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Title: *The Performance of Portuguese Banks in the 20Th Century*

Abstract: The Portuguese bank sector as the bank sector in many other countries is experiencing serious difficulties. The situation is reflected in the number of bank closures, bank nationalizations, bank mergers and loss of stock market value. The cost of restructuring the sector and keeping banks afloat has been particularly high in countries like Iceland, Ireland, Spain, United Kingdom, and even the US. Returns on Equity have fallen from 15% to below 10% now and demand for new capital is increasing and bank try to restructure their balance sheets.

Between the peak in 2007 and 2012 shareholders in Portuguese banks who stuck with their investment would have lost 80% of the value they had invested. The destruction of value in the Portuguese banks is double that verified for the PSI-20 which at the end of 2010 was in excess of 40%. This contraction in value and the rapid deleveraging of Portuguese banks affects the overall performance of the economy as reflected in the last four years of successive contractions in private investment and the increasing numbers of bankruptcies in the non-financial sector. An historical and comparative analysis of Portuguese banks performance is needed. Most analysis of Portuguese banking relies either on sector level data or on single bank monographs.

The paper reports ongoing research and has three main objectives. The first is to discuss the notion of performance. As shown by recent events the most common measure of a bank´s performance, Return on Equity (ROE), reflects either a good level of profitability or limited equity capital. The traditional decomposition of ROE on pre-tax margin-operating margin, asset turnover and leverage is useful to asses bank´s performance by highly influenced by fluctuations in operational performance in periods of rapid leverage adjustment as in the current crisis. High levels of ROE during the 1920s, influenced by high levels of leverage, do not reveal very low levels of return on the bank assets. In this context we identify complementary approaches to ROE that could shed some light on historical differences of performance and changes in banking practices, technology and sector structure.

The second is to set up a database of a sample of Portuguese banks based on both published and archival sources. The data will focus on five year periods centered on the following years: 1913,1925,1957,1970, 1999 and 2010. It will include both quantitative and qualitative data. For the periods when market data and stock exchange information is available it will be included. Company monographs when available will enrich the database with details of bank history.

The third is to test the influence of a number of explanatory variables on different indicators of economic performance.