

PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS



1ST QUARTER 2020



BANCO DE
PORTUGAL
EUROSYSTEM

Lisbon, 2020 • www.bportugal.pt

Cut-off date: 10 July 2020.

Portuguese Banking System: latest developments • Banco de Portugal Rua Castilho, 24 | 1250-069 Lisboa • www.bportugal.pt • Edition Financial Stability Department • Design Communication and Museum Department | Design Unit • Translation International Relations Department | Translation Unit ISSN 2183-9646 (online)

Portuguese banking system | 1st quarter of 2020

Balance-sheet structure

In the first quarter of 2020, total assets increased by 1.1%, mostly as a result of an increase in exposure to debt securities (2.7%), including government debt securities (1.9%) and securities issued by non-financial corporations (NFCs) (6.3%), and, to a lesser extent, an increase in loans to credit institutions (12.0%) and customers (0.4%).

Central bank funding grew by 13.1% to 4.9% of total assets. The increase in customer deposits (1.2%) was higher than in loans (0.4%), resulting in a 0.7 p.p. decline in the loan-to-deposit ratio to 86.4%.

The liquidity coverage ratio stood at 225.9%, increasing by 7.4 p.p. from the previous quarter. A positive change in highly liquid assets (1.5%) and a decline in net liquidity outflows (-1.9%) contributed to these developments.

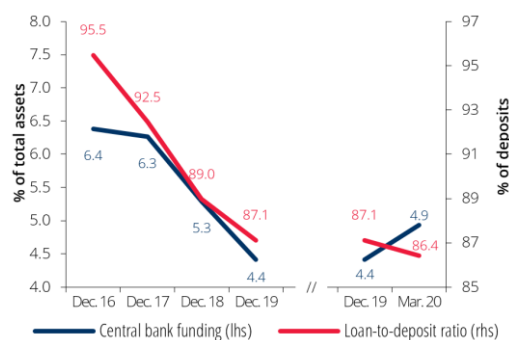
Asset quality

In the first quarter of 2020, the non-performing loans (NPL) ratio stood at 6.0% (-0.2 p.p.). NPLs decreased by €492 million (-2.9%). These developments represent a less pronounced decline in NPLs, compared to the same quarter in 2019. The NPL ratio net of impairments reached 2.9% (-0.1 p.p.).

The NPL ratio stood at 11.9% (-0.4 p.p.) for NFCs and 3.7% for households (remaining unchanged). NPLs in these sectors declined by €301 million and €22 million respectively. The decrease in households resulted from a decline of €148 million in mortgage loans and an increase of €126 million in consumption and other purposes.

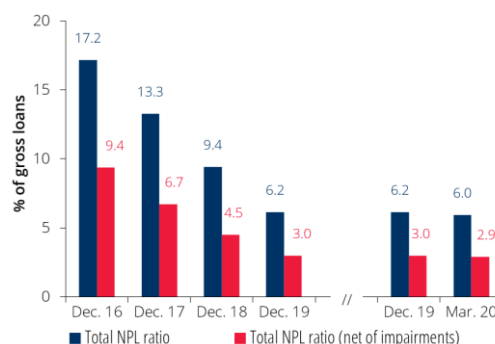
The NPL impairment coverage ratio decreased slightly (-0.1 p.p.) to 51.3%. The coverage ratio fell by 0.1 p.p. to 56.4% in the NFC segment, increasing by 1.2 p.p. to 43.3% in the household segment.

Chart 1 • Central bank funding and loan-to-deposit ratio



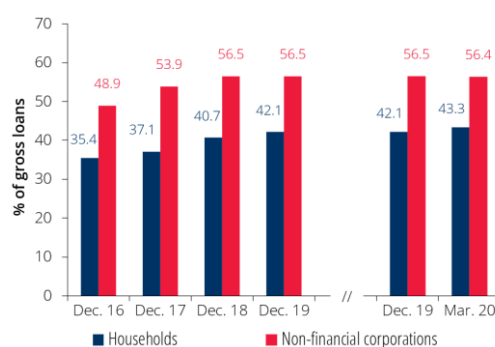
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In the first quarter of 2020, return on assets (ROA) decreased by 0.39 p.p. from the first quarter of 2019, to stand at 0.23%. In turn, return on equity (ROE) fell by 4.2 p.p. to 2.5%.

Developments in ROA reflected the impact of the COVID-19 pandemic through an increase in the net flow of provisions and impairments. In addition, a decrease in results from financial operations and other profit or loss also made a negative contribution to developments in profitability. This was partially offset by an increase in other operating results.

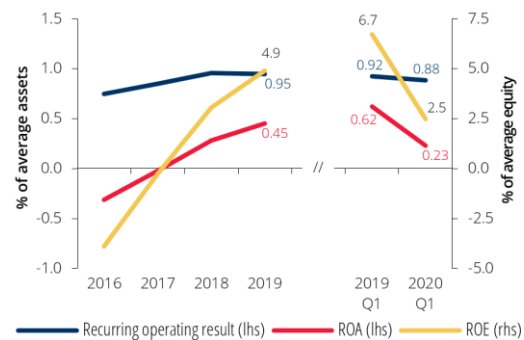
The cost-to-income ratio increased by 1.6 p.p. to 58.7%. This was supported by an increase in operational costs (1.0%) and a decline in total operating income (-1.8%). The loan loss charge stood at 0.67%, increasing by 0.31 p.p. due to the abovementioned increase in provisions and impairments, particularly for credit.

Solvency

In the 1st quarter of 2020 the total capital ratio and the Common Equity Tier 1 (CET1) ratio declined by 0.2 p.p. to 16.7% and 14.1% respectively. This was supported by both a decrease in total capital (-€160 million) and CET 1 (-€121 million) and an increase in risk-weighted assets (€1.7 billion).

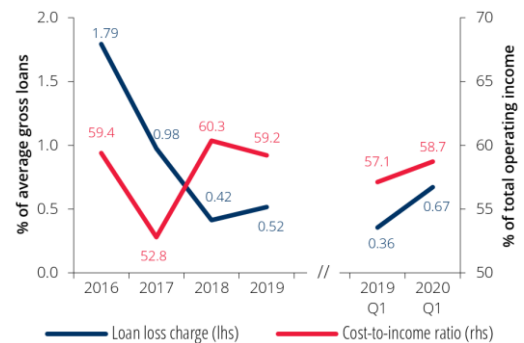
The leverage ratio stood at 7.8%, remaining well above the minimum benchmark set by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021). In June the Council and the European Parliament approved an amendment to the CRR (CRR quick fix adjustments), excluding certain exposures to central banks from the leverage ratio, subject to authorisation by the competent authorities.

Chart 4 • Return on equity (ROE), return on assets (ROA) and recurring operating result



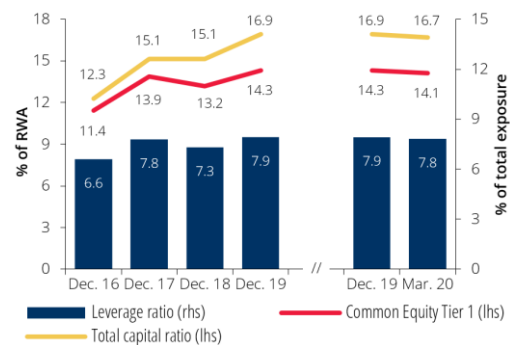
Source: Banco de Portugal.

Chart 5 • Cost-to-income and loan loss charge ratios



Source: Banco de Portugal.

Chart 6 • Own funds ratios and leverage ratio



Source: Banco de Portugal.

Note: RWA means risk-weighted assets. Total exposure includes total assets, derivatives and off-balance sheet positions.

Table 1 • Portuguese banking system indicators ^(a)

	Notes	Unit	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Mar. 19	Mar. 20
Assets								
Loans to customers (net of impairments)	(1)	%	60.7	60.6	59.7	59.7	58.8	59.2
Debt securities (net of impairments)	(1)	%	18.5	19.2	21.4	21.9	22.4	22.2
Portuguese government debt securities (gross value)	(2)	%	7.6	8.3	8.8	8.0	8.9	7.9
Total assets		€ billion	386.2	381.3	384.7	391.7	389.6	396.2
Total assets / GDP (nominal)		%	207.1	194.6	188.3	184.5	188.5	186.9
Liquidity and funding								
Central bank funding	(1)	%	6.4	6.3	5.3	4.4	5.1	4.9
Interbank financing (net of interbank assets)	(1)	%	5.5	5.6	6.1	5.9	5.5	5.4
Customer deposits	(1)	%	63.6	65.5	67.1	68.5	67.0	68.5
Liabilities represented by debt securities	(1)	%	6.1	4.8	4.2	4.1	4.1	3.8
Equity	(1)	%	7.7	9.5	9.1	9.3	9.3	9.1
Loan-to-deposit (Ltd) ratio	(3)	%	95.5	92.5	89.0	87.1	87.8	86.4
Highly liquid assets	(4)	%	11.3	14.8	17.1	19.6	18.1	19.6
Liquidity coverage ratio (LCR)	(5)	%	150.8	173.5	196.4	218.5	224.7	225.9
Asset quality								
Non-performing loans (gross value)		€ million	46,361	37,001	25,852	17,184	24,429	16,692
Non-performing loans (net of impairments)		€ million	25,364	18,728	12,420	8,355	11,672	8,129
NPL ratio - Total	(6)	%	17.2	13.3	9.4	6.2	8.9	6.0
NPL ratio - Households	(6)	%	8.7	7.1	5.1	3.7	4.8	3.7
NPL ratio - Non-financial corporations	(6)	%	29.5	25.2	18.5	12.3	17.6	11.9
NPL ratio net of impairments - Total	(7)	%	9.4	6.7	4.5	3.0	4.3	2.9
NPL impairment coverage ratio - Total	(8)	%	45.3	49.4	52.0	51.4	52.2	51.3
Coverage ratio - Households	(8)	%	35.4	37.1	40.7	42.1	41.6	43.3
Coverage ratio - Non-financial corporations	(8)	%	48.9	53.9	56.5	56.5	56.5	56.4
Profitability ^(b)								
Return on assets (ROA)	(9)	%	-0.31	-0.02	0.28	0.45	0.62	0.23
Recurring operating result	(10)	%	0.75	0.85	0.95	0.95	0.92	0.88
Return on equity (ROE)	(11)	%	-3.9	-0.2	3.0	4.9	6.7	2.5
Profit or loss for the year		€ million	-1,244	-88	1,079	1,775	2,388	894
Cost-to-income	(12)	%	59.4	52.8	60.3	59.2	57.1	58.7
Loan loss charge	(13)	%	1.79	0.98	0.42	0.52	0.36	0.67
Solvency								
Common Equity Tier 1 (CET 1)	(14)	%	11.4	13.9	13.2	14.3	13.8	14.1
Additional Tier 1 (AT 1)	(14)	%	0.3	0.6	0.8	1.1	1.0	1.1
Tier 2	(14)	%	0.6	0.7	1.2	1.5	1.2	1.4
Leverage ratio	(15)	%	7.6	7.8	7.3	7.9	7.7	7.8
Average risk weight	(16)	%	58.9	56.0	54.4	53.3	54.1	53.1

Notes:

(a) Banking system data are based on accounting information on a consolidated basis from credit institutions and investment firms, reported to Banco de Portugal for supervisory purposes.

(b) Profitability indicators are calculated with annualised flows accumulated from January up to the reference period.

(1) As a percentage of total assets.

(2) Monetary and financial statistics. As a percentage of other monetary financial institutions' assets.

(3) Ratio of customer loans (net of impairments) to customer deposits.

(4) Corresponds to the amount of liquid assets held by credit institutions that satisfy requirements set in Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. As a percentage of total assets.

(5) Ratio of liquidity buffer to net cash outflows calculated under a 30-day stress scenario.

(6) Ratio of the gross value of non-performing loans to the total gross value of loans.

(7) Ratio of non-performing loans net of impairments to the total gross value of loans.

(8) Ratio of impairments for non-performing loans to their gross value.

(9) Profit and loss for the year as a percentage of average assets.

(10) Net interest income and net commissions less operational costs; as a percentage of average assets.

(11) Profit and loss for the year as a percentage of average equity.

(12) Ratio of operational costs to total operating income.

(13) Flow of credit impairments as a percentage of total average gross credit granted to customers.

(14) As a percentage of risk-weighted assets.

(15) Up to June 2016 it corresponds to the ratio of Tier 1 capital to total assets. From September 2016 onwards it corresponds to the ratio of Tier 1 capital to total exposure (including on- and off-balance sheet assets and derivatives).

(16) Ratio of risk-weighted assets to total assets.