

PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

4TH QUARTER 2020



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Portuguese banking system | 4th quarter of 2020

Balance-sheet structure

In the fourth quarter of 2020, total assets of the banking sector rose by 0.2%. This was mainly due to a 17.9% increase in cash balances at central banks (+1.2 p.p. contribution to changes in total assets) and, conversely, a decrease in debt securities, of 3.5% (-0.8 p.p. contribution).

The loan-to-deposit ratio narrowed by 0.4 p.p., to 84.9%, reflecting a greater increase in customer deposits (0.9%) compared to customer loans (0.4%). The weight of central bank funding in total assets remained stable (7.8%).

The liquidity coverage ratio (LCR) rose by 15.6 p.p., to 251.6%. Among the contributing factors, with +5 p.p., were the increase in highly liquid assets (numerator) and, with +10.6 p.p., the reduction in net liquidity outflows (denominator).

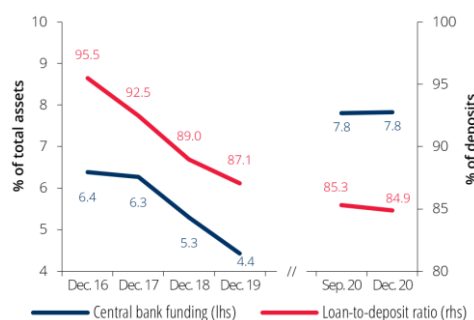
Asset quality

In the fourth quarter, the non-performing loans (NPL) ratio narrowed by 0.4 p.p., to 4.9%, reflecting a decline in NPLs (-7%) and an increase in loans included in the denominator (1.7%). The net NPL ratio stood at 2.2% (-0.1 p.p.).

At the end of the quarter, the NPL ratio of NFCs stood at 9.6% (-0.9 p.p.). In the case of households, the NPL ratio stood at 3.4% (-0.1 p.p.). In both cases, the decline in the ratio chiefly resulted from a decrease in the numerator (NPLs).

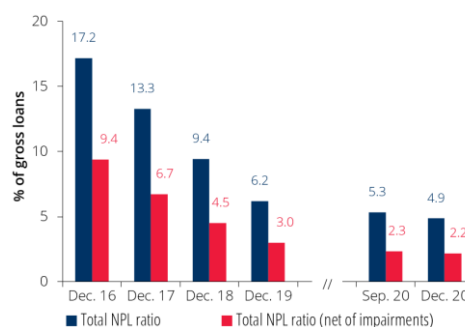
The NPL impairment coverage ratio narrowed by 0.5 p.p., to 55.4%, conditioned by developments in the NFC segment, where the reduction in accumulated impairments exceeded that in NPLs. In the household segment, the coverage ratio increased by 2.7 p.p., to 50.7%. This development is observed in the mortgage loans (+1.7 p.p.) and loans for consumption and other purposes (+2.4 p.p.) segments.

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



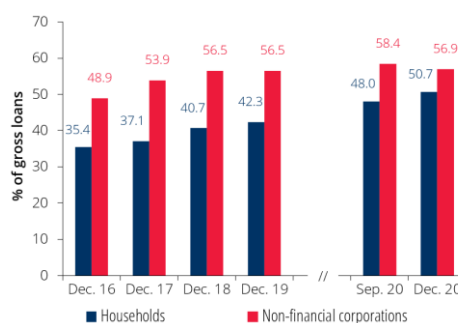
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In 2020, return on assets (ROA) and return on equity (ROE) fell to close to zero, standing at 0.04% (-0.4 p.p. from 2019) and 0.5% (-4.4 p.p. from 2019) respectively.

The reduction in ROA reflected a substantial increase in credit impairments. For the same reason, the loan loss charge rose by 0.51 p.p. from 2019, to stand at 1.03%. These developments are related to the impact of the COVID-19 pandemic.

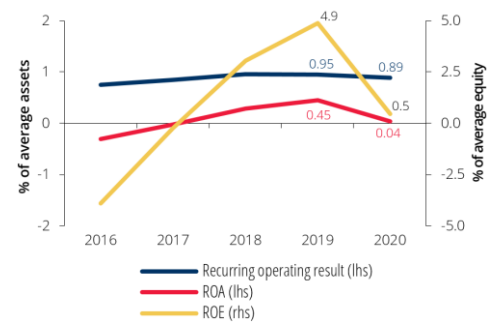
The cost-to-income ratio narrowed by 1.3 p.p., to stand at 58%. The reduction in operational costs made a -3.1 p.p. contribution, while the decrease in total operating income made a +1.9 p.p. contribution.

Solvency

In the fourth quarter of 2020, both the total capital ratio and the Common Equity Tier 1 (CET1) ratio increased by 0.6 p.p., to stand at 18.1% and 15.4% respectively. The increase in total own funds and CET1 made a 0.5 p.p. contribution (in both cases) to the increase in the ratios, while the slight decrease in risk-weighted assets made a 0.1 p.p. contribution.

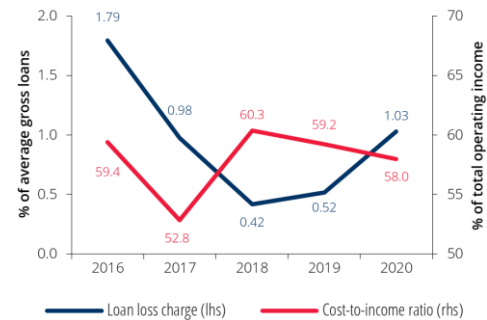
The leverage ratio rose by 0.1 p.p. from the previous quarter, to 7.7%. This level is considerably higher than the minimum benchmark defined by the Basel Committee on Banking Supervision (3%). This requirement will become mandatory as of the new CRR application date (28 June 2021).

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



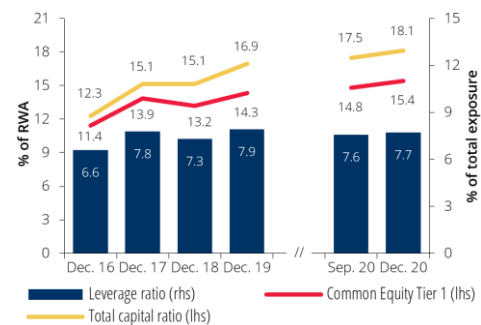
Source: Banco de Portugal.

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

Table 1 • Portuguese banking system indicators ^(a)

	Notes	Unit	Dec. 16	Dec. 17	Dec. 18	Dec. 19	Dec. 19	Dec. 20
Assets								
Loans to customers (net of impairments)	(1)	%	60.7	60.6	59.7	59.6	59.6	57.6
Debt securities (net of impairments)	(1)	%	18.5	19.2	21.4	22.0	22.0	22.3
Portuguese government debt securities (gross value)	(2)	%	7.6	8.3	8.8	8.0	8.0	8.0
Total assets		€ billion	386.2	381.3	384.7	390.5	390.5	412.5
Total assets / GDP (nominal)		%	207.1	194.6	187.5	182.5	182.5	203.5
Liquidity and funding								
Central bank funding	(1)	%	6.4	6.3	5.3	4.4	4.4	7.8
Interbank financing (net of interbank assets)	(1)	%	5.5	5.6	6.1	6.0	6.0	4.2
Customer deposits	(1)	%	63.6	65.5	67.1	68.4	68.4	67.8
Liabilities represented by debt securities	(1)	%	6.1	4.8	4.2	4.1	4.1	3.5
Equity	(1)	%	7.7	9.5	9.1	9.3	9.3	8.8
Loan-to-deposit (Ltd) ratio	(3)	%	95.5	92.5	89.0	87.1	87.1	84.9
Highly liquid assets	(4)	%	11.3	14.8	17.1	19.6	19.6	23.1
Liquidity coverage ratio (LCR)	(5)	%	150.8	173.5	196.4	218.5	218.5	251.6
Asset quality								
Non-performing loans (gross value)		€ million	46,361	37,001	25,852	17,199	17,199	14,358
Non-performing loans (net of impairments)		€ million	25,364	18,728	12,420	8,347	8,347	6,401
NPL ratio - Total	(6)	%	17.2	13.3	9.4	6.2	6.2	4.9
NPL ratio - Households	(6)	%	8.7	7.1	5.1	3.7	3.7	3.4
NPL ratio - Non-financial corporations	(6)	%	29.5	25.2	18.5	12.3	12.3	9.6
NPL ratio net of impairments - Total	(7)	%	9.4	6.7	4.5	3.0	3.0	2.2
NPL impairment coverage ratio - Total	(8)	%	45.3	49.4	52.0	51.5	51.5	55.4
Coverage ratio - Households	(8)	%	35.4	37.1	40.7	42.3	42.3	50.7
Coverage ratio - Non-financial corporations	(8)	%	48.9	53.9	56.5	56.5	56.5	56.9
Profitability ^(b)								
Return on assets (ROA)	(9)	%	-0.31	-0.02	0.28	0.45	0.45	0.04
Recurring operating result	(10)	%	0.75	0.85	0.95	0.95	0.95	0.89
Return on equity (ROE)	(11)	%	-3.9	-0.2	3.0	4.9	4.9	0.5
Profit or loss for the year		€ million	-1,244	-88	1,079	1,763	1,763	167
Cost-to-income	(12)	%	59.4	52.8	60.3	59.2	59.2	58.0
Loan loss charge	(13)	%	1.79	0.98	0.42	0.52	0.52	1.03
Solvency								
Common Equity Tier 1 (CET 1)	(14)	%	11.4	13.9	13.2	14.3	14.3	15.4
Additional Tier 1 (AT 1)	(14)	%	0.3	0.6	0.8	1.1	1.1	1.2
Tier 2	(14)	%	0.6	0.7	1.2	1.5	1.5	1.5
Leverage ratio	(15)	%	6.6	7.8	7.3	7.9	7.9	7.7
Average risk weight	(16)	%	58.9	56.0	54.4	53.3	53.3	48.6

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.

