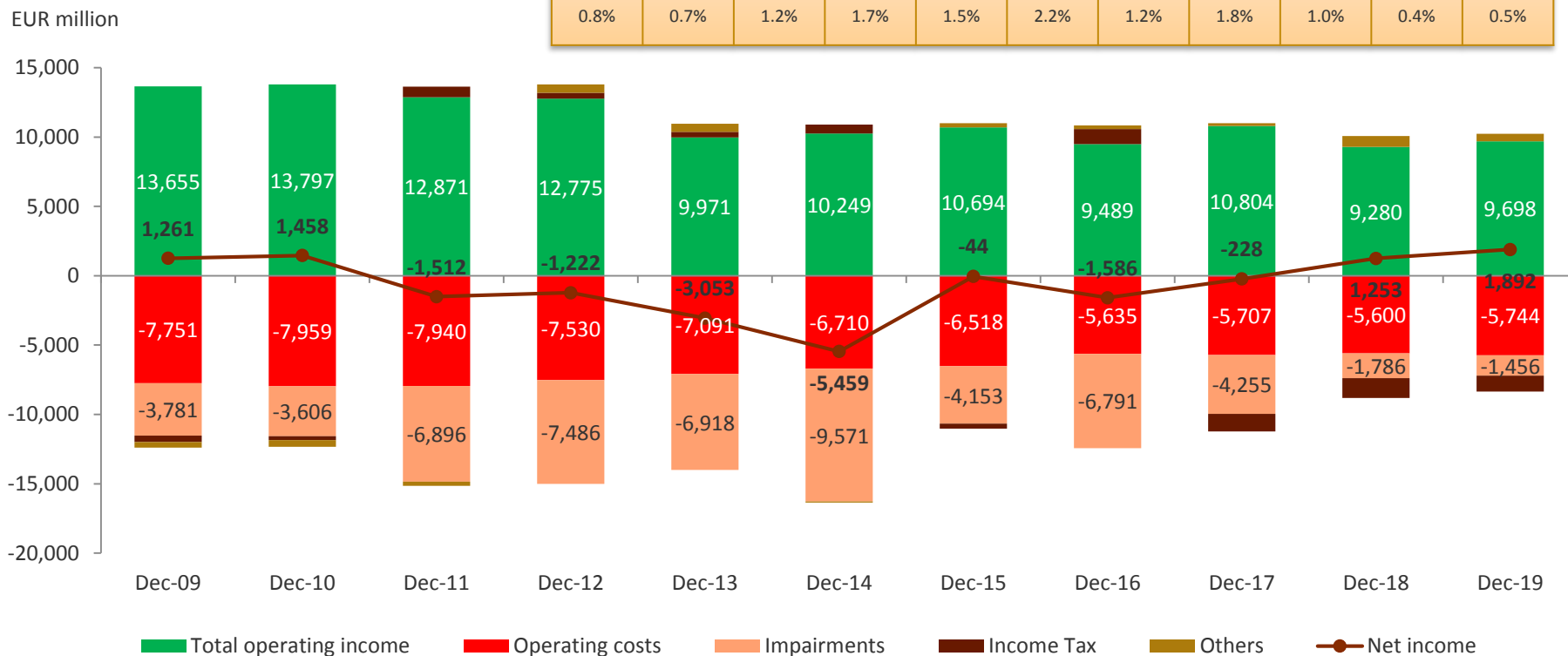


Source: BCE – Consolidated Banking Data.

# PROFITABILITY

In 2019, profitability was positive as a result of the net reversal of provisions, the decrease in income taxes, and the increase in total operating income.

## Net income breakdown



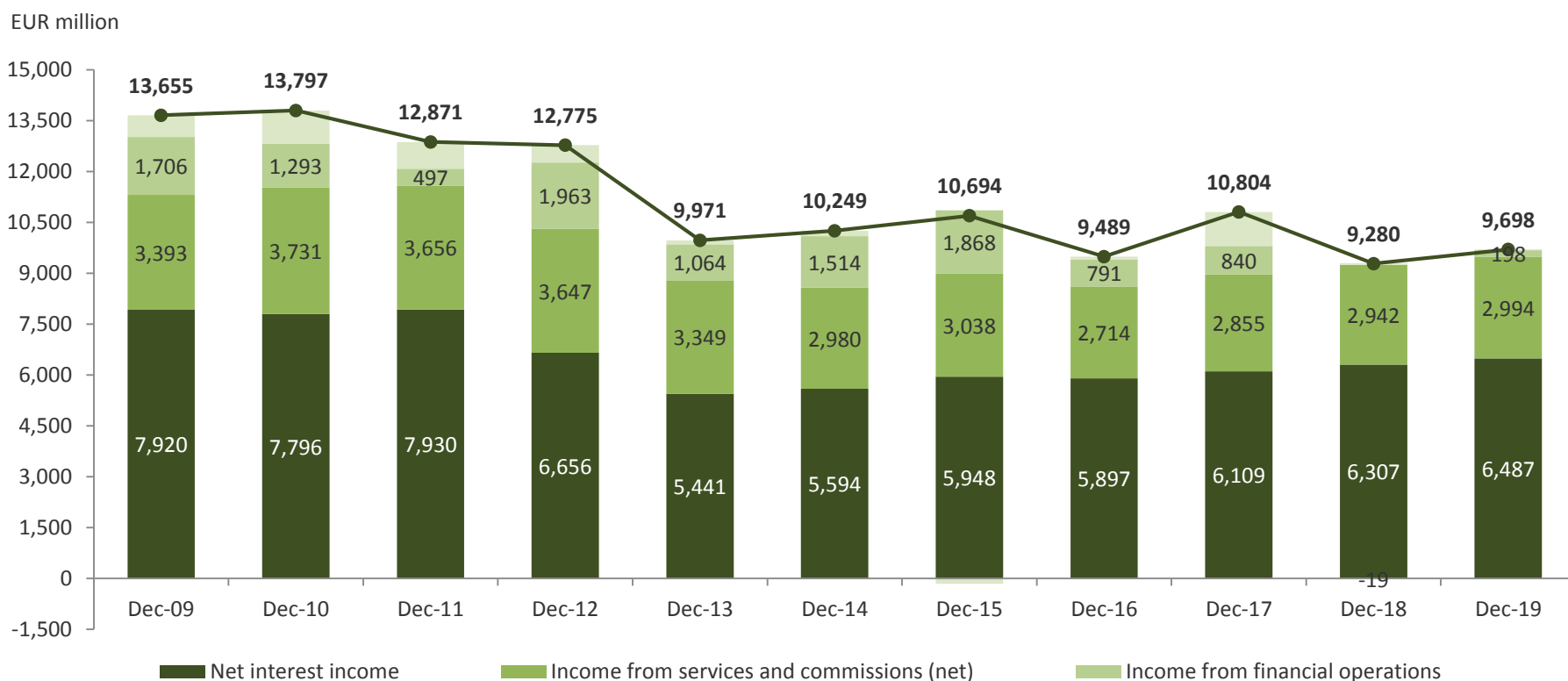
Cost of credit risk										
Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
0.8%	0.7%	1.2%	1.7%	1.5%	2.2%	1.2%	1.8%	1.0%	0.4%	0.5%

Source: Banco de Portugal (consolidated data).

# PROFITABILITY

The evolution of total operating income reflects the volatility affecting some of its components (financial markets performance and execution of NPL reduction plans). In 2019, total operating income increased slightly in year-on-year terms (+3%).

## Total operating income breakdown

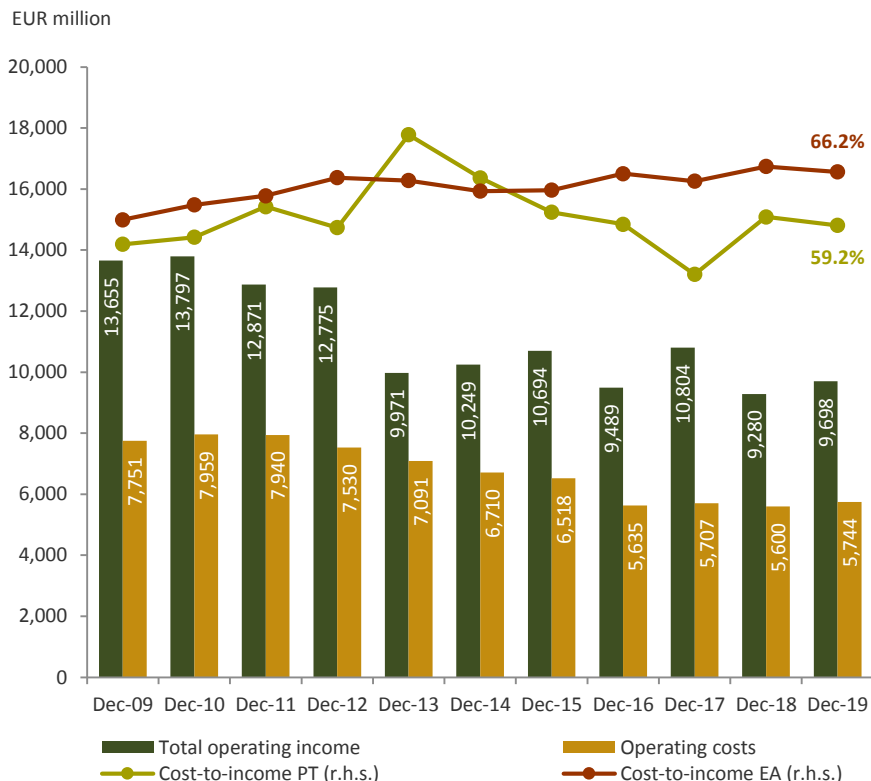


Source: Banco de Portugal (consolidated data).

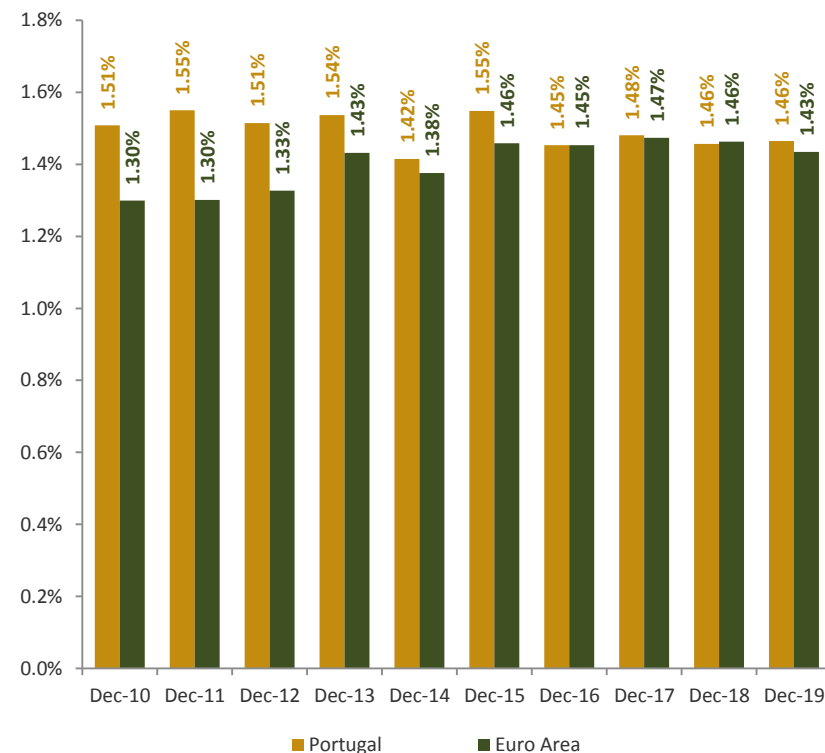
# PROFITABILITY

Although the cost-to-income ratio has been penalized by restructuring processes, since 2013, has down a positive evolution.

## Cost-to-income breakdown



## Operating costs as a % of total assets



Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data.

## Annex I: Methodology



## Methodology

- The information provided by Banco de Portugal and the ECB regarding monetary statistics differ from that provided in the consolidated data for the financial system. The main differences are basically because the universes surveyed are not the same and to different consolidation procedures. This information is available on the Banco de Portugal and the ECB websites. Among others, the following documents may be consulted: Suplemento ao Boletim Estatístico n.º 1/2001, de agosto; Instrução n.º 25/2014, the 15 de dezembro de 2014, and Sistema Bancário Português: desenvolvimentos recentes – 4.º trimestre de 2016.
- The document was published with updated information until 6 August 2020.

# PORTUGUESE BANKING SECTOR OVERVIEW