

PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

3RD QUARTER 2020



BANCO DE
PORTUGAL
EUROSYSTEM

Lisbon, 2020 • www.bportugal.pt

Cut-off date: 16 December 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 | 3rd quarter of 2020

Balance-sheet structure

In the third quarter of 2020, total assets of the Portuguese banking system decreased by 0.4%, mainly owing to a decline in cash balances at central banks (-9.7%).

The loan-to-deposit ratio increased by 0.6 p.p., to 85.2%, reflecting a decline in customer deposits (-0.6%). Customer loans remained stable.

Central bank funding increased by 1.3%, to 7.8% of assets (+0.1 p.p.).

At the end of the quarter, the liquidity coverage ratio (LCR) stood at 235.9% (-20.7 p.p.). These developments were sustained by a decrease in highly liquid assets (-1.9%) and an increase in net cash outflows (6.7%).

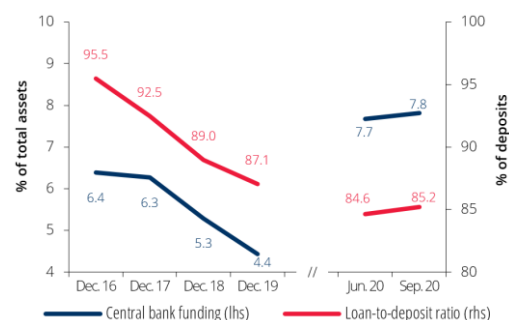
Asset quality

In the third quarter of 2020, the non-performing loans (NPL) ratio narrowed by 0.2 p.p., to 5.3%, reflecting a decline in NPLs (-4.9%) which exceeded that of loans in the denominator (-1.0%). The net NPL ratio stood at 2.3% (-0.3 p.p.).

At the end of the quarter, the NPL ratio of NFCs stood at 10.6% (-0.6 p.p.). In the case of households, the NPL ratio stood at 3.5% (-0.2 p.p.). In both cases, the decline in the ratio resulted from a decrease in the numerator (NPLs).

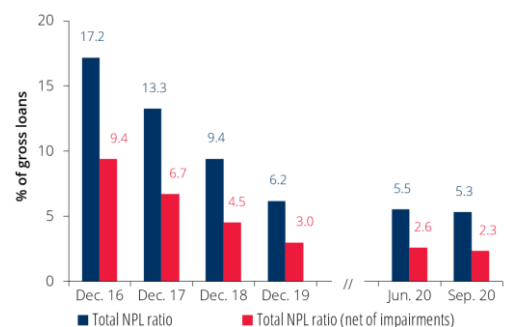
The NPL impairment coverage ratio increased by 2.8 p.p., to 55.9%, mostly reflecting a decline in the NPLs of NFCs and an increase in impairments on loans to credit institutions. The reduction in impairments accumulated in the NFC and household segments mitigated the increase in the coverage ratio.

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



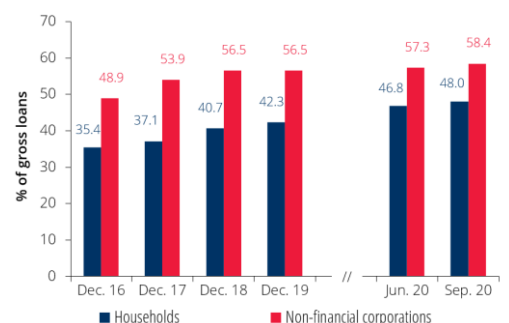
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In the first three quarters of 2020, return on assets (ROA) stood at 0.15% (-0.43 p.p. compared with the same period a year earlier). Return on equity (ROE) declined by 4.6 p.p. to 1.7%.

The reduction in ROA reflected a substantial increase in credit impairments and, to a lesser extent, lower income from financial operations. The loan loss charge rose by 0.49 p.p. compared with the same period a year earlier, to stand at 1.0%. These developments are related to the impact of the COVID-19 pandemic.

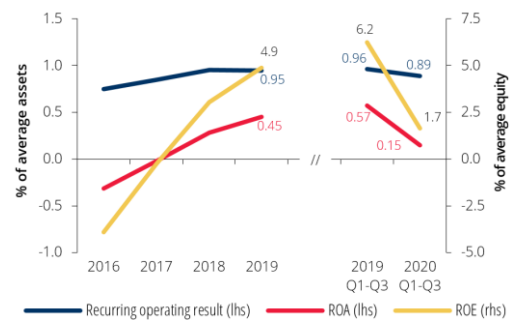
The cost-to-income ratio rose by 1 p.p., year on year, to 58.1%. This resulted from a reduction in total operating income (-6.9%), which exceeded that of operational costs (-5.2%).

Solvency

In the third quarter of 2020, the total capital ratio and the Common Equity Tier 1 (CET1) ratio increased by 0.3 p.p. and 0.2 p.p. respectively, to stand at 17.6% and 14.9% respectively at the end of the quarter. These developments resulted from a 1.6% decrease in risk-weighted assets. Total capital and CET1 remained stable.

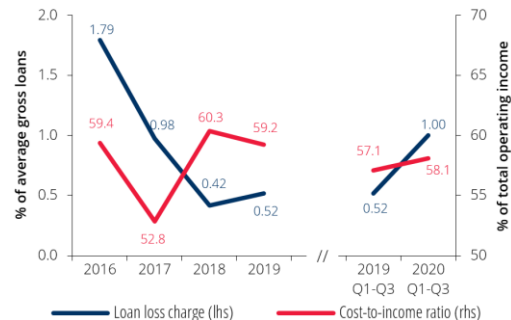
The leverage ratio remained stable compared with the previous quarter, at 7.6%. This level is considerably higher than the minimum benchmark defined by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021).

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



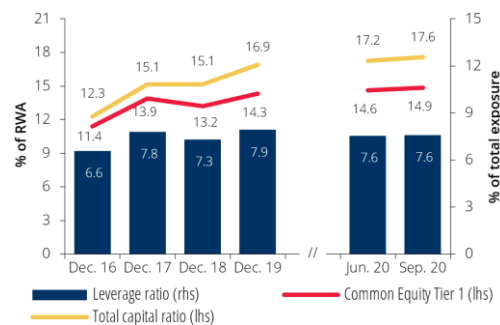
Source: Banco de Portugal.

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.

Table 1 • Portuguese banking system indicators ^(a)

	Notes	Unit	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Sep. 19	Jun. 20	Sep. 20
Assets									
Loans to customers (net of impairments)	(1)	%	60.7	60.6	59.7	59.6	59.6	57.2	57.4
Debt securities (net of impairments)	(1)	%	18.5	19.2	21.4	22.0	22.3	23.1	23.2
Portuguese government debt securities (gross value)	(2)	%	7.6	8.3	8.8	8.0	8.4	8.4	8.3
Total assets		€ billion	386.2	381.3	384.7	390.5	395.5	413.0	411.5
Total assets / GDP (nominal)		%	207.1	194.6	187.5	183.1	187.2	200.2	201.3
Liquidity and funding									
Central bank funding	(1)	%	6.4	6.3	5.3	4.4	4.7	7.7	7.8
Interbank financing (net of interbank assets)	(1)	%	5.5	5.6	6.1	6.0	5.2	4.8	4.0
Customer deposits	(1)	%	63.6	65.5	67.1	68.4	67.9	67.5	67.4
Liabilities represented by debt securities	(1)	%	6.1	4.8	4.2	4.1	3.9	3.6	3.8
Equity	(1)	%	7.7	9.5	9.1	9.3	9.3	8.6	8.8
Loan-to-deposit (Ltd) ratio	(3)	%	95.5	92.5	89.0	87.1	87.8	84.6	85.2
Highly liquid assets	(4)	%	11.3	14.8	17.1	19.6	18.6	23.1	22.7
Liquidity coverage ratio (LCR)	(5)	%	150.8	173.5	196.4	218.5	210.9	256.6	235.9
Asset quality									
Non-performing loans (gross value)		€ million	46 361	37 001	25 852	17 199	21 682	16 240	15 439
Non-performing loans (net of impairments)		€ million	25 364	18 728	12 420	8 347	10 083	7 623	6 809
NPL ratio - Total	(6)	%	17.2	13.3	9.4	6.2	7.7	5.5	5.3
NPL ratio - Households	(6)	%	8.7	7.1	5.1	3.7	4.0	3.6	3.5
NPL ratio - Non-financial corporations	(6)	%	29.5	25.2	18.5	12.3	15.7	11.1	10.6
NPL ratio net of impairments - Total	(7)	%	9.4	6.7	4.5	3.0	3.6	2.6	2.3
NPL impairment coverage ratio - Total	(8)	%	45.3	49.4	52.0	51.5	53.5	53.1	55.9
Coverage ratio - Households	(8)	%	35.4	37.1	40.7	42.3	42.3	46.8	48.0
Coverage ratio - Non-financial corporations	(8)	%	48.9	53.9	56.5	56.5	58.5	57.3	58.4
Profitability ^(b)									
Return on assets (ROA)	(9)	%	-0.31	-0.02	0.28	0.45	0.57	0.08	0.15
Recurring operating result	(10)	%	0.75	0.85	0.95	0.95	0.96	0.90	0.89
Return on equity (ROE)	(11)	%	-3.9	-0.2	3.0	4.9	6.2	0.9	1.7
Profit or loss for the year		€ million	-1 244	-88	1 079	1 763	2 252	319	596
Cost-to-income	(12)	%	59.4	52.8	60.3	59.2	57.1	61.0	58.1
Loan loss charge	(13)	%	1.79	0.98	0.42	0.52	0.52	0.93	1.00
Solvency									
Common Equity Tier 1 (CET 1)	(14)	%	11.4	13.9	13.2	14.3	13.9	14.6	14.9
Additional Tier 1 (AT 1)	(14)	%	0.3	0.6	0.8	1.1	1.1	1.1	1.2
Tier 2	(14)	%	0.6	0.7	1.2	1.5	1.5	1.5	1.5
Leverage ratio	(15)	%	6.6	7.8	7.3	7.9	7.7	7.6	7.6
Average risk weight	(16)	%	58.9	56.0	54.4	53.3	53.5	49.6	49.0

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.

