

PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

1ST QUARTER 2021



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Portuguese banking system | 1st quarter of 2021

Balance-sheet structure

In the first quarter of 2021 total assets of the banking sector rose by 2.8%. This was mainly due to a 33.2% increase in cash balances at central banks (+2.6 p.p. contribution).

The loan-to-deposit ratio narrowed by 1.2 p.p., to 83.6%, reflecting a greater increase in customer deposits (2.1%) than in customer loans (0.7%). The weight of central bank funding increased by 1.2 p.p. to 9.0% of assets.

The liquidity coverage ratio (LCR) rose by 20.0 p.p., to 265.9%. The increase in highly liquid assets (numerator) made a positive contribution (+24.6 p.p.) to this effect, while the contribution from the increase in net liquidity outflows (denominator) was to the contrary (-4.6 p.p.).

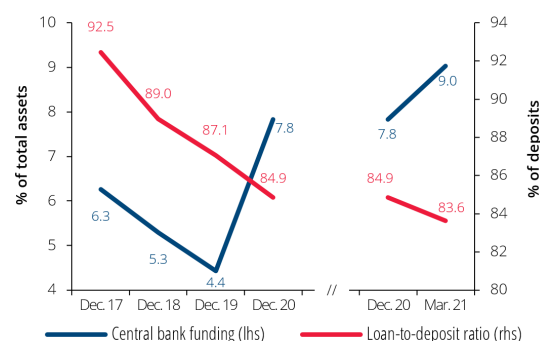
Asset quality

In the first quarter, the gross non-performing loans (NPL) ratio declined by 0.3 p.p., to 4.6%, reflecting a decline in NPLs (-2.7%) and an increase in loans included in the denominator (3.9%). The NPL ratio net of impairments stood at 2.0% (-0.2 p.p.).

The NFC gross NPL ratio narrowed by 0.5 p.p. to 9.2%, chiefly due to the decrease in the numerator (NPLs). The NPL ratio for households remained at 3.4%, increasing by 0.2 p.p. to 8.7% in consumption and other purposes and decreasing by 0.1 p.p. to 1.9% in the housing segment.

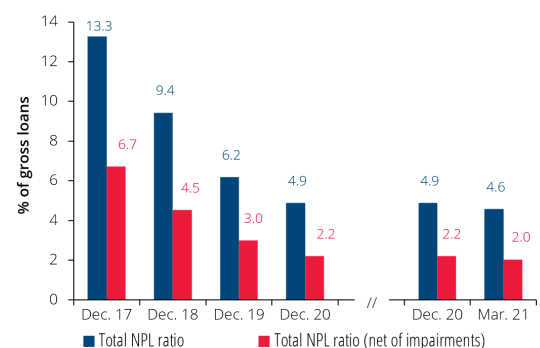
The NPL impairment coverage ratio increased by 0.5 p.p. to 55.5%. This was due to a decline in NPLs in the NFC segment, offset by a relatively lower reduction in accumulated impairments. The coverage ratio for households remained at 50.2%, decreasing by 1.2 p.p. to 64.9% in consumption and other purposes and increasing slightly by 0.1 p.p. to 30.7% in the housing segment.

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



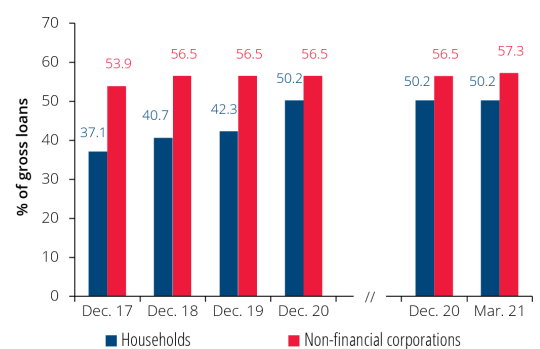
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In the first quarter of 2021 return on assets (ROA) and return on equity (ROE) rose from the first quarter of 2020, standing at 0.4% (+0.2 p.p.) and 4.7% (+2.2 p.p.) respectively.

The net result of financial operations made a positive contribution (+0.3 p.p.) to the increase in ROA. The loan loss charge decreased by 0.14 p.p. to 0.54%, reversing the upward trend seen in 2020.

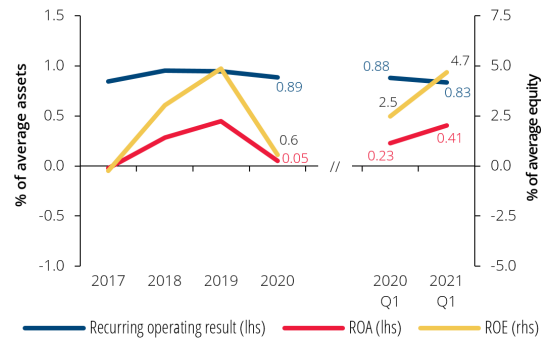
The cost-to-income ratio narrowed by 6.1 p.p. from the same period a year earlier, standing at 52.7% and benefiting from similar contributions from the reduction in operational costs and the increase in total operating income.

Solvency

In the first quarter of 2021, the total capital ratio declined by 0.3 p.p. to 17.7%, with a reduction in additional Tier 1 capital (AT 1). The Common Equity Tier 1 (CET 1) ratio decreased by 0.1 p.p. to 15.2%. The decline in both capital ratios is also a result of the 0.6% rise in risk-weighted assets.

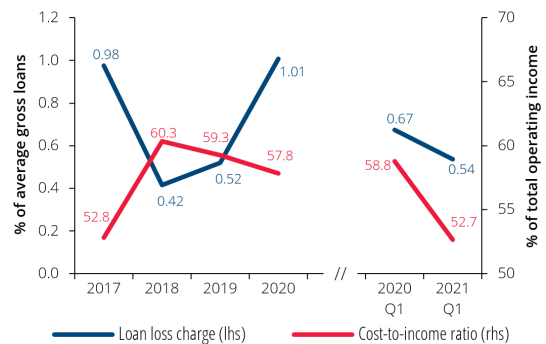
The leverage ratio dropped by 0.3 p.p. from the previous quarter, to 7.4%. This level is considerably higher than the minimum benchmark defined by the Basel Committee on Banking Supervision (3%). This requirement became mandatory as of the new CRR application date (28 June 2021).

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



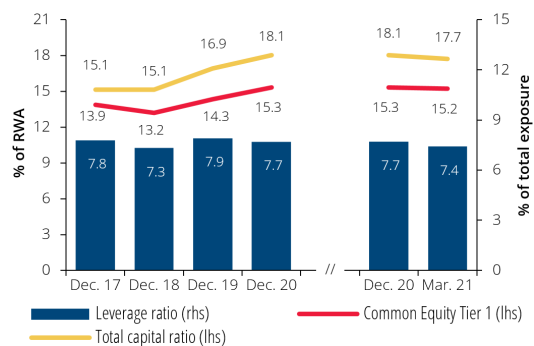
Source: Banco de Portugal.

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	Mar. 20	Mar. 21
Assets								
Loans to customers (net of impairments)	(1)	%	60.7	60.6	59.7	59.6	59.1	56.4
Debt securities (net of impairments)	(1)	%	18.5	19.2	21.4	22.0	22.3	21.7
Portuguese government debt securities (gross value)	(2)	%	7.6	8.3	8.8	8.0	8.0	7.2
Total assets		€ billion	386.2	381.3	384.7	390.5	395.0	424.0
Total assets / GDP (nominal)		%	207.1	194.6	187.5	182.5	184.8	211.5
Liquidity and funding								
Central bank funding	(1)	%	6.4	6.3	5.3	4.4	5.0	9.0
Interbank financing (net of interbank assets)	(1)	%	5.5	5.6	6.1	6.0	5.4	3.9
Customer deposits	(1)	%	63.6	65.5	67.1	68.4	68.4	67.4
Liabilities represented by debt securities	(1)	%	6.1	4.8	4.2	4.1	3.8	3.5
Equity	(1)	%	7.7	9.5	9.1	9.3	9.1	8.6
Loan-to-deposit (Ltd) ratio	(3)	%	95.5	92.5	89.0	87.1	86.4	83.6
Highly liquid assets	(4)	%	11.3	14.8	17.1	19.6	19.6	24.6
Liquidity coverage ratio (LCR)	(5)	%	150.8	173.5	196.4	218.5	225.9	265.9
Asset quality								
Non-performing loans (gross value)		€ million	46,361	37,001	25,852	17,199	16,705	14,033
Non-performing loans (net of impairments)		€ million	25,364	18,728	12,420	8,347	8,141	6,245
NPL ratio - Total	(6)	%	17.2	13.3	9.4	6.2	6.0	4.6
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	11.9	9.2
NPL ratio net of impairments - Total	(7)	%	9.4	6.7	4.5	3.0	2.9	2.0
NPL impairment coverage ratio - Total	(8)	%	45.3	49.4	52.0	51.5	51.3	55.5
Coverage ratio - Households	(8)	%	35.4	37.1	40.7	42.3	43.3	50.2
Coverage ratio - Non-financial corporations	(8)	%	48.9	53.9	56.5	56.5	56.3	57.3
Profitability ^(b)								
Return on assets (ROA)	(9)	%	-0.31	-0.02	0.28	0.45	0.23	0.41
Recurring operating result	(10)	%	0.75	0.85	0.95	0.95	0.88	0.83
Return on equity (ROE)	(11)	%	-3.9	-0.2	3.0	4.9	2.5	4.7
Profit or loss for the year		€ million	-1,244	-88	1,079	1,760	891	1,698
Cost-to-income	(12)	%	59.4	52.8	60.3	59.3	58.8	52.7
Loan loss charge	(13)	%	1.79	0.98	0.42	0.52	0.67	0.54
Solvency								
Common Equity Tier 1 (CET 1)	(14)	%	11.4	13.9	13.2	14.3	14.1	15.2
Additional Tier 1 (AT 1)	(14)	%	0.3	0.6	0.8	1.1	1.1	1.0
Tier 2	(14)	%	0.6	0.7	1.2	1.5	1.4	1.5
Leverage ratio	(15)	%	6.6	7.8	7.3	7.9	7.8	7.4
Average risk weight	(16)	%	58.9	56.0	54.4	53.3	53.1	47.4

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.