

How NPLs were treated in Ireland, Italy, Portugal and Spain

... the case of Portugal

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MILLENNIUM. AQUI CONSIGO.



Gonçalo Pascoal
Office for Regulatory Affairs



ÁGIL



MODERNO



PRÓXIMO



SIMPLES



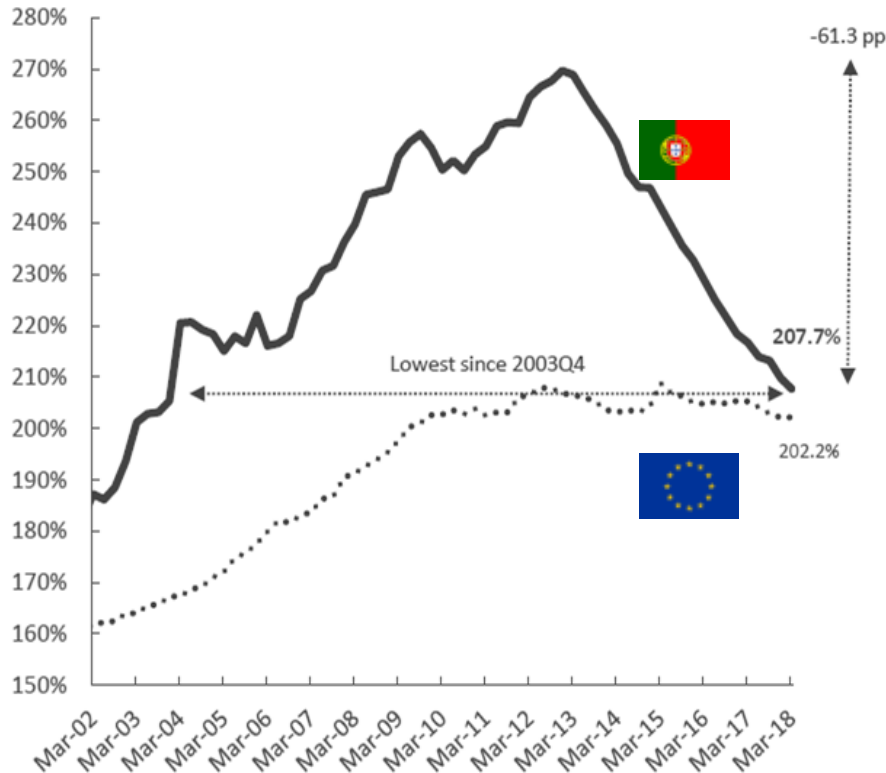
SUSTENTÁVEL

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Portuguese economy and banking system endured significant structural changes over the past years ...

Deleveraging of the private sector

(Private sector debt / GDP)



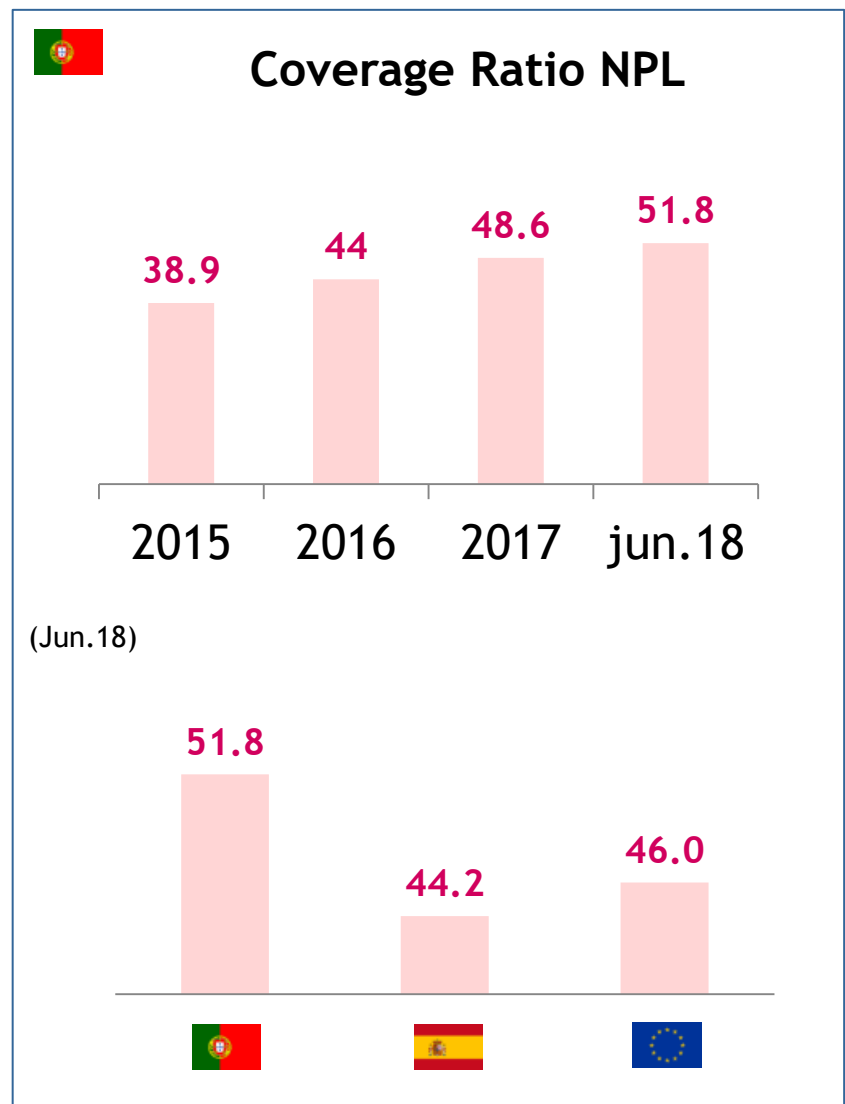
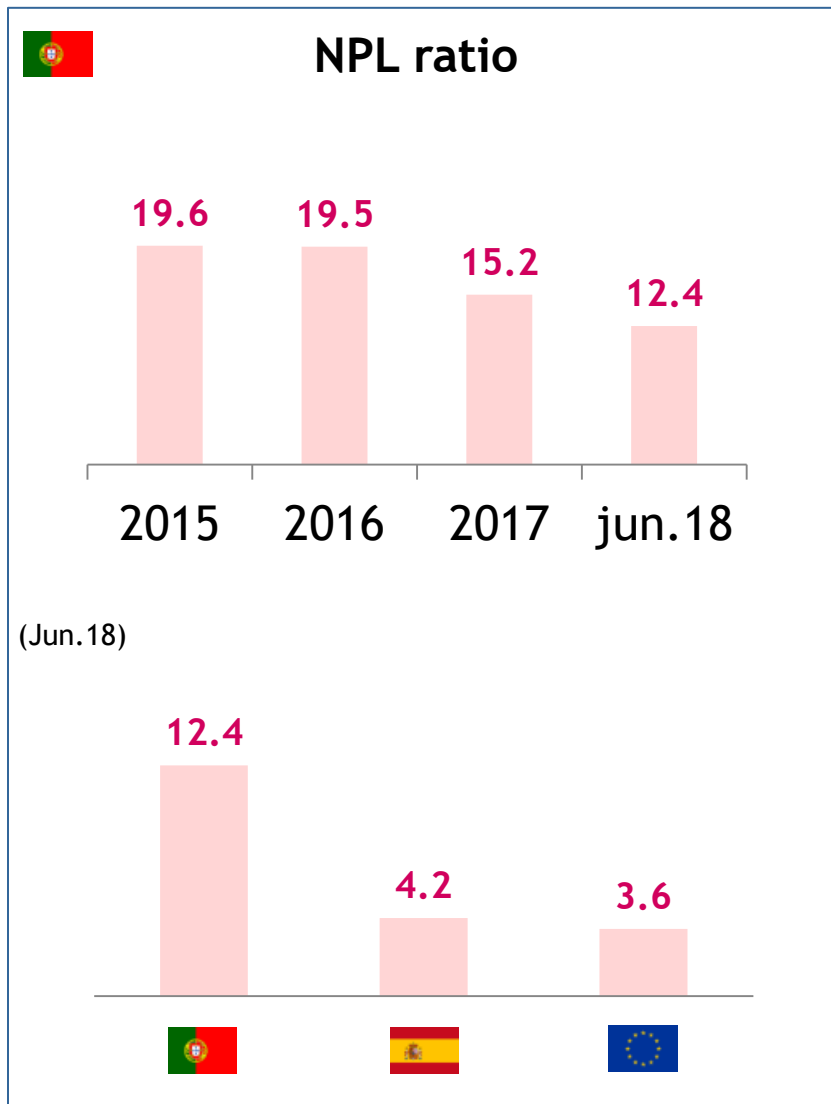
Sounder banking system

(Private sector debt / GDP)

	2010	2017
Loans to Deposits	151%	93%
Capital Ratio	7%	14%

Banks embarked on significant restructuring, at home and abroad, coupled with recapitalization and capacity optimization efforts

... paving the way for significant improvement on asset quality



An authorities' extensive approach to dealing with NPL

“... high NPL levels ultimately have a negative impact on bank lending to the economy, as a result of the balance sheet, profitability and capital constraints ...”

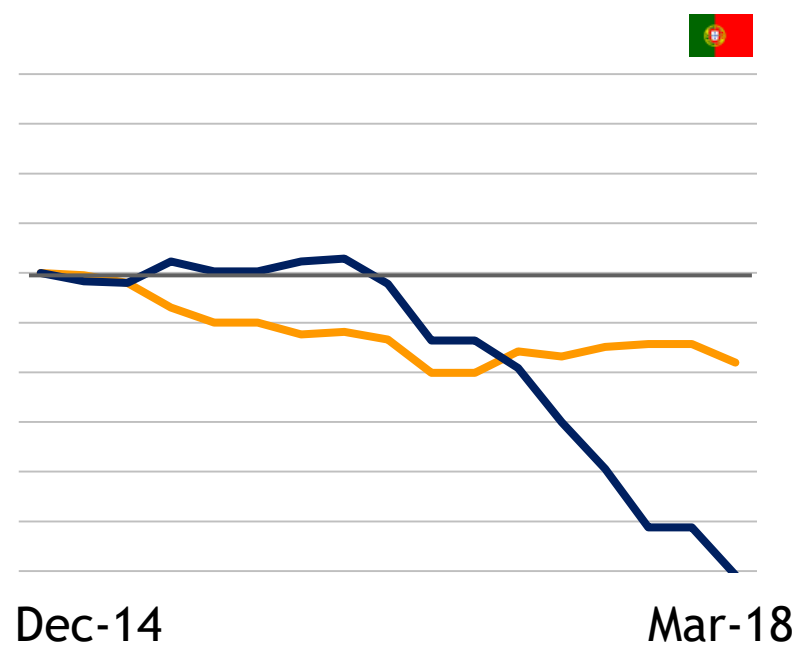
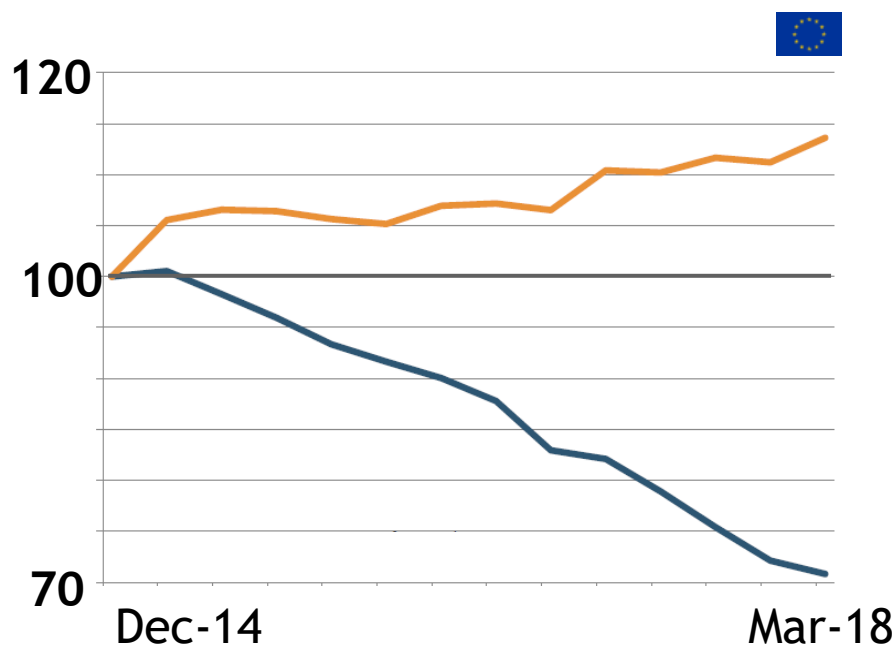
- SSM' Pillar 2 approach (e.g. bank-specific plans)
- EBA's stocktake
- SSM's guidance to banks on NPL
- SSM's addendum to the guidance to banks on NPL
- EBA's NPL templates to collect standardised information on NPL
- EC's *Action Plan to tackle NPL*
- EBA's guidelines on NPL management
- NCAs' local initiatives
- EBA's proposal on a NPL ratio threshold (? ...)

But setting an “EU single rule book” on NPL is complex !

Cyclical conditions are a challenge for “one-size-fits-all” policies

Breakdown of NPL ratio evolution

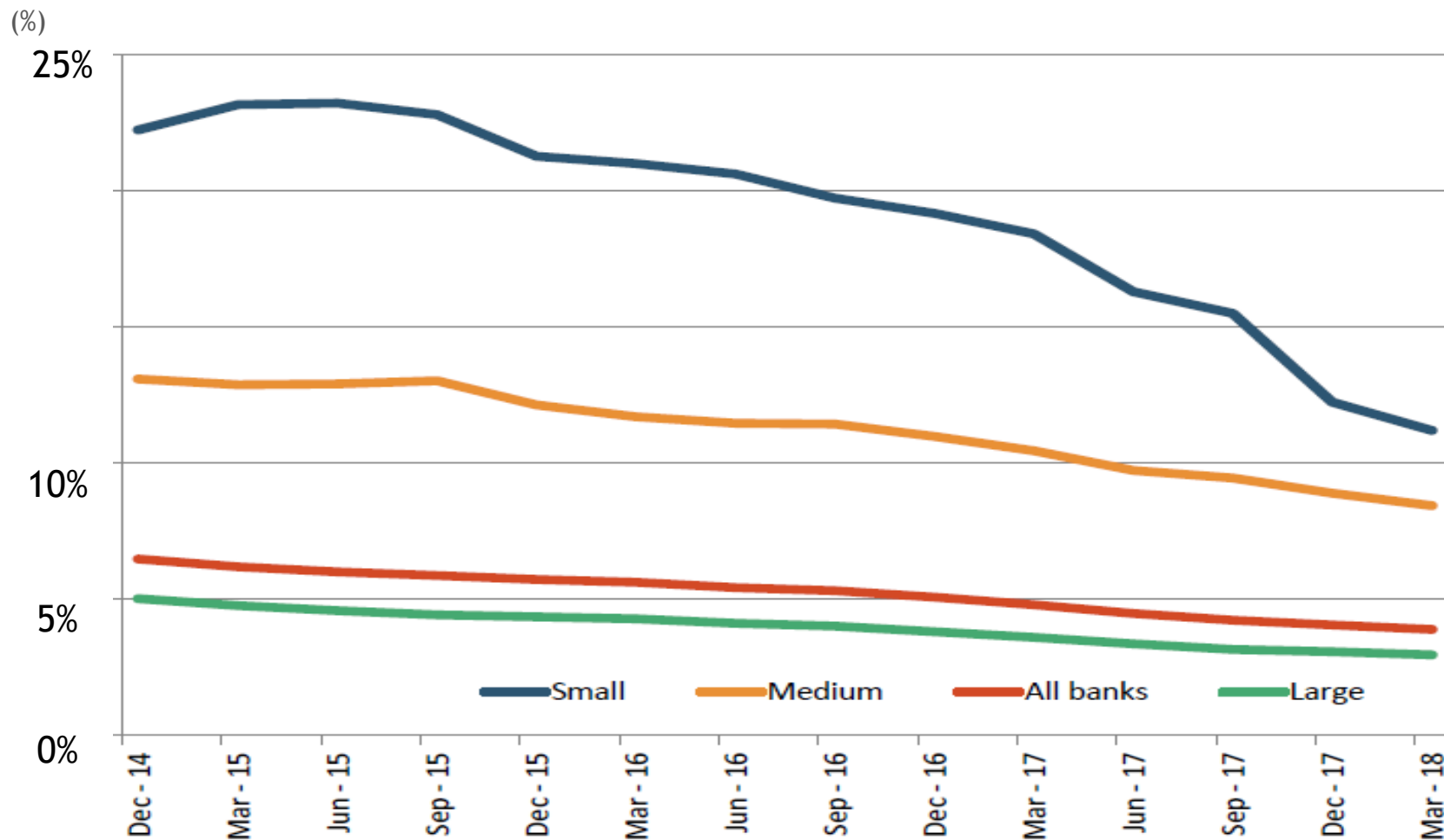
(Dec.14=100, numerator and denominator trends, EU vs. PT)



■ Numerator: NPL
■ Denominator: Total loans

Size & diversification are a challenge for “one-size-fits-all” policies

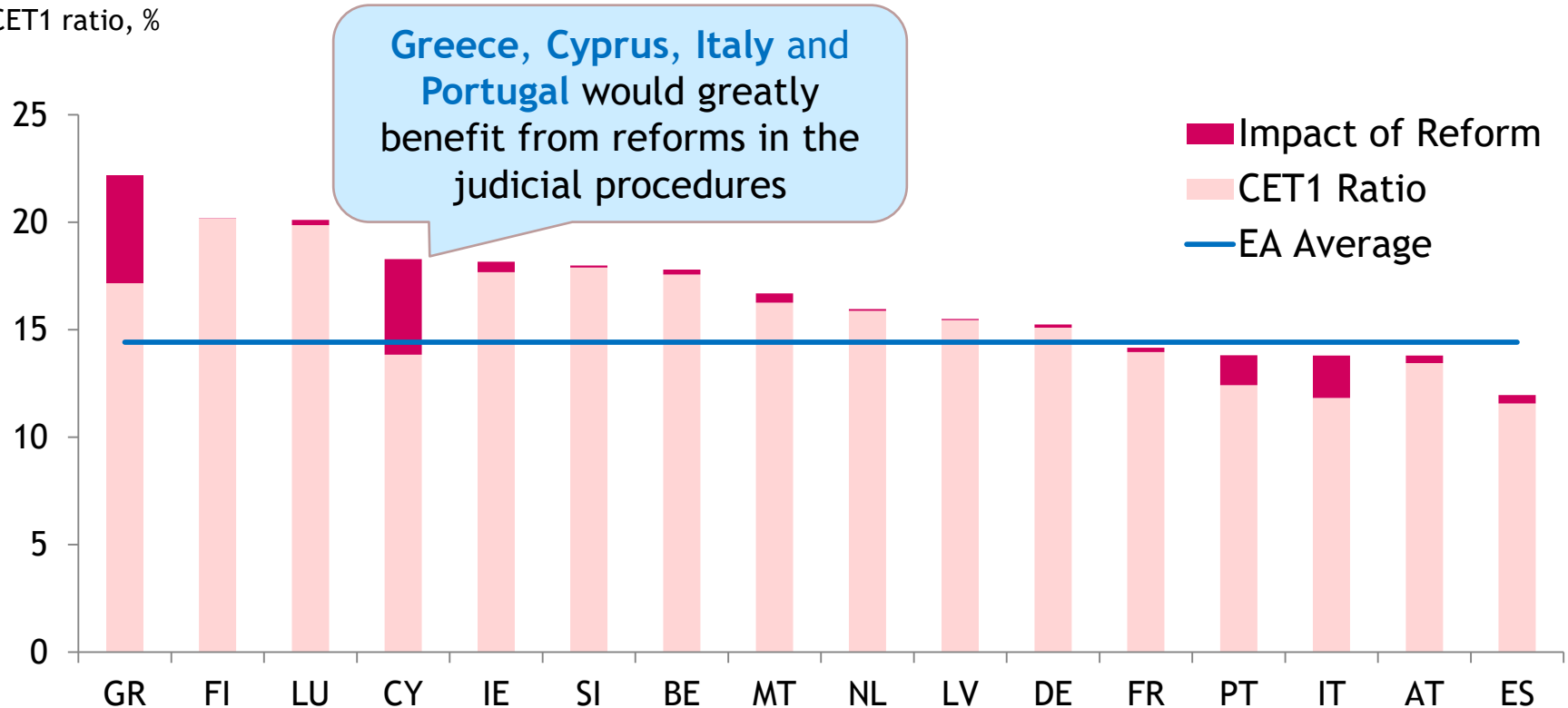
NPL ratio by bank size



Structural environment is a challenge for “one-size-fits-all” policies

Simulation of the impacts on CET1 of improvements in the insolvency framework

CET1 ratio, %

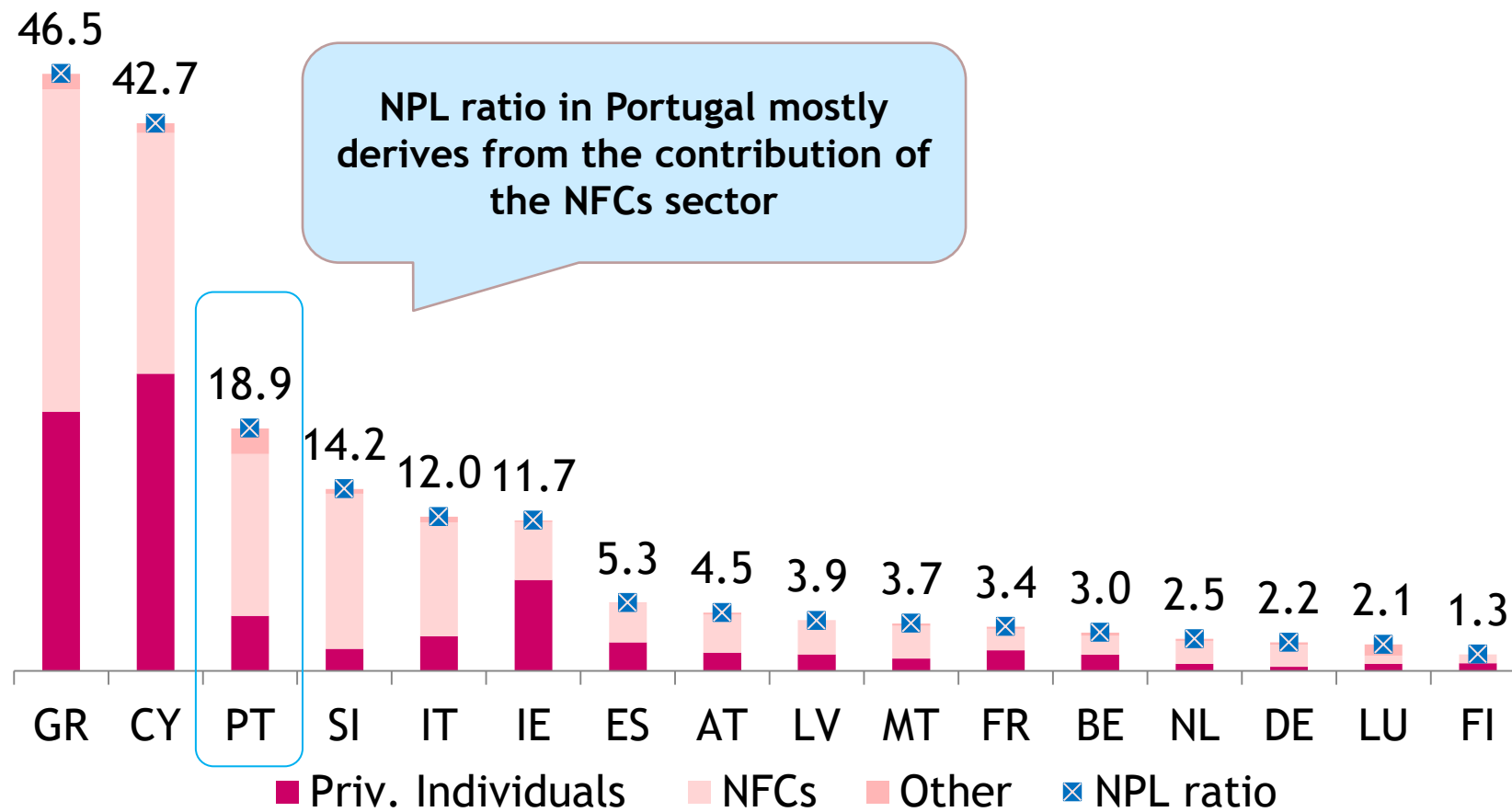


Reforms that reduce costs as well as the duration of judicial processes contribute towards the resolution of some of the problems associated with NPL and, consequently, raise the value of these credits. The gains associated could have an impact in other issues, such as an increase of the price of the NPL transactions, narrowing the gap between the book value and the market values

Portugal remains a “high NPL ratio” country

Comparison by sector of the NPL ratios across the EU

NPL ratios, jun.17



National approach to dealing with NPL based on 3 main pillars

Structural reforms

Legal and judicial reforms to remove impediments to NPL reduction

- common decision body (tax authority & SS administration)
- in-court restructuring and insolvency frameworks
- speed up out-of-court settlement procedures

NPL management solutions

Platform for integrated management of NPL cross-exposures

Program “Capitalizar” (credit guaranteed schemes)

- lines of credit, risk capital, incentives on profits reinvest ...

Early warning mechanisms to support SME’s decision bodies

Supervisory action and macro tail winds

Focused execution of the NPL reduction plans

Improving economic environment

- housing sector recovering and NFCs financial conditions improving

The credits negotiation platform focuses on cross NPL exposures



- *Plataforma de Negociação Integrada de Créditos Bancários, A.C.E.*
- ACE Incorporation Agreement by BCP, CGD and NB, but open for others
- Activity focused on structuring, negotiating and implementing solutions (*credit and administrative related tasks will remain in Banks' books and services*)
- Minimum combined threshold €5 Million
- Dedicated and specialized team in place, composed of both members allocated by the banks and independent ones, hired in the market

Performance levers:

- Dedicated and specifically designed IT infrastructure
- Taylor made processes to cure NPE and support viable client companies
- Single contact point with clients and stakeholders, on behalf of the members
- Reduction of time needed to reach agreements among the members
- Speed of negotiation, decision making and solutions' implementation

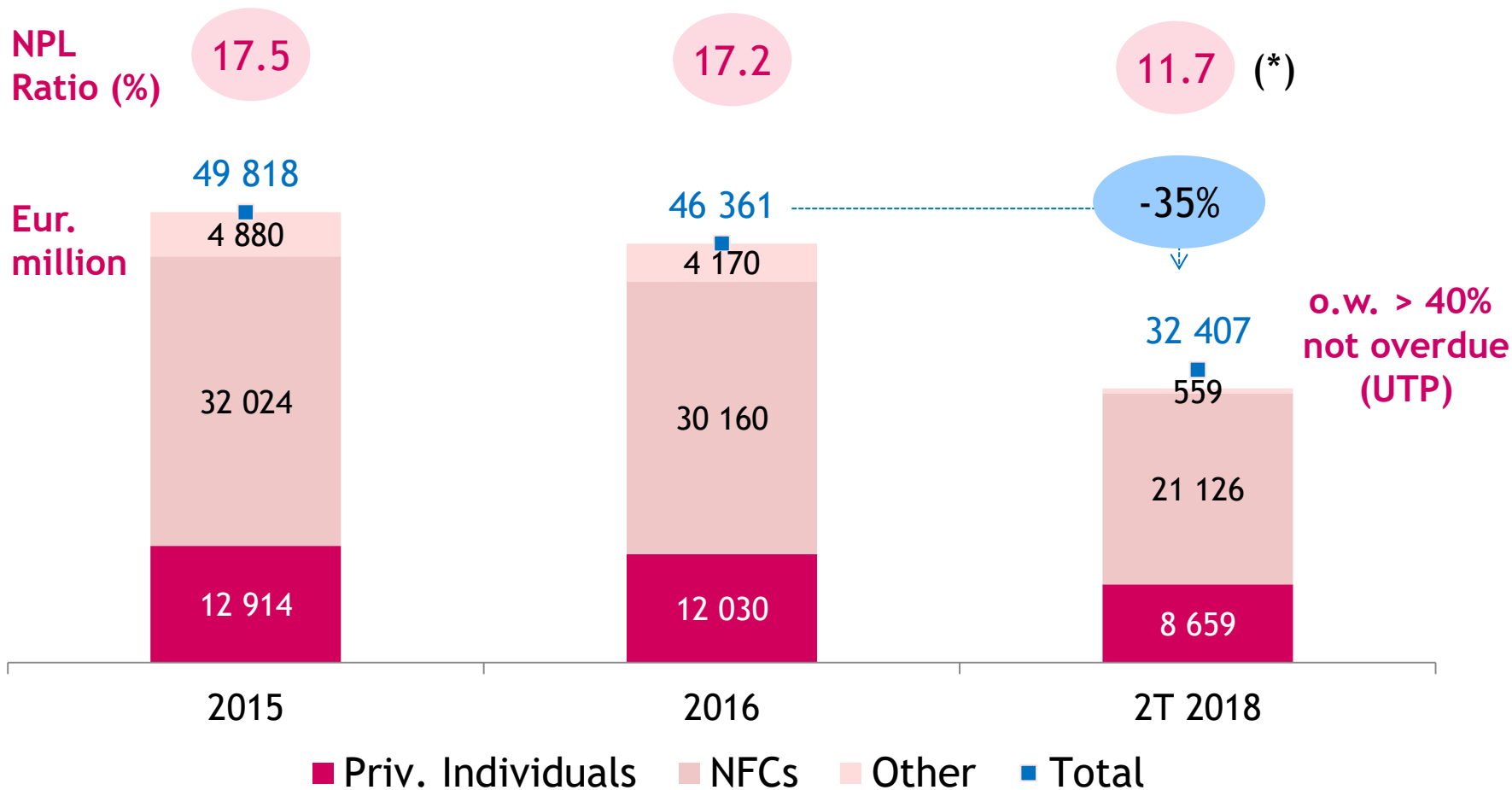
What has been achieved so far?

NPL reduction gaining traction since 2016 ...



Evolution of the NPL

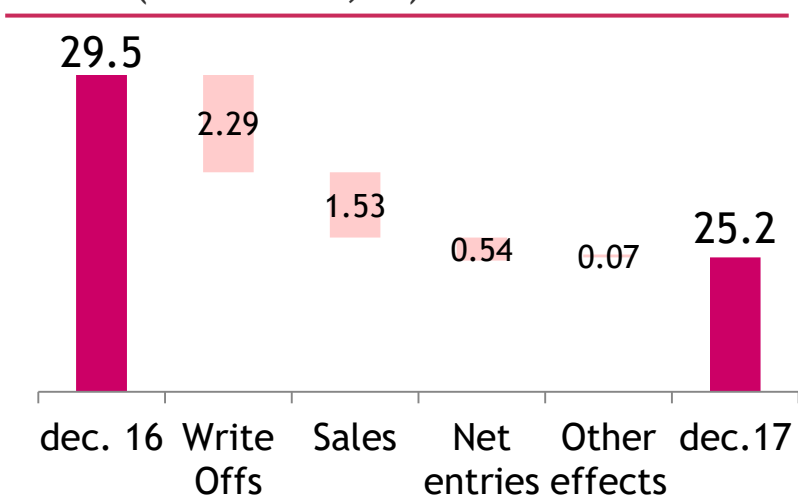
by segment



... due to a combination of several strategic levers



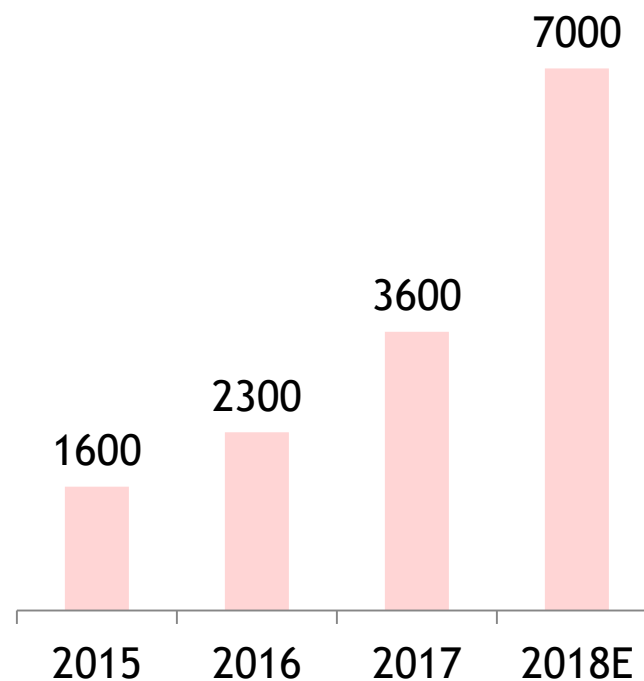
NFCs (NPL ratio, %)



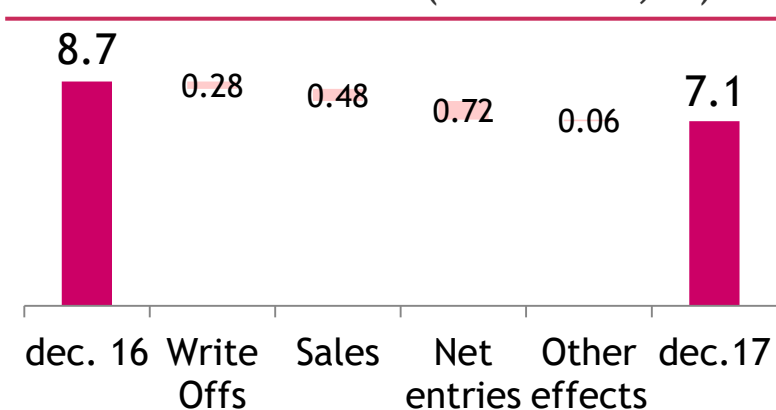
... with a record NPL sales year in prospect !

Sales of NPL

Eur million



Private individuals (NPL ratio, %)

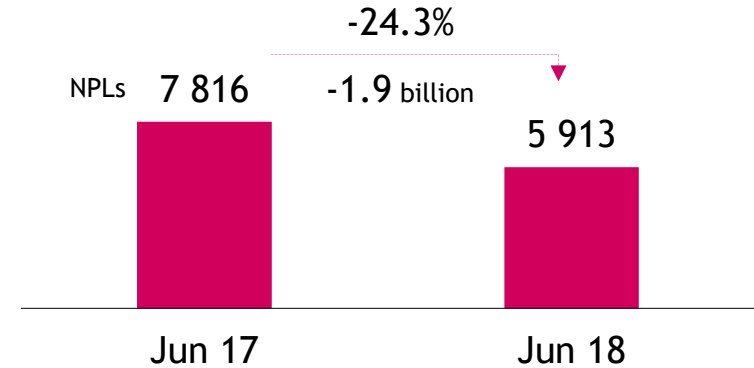
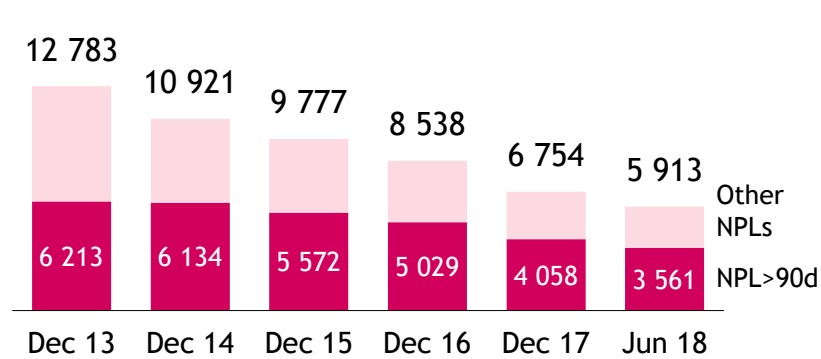


Millenniumpcp a sound contributor for the NPL reduction effort

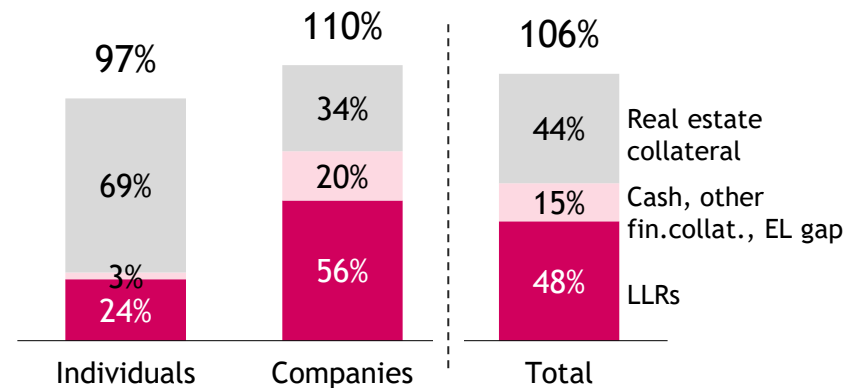
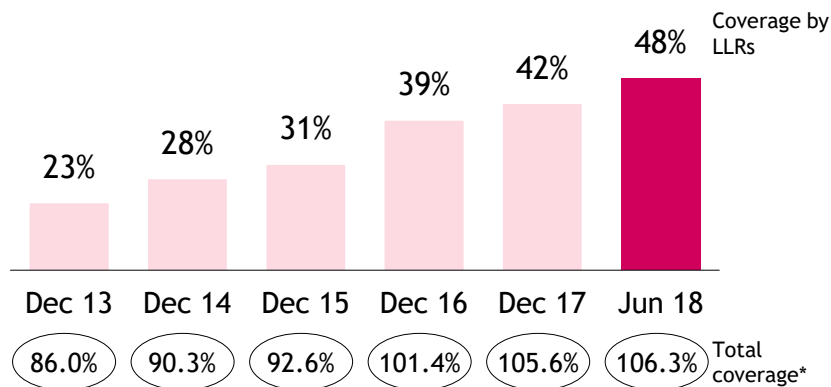


NPLs

(Million euros)



Coverage (LLR and total *)



* By loan-loss reserves, expected loss gap and collateral.

Summing up

- NPLs have been decreasing and at a faster rate lately, with additional push from NPL reduction plans amid an improved economic environment
- NPLs may be a concern but forced measures (disengaged from local conditions) may also have important counterproductive effects
- Need to have comprehensive but balanced approaches to sustain current positive trends in NPL reduction

Thank you

