

PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS



2ND QUARTER 2020



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Portuguese banking system | 2nd quarter of 2020

Balance-sheet structure

In the second quarter of 2020, total assets of the Portuguese banking system rose by 4.6%, with a contribution of 2.6 p.p. and 1.7 p.p. respectively from developments in cash balances at central banks and the exposure to government debt securities.

Despite the growth in loans to customers (1.2%), the loan-to-deposit ratio narrowed by 1.7 p.p., to 84.6%, reflecting developments in customer deposits (3.2%). Central bank funding increased by 62.2%, to 7.7% of assets (+2.7 p.p.).

The liquidity coverage ratio stood at 256.6%, up by 30.7 p.p. from the previous quarter. These developments were sustained by positive changes in highly liquid assets (22.4%), against a background in which net cash outflows grew by 7.8%.

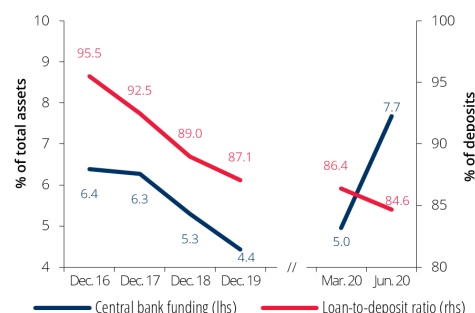
Asset quality

In the second quarter of 2020, the non-performing loans (NPL) ratio narrowed by 0.5 p.p., to 5.5%, due to an increase in total loans and, to a lesser extent, a decrease in NPLs. The net NPL ratio stood at 2.6%, which constitutes a 0.3 p.p. decline.

The NPL ratio of NFCs amounted to 11.1% (-0.8 p.p.), as a result of a rise in performing loans and a reduction in NPLs. In the case of households, it moved slightly downwards, to 3.6% (-0.1 p.p.), mostly due to a reduction in NPLs.

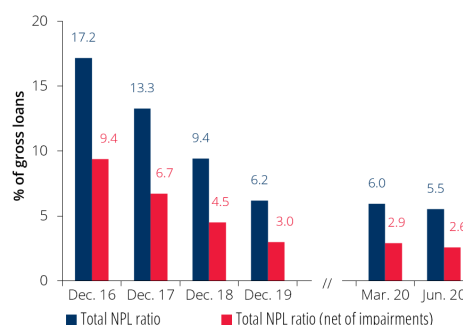
The NPL impairment coverage ratio expanded by 1.8 p.p. to 53.1%, due to a reduction in NPLs and, to a lesser extent, an increase in impairments, more specifically, NPLs in the household and NFC segments.

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



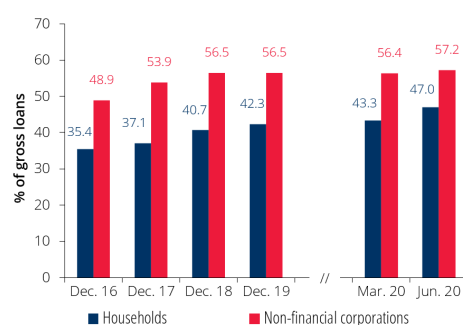
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In the first half of 2020, return on assets (ROA) stood at 0.08%, which corresponds to a 0.48 p.p. decline from the same period in 2019. In turn, return on equity (ROE) decreased by 5.2 p.p., to 0.9%.

The marked reduction in ROA chiefly reflected a substantial increase in credit impairments and, to a lesser extent, lower income from financial operations. Accordingly, the loan loss charge rose by 0.52 p.p., to stand at 0.93%. This substantial increase in the flow of impairments seems to be associated with the impact of the COVID-19 pandemic.

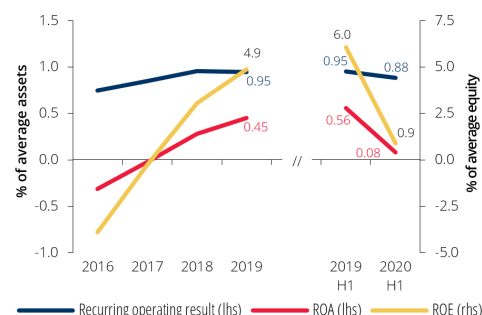
The cost-to-income ratio rose by 4.0 p.p., to 61.2%. This resulted from a reduction in total operating income (9.6%), which exceeded that in operational costs (3.3%).

Solvency

In the second quarter of 2020, the total capital ratio and the Common Equity Tier 1 (CET1) ratio increased by 0.6 p.p. and 0.5 p.p. respectively, to stand at 17.2% and 14.6% respectively. Developments in these ratios reflected the decrease in risk-weighted assets and the increase in total capital and CET1. Albeit to a lesser extent, the reclassification of an institution, from subsidiary to branch, also contributed to improvements in these ratios.

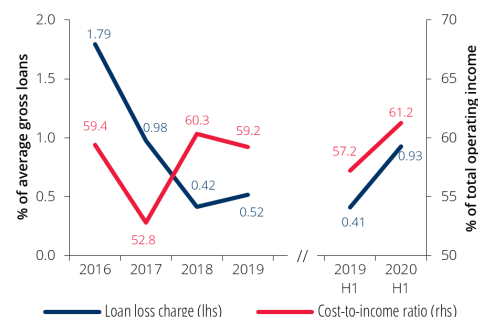
The leverage ratio amounted to 7.6%, down by 0.2 p.p. from the previous quarter, reflecting the increase in assets, but remaining significantly above the minimum benchmark defined by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021).

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



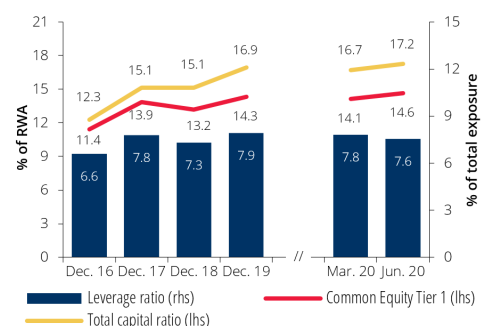
Source: Banco de Portugal.

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, and may exclude exposures to central banks upon authorisation of the supervisory authority.

Portuguese banking system indicators ^(a)

	Notes	Unit	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Jun. 19	Mar. 20	Jun. 20
Assets									
Loans to customers (net of impairments)	(1)	%	60.7	60.6	59.7	59.6	59.9	59.1	57.2
Debt securities (net of impairments)	(1)	%	18.5	19.2	21.4	22.0	22.2	22.3	23.1
Portuguese government debt securities (gross value)	(2)	%	7.6	8.3	8.8	8.0	8.7	8.0	8.4
Total assets		€ billion	386.2	381.3	384.7	390.5	396.0	395.0	413.0
Total assets / GDP (nominal)		%	207.1	194.6	188.3	183.9	190.0	186.3	201.0
Liquidity and funding									
Central bank funding	(1)	%	6.4	6.3	5.3	4.4	4.9	5.0	7.7
Interbank financing (net of interbank assets)	(1)	%	5.5	5.6	6.1	6.0	5.6	5.4	4.8
Customer deposits	(1)	%	63.6	65.5	67.1	68.4	68.0	68.4	67.5
Liabilities represented by debt securities	(1)	%	6.1	4.8	4.2	4.1	3.8	3.8	3.6
Equity	(1)	%	7.7	9.5	9.1	9.3	9.1	9.1	8.6
Loan-to-deposit (Ltd) ratio	(3)	%	95.5	92.5	89.0	87.1	88.1	86.4	84.6
Highly liquid assets	(4)	%	11.3	14.8	17.1	19.6	18.6	19.6	23.1
Liquidity coverage ratio (LCR)	(5)	%	150.8	173.5	196.4	218.5	212.3	225.9	256.6
Asset quality									
Non-performing loans (gross value)		€ million	46 361	37 001	25 852	17 199	23 426	16 692	16 233
Non-performing loans (net of impairments)		€ million	25 364	18 728	12 420	8 347	11 199	8 129	7 614
NPL ratio - Total	(6)	%	17.2	13.3	9.4	6.2	8.3	6.0	5.5
NPL ratio - Households	(6)	%	8.7	7.1	5.1	3.7	4.4	3.7	3.6
NPL ratio - Non-financial corporations	(6)	%	29.5	25.2	18.5	12.3	16.6	11.9	11.1
NPL ratio net of impairments - Total	(7)	%	9.4	6.7	4.5	3.0	4.0	2.9	2.6
NPL impairment coverage ratio - Total	(8)	%	45.3	49.4	52.0	51.5	52.2	51.3	53.1
Coverage ratio - Households	(8)	%	35.4	37.1	40.7	42.3	41.0	43.3	47.0
Coverage ratio - Non-financial corporations	(8)	%	48.9	53.9	56.5	56.5	57.0	56.4	57.2
Profitability ^(b)									
Return on assets (ROA)	(9)	%	-0.31	-0.02	0.28	0.45	0.56	0.23	0.08
Recurring operating result	(10)	%	0.75	0.85	0.95	0.95	0.95	0.88	0.88
Return on equity (ROE)	(11)	%	-3.9	-0.2	3.0	4.9	6.0	2.5	0.9
Profit or loss for the year		€ million	-1 244	-88	1 079	1 763	2 169	894	319
Cost-to-income	(12)	%	59.4	52.8	60.3	59.2	57.2	58.7	61.2
Loan loss charge	(13)	%	1.79	0.98	0.42	0.52	0.41	0.67	0.93
Solvency									
Common Equity Tier 1 (CET 1)	(14)	%	11.4	13.9	13.2	14.3	13.9	14.1	14.6
Additional Tier 1 (AT 1)	(14)	%	0.3	0.6	0.8	1.1	1.0	1.1	1.1
Tier 2	(14)	%	0.6	0.7	1.2	1.5	1.2	1.4	1.5
Leverage ratio	(15)	%	7.6	7.8	7.3	7.9	7.7	7.8	7.6
Average risk weight	(16)	%	58.9	56.0	54.4	53.3	53.6	53.1	49.6

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 (includes total assets, derivatives and off-balance sheet positions, and may exclude exposures to central banks upon authorisation of the supervisory authority).

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