

PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

2ND QUARTER 2021



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Portuguese banking system | 2nd quarter of 2021

Balance-sheet structure

In the second quarter of 2021 total assets of the Portuguese banking sector rose by 2.8%. The evolution of customer loans, cash balances at central banks and exposure to debt securities contributed respectively 1.1 p.p., 1.0 p.p. and 0.9 p.p. to this increase.

The loan-to-deposit ratio narrowed by 1.1 p.p. to 82.5%, reflecting a greater increase in customer deposits (3.4%) than in customer loans (2.0%). The weight of central bank funding increased by 0.3 p.p. to 9.3% of assets.

The liquidity coverage ratio (LCR) stood at 255.4%, decreasing by 10.5 p.p. when compared with the previous quarter, due to the contribution from the increase in net liquidity outflows in the denominator (27.2 p.p.). This was partially offset by the increase in highly liquid assets in the numerator (contributing +16.6 p.p.).

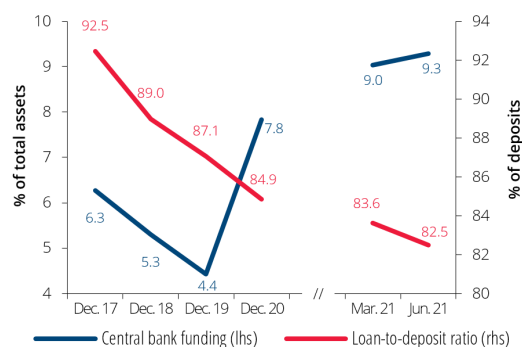
Asset quality

In the second quarter, the gross non-performing loans (NPL) ratio decreased by 0.3 p.p. to 4.3%, reflecting a decrease in NPL (-4.0%) and an increase in performing loans (3.1%). The NPL ratio net of impairments stood at 1.9% (-0.1 p.p.).

The NFC gross NPL ratio stood at 8.7% (-0.5 p.p.) as a result of both an increase in performing loans and a decrease in NPLs. The NPL ratio for households declined by 0.2 p.p. to 3.1%, mainly due to a reduction of NPLs.

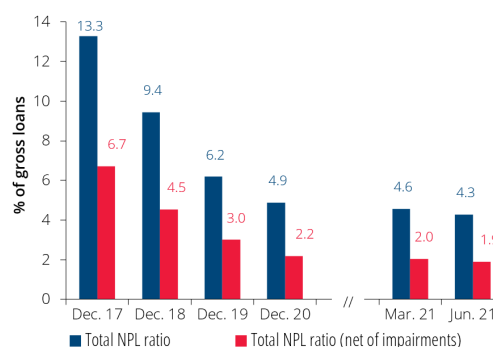
The NPL impairment coverage ratio remained at 55.5%. In view of the reduction of NPLs, this reflected a decrease in accumulated impairments. A slight decrease was observed in NFCs, to 56.9%. The coverage ratio for households increased to 51.2%, decreasing by 0.8 p.p. to 64.1% in consumption and other purposes and increasing by 3.8 p.p. to 34.4% in the housing segment.

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



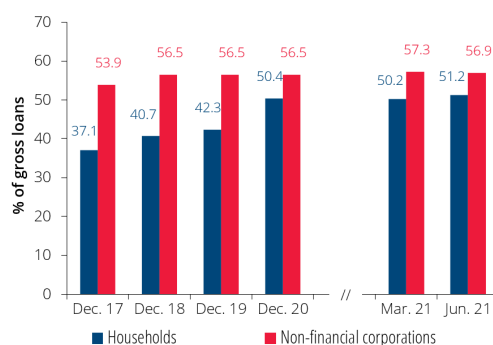
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In the first half of 2021 return on assets (ROA) rose by 0.37 p.p. from the first half of 2020, standing at 0.44%. Return on equity (ROE) rose by 4.3 p.p. to 5.2%.

The increase in ROA was due to an increase in income from financial operations and to a lesser extent to a decrease in provisions and impairments. The loan loss charge declined by 0.59 p.p. to 0.33% after a significant increase in 2020 due to the pandemic.

The cost-to-income ratio stood at 53.2%, decreasing by 7.8 p.p. from the same period a year earlier. This was mainly the result of an increase in total operating income.

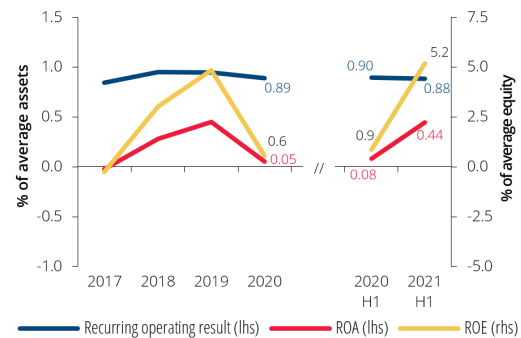
Solvency

In the second quarter of 2021 the total capital ratio and the Common Equity Tier 1 (CET1) ratio increased by 0.2 and 0.1 p.p., to 17.8% and 15.3% respectively. These developments stemmed from a higher increase in total own funds and CET1 than in risk-weighted assets.

Average risk weight decreased by 0.8 p.p. to 46.7%, due to a more significant increase in assets.

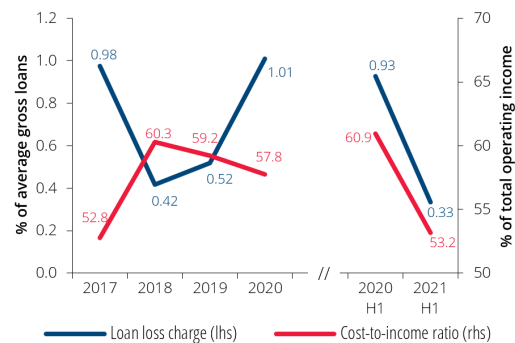
The leverage ratio rose by 0.1 p.p. from the previous quarter, to 7.5%. This level is considerably higher than the 3% requirement, which came into force on 28 June 2021.

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



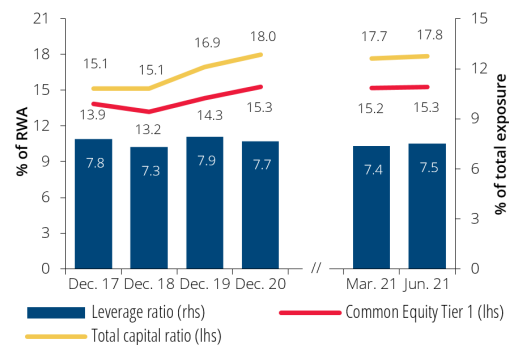
Source: Banco de Portugal.

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. 17 | Dec. 18 | Dec. 19 | Dec. 20 | Jun. 20 | Mar. 21 | Jun. 21 |
|---|-------|-----------|---------|---------|---------|---------|---------|---------|---------|
| Assets | | | | | | | | | |
| Loans to customers (net of impairments) | (1) | % | 60.6 | 59.7 | 59.6 | 57.6 | 57.2 | 56.4 | 56.0 |
| Debt securities (net of impairments) | (1) | % | 19.2 | 21.4 | 22.0 | 22.3 | 23.1 | 21.7 | 22.0 |
| Portuguese government debt securities (gross value) | (2) | % | 8.3 | 8.8 | 8.0 | 8.0 | 8.4 | 7.2 | 7.1 |
| Total assets | | € billion | 381.1 | 384.5 | 390.3 | 412.2 | 412.8 | 423.7 | 435.7 |
| Total assets / GDP (nominal) | | % | 194.5 | 187.4 | 182.4 | 203.6 | 199.4 | 211.3 | 210.3 |
| Liquidity and funding | | | | | | | | | |
| Central bank funding | (1) | % | 6.3 | 5.3 | 4.4 | 7.8 | 7.7 | 9.0 | 9.3 |
| Interbank financing (net of interbank assets) | (1) | % | 5.6 | 6.1 | 6.0 | 4.2 | 4.8 | 3.9 | 3.7 |
| Customer deposits | (1) | % | 65.5 | 67.1 | 68.5 | 67.9 | 67.6 | 67.5 | 67.8 |
| Liabilities represented by debt securities | (1) | % | 4.8 | 4.2 | 4.1 | 3.6 | 3.6 | 3.5 | 3.5 |
| Equity | (1) | % | 9.5 | 9.1 | 9.3 | 8.7 | 8.6 | 8.6 | 8.5 |
| Loan-to-deposit (Ltd) ratio | (3) | % | 92.5 | 89.0 | 87.1 | 84.9 | 84.6 | 83.6 | 82.5 |
| Highly liquid assets | (4) | % | 14.8 | 17.1 | 19.6 | 23.1 | 23.1 | 24.6 | 25.5 |
| Liquidity coverage ratio (LCR) | (5) | % | 173.5 | 196.4 | 218.5 | 245.9 | 256.6 | 265.9 | 255.4 |
| Asset quality | | | | | | | | | |
| Non-performing loans (gross value) | | € million | 37 001 | 25 852 | 17 199 | 14 422 | 16 270 | 14 033 | 13 467 |
| Non-performing loans (net of impairments) | | € million | 18 728 | 12 420 | 8 347 | 6 486 | 7 657 | 6 242 | 5 990 |
| NPL ratio - Total | (6) | % | 13.3 | 9.4 | 6.2 | 4.9 | 5.6 | 4.6 | 4.3 |
| NPL ratio - Households | (6) | % | 7.1 | 5.1 | 3.7 | 3.4 | 3.6 | 3.4 | 3.1 |
| NPL ratio - Non-financial corporations | (6) | % | 25.2 | 18.5 | 12.3 | 9.7 | 11.2 | 9.2 | 8.7 |
| NPL ratio net of impairments - Total | (7) | % | 6.7 | 4.5 | 3.0 | 2.2 | 2.6 | 2.0 | 1.9 |
| NPL impairment coverage ratio - Total | (8) | % | 49.4 | 52.0 | 51.5 | 55.0 | 52.9 | 55.5 | 55.5 |
| Coverage ratio - Households | (8) | % | 37.1 | 40.7 | 42.3 | 50.4 | 46.7 | 50.2 | 51.2 |
| Coverage ratio - Non-financial corporations | (8) | % | 53.9 | 56.5 | 56.5 | 56.5 | 57.1 | 57.3 | 56.9 |
| Profitability ^(b) | | | | | | | | | |
| Return on assets (ROA) | (9) | % | -0.02 | 0.28 | 0.45 | 0.05 | 0.08 | 0.40 | 0.44 |
| Recurring operating result | (10) | % | 0.85 | 0.95 | 0.94 | 0.89 | 0.90 | 0.83 | 0.88 |
| Return on equity (ROE) | (11) | % | -0.3 | 3.0 | 4.8 | 0.6 | 0.9 | 4.7 | 5.2 |
| Profit or loss for the year | | € million | -92 | 1 074 | 1 752 | 201 | 311 | 1 689 | 1 883 |
| Cost-to-income | (12) | % | 52.8 | 60.3 | 59.2 | 57.8 | 60.9 | 52.6 | 53.2 |
| Loan loss charge | (13) | % | 0.98 | 0.42 | 0.52 | 1.01 | 0.93 | 0.54 | 0.33 |
| Solvency | | | | | | | | | |
| Common Equity Tier 1 (CET 1) | (14) | % | 13.9 | 13.2 | 14.3 | 15.3 | 14.6 | 15.2 | 15.3 |
| Additional Tier 1 (AT 1) | (14) | % | 0.6 | 0.8 | 1.1 | 1.2 | 1.1 | 1.0 | 1.0 |
| Tier 2 | (14) | % | 0.7 | 1.2 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Leverage ratio | (15) | % | 7.8 | 7.3 | 7.9 | 7.7 | 7.5 | 7.4 | 7.5 |
| Average risk weight | (16) | % | 56.0 | 54.4 | 53.3 | 48.6 | 49.6 | 47.4 | 46.7 |

Notes:

(a) Banking system data are based on accounting/prudential information on a consolidated basis from credit institutions and investment firms with assets over 5 billion euros, reported to Banco de Portugal for supervisory purposes. The change introduced in this publication is due to the entry into force of the Investment Firms Regulation.

(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.