

# PORTUGUESE BANKING SECTOR OVERVIEW

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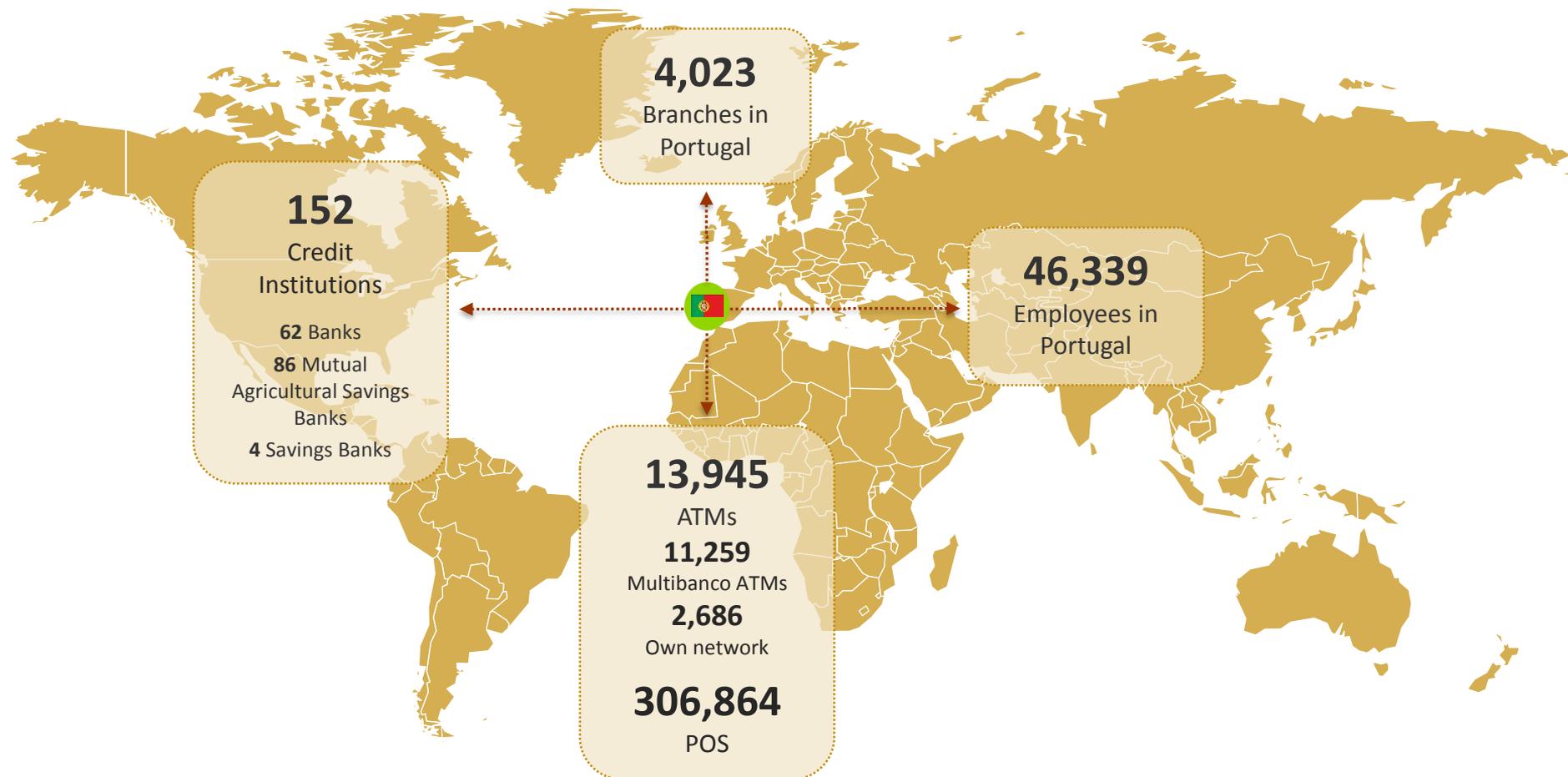


## I. Recent Evolution and Main Indicators



- ❑ **Significant progress has been achieved by the Portuguese banking sector** in terms of solvency, liquidity, asset quality, efficiency and profitability.
- ❑ In terms of balance-sheet structure, on the asset side, it is worth highlighting the positive evolution of **the stock of loans to customers**. In this context, it is worth mentioning **the strong progress in NPL reduction**: since the peak reached in June 2016, NPL have decreased by 27 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.
- ❑ **Liquidity remains at comfortable levels**: the funding gap has been declining, the loan-to-deposit ratio has continued its downward trend, and the liquidity coverage ratio has been increasing.
- ❑ **Solvency has been improving**, reflecting the strengthening, by several financial institutions, of own funds, the favourable evolution of risk-weighted assets, and improved profitability. The leverage ratio is considerably higher than the EU 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.
- ❑ Even though the **Portuguese financial sector is undoubtedly more robust and resilient**, important challenges remain ahead that limit its capacity to generate organic capital, namely: the potential economic slowdown; the maintenance of a low interest rate environment and for a protracted period of time; the new framework regarding the sector business model, intense competition from new players; the weight of legislation and regulation.

# RECENT EVOLUTION AND MAIN INDICATORS

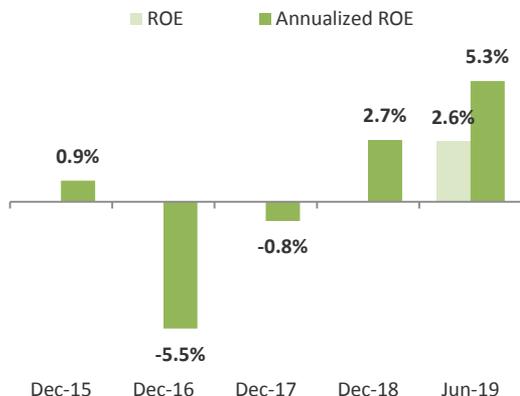


Source: APB's Associates (branches, employees and payment systems) and Banco de Portugal (credit institutions).

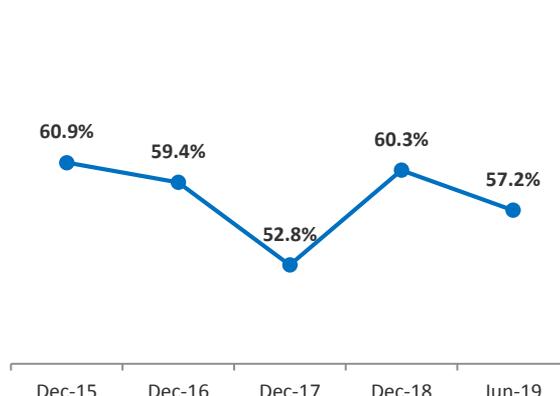
# RECENT EVOLUTION AND MAIN INDICATORS

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.

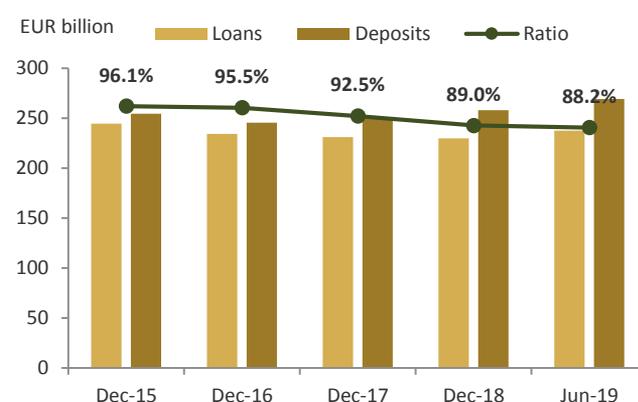
### Return on Equity



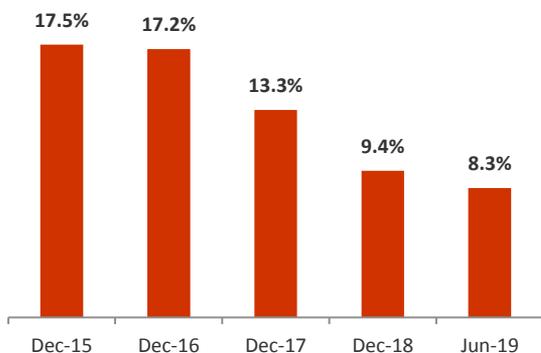
### Cost-to-Income



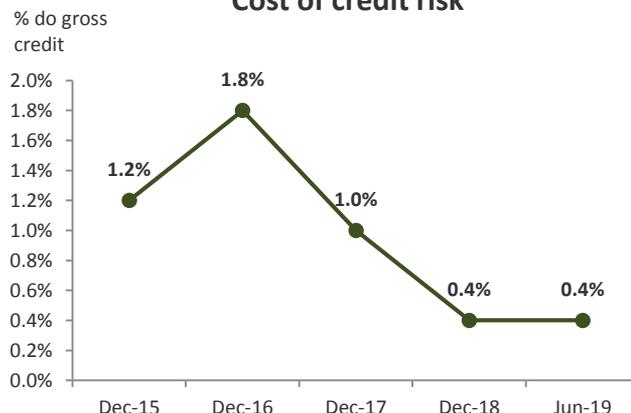
### Loan-to-deposit ratio



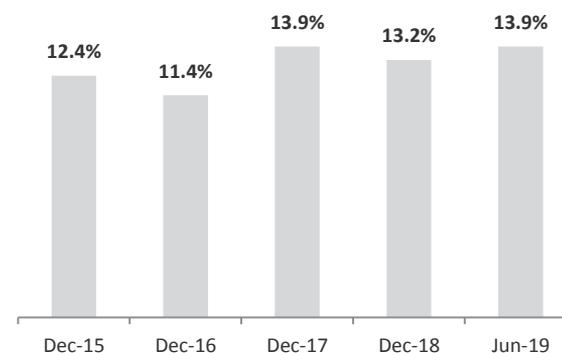
### Non-Performing Loans ratio



### 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

- **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.

2016

- Start of Novo Banco's sale process.
- Start of CGD's recapitalization process.
- Takeover offer for BPI by CaixaBank.
- Investment by Fosun in BCP.

2017

- 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 million).

2017 (cont'd)

- 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 million.
- Issuance, by BCP, of subordinated notes intended to be qualified as Tier 2 instruments, in the amount of EUR 300 million.

2018

- Completion of the last phase of CGD's recapitalization plan: issuance of EUR 500 million 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 million.

2019

- Issuance, by BCP, of perpetual subordinated notes intended to be qualified as Additional Tier 1 instruments, in the amount of EUR 400 million.
- Issuance, by Banco Montepio, of subordinated notes, intended to be qualified as Tier 2 instruments, in the amount of EUR 100 million.

## II. Financial Position

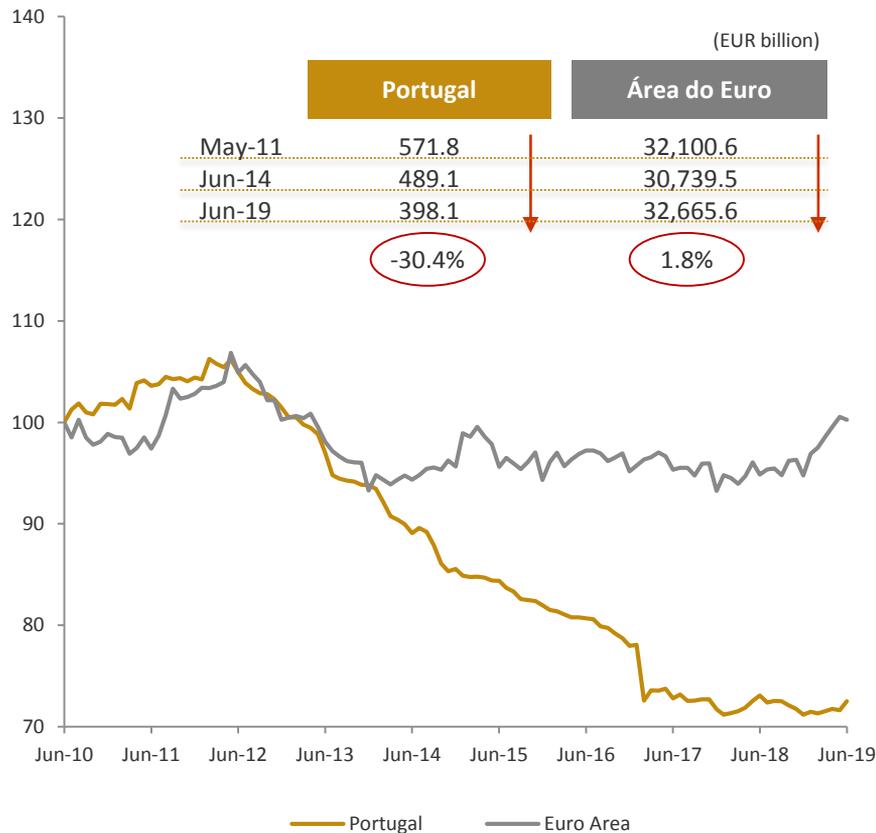
### Lending



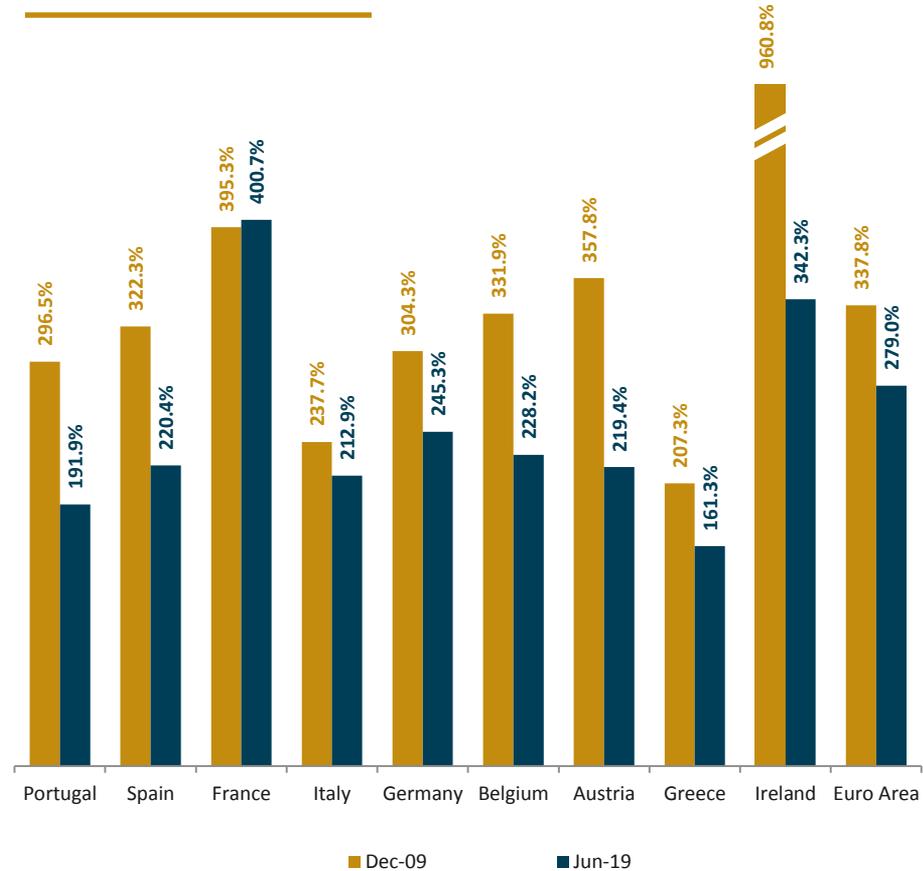
# FINANCIAL POSITION

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

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



**Total assets as a % of GDP**

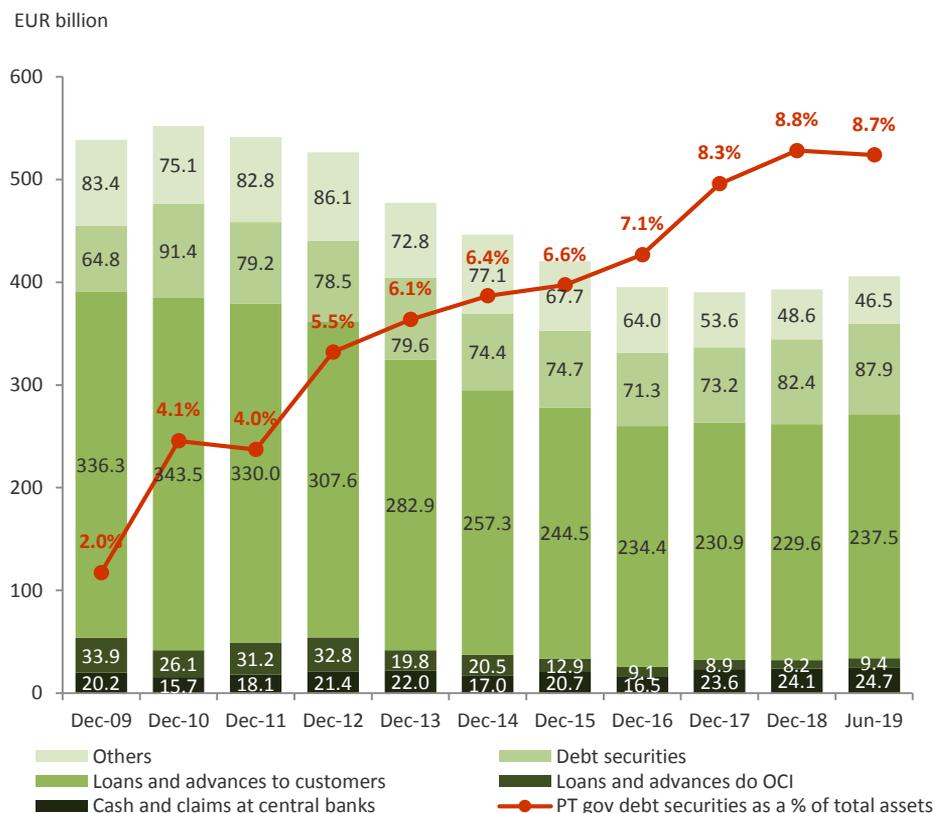


Source: BCE – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat.

# FINANCIAL POSITION

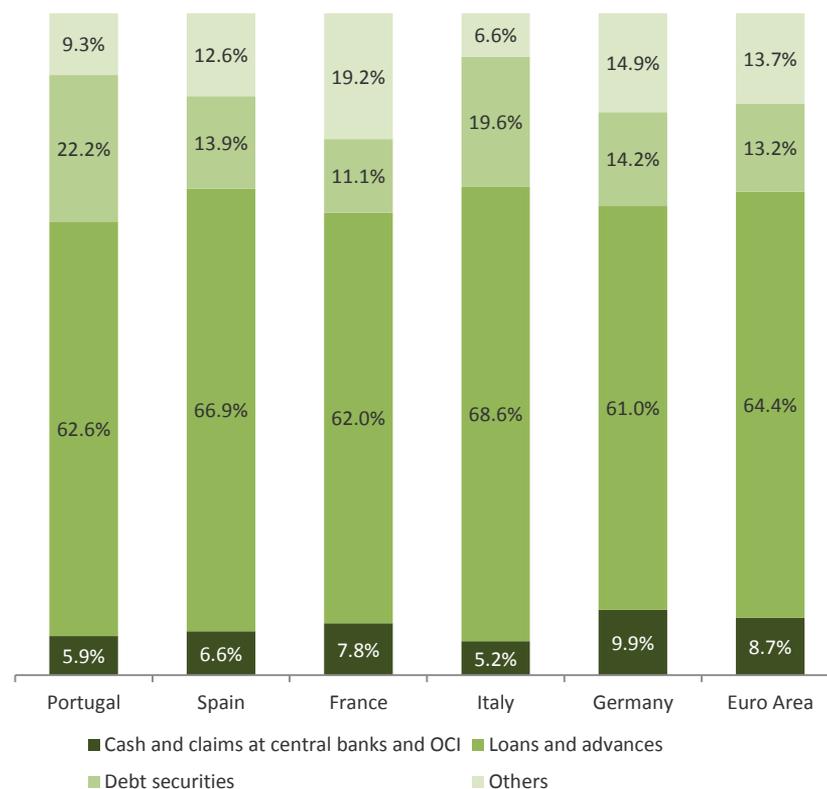
The significant reduction in the banking sector's total assets was mainly driven by the contraction in loans to customers. However, in the first half of 2019, total assets increased 3% vis-à-vis the end of 2018 and loans to customers rose 3,4%.

## Total assets breakdown



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

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

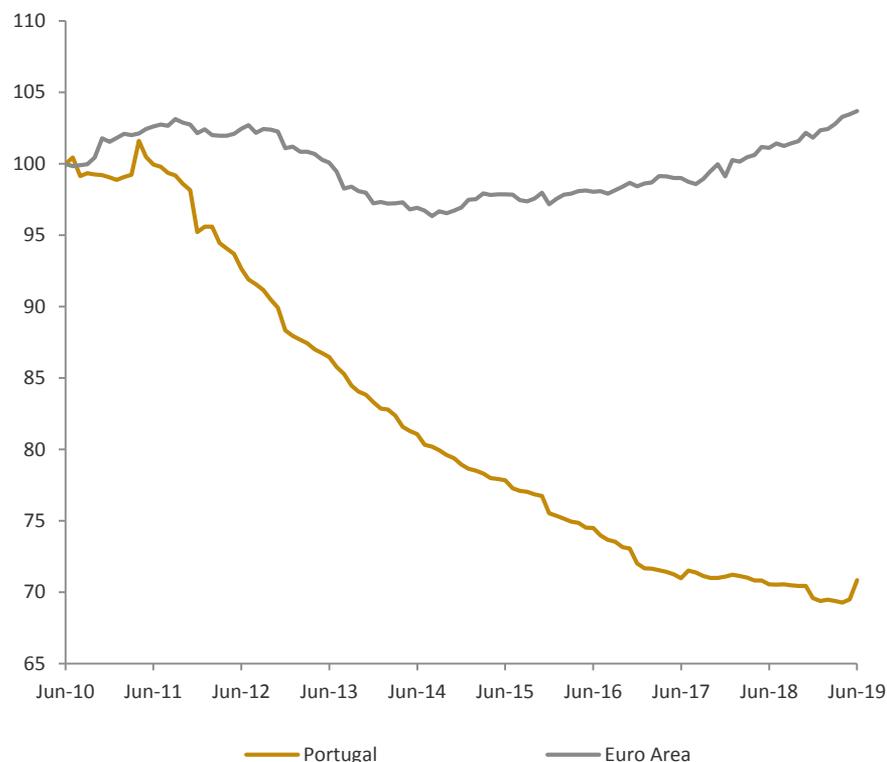


Source: BCE – Consolidated Banking Data.

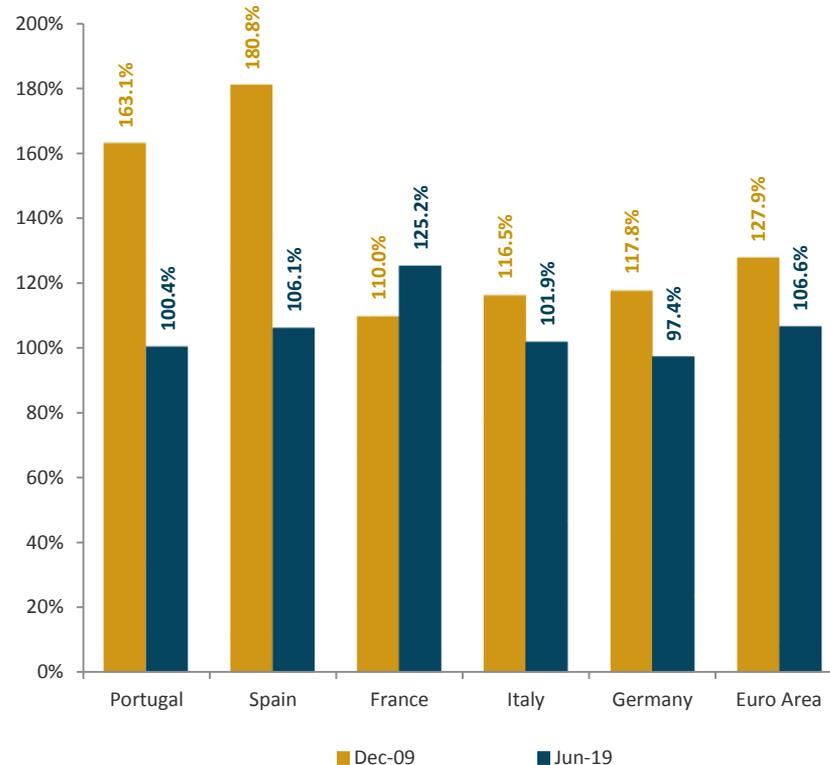
# FINANCIAL POSITION

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

Loans to customers (Jun-10=100)



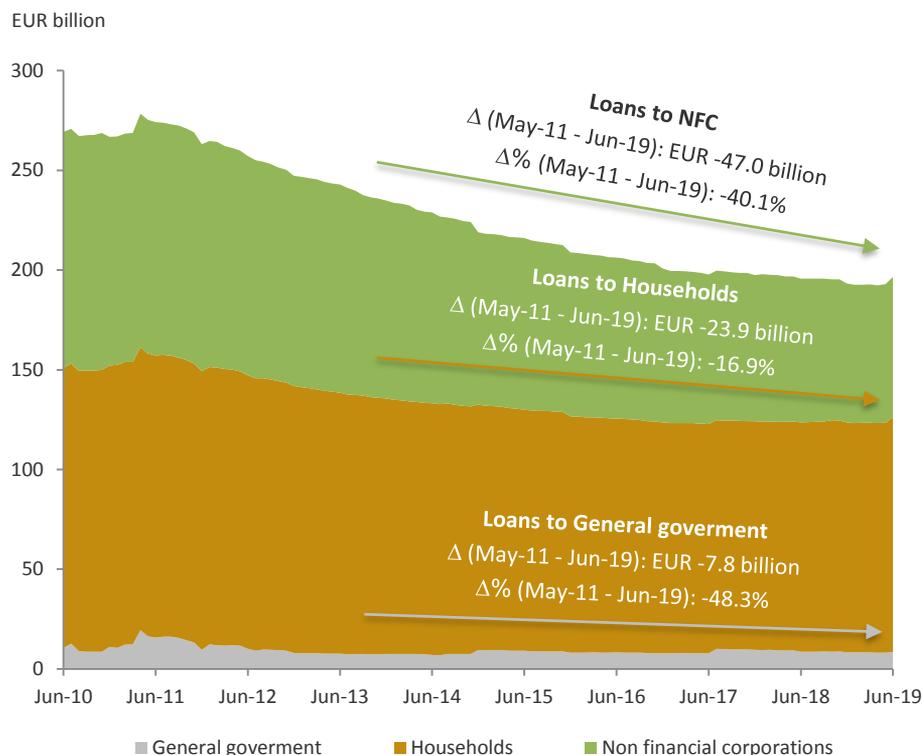
Loans to customers as a % of GDP



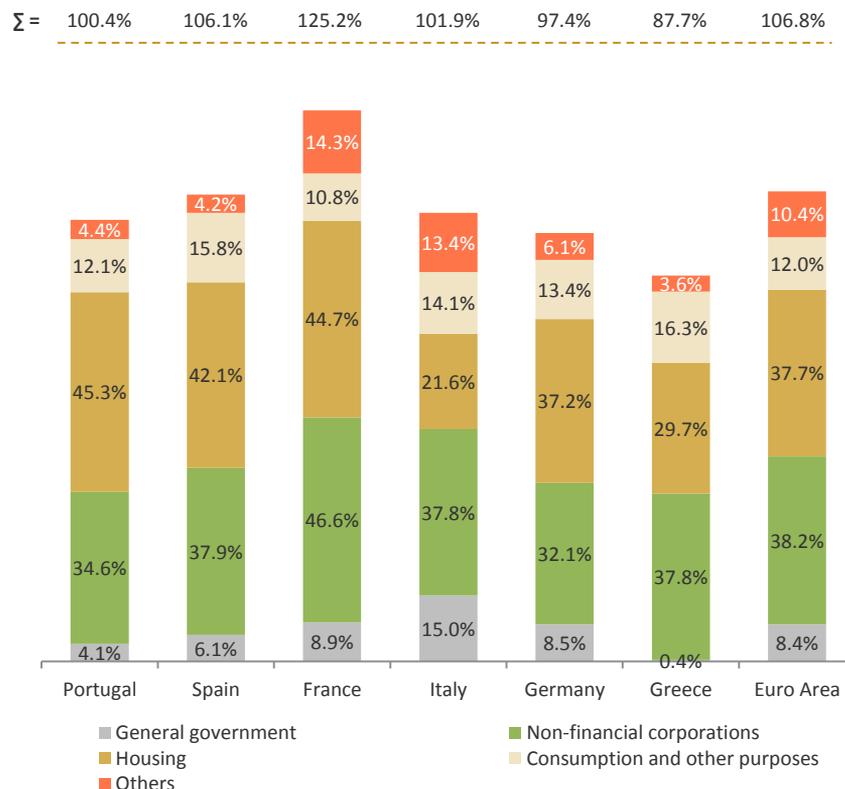
Source: BCE – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat. Loans granted to the non-monetary sector (end of period balances). Gross figures.

The deleverage has been considerably intense on the non-financial corporations (NFC) segment. In the private individuals segment, loans to households has a significant weight.

## Loans per institutional sector



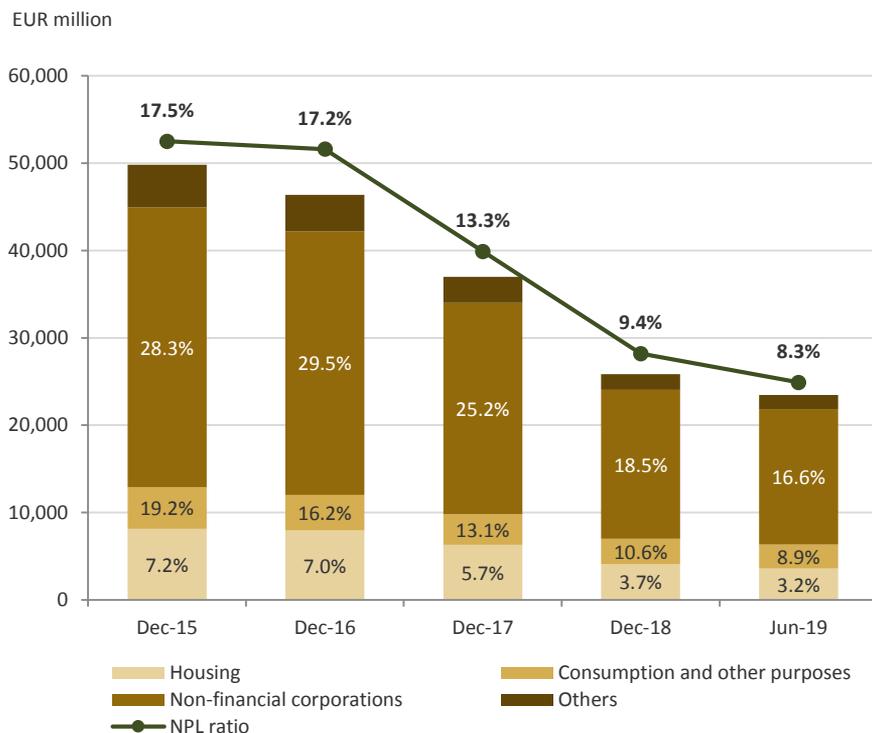
## Loans per institutional sector as a % of GDP



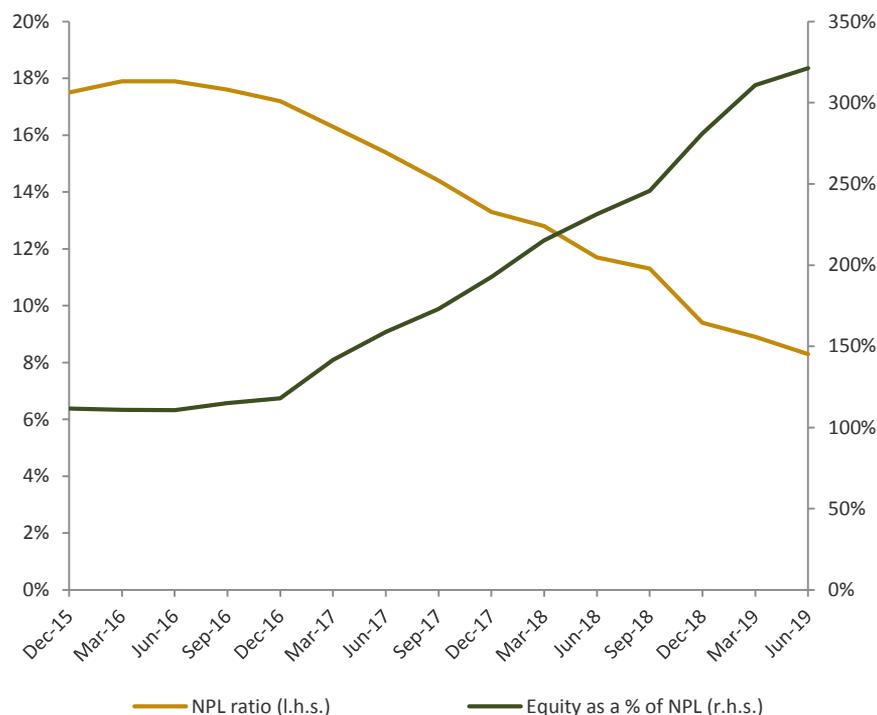
Source: Banco de Portugal (Monetary and Financial Statistics), ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat. Non-financial corporations include Private corporations and Public corporations not included in general government. Others include Non-monetary financial institutions: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

In Portugal, progress in reducing NPL has been quite significant. NPL have decreased by 27 billion euros since June 2016. In June 2019, the NPL ratio reached 8.3%.

## Amount and NPL ratio in Portugal



## Equity vs. NPL

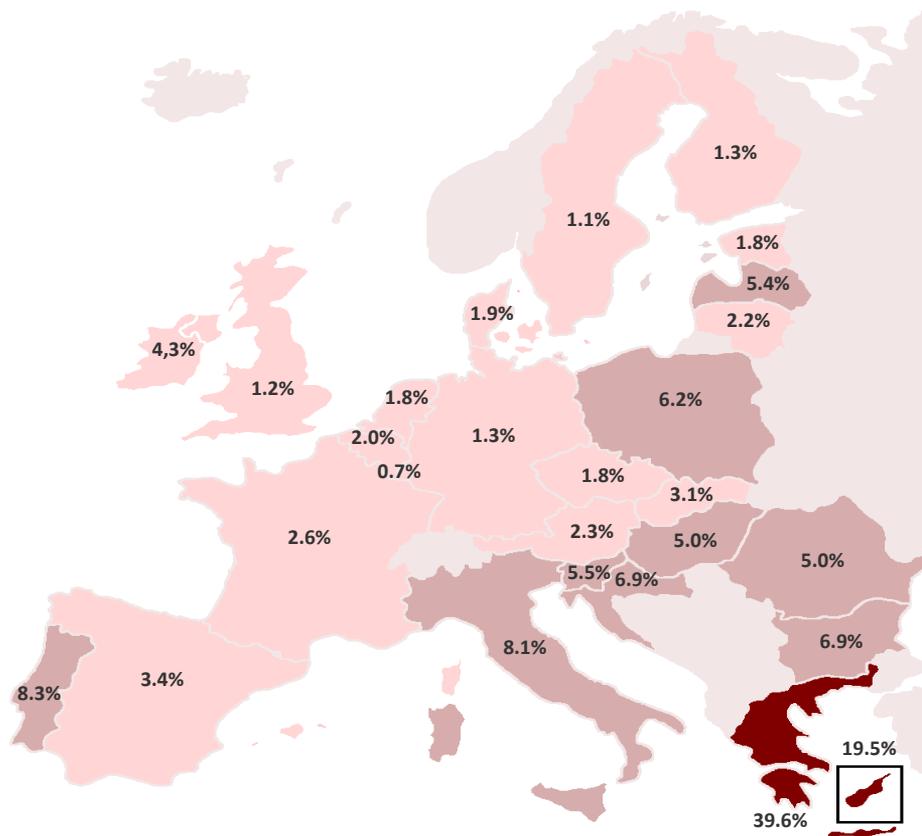


Non-Performing Loans – Loans that comply with at least one of the following conditions: i) material exposures that are more than 90 days past-due; ii) the debtor is assessed as unlikely to pay its obligations in full without realization of collateral; iii) impaired assets, except incurred but not reported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

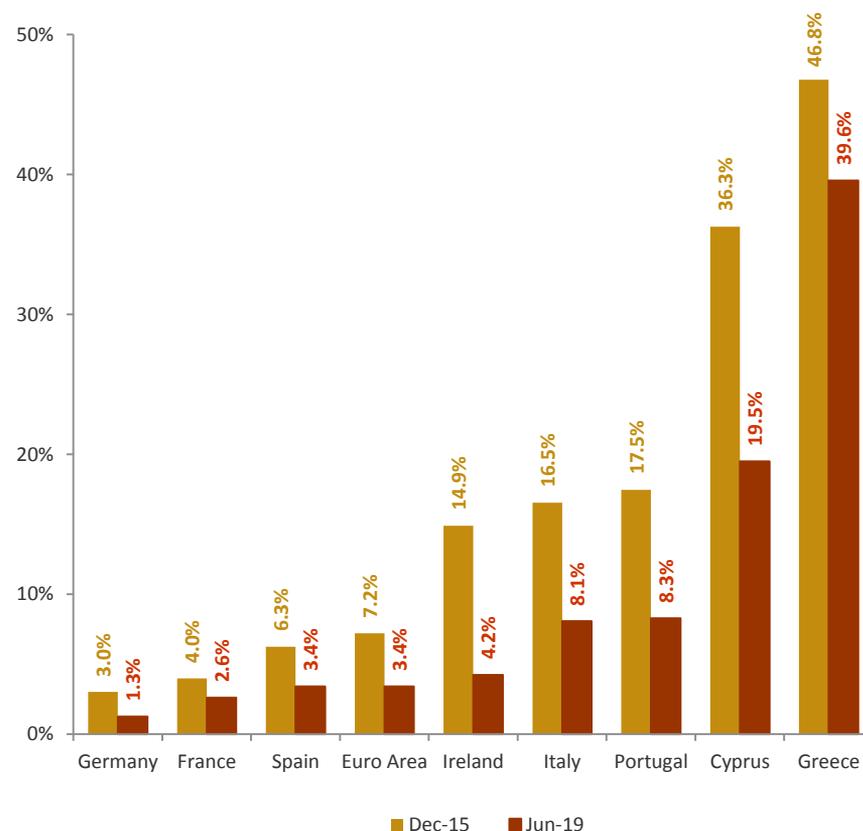
# LENDING

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

## NPL ratio in the EU



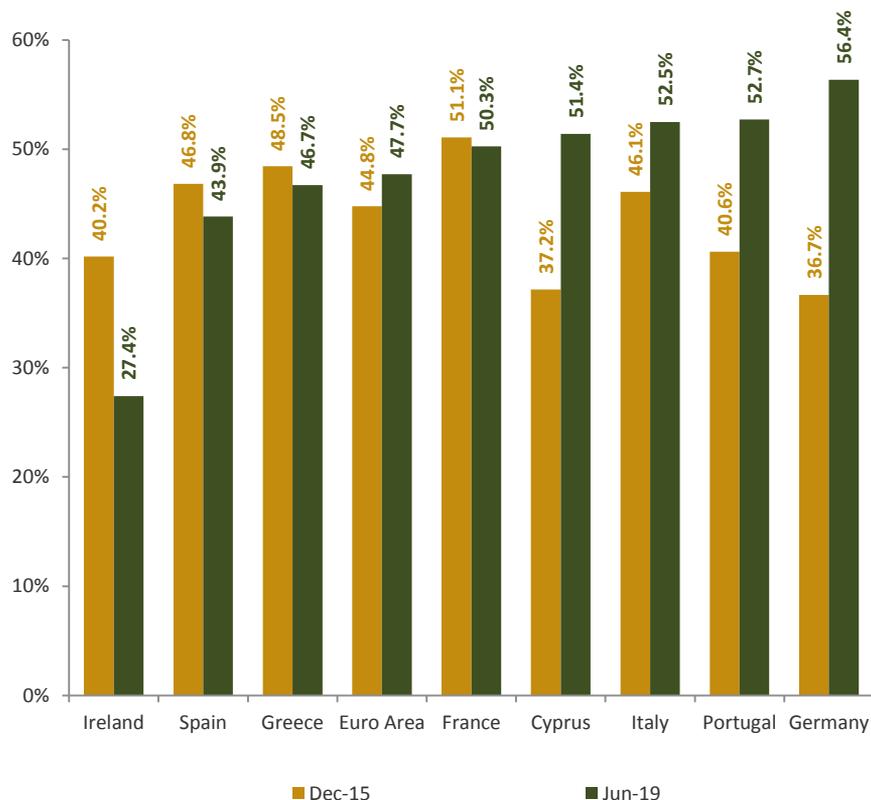
## Evolution of NPL ratio in the EU



Source: BCE – Consolidated Banking Data.

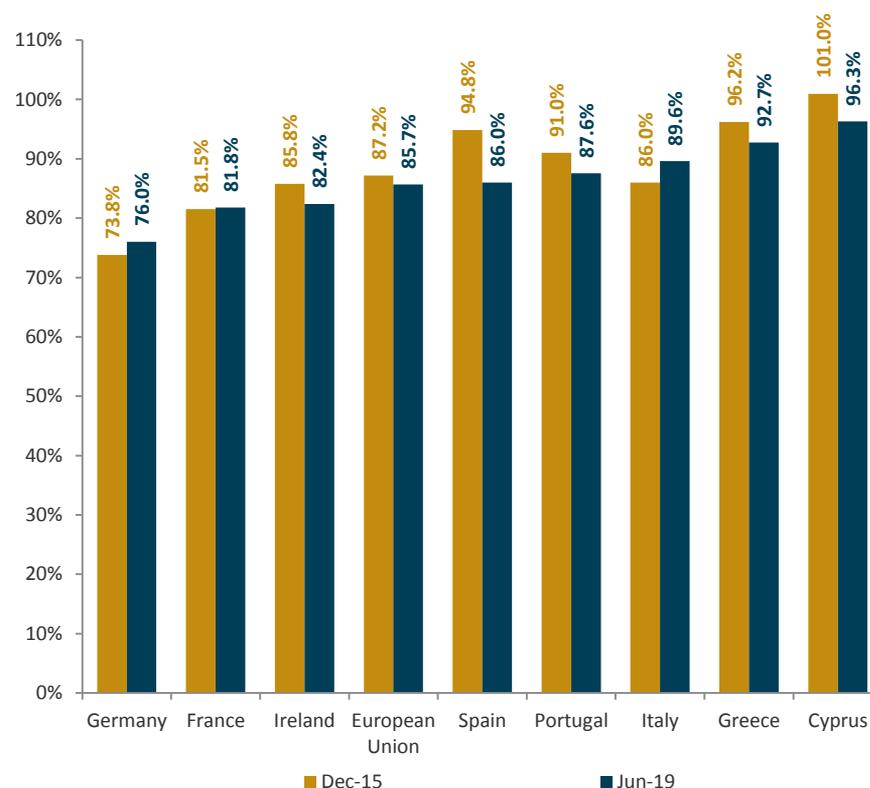
The NPL impairment coverage ratio and total coverage ratio are evolving positively and compare favorably with the EU average.

## Impairment coverage ratio



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

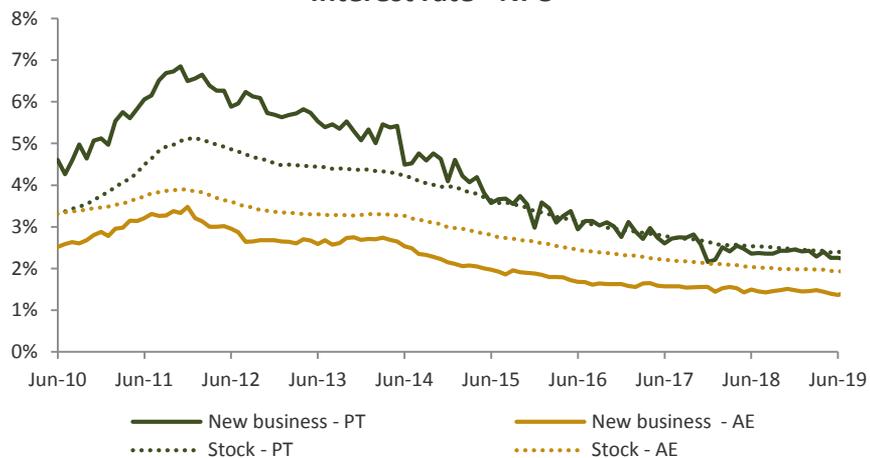
## Total NPL coverage ratio



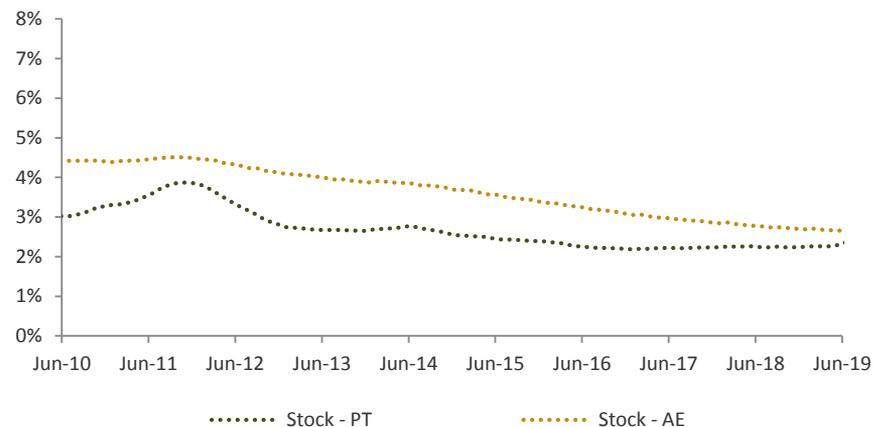
Source: EBA – EU-wide transparency exercise. Total coverage ratio includes cumulative impairments, collateral and financial guarantees associated to non-performing loans. EBA sample includes 131 banks (Portugal: BCP, Crédito Agrícola, Montepio, CGD e Novo Banco).

Loan conditions are very favourable and have been converging towards the Euro Area average.

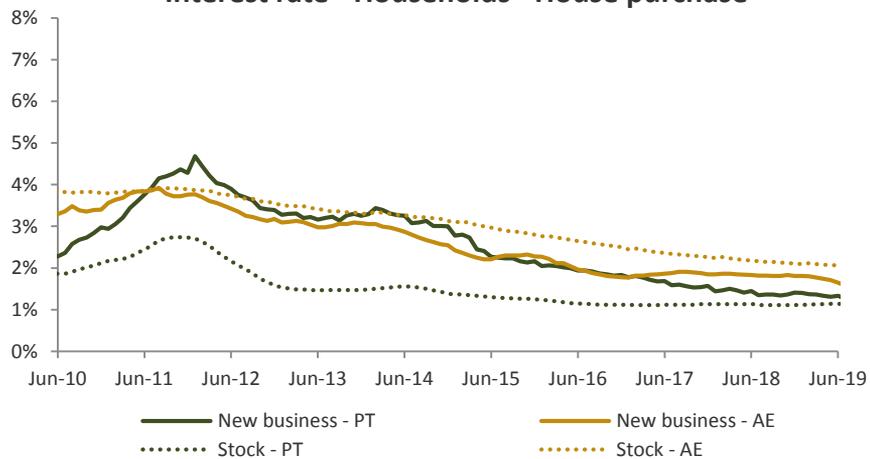
### Interest rate - NFC



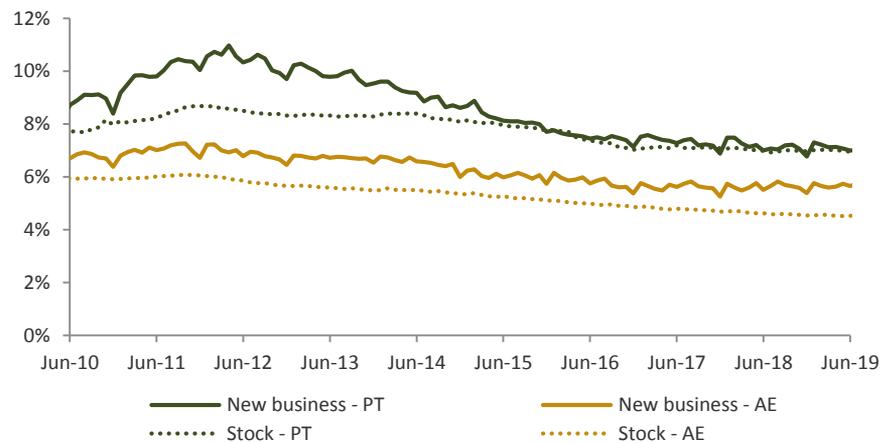
### Interest rate - Households



### Interest rate - Households - House purchase



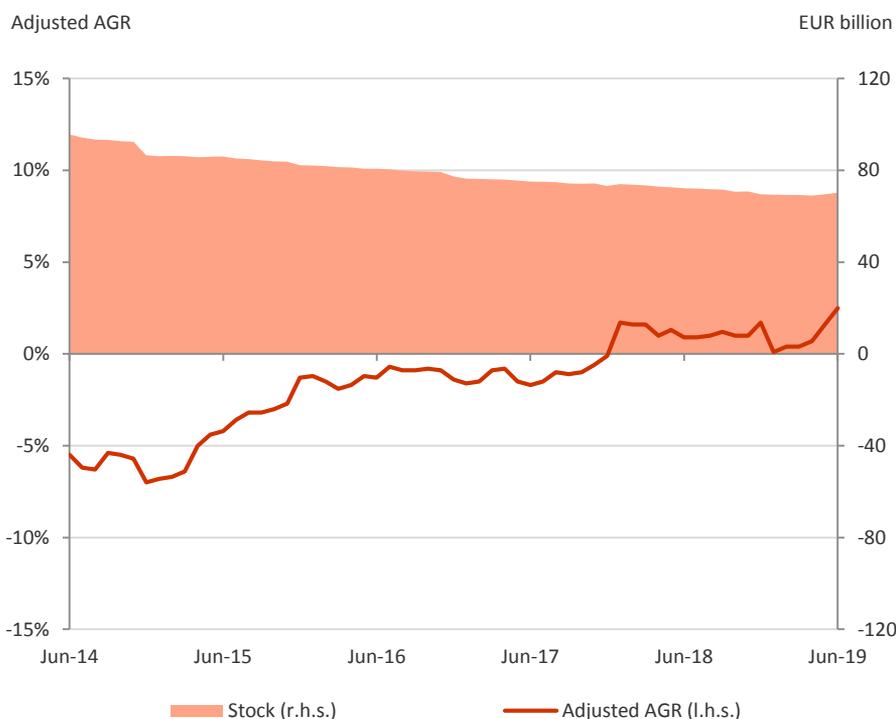
### Interest rate - Households - consumption



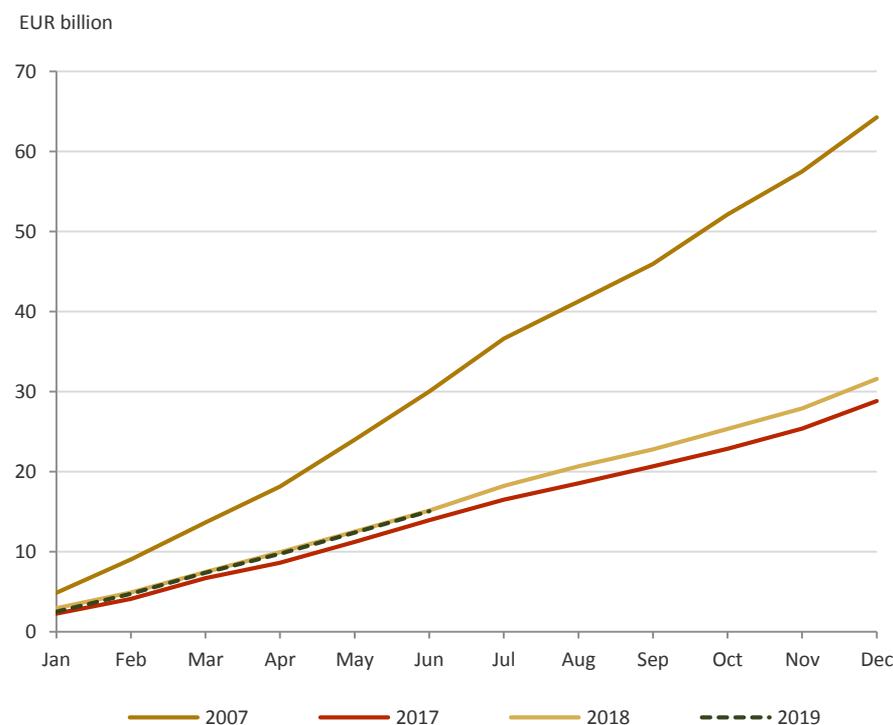
Source: BCE – MFI Interest Rate Statistics.

The evolution of the stock of loans to non-financial corporations (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



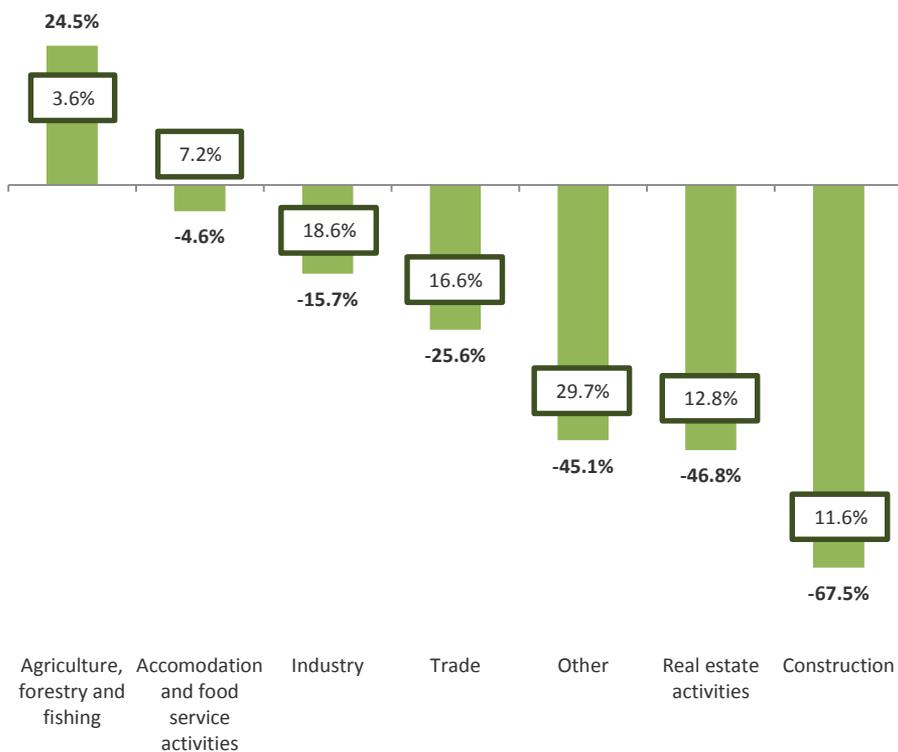
## New business lending to NFC (accumulated amounts)



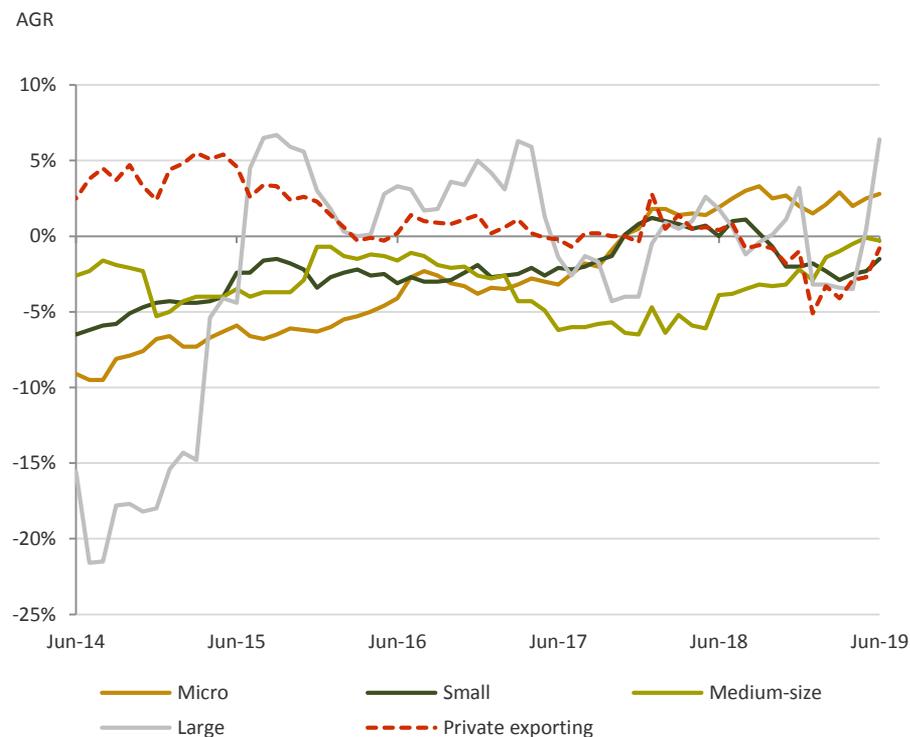
Source: Banco de Portugal – Monetary and Financial Statistics. Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

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 (Jun-10 – Jun-19)**



**AGR of loans to NFC by size**

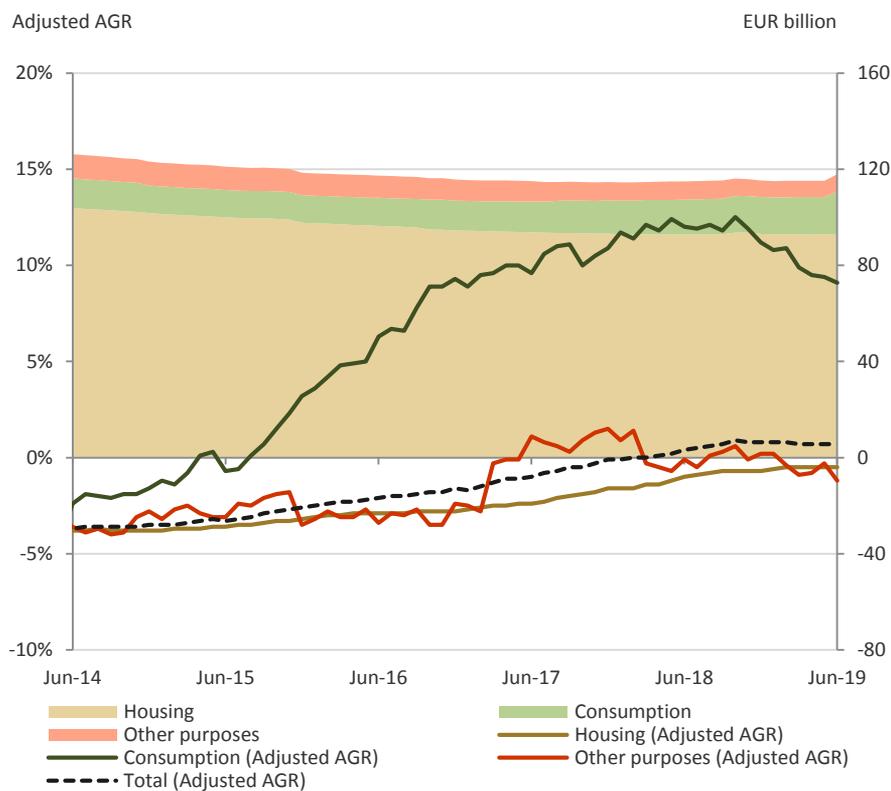


3.6% - As a percentage of total NFC lending in June 2019

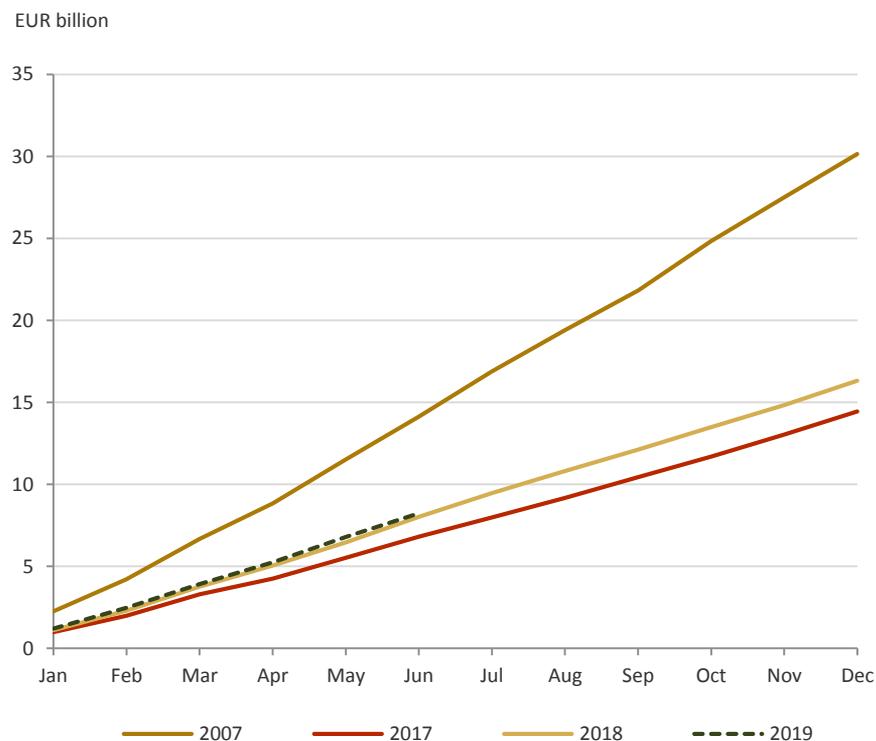
Source: Banco de Portugal – Monetary and Financial Statistics. Loans granted by Other Monetary Financial Institutions (OMFI). AGR = Annual growth rate.

The evolution of the stock of loans to households mainly reflects the progressive recovery of housing loans and the dynamism of consumer credit, as a result of a better economic environment, improvement of housing market perspectives and the maintenance of the low interest rate environment.

## Stock of loans to households



## New business lending to households (accumulated amounts)

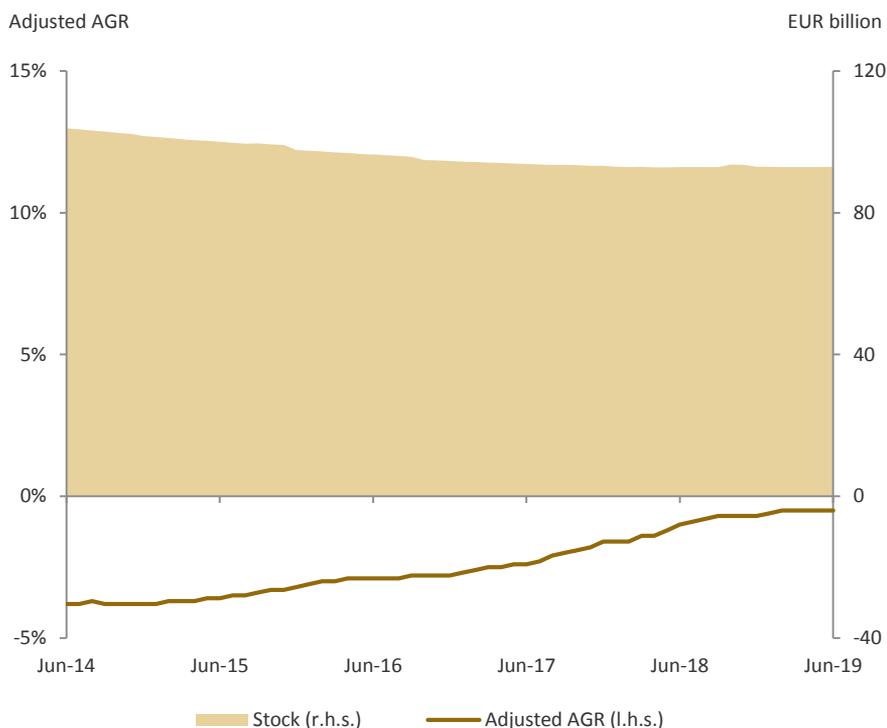


Source: Banco de Portugal – Monetary and Financial Statistics. Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

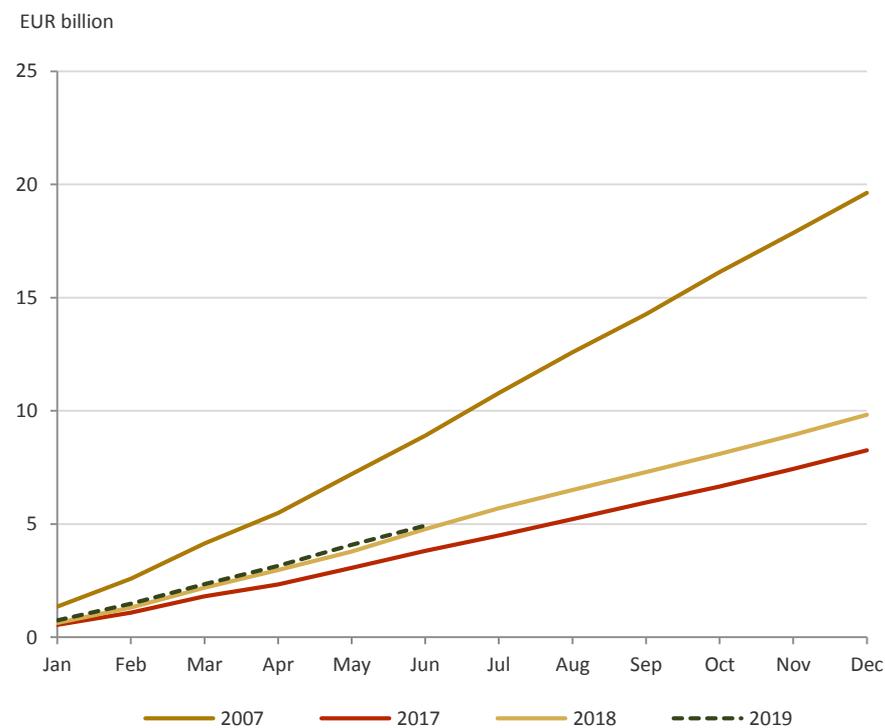
# LENDING | HOUSEHOLDS

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



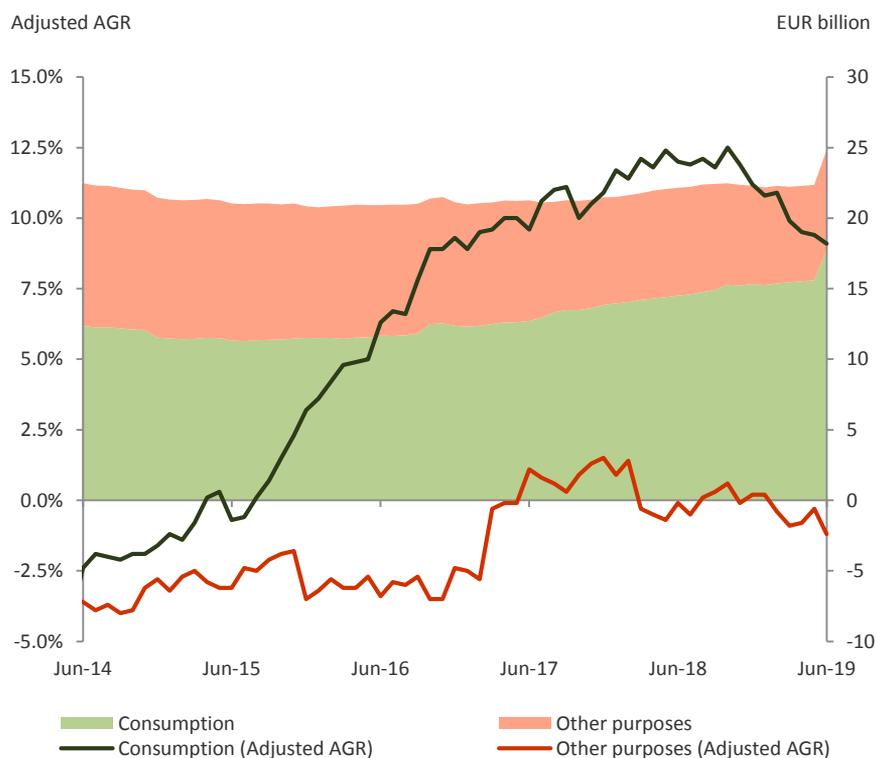
## New business lending for house purchase (accumulated amounts)



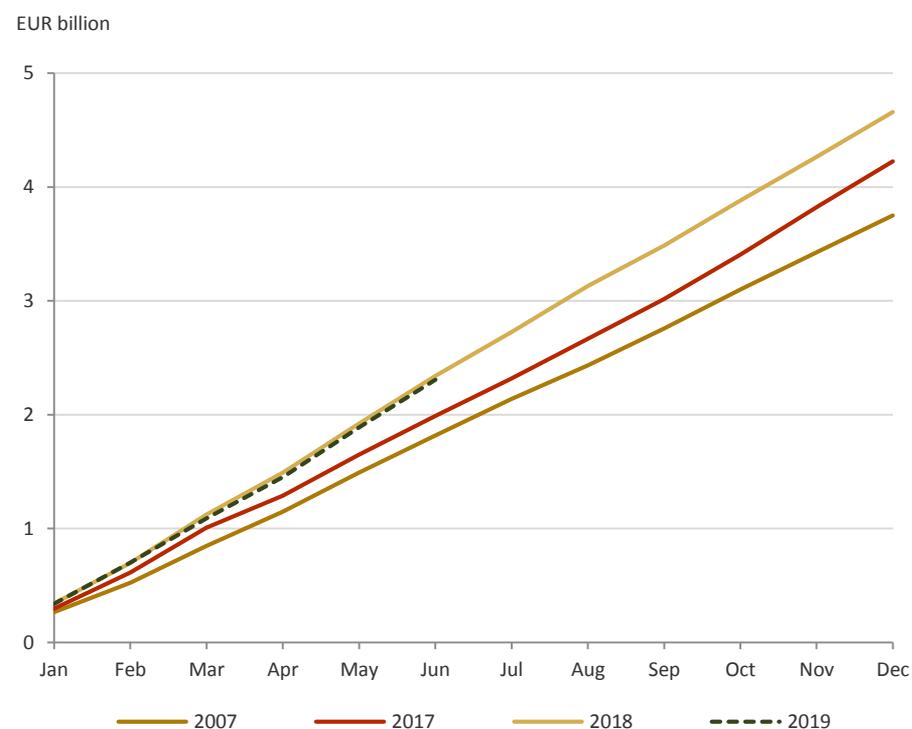
Source: Banco de Portugal – Monetary and Financial Statistics. Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

The stock of credit for consumption, which has been increasing since early 2016, is associated with a better economic environment.

## 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.

In July 2018, a new macroprudential measure came into force aiming at mitigating the risk of interaction between housing prices and the loans granted by the Portuguese financial system in order to enhance the resilience of the financial sector.

<b>LTV limits</b>	<ul style="list-style-type: none"> <li>▪ <math>LTV \leq 90\%</math> to credit for the purchase or construction of own and permanent residence.</li> <li>▪ <math>LTV \leq 80\%</math> to credit for other purposes.</li> <li>▪ <math>LTV \leq 100\%</math> for credit relating to residential immovable property and credit secured by a mortgage or equivalent guarantee for purchasing immovable property held by the institutions themselves.</li> <li>▪ Calculated through the minimum between the purchase price and the appraisal value.</li> </ul>
<b>DSTI limits</b>	<ul style="list-style-type: none"> <li>▪ <math>DSTI \leq 50\%</math></li> <li>▪ For the calculation of the DSTI, monthly instalments of new loans are assumed constant over the entire period of the loan. For variable and mixed interest rate agreements, the impact of an interest rise should be considered. The DSTI should also take into account the impact of a reduction in the borrower's income, if the borrower's age at the term of the loan agreement is higher than 70 years old, except if the borrower is already retired at the time of the creditworthiness assessment.</li> </ul>
<b>Exceptions to DSTI limits</b>	<p>Exceptions on the total amount of credit granted by each institutions:</p> <ul style="list-style-type: none"> <li>▪ Up to 20%: <math>DSTI \leq 60\%</math>.</li> <li>▪ Up to 5%: No DSTI limit.</li> </ul>
<b>Limits to maturity</b>	<p>For credits relating to residential immovable property or credit secured by a mortgage or equivalent guarantee:</p> <ul style="list-style-type: none"> <li>▪ Maturity of new credit agreements <math>\leq 40</math> years;</li> <li>▪ Average maturity of new credit agreements should gradually converge to 30 years until the end of 2022;</li> </ul> <p>For consumer credit agreements: maturity of new loans <math>\leq 10</math> years.</p>
<b>Requirement of regular payments</b>	<ul style="list-style-type: none"> <li>▪ New loans should be granted with regular payments of interest and capital.</li> </ul>

Note: Countercyclical capital buffer – established by Banco de Portugal, on a quarterly basis – aimed at protecting the banking sector in periods when the cyclical systemic risk increases due to excessive credit growth, remains at 0%.

Source: Banco de Portugal. LTV = Loan-to-value ratio, that corresponds to the ratio between housing loan(s) and the minimum between the purchase price and the appraisal value of the house granted as collateral. DSTI = Debt service-to-income ratio, that corresponds to the ratio between monthly instalments of total credit agreements and the borrower's income, net of taxes and contributions to social security.

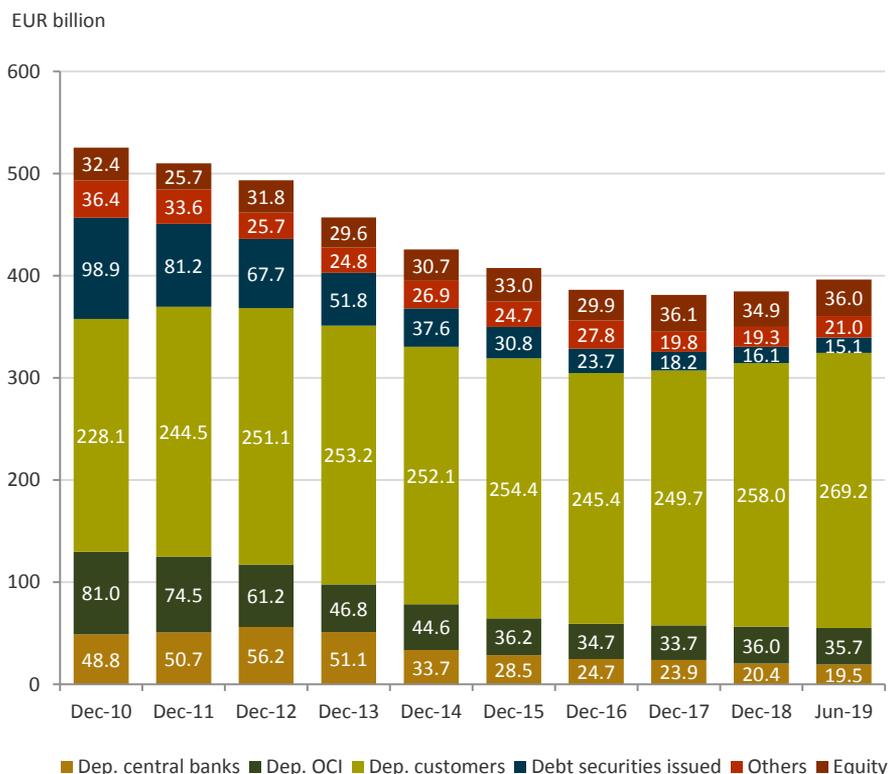
### III. Funding and Liquidity Structure



# FUNDING AND LIQUIDITY STRUCTURE

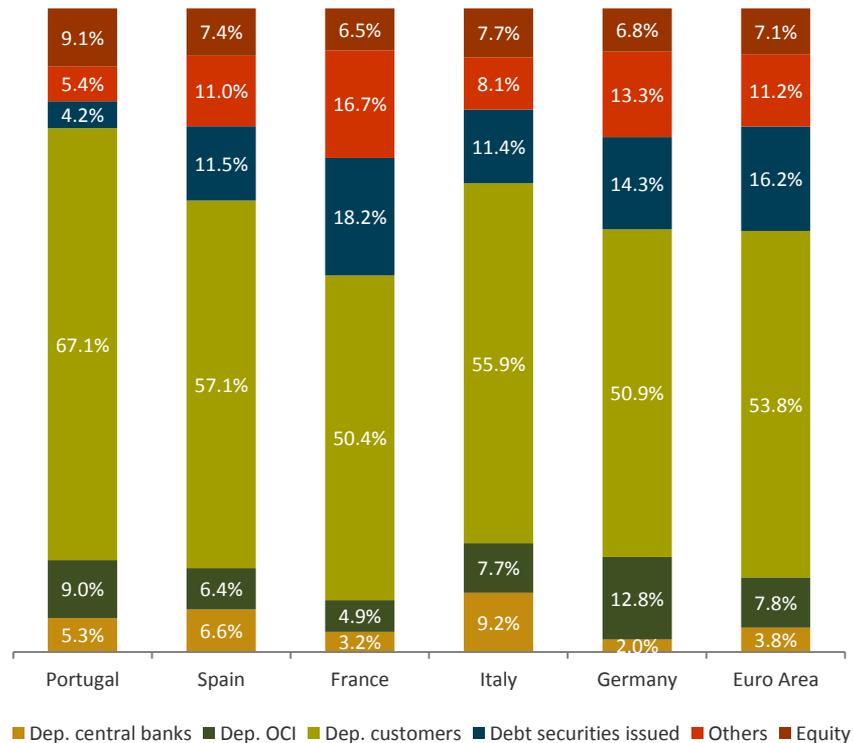
The evolution of liabilities reflects the reinforcement of customer deposits as the main source of funding. Conversely, there has been a decrease in terms of market funding sources. The weight of deposits in the funding structure is above the Euro Area average and the majority of the remaining member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

## Funding structure



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

## Portugal vs. Euro Area (Dec-18)

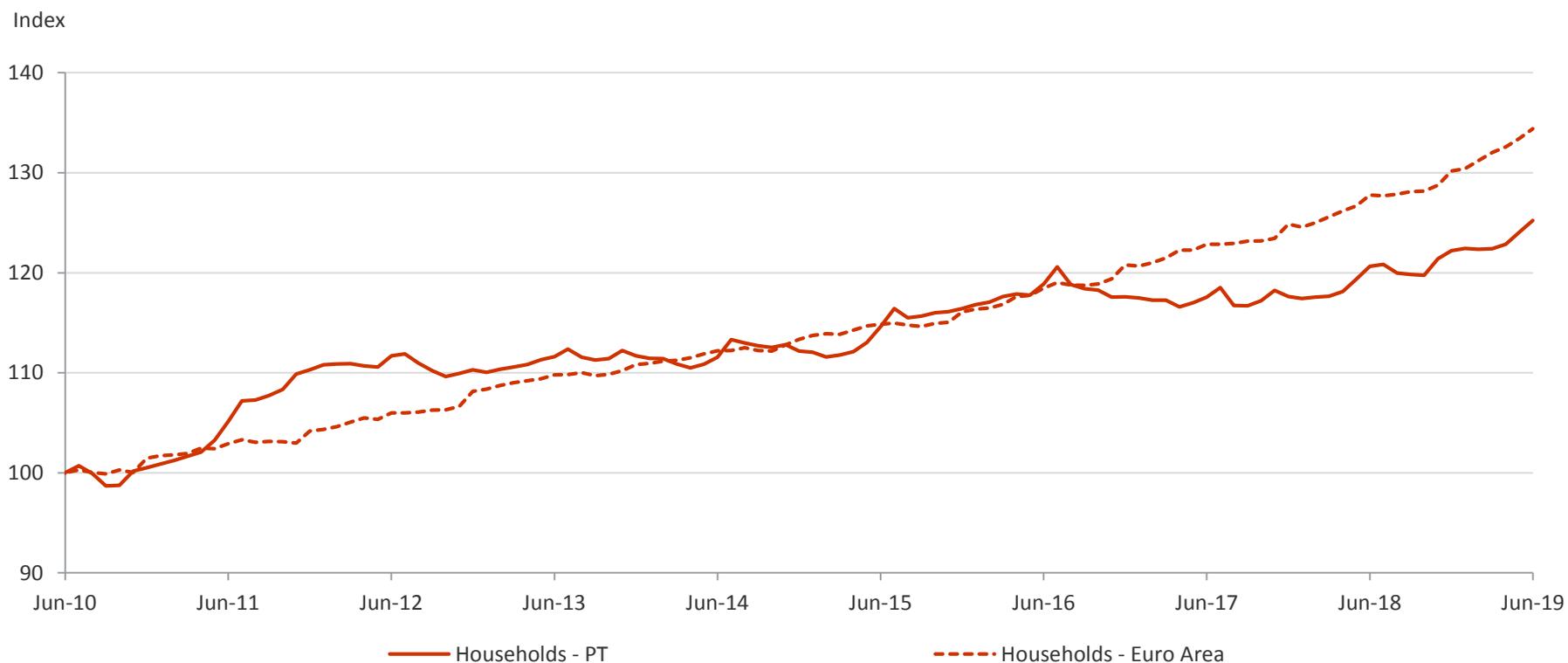


Source: ECB – Consolidated Banking Data.

# FUNDING AND LIQUIDITY STRUCTURE

Despite the austerity programme imposed by the EFAP, depositors confidence in the banking system has not been affected. Households' deposits reached their highest level in January 2019, reaching 148,3 billion euros.

## Evolution of households' deposits in Portugal (Jun-10=100)



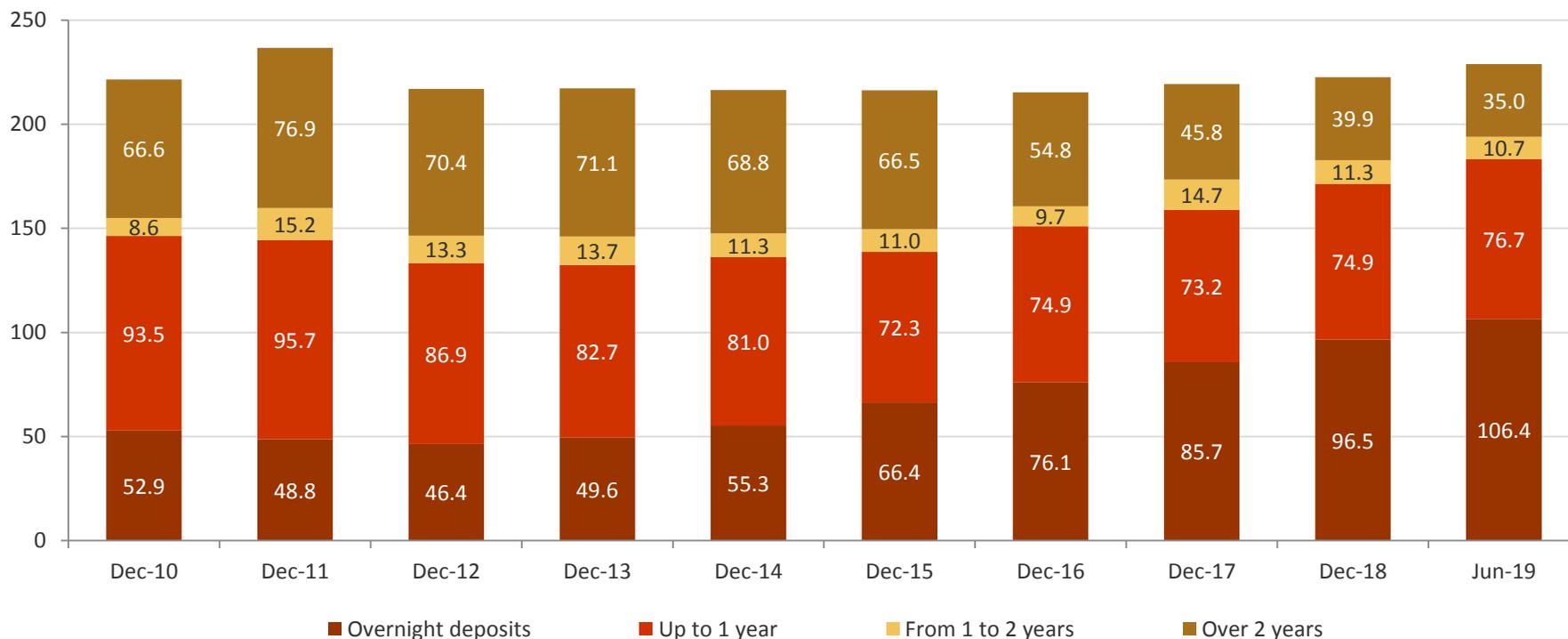
Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics). Deposits of private individuals include emigrants.

# FUNDING AND LIQUIDITY STRUCTURE

In a context of 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

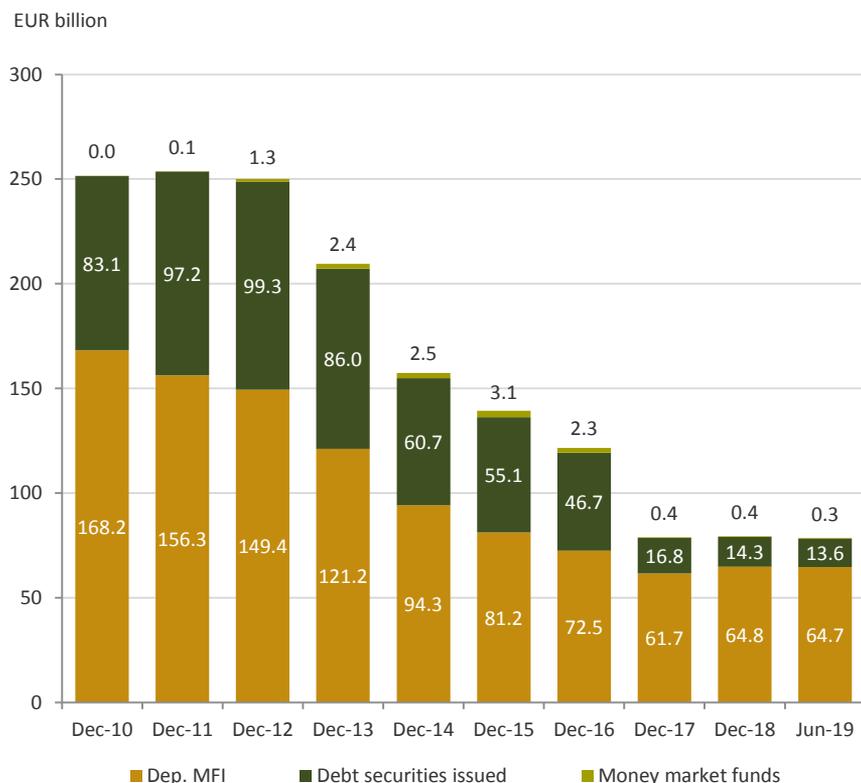


Source: Banco de Portugal (Monetary and Financial Statistics). Deposits from the non-monetary sector (end-of-period balances).

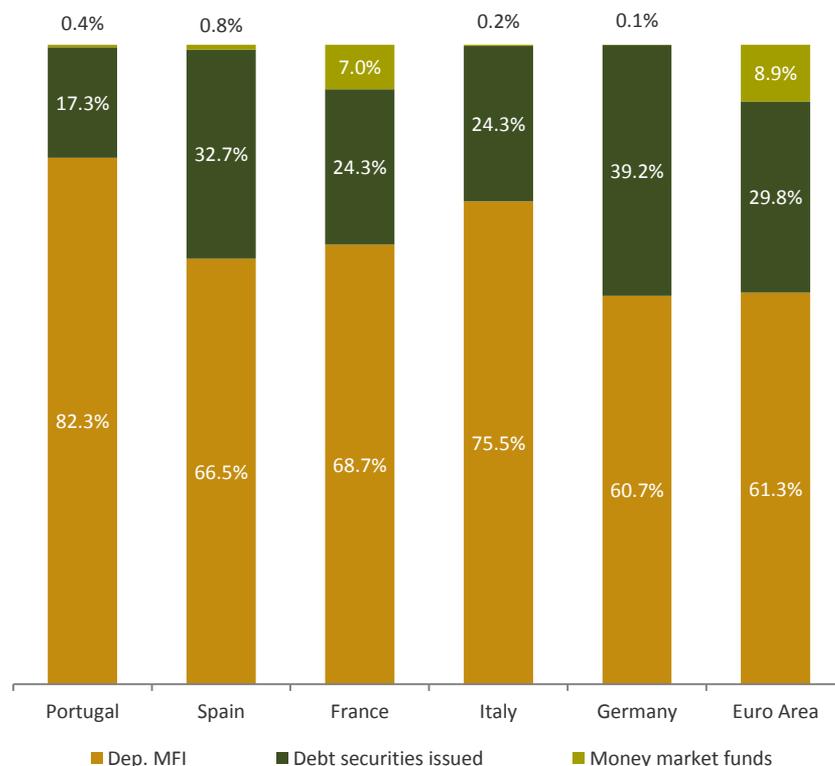
# FUNDING AND LIQUIDITY STRUCTURE

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

## Wholesale funding structure



## Portugal vs. Euro Area



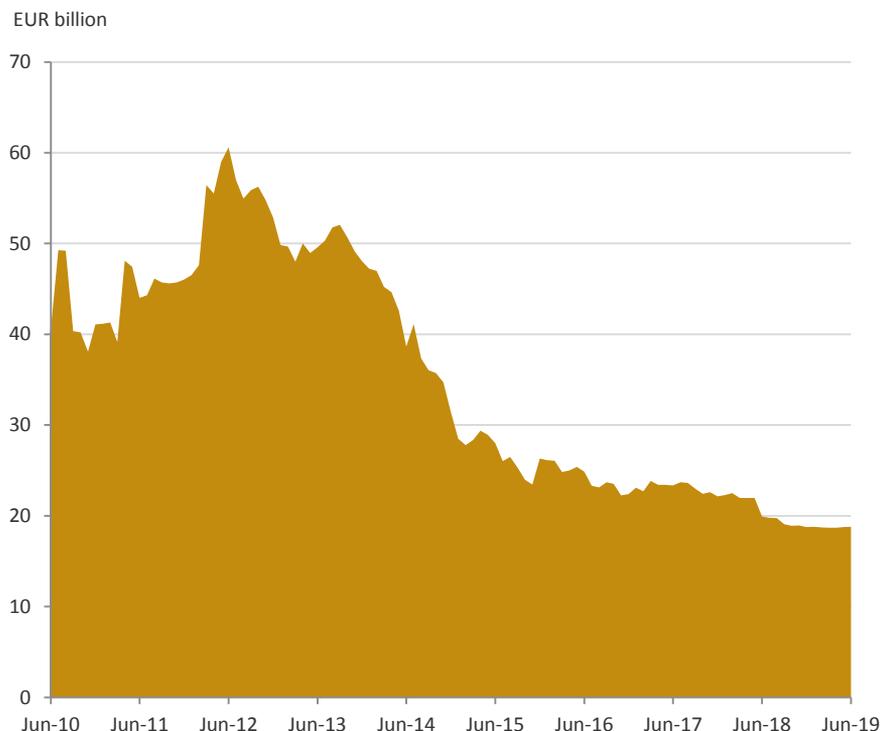
Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics).

Monetary Financial Institutions (MFI) include the Central Bank and Other Monetary Financial Institutions (OMFI).

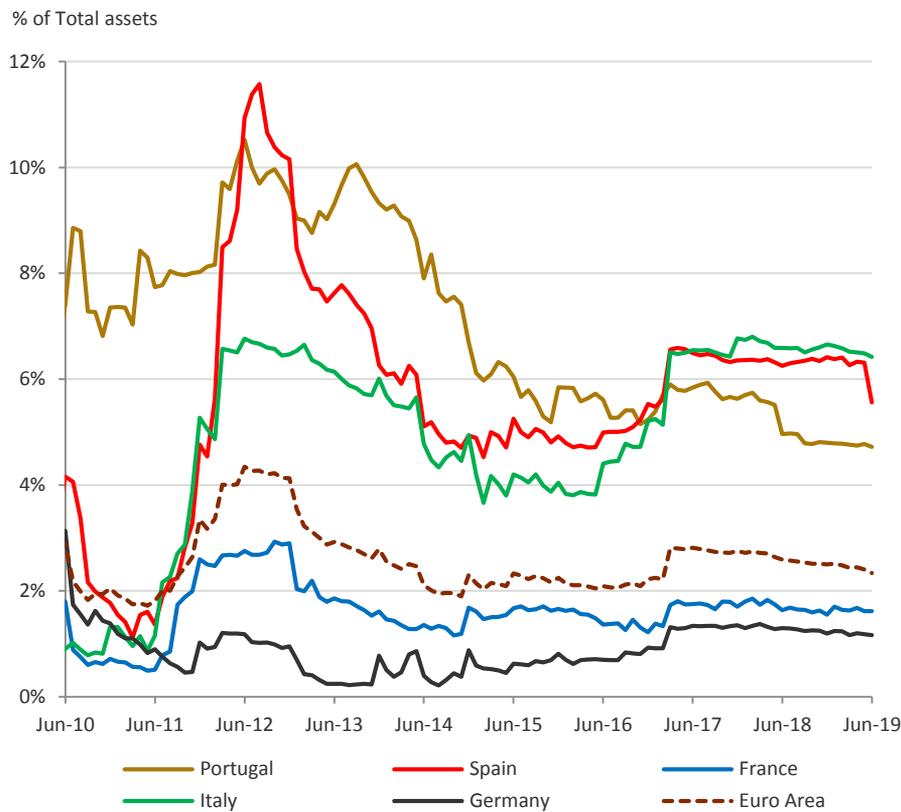
# FUNDING AND LIQUIDITY STRUCTURE

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



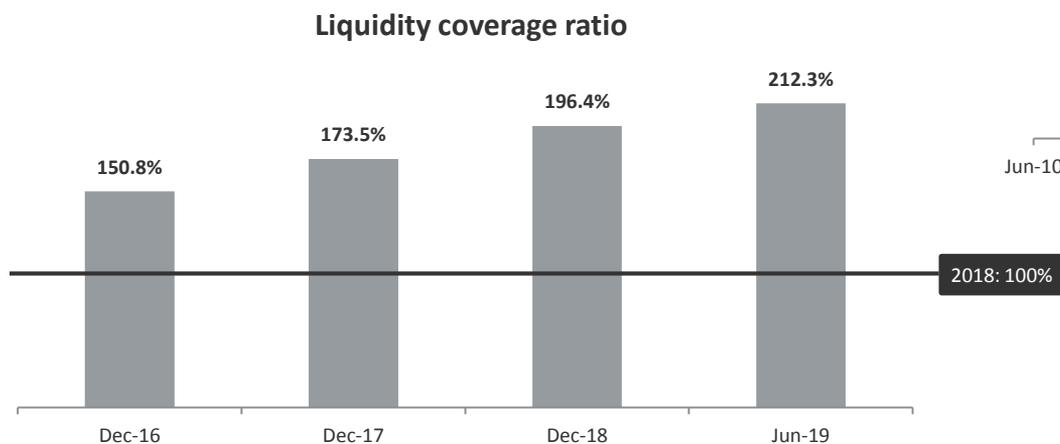
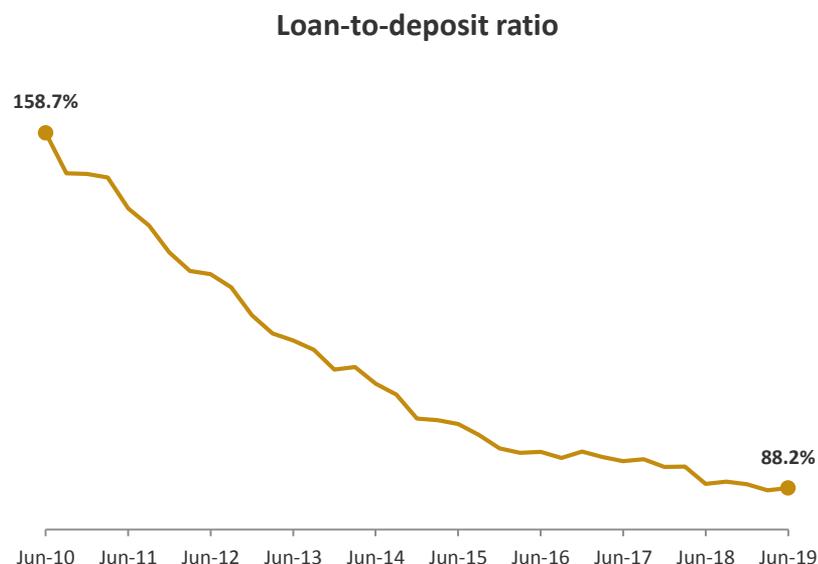
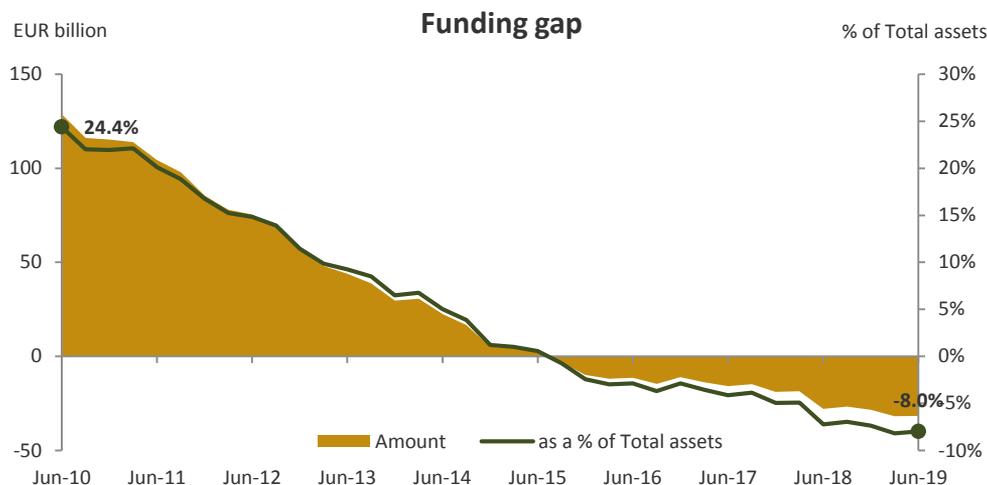
## Portugal vs. Euro Area as a % of total assets



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

# FUNDING AND LIQUIDITY STRUCTURE

Liquidity continues to show a positive trend: the funding gap has been declining, the loan-to-deposit ratio has continued its downward trend, and the liquidity coverage ratio (LCR) has been increasing.



Source: Banco de Portugal (consolidated data).

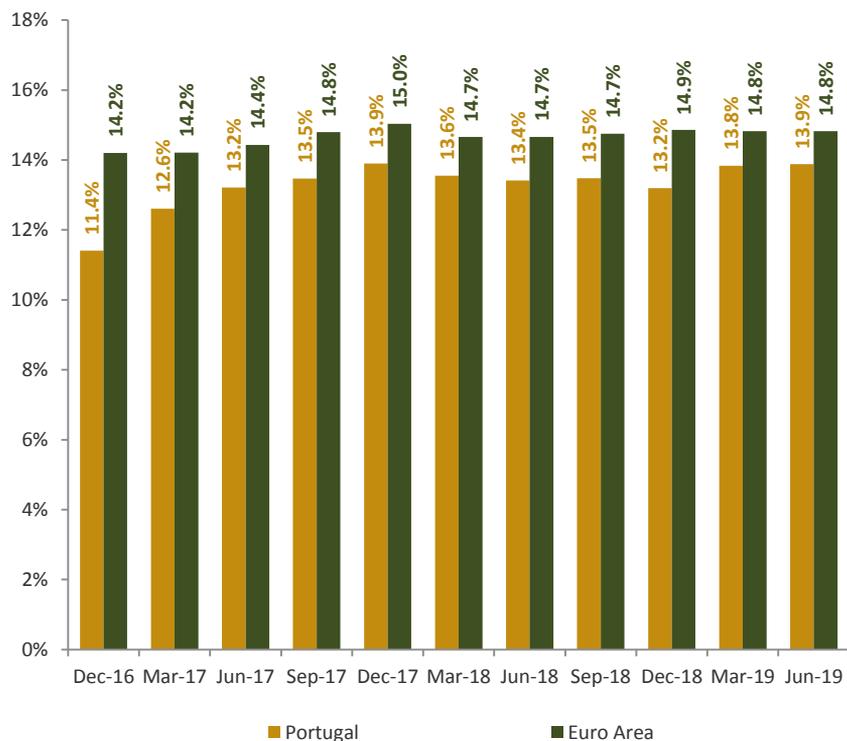
## IV. Solvency



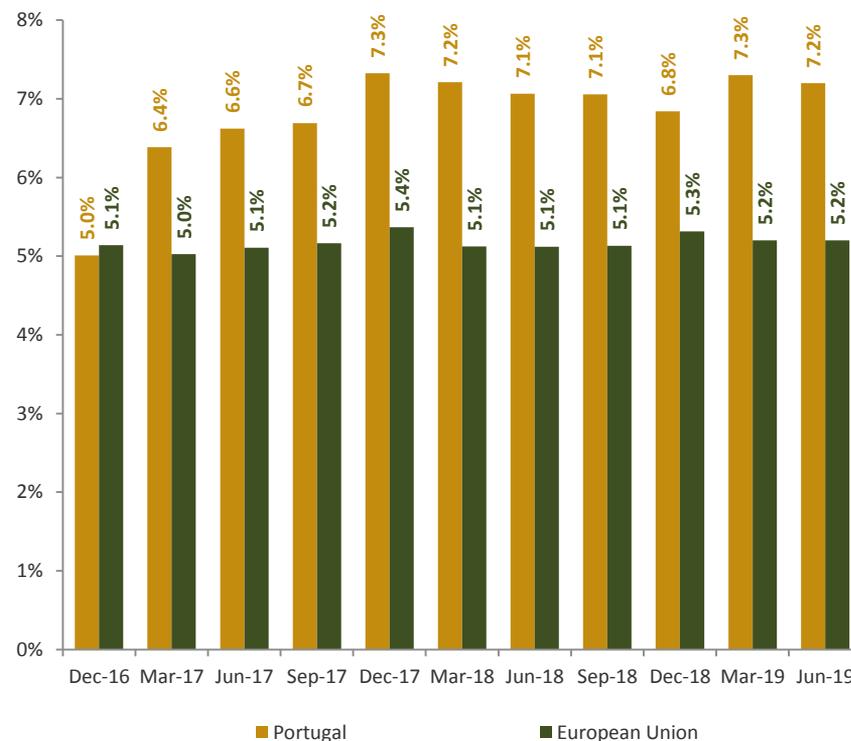
# SOLVENCY

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

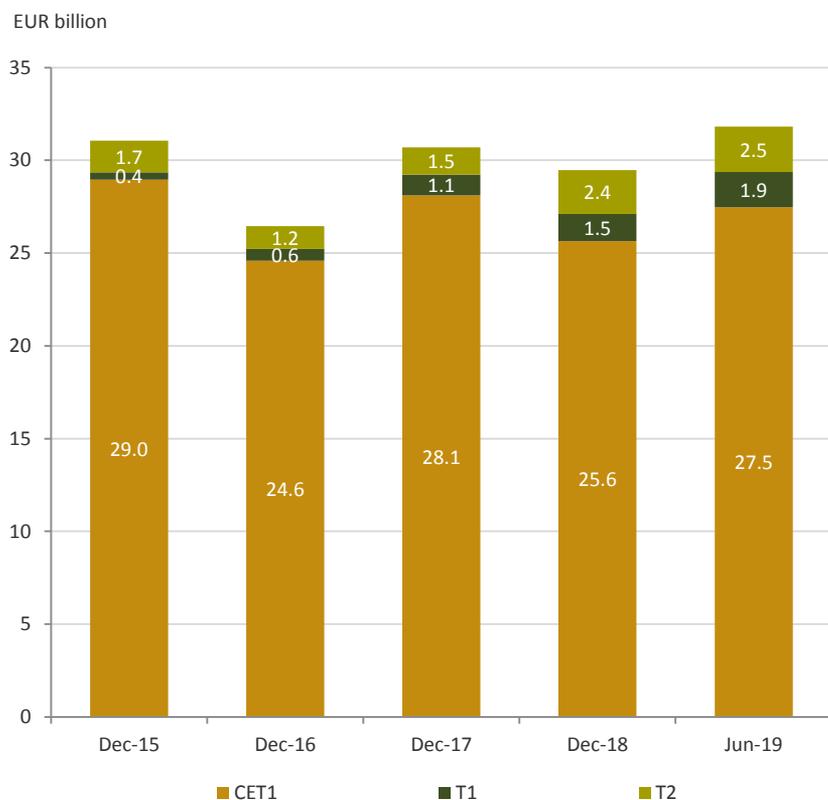


Source: BCE – Consolidated Banking Data.

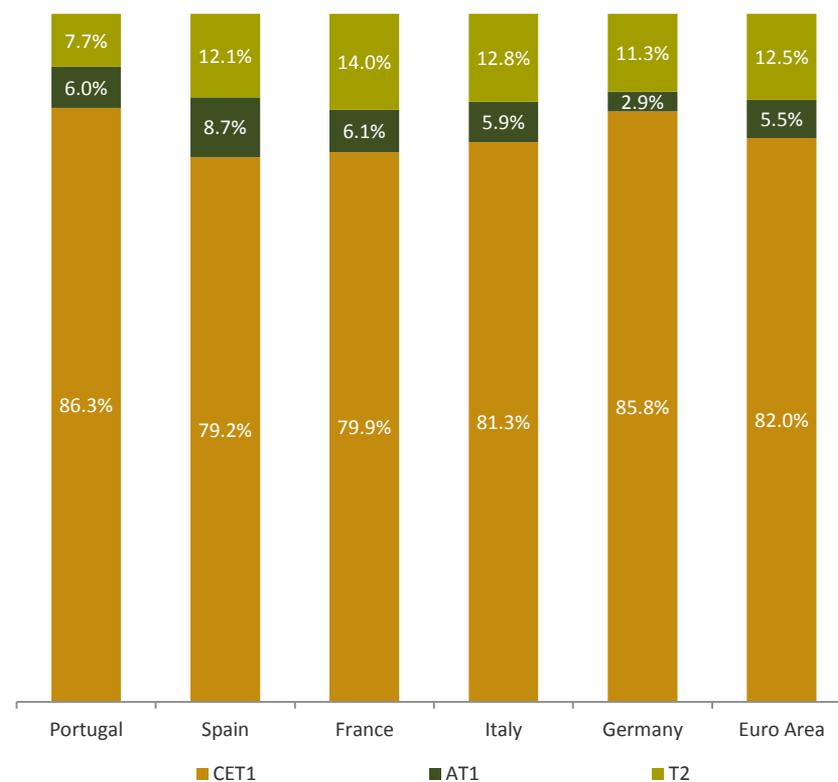
Source: EBA – Risk Dashboard.

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

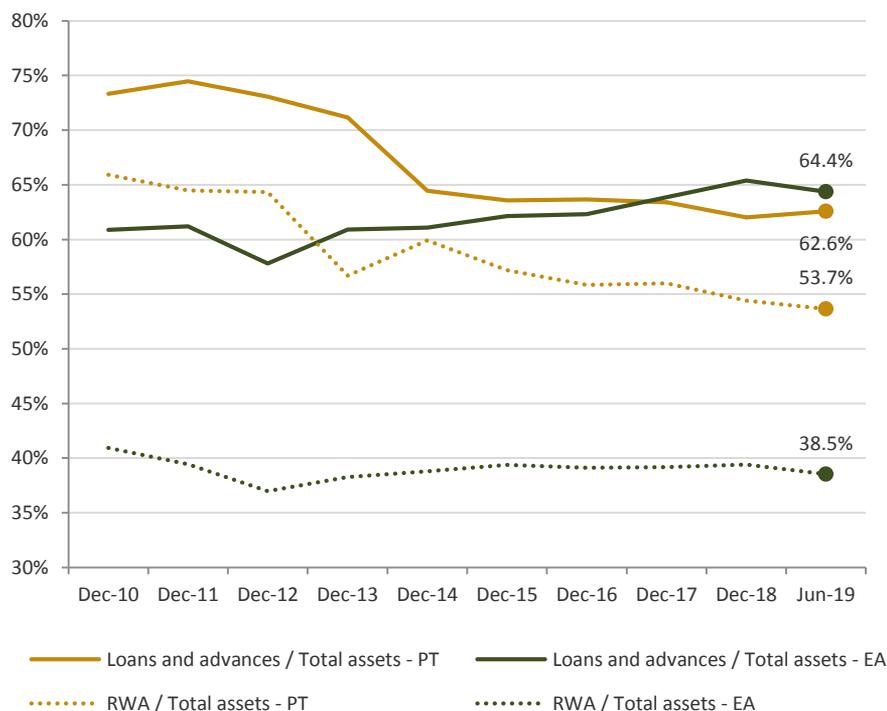


Source: BCE – Consolidated Banking Data.

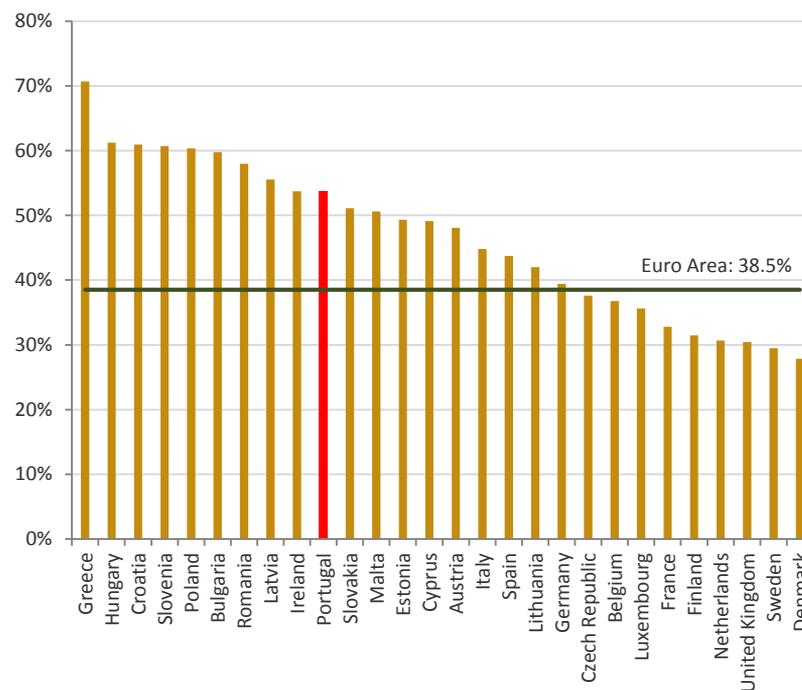
# SOLVENCY

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 (Jun-19)



Source: BCE – Consolidated Banking Data.

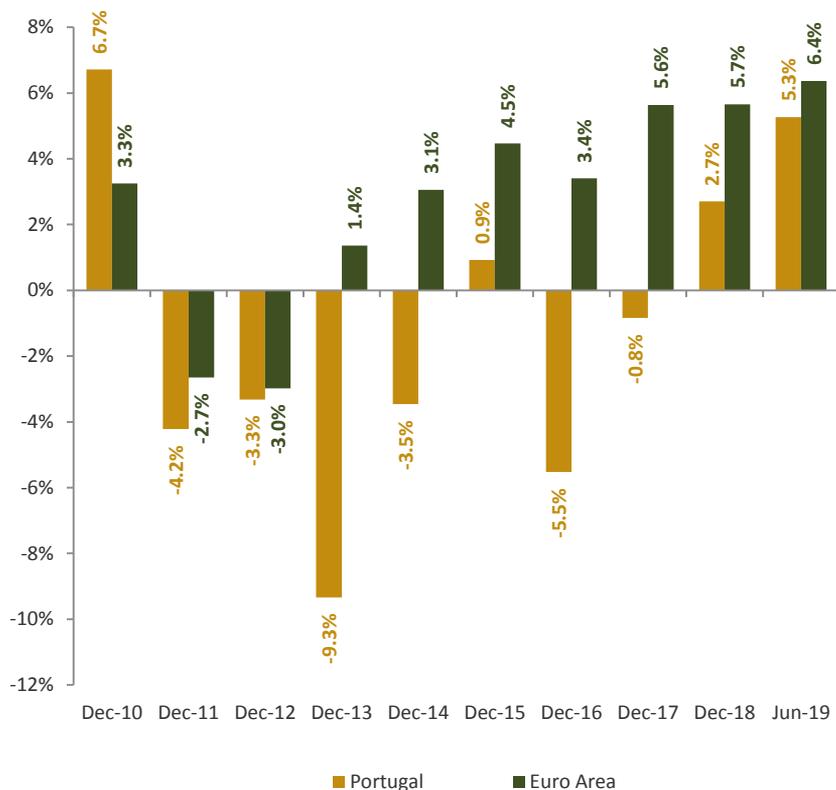
## V. Profitability



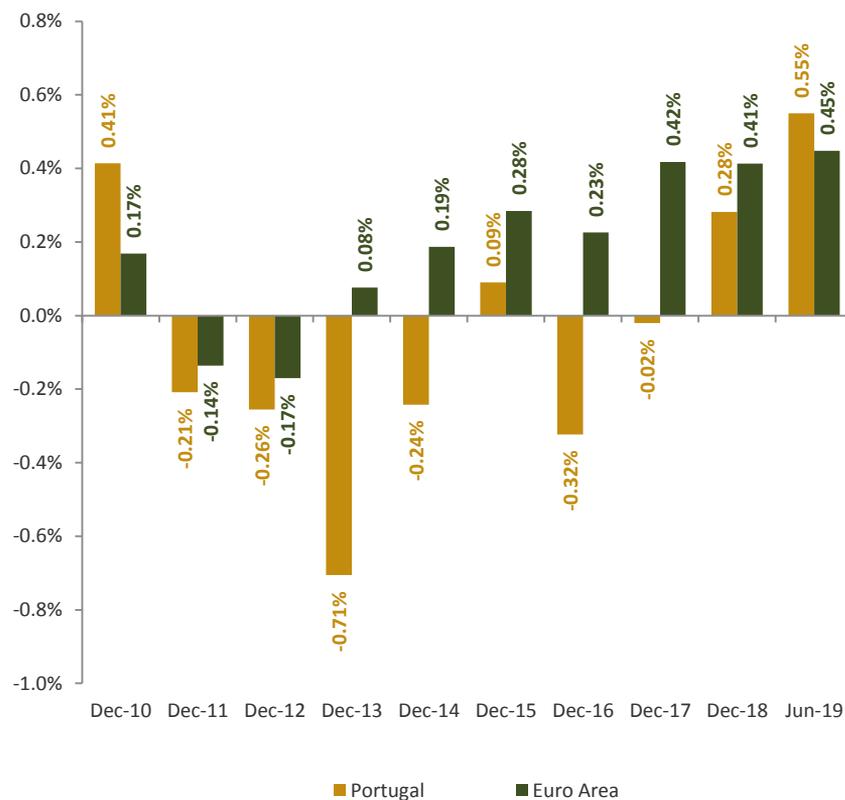
# PROFITABILITY

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)

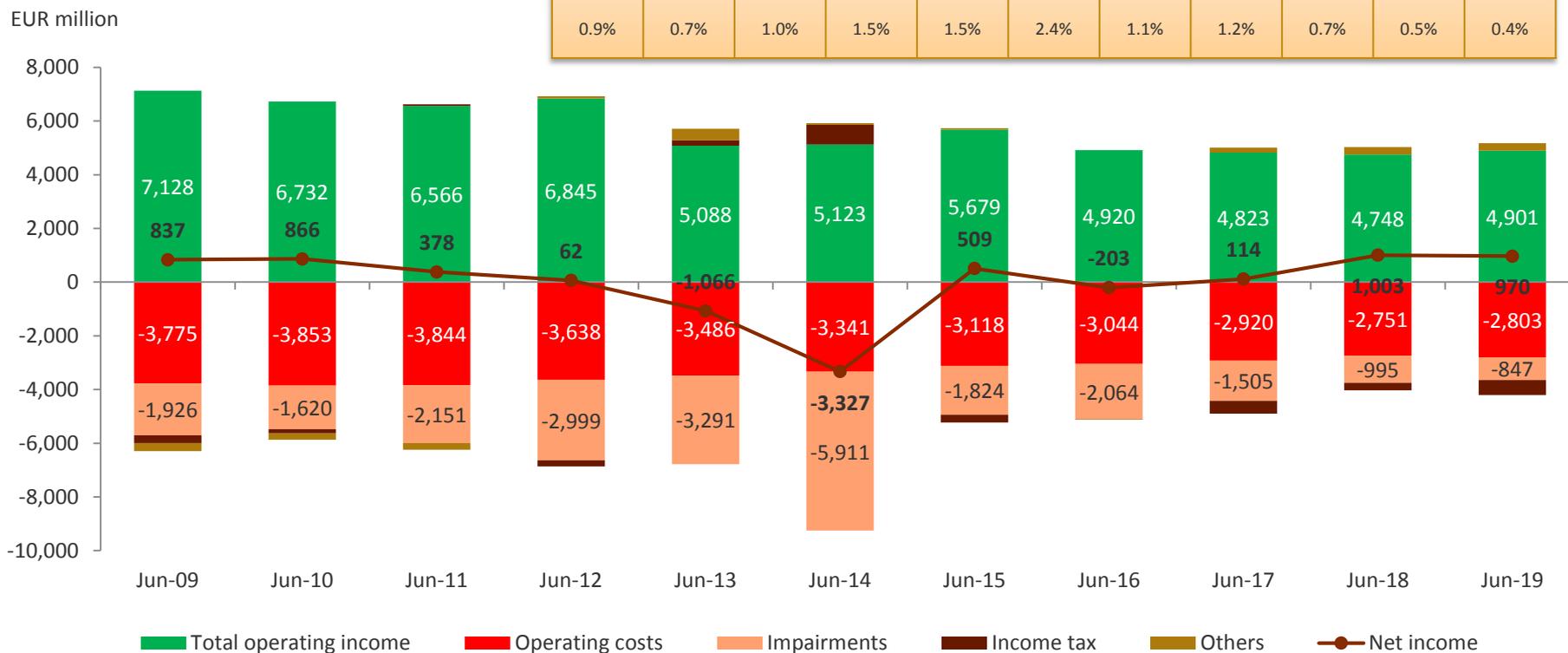


Source: BCE – Consolidated Banking Data. Annualized values for June 2019.

# PROFITABILITY

In the first half of 2019, profitability was positive and broadly in line with the same period of the previous year.

## Breakdown of net income

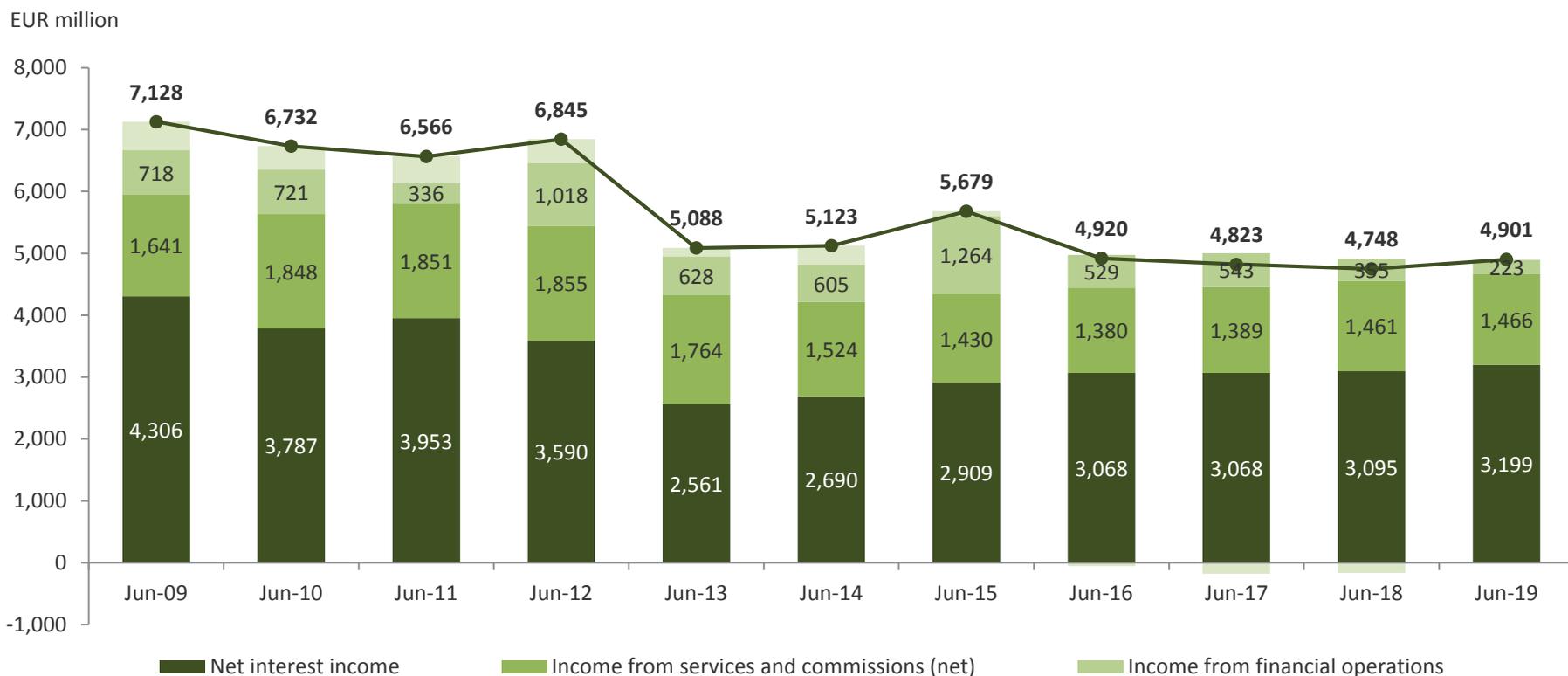


Source: Banco de Portugal (consolidated data).

# PROFITABILITY

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

## Total operating income breakdown

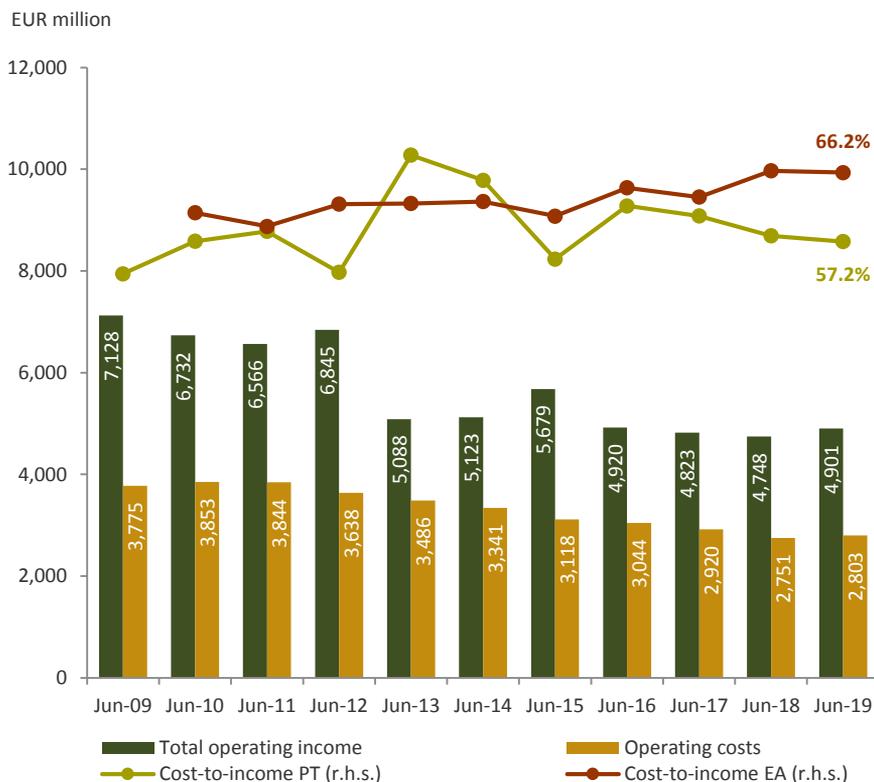


Source: Banco de Portugal (consolidated data).

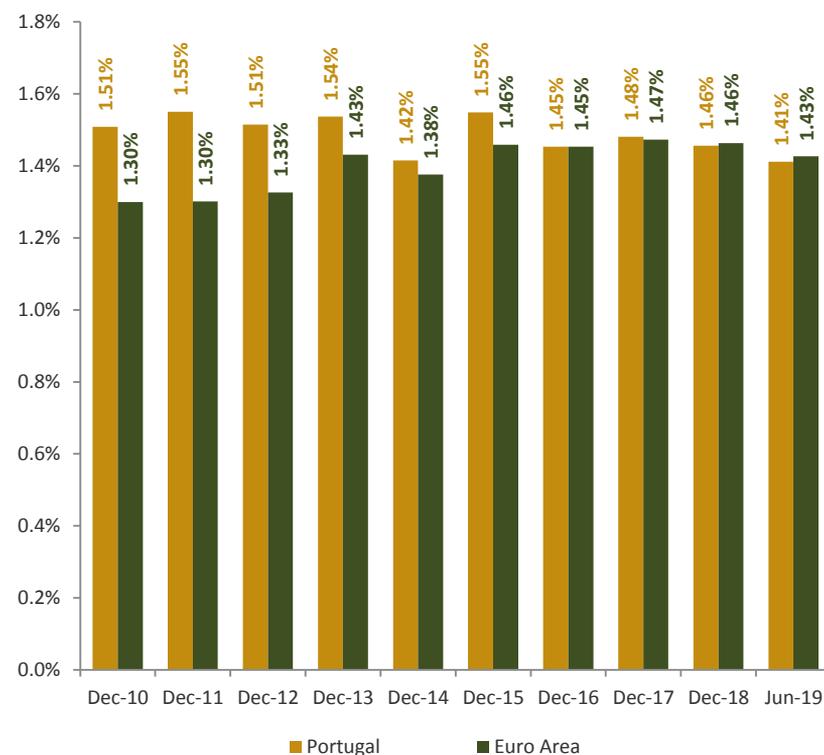
# PROFITABILITY

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

## Cost-to-income breakdown



## Operating costs as a % of Total assets



Source: Banco de Portugal (consolidated data). ECB – Consolidated Banking Data. Operating costs as a % of Total assets in June 2019 are annualized values.

## Annex I: Methodology



## Methodology

- The information provided by Banco de Portugal and the ECB regarding monetary statistics differs from that provided in the consolidated data for the financial system. The main differences are basically due to the fact that the universes surveyed are not exactly 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.º1/2001, de agosto; Instrução n.º 25/2014, de 15 de dezembro de 2014 and Sistema Bancário Português: desenvolvimentos recentes - 4º trimestre de 2016.
  
- This document was published with updated information until 10 January 2020.

# PORTUGUESE BANKING SECTOR OVERVIEW