Activity Report

Portuguese Banking Association

2020 | Annual

Index

Foreword

The Annual Activity Report is a publication of the Portuguese Banking Association (APB) that analyses the aggregate banking activity developed by its member financial institutions[1]. As of 31 December 2020, the APB represented 24 Members, including 30 financial institutions that together accounted for 95.6% of the total value of the Portuguese consolidated banking assets.

The analysis provided in the Annual Activity Report covers the activity undertaken in Portugal and abroad (at representative offices and branches) by the financial institutions (banks, savings banks and mutual agricultural savings banks) that are Members of the APB, and is based on the aggregate, financial and non-financial, information obtained by adding up each institution's individual financial statements and other management indicators. The analysis of the international activity and solvency is based on consolidated data.

All analyses focus on the banking activity developed in 2020 and, for comparison purposes, is provided the previous 3-year period. The financial and non-financial aggregate information of the financial institutions, included in the group of APB members, is provided in excel format together with this publication.

The 2020 Annual Activity Report is based on the information provided by 19 Members (25 financial Institutions). Where the number of Members on which the analysis is based is different from the sample this is duly indicated.

[1] References to Financial Institutions made throughout this Activity Report refer to the APB's member Banks.

Executive Summary

The year of 2020 was strongly affected by the COVID-19 pandemic, which started during the month of March, with serious consequences in terms of public health and economic activity. However, the prompt and coordinated implementation, on a global scale, of monetary, fiscal and regulatory policy measures was crucial in supporting the economy and mitigating the unprecedented impacts of this pandemic shock on economic agents. According to the International Monetary Fund, the world economy contracted by 3.4% in 2020, which amounts to the largest recession since the Second World War.

However, the economic impact of the pandemic was uneven, both in terms of activity sectors and across countries. Of the largest economies, only China expanded, by 2.3% (which compares with 6.0% in 2019), while the US, Japan, the Euro Area, the United Kingdom, India and Brazil, GDP contracted by 3.6%, 4.6%, 6.4%, 9.7%, 7.3% and 4.1%, respectively.

After a significant correction at the beginning of the year, equity markets recorded significant gains over the rest of the year, benefiting from the support measures taken by the authorities, which led to more favourable expectations about the economic recovery than initially forecast. The rebound of stock market indices was particularly strong in the USA. In turn, public debt yields moderately abated, and in the interbank market, the Euribor rates reached new lows.

In Portugal, the various measures to contain the spread of COVID-19 forced the temporary closure of several economic activities and placed restrictions on the free movement of people throughout the year, leading to a fall in GDP of 8.4% (2.7% growth in 2019). The contraction in GDP was not even throughout the year, being particularly sharp in the second quarter, when GDP fell by 17.9% year-on-year. The second half of the year experienced a recovery, with milder drops of 6.3% and 6.8% year-on-year in the third and fourth quarters, respectively. The fall in GDP was underpinned by negative contributions from all its components, and was particularly driven by the unprecedented slump in tourism exports (-55.3%). Despite this deep contraction of activity, the impact on the unemployment rate was very limited (annual increase of 0.4 p.p. to 7%), thanks to the employment support measures implemented by the Government, among which the simplified layoff scheme is worth noting.

The banking sector faced the shock caused by the COVID-19 pandemic much better prepared and resilient than in the global financial crisis that occurred 12 years before, especially in terms of liquidity and solvency, and played a fundamental role in supporting the funding and liquidity needs of the economy, by providing new loans and a very significant volume of moratoria. However, the sector's profitability was heavily penalised, mainly reflecting the need to reinforce provisioning in light of the economic consequences of the pandemic crisis.

The measures taken to tackle the crisis caused by the COVID-19 pandemic led to an expressive increase in the aggregate assets of financial institutions, which at 31 December 2020 totalled around 355 billion euros (+7.4% year-on-year). Loans to customers (gross) expanded by 3.5% compared to 2019, mainly due to the measures to support the economy adopted in response to the pandemic crisis, notably loans with State guarantees and moratorium schemes. In spite of this extremely challenging context, financial institutions continued to make progress in reducing the stock of NPLs, with the NPL ratio falling to 5.5%.

On the liabilities side, it is worth noting the 5.8% year-on-year increase in customer deposits, reflecting the increase in saving levels from lower consumption, together with the restrictions imposed by the pandemic, and the high uncertainty about the duration and impacts of the crisis. In 2020, customer deposits accounted for 70% of the funding structure of financial institutions.

The aggregate profitability of financial institutions decreased significantly in 2020, heavily penalised by the COVID-19 pandemic context, and thus reversed the recovery trend observed since 2017. The deterioration in profitability was driven not only by a contraction in banking income but, above all, by a very significant rise in the flow of loan impairments. In 2020, financial institutions recorded a net loss of 508 million euros, which compares with a net profit of 954 million euros in 2019.

In terms of solvency, the aggregate CET1 ratio stood at 15.2%, and the total solvency ratio at 17.9%, both remaining stable compared to the previous year.

I. Macroeconomic Environment

In 2020, the evolution of economic activity was strongly marked by the consequences of the COVID-19 pandemic. The containment measures put in place by the monetary, fiscal and supervisory authorities proved crucial in limiting the effects of this crisis, but they entailed strong restrictions on mobility. Global GDP fell by 3.4%, which amounts to the largest recession since the Second World War. Of the largest economies, only China expanded, by 2.3% (6.0% in 2019), while the US, Japan, the Euro Area, the United Kingdom, India and Brazil saw GDP fall by 3.6%, 4.6%, 6.4%, 9.7%, 7.3% and 4.1%, respectively.

Central banks adopted or strengthened expansionary monetary policy measures to stabilise financial markets and safeguarding favourable credit supply conditions. The US Federal Reserve cut the federal funds rate by 150 bps in March, setting it at the range of 0%-0.25%, and provided forward guidance to influence market expectations, ensuring that interest rates would not rise until full employment was reached and inflation moderately exceeded 2% for some time. The Fed also implemented asset purchase programmes and provided direct support to the economy, namely through direct loans to financial and non-financial companies, banks, states and local governments, and reciprocal currency agreements. The European Central Bank kept reference interest rates unchanged, expanded the Asset Purchase Programme (APP) and set up the Pandemic Emergency Purchase Programme (PEPP) with an allocation of 1.85 trillion euros, to ensure liquidity, reducing costs and increase lending in the Euro Area.

In supervisory policy, both the European Central Bank and the Bank of Portugal adopted easing measures to allow credit institutions subject to their supervision to operate, temporarily, with a level of capital below the own funds recommendation (Pillar 2 Guidance) and the combined own funds reserve and with liquidity levels below the liquidity coverage requirement. The US Federal Reserve also temporarily eased the Supplementary Leverage Ratio (Tier 1 Capital / Total leverage exposure), excluding U.S. Treasuries and Federal Reserve deposits from this ratio's denominator.

2020 was a year of major swings in the financial markets, with large losses following the first impact of the pandemic, followed by recoveries, and with some indices closing the year with year-on-year gains. The S&P 500 and Nikkei 225 indices rose by 16.3% and 16.0%, respectively, while the FTSE 100 and STOXX Europe 600 closed the year down 14.3% and 4.0%, respectively. On the foreign exchange market, the Euro lost 2.0% against the U.S. dollar and 4.2% against the sterling, but gained 2.6% against the yen. The 10-year yields followed a downward trend, with the US Treasury sliding by 100 bps, to 0.92% and hitting a low of 0.50% in March; the German Bund lost 39 bps, to -0.58%, with a low of -0.85% in March; and the British Gilts closed the year at 0.20%, which represents a fall of 63 bps, with a low of 0.08% in August. As for prices, world inflation slowed slightly, settling at 1.9%. Concerning the price of oil, the Brent barrel closed the year on an upward trend, rising to around $51, while the WTI fell to $48/barrel. However, Brent oil had dived to below $20/barrel in April, and the WTI recorded negative values during March, essentially due to the reduction in consumption and the lack of storage capacity.

In public finances, the strong recession and the various measures to support the economy drove an unprecedented increase in public debt and a sharp deterioration in fiscal balances worldwide. In the USA, the Euro Area, Japan and the United Kingdom, the fiscal balance fell to -14.9%, -7.2%, -12.6%

and -12.3% of GDP, respectively, and the public debt expanded to 129.2%, 97.2%, 266.2% and 104.5% of GDP.

Governments implemented extremely expansionary policies through measures to support the economy, such as the granting of loan moratoria to families and companies, state-guaranteed credit lines, non-refundable grants and employment support measures. According to data from the EBA's Risk Dashboard, loans in moratorium in Europe reached their highest amount in June 2020 - €810.8 billion - of which 38.7% were loans to households and 59.9% to non-financial companies. State-guaranteed credit lines reached their highest amount in December 2020, standing at €343.2 billion.

The Portuguese Economy

After seven years of growth, the Portuguese economy suffered a contraction of 8.4% in 2020 (2.7% growth in 2019), which was sharper than the Euro Area's (-6.4%). This was mainly caused by the various measures to contain the spread of COVID-19, which forced the temporary closure of several economic activities and placed restrictions on the free movement of people throughout this period, originating an unprecedented fall in GDP.

As the pandemic evolved, GDP also followed an uneven trend. In the first quarter, GDP fell by 2.6% year-on-year, but then in the second quarter, when the impact of the pandemic was sharpest, it plunged by 17.9%. The second half of the year saw a recovery, with milder drops of 6.3% and 6.8% in the third and fourth quarters.

The fall in GDP resulted from the negative contribution of both domestic demand (-5.5 p.p.), mainly driven by the contraction of private consumption (-7.1%), and net external demand (-2.9 p.p.), which was more negative than in 2019, due to the sharp decline in exports of goods and services (-18.6%), and in particular of the unprecedented downfall in exports of travel and tourism (-55.3%), which explain more than half of the contraction of the economy.

Measures to support the economy, including fiscal measures, loans covered by moratoria and new, State-guaranteed, loans proved crucial to curtailing the effects of the pandemic shock. According to the Bank of Portugal, loans covered by moratoria granted by the banking sector without any public support reached their highest amount - €48.1 billion - in September 2020, of which 43.8% were loans to individuals and 52.5% loans to non-financial companies. This amount largely exceeds the total amount of fiscal measures. At the end of the year, 16.2% of loans to individuals and 33.6% of loans to non-financial companies were in moratoria. In turn, new state-guaranteed loans reached their highest amount in December 2020, standing at €7.5 billion.

The fiscal support measures[2] implemented by Portugal amounted to 11.2% of GDP, which was lower than in most Euro Area countries, namely, the Netherlands (14.4%), Sweden (16.4%), Spain (18.6%), France (25.9%), Germany (38.9%), and Italy (42.7%). As for loans covered by moratoria, based on December 2020 data from the EBA's Risk Dashboard and including expired moratoria, Portugal was the second European Union country that granted the largest amount of this type of support as a

[2] Based on the IMF's Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. Includes above the line measures (additional spending or foregone measures and accelerated spending / deferred revenue) and liquidity support (below the line measures and contingent liabilities).

percentage of GDP (23.4%), surpassed only by Cyprus (42.8% of GDP) and followed by Greece (16.6%), Spain (16.5%), France (11.2%) and Italy (10.5%).

The unemployment rate reversed the previous downward trend, albeit rising by 0.4 p.p. only, to 7.0%, thanks to the measures taken to preserve employment, including the simplified layoff scheme, which covered around 25% of employees. Despite the reduced impact on the unemployment rate, the labour underutilisation rate[3] increased by 1.3 p.p. to 14.3% and the number of hours effectively worked decreased significantly (9.8%).

Inflation was practically nil, with only food prices registering a significant increase, offset by the reduction in energy prices.

The country once again recorded net borrowing needs, of 0.1% of GDP, essentially due to the reduction in Gross Savings. However, the household net lending capacity increased to 6.3% of GDP and the household savings rate rose to 12.8% of disposable income (4.6 p.p. more than in 2019), a record high since 2002. On the public finances front, the fiscal balance returned to negative ground, settling at -5.8% of GDP, as a result of the strong recession and the measures to support the economy. The public debt ratio also resumed an upward trend, standing at 135.2% of GDP. The ratings of the Portuguese Republic remained stable, with the yield on the 10-year Treasury Bonds on the secondary market narrowing by 39 bps, to 0.06% at the end of the year, after hitting a low of -0.05% in December.

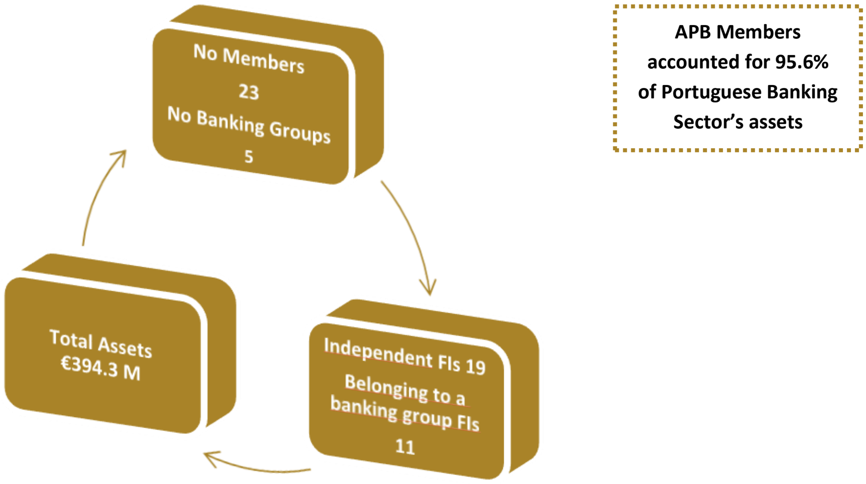
The PSI-20 did not fully recover from the losses sustained during the first impact of the pandemic and closed the year losing 6.1% year-on-year, after falling by 31.0% until March 2020.

[3]This indicator combines the unemployed population, those classified as part-time underemployed, the inactive looking for work but not available and the inactive available but not seeking work.

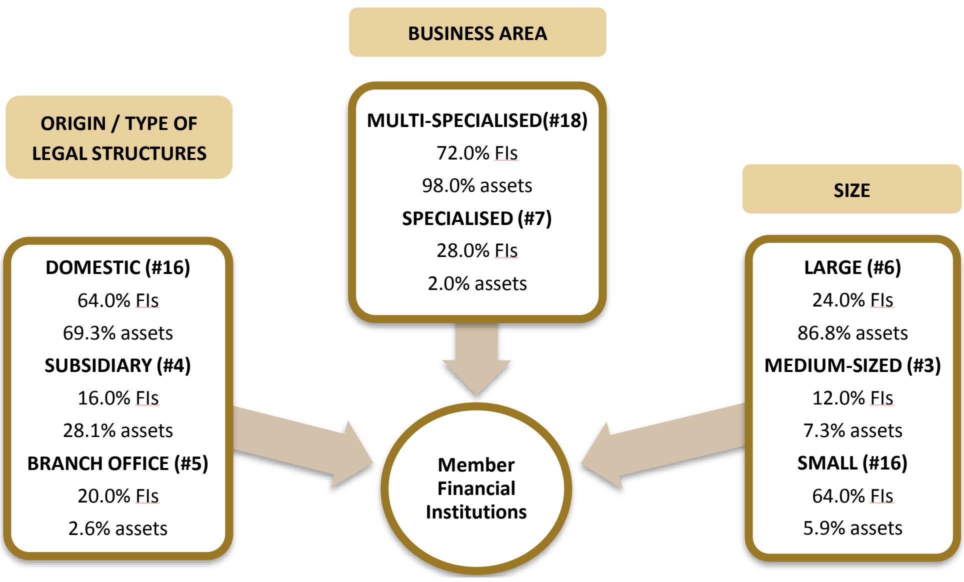
II. Member Financial Institutions analysis

As of 31 December 2020, the APB represented 24 Members, including 30 financial institutions that together accounted for 95.6% of the consolidated assets of the Portuguese banking system.

Figure 1: Main features of APB's members[4]



Source: APB, Bank of Portugal. Data based on information for all the APB Members at 31 December 2020. Consolidated data.

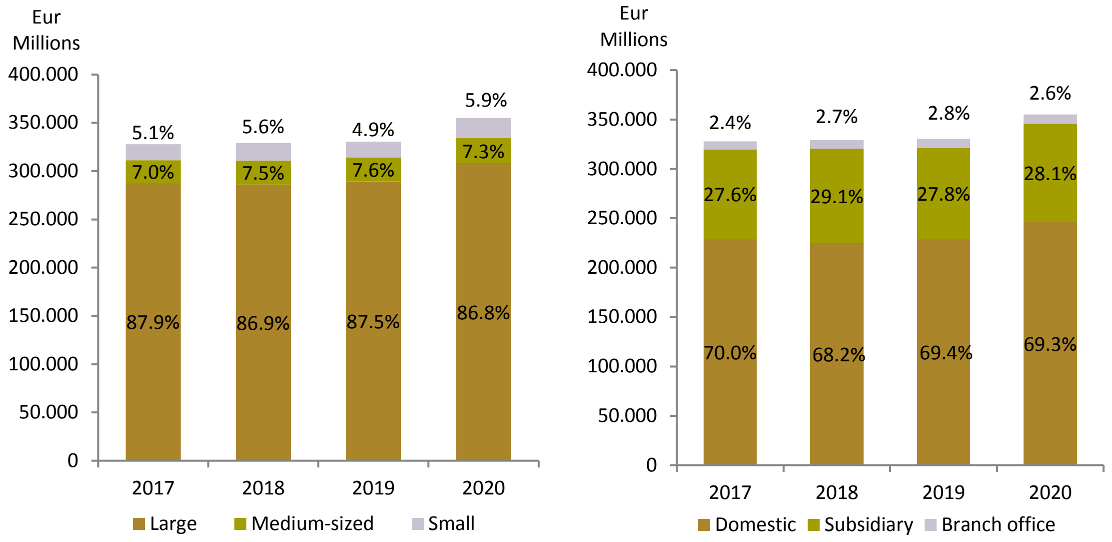


Source: IFs, APB. Data based on the information provided by 19 Members (25 financial Institutions) relative to 31 December 2020.

[4] Large financial institutions represent 5% or more of aggregate assets; medium-sized represent between 1% and 5% and small financial institutions represent 1% or less of aggregate assets. Financial institutions' business is classified as "specialised" if they engage exclusively or mostly in one of the following activities: consumer credit, mortgages, car loans and investment banking. In all other cases, they are classified as multi-specialised.

Graph 1: Evolution of aggregate assets

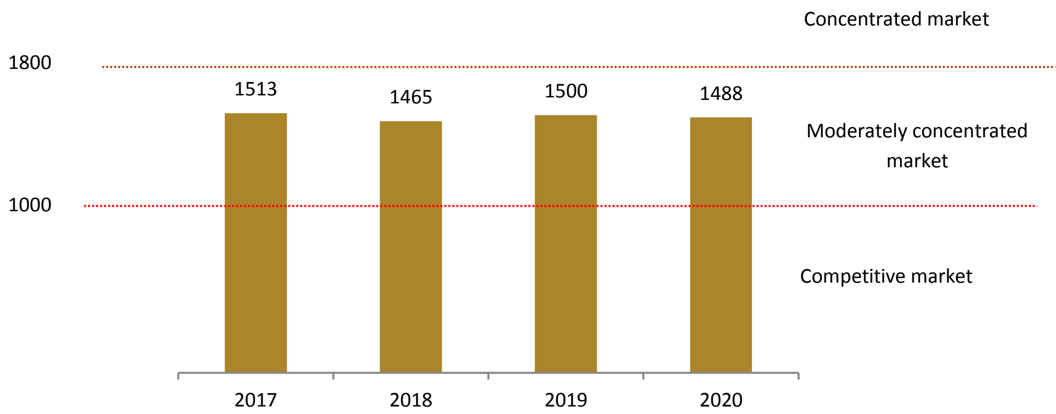
a) By size **b) By origin / type of legal structure**



Source: FIs, APB.

The five largest financial institutions had a market share in terms of total aggregate assets of 81.3%. According to the Herfindahl-Hirschman[5] index, the market is moderately concentrated (1,488), showing a 12 points decline relative to the previous year.

Graph 2: Herfindahl Index



Source: FIs, APB.

[5] The Herfindahl index is calculated as the sum of the squares of the market shares by assets of the 25 financial institutions included in the sample. As a rule, a score of under 1,000 indicates low concentration, of 1,000 to 1,800 moderate concentration, and of over 1,800 high concentration

III. Human Resources

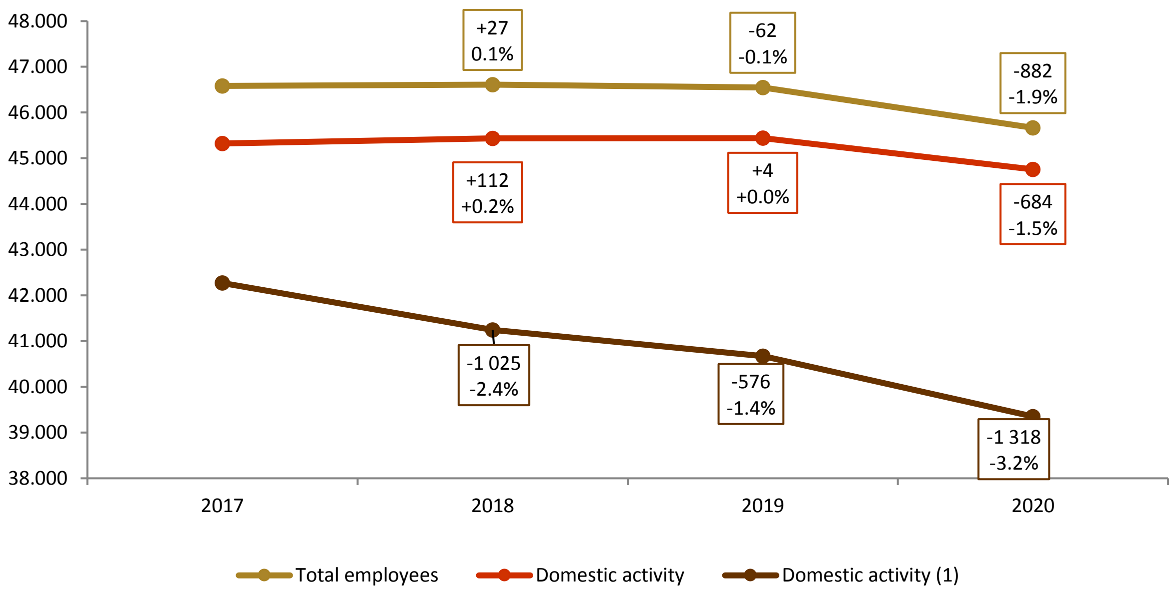
III.1. Evolution

In 2020, the Members of the APB employed 45,667 persons, which is 882 fewer than in December 2019. From the total workforce, 44,757 employees were allocated to the domestic activity and 910 to the international activity[6].

The evolution of human resources reflects the implementation of restructuring programmes aimed at making organisational structures competitive and efficient, in a context of profound changes arising from a new paradigm of the sector's business model. This evolution therefore reflects the need to tackle the challenges posed by digitisation, technological innovation and increased competition, in a context where growing risks at operational level, such as from cybercrime, money laundering and terrorist financing.

It should be noted that the Human Resources data are biased by the distinct reality and specific nature of the business of one Member, which has continued to hire staff.

Graph 3: Evolução do número total de colaboradores e variação percentual anual



(1) Excludes one APB member due to its specific business activity.
Source: FIs, APB.

As to the profile of the sector's human resources, the trends seen in the previous years were mantained, namely: i) increase in the share of the older age brackets (45 or older) and younger age brackets (29 or younger); ii) increase in the share of employees with specific functions; iii) increase in the share of employees with university-level qualifications; iv) increase in the representativeness of

[6] Includes branches abroad and representative offices.

women, who already account for more than 50% of the total workforce; and v) slight increase in the average age of the workforce, which rose from 48.9 to 49.2 years.

More specifically, at the end of 2020, the total workforce allocated to the domestic activity of the member financial institutions was broken down as follows:

50.3% were women

52.8% were in the age bracket of 45 or older
Employees average age: 49.2 years
Employees average seniority: 21.1 years

57.4% had worked in the banking sector for more than 15 years

65.8% had university-level qualifications

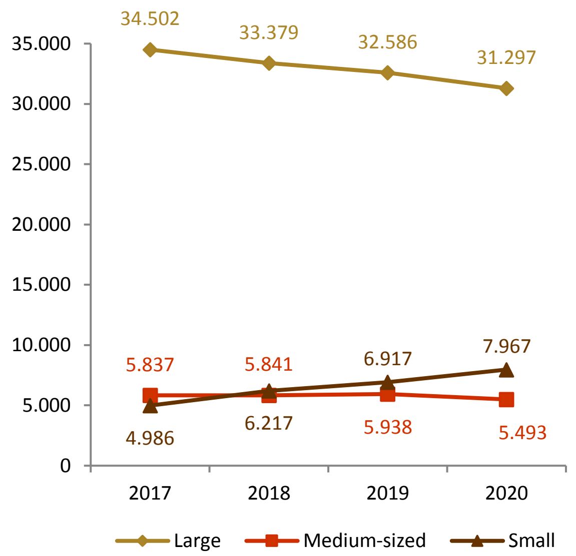
53.8% held specialised jobs

54.2% worked in the commercial area

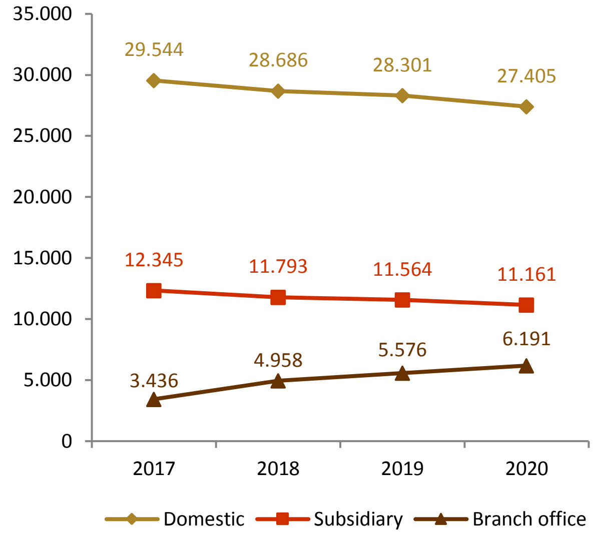
97.8% had permanent employment contracts

Graph 4: Evolution of number of employees in domestic activity

a) By size

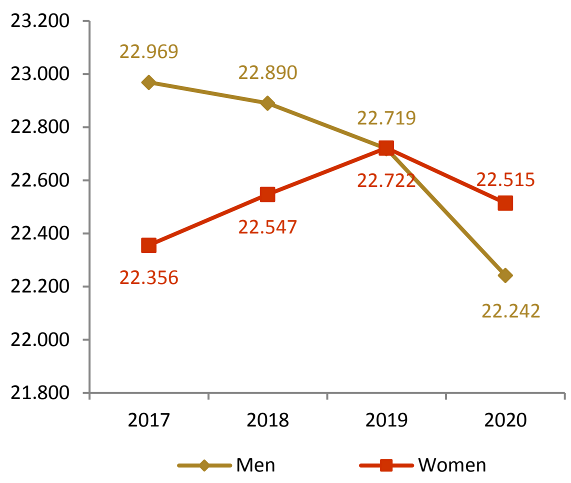


b) By origin / type of legal structure

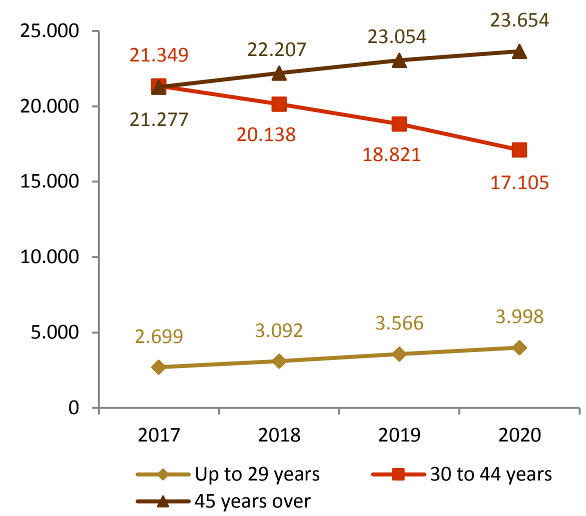


Source: FIs, APB.

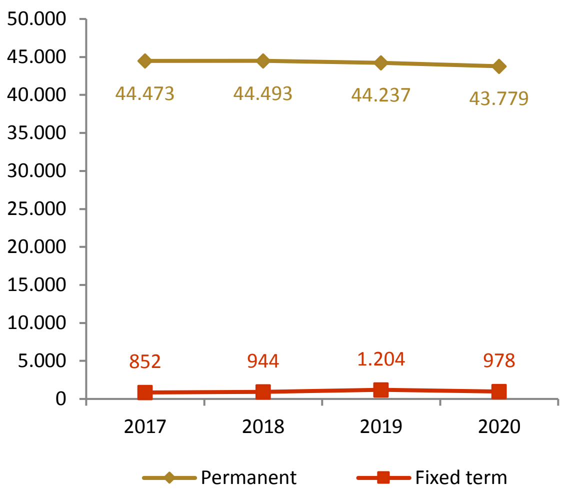
c) By gender



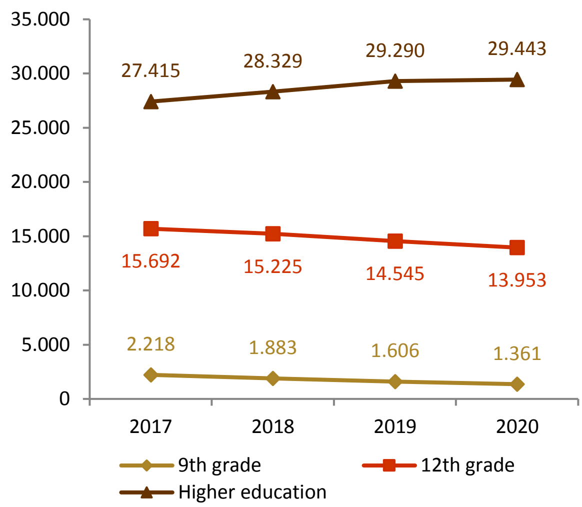
d) By age



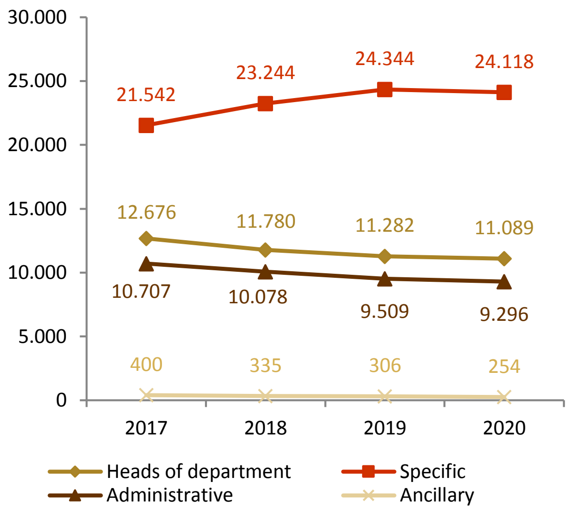
e) By type of employment contract



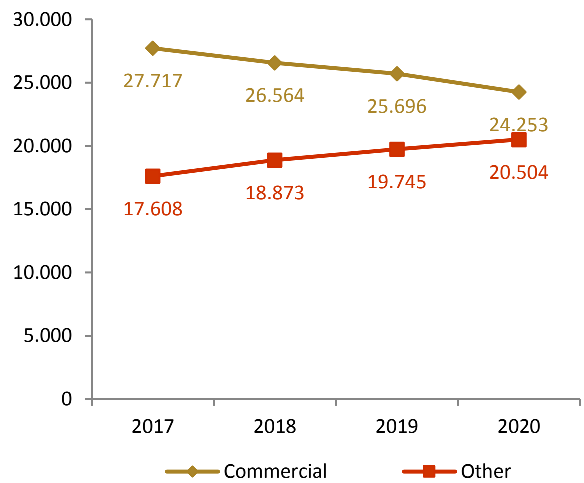
f) By academic qualifications



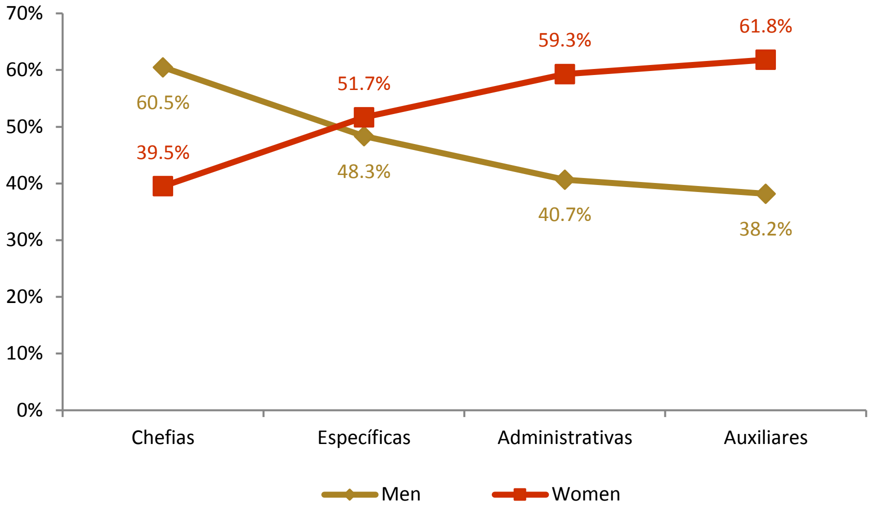
g) By position



h) By activity



i) By position and gender (2020)



Source: FIs, APB.

III.2. Training[7]

The development of employees' qualifications is a priority objective for the banking sector and, despite the constraints in 2020 related to the pandemic crisis, investment in training totalled approximately 12.4 million euros, corresponding to 1.1% of general administrative expenses. Although there was a reduction in training expenditure, essentially due to the consequences of the pandemic crisis, the percentage of trainees relative to the total number of employees remained practically unchanged.

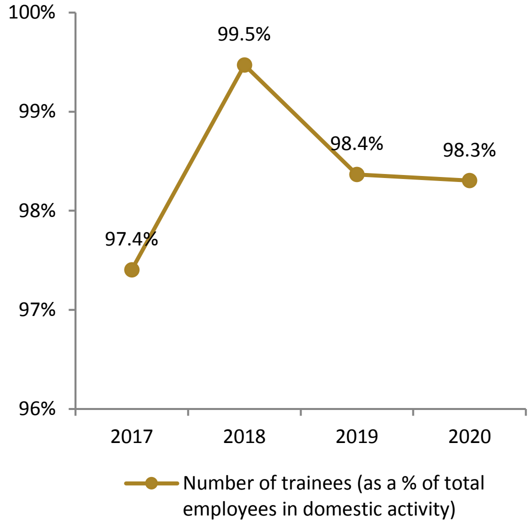
- Global training rate: 98.3%
- Number of trainees 43.347, -1.6% compared to 2019
- Total number of training hours: 1,961,502 (+1.9% vs. 2019)
- Average number of training courses per trainee: 16.1 training courses (17.4 in 2019)
- Average number of training hours per employee 45.3 hours/year (43.7 hours/year in 2019)
- Training courses breakdown by type: face-to-face - 13.8%; e-learning- 51.2%; other - 35.0%
- In-house training courses: 89.0% of the total (88.4% in 2019)
- Expenditure with external training entities: -20.5% relative to 2019 (56.7% of total training costs)

[7] Human resources training indicators are based on a sample of 21 financial institutions.

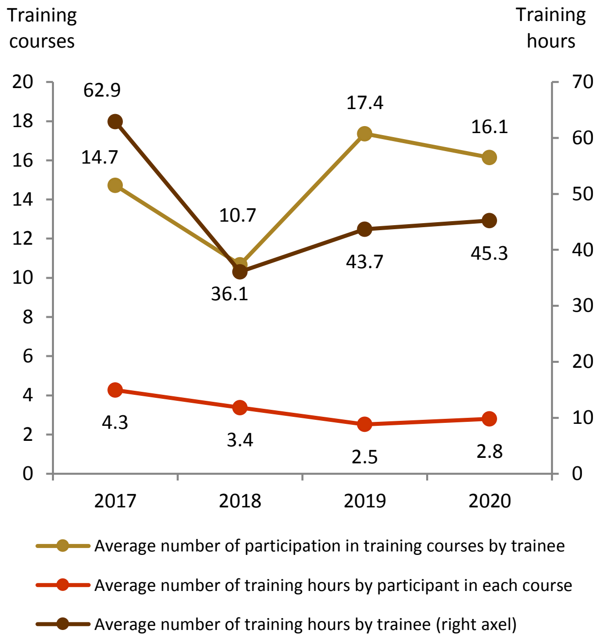
Performance of main training indicators in 2020:

Graph 5: Training evolution

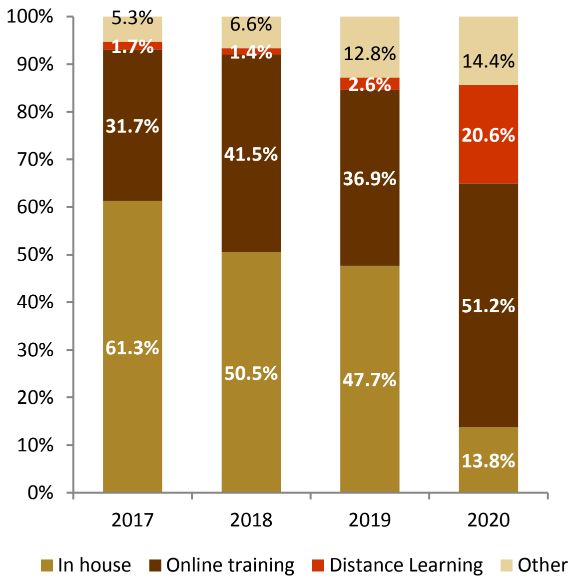
a) Number of trainees in % of the nº of employees



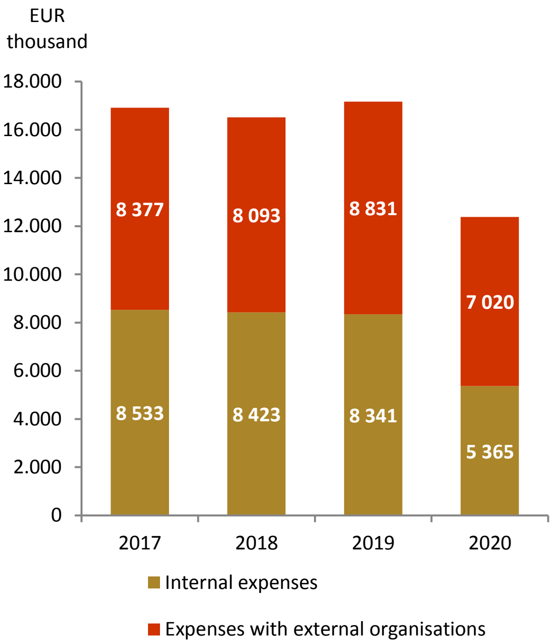
b) Participations and hours in training courses



c) Training methods



d) Training costs



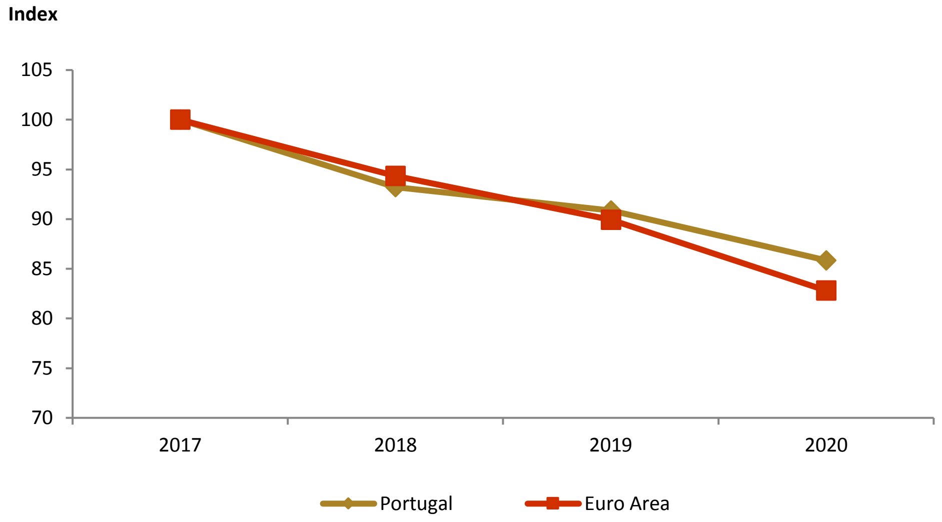
Source: FIs, APB.

IV. Banking Coverage Indicators

IV.1. Branch network in Portugal

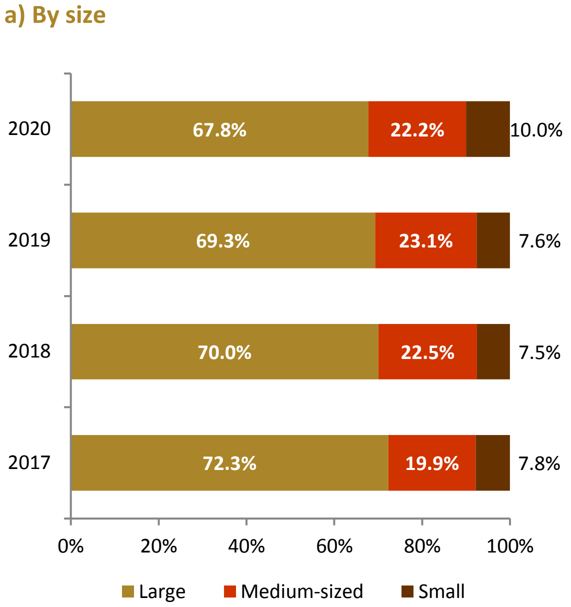
At the end of 2020, the Members' branch network comprised 3,714 branches, which represents an annual reduction of 5.5% (i.e., 217 fewer branches). This evolution is part of the profound transformation process of the sector, which is aligned with the global trends of the industry, where the need to provide a diversified, innovative and multi-channel offer leads to increasing articulation with the digital channels.

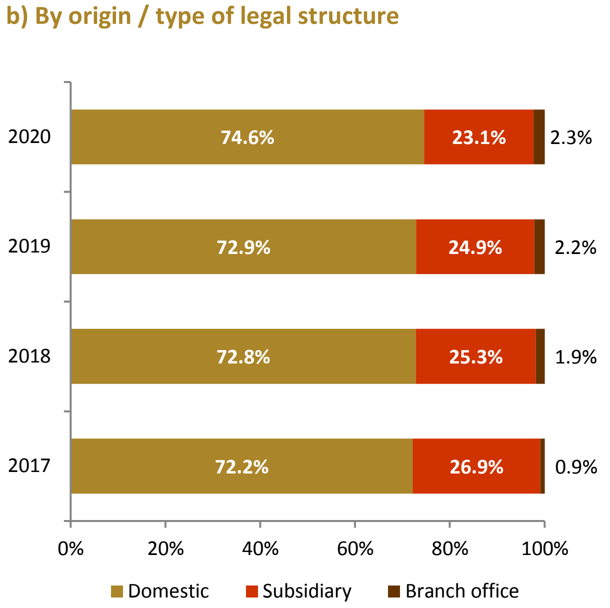
Graph 6: Evolution of total branches (2017 = 100)



Source: FIs, APB and ECB.

Graph 7: Representativity in terms of number of branches in Portugal as at 31 December





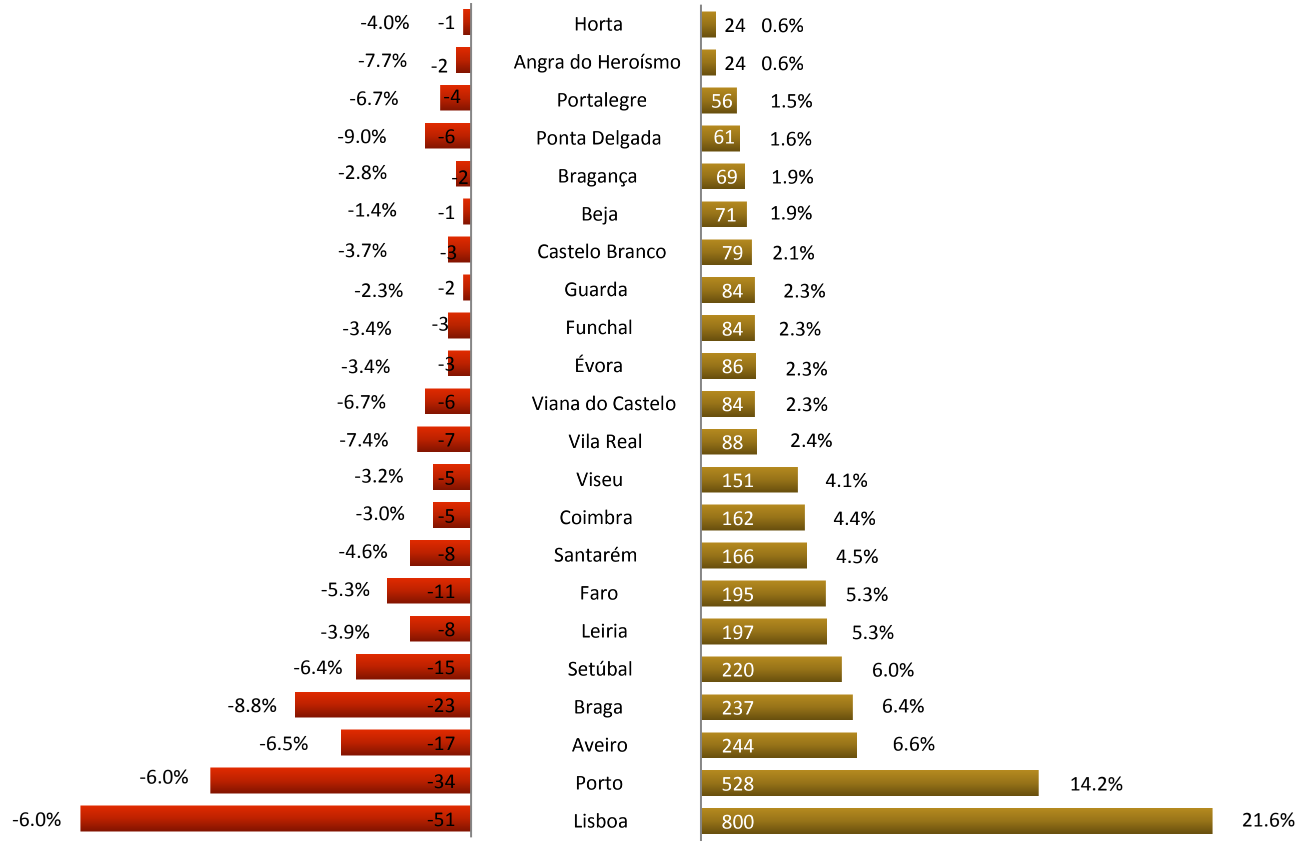
Source: FIs, APB.

Although the closure of branches occurred across all the Portuguese districts, Lisbon and Porto continued to record the largest annual reductions, accounting together for approximately 39% of all branches closed in 2020.

Graph 8: Branch network per district, as at 31 December 2020

a) Absolute and percentual change in the number of branches against 31 December 2019

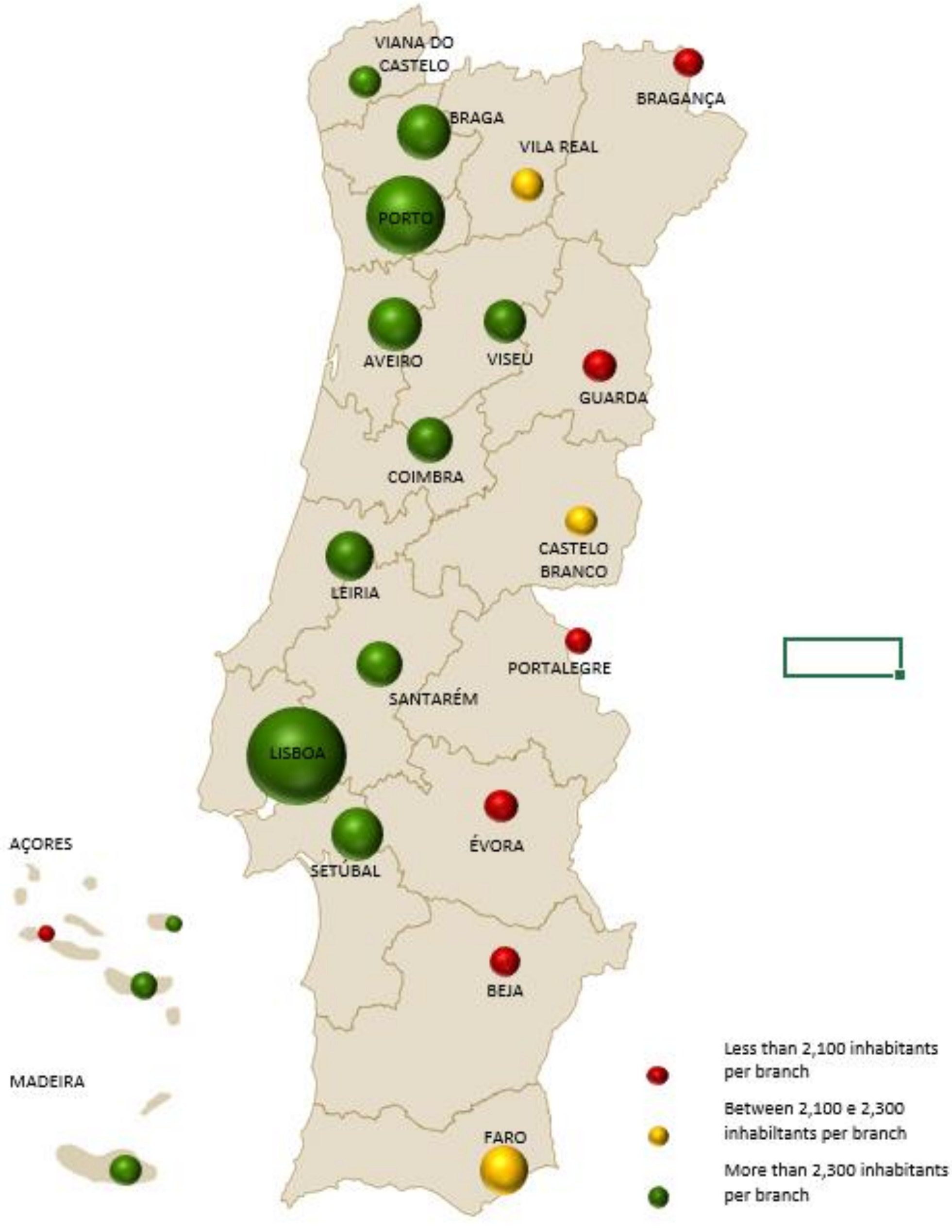
b) Branch network in absolute and percentual terms



Source: FIs, APB.

Note: Does not include 4 mobile branches.

Figure 2: Branch distribution by district and number of inhabitants per branch, in each district at 31 December 2020

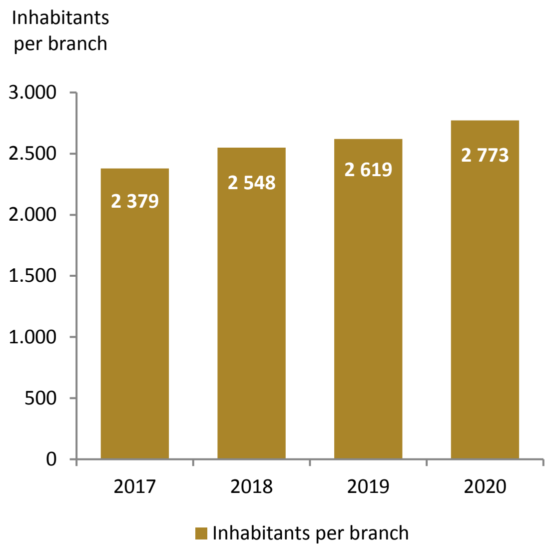


Source: FIs, INE-Statistics Portugal, APB.

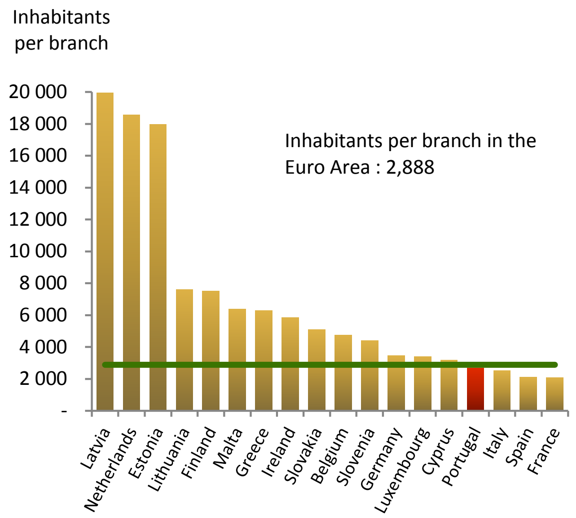
Note: The size of the bubbles indicates the absolute number of branches in the district, while the color shows the number of inhabitants per branch. Does not include 4 mobile branches.

In comparative terms, Portugal continues to have more branches per inhabitant than the average of the Euro Area countries.

Graph 9: Change in the number of inhabitants per branch

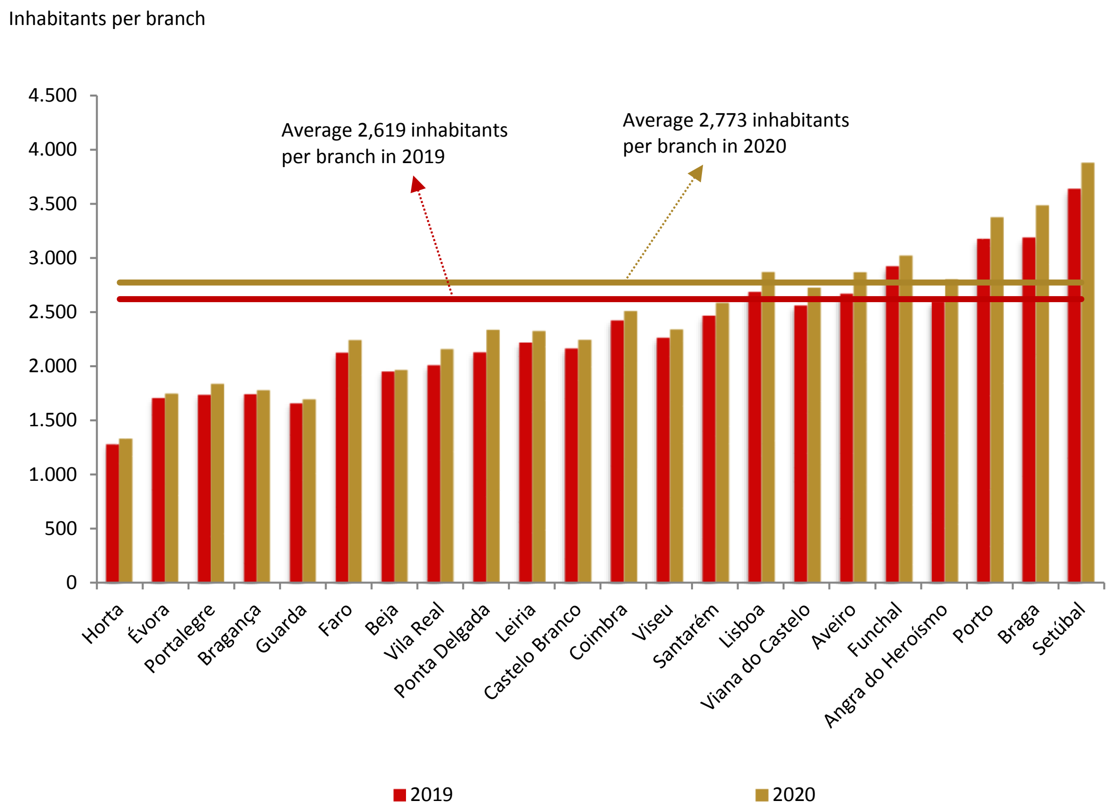


Source: FIs, APB, NSI.



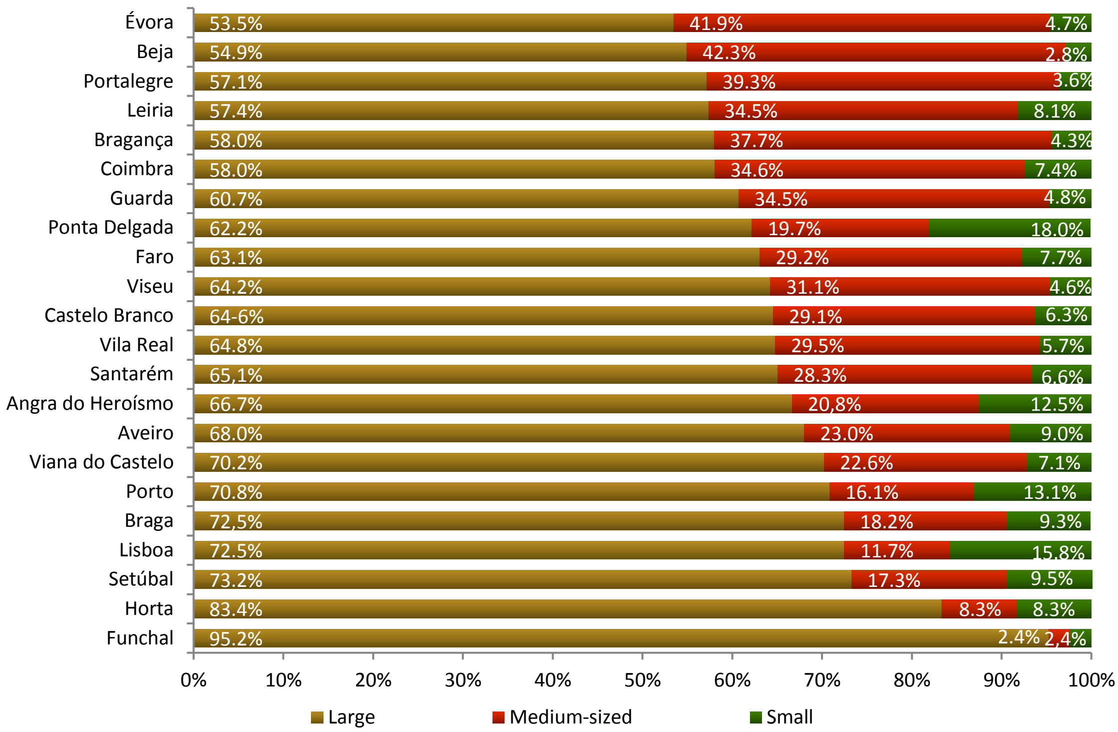
Source: Eurostat, ECB (including data for Portugal).

Graph 10: Number of inhabitants per branch in each district



Source: FIs, APB. Does not include 4 mobile branches.

Graph 11: Percentage breakdown of branches by size and district, at 31 December 2020

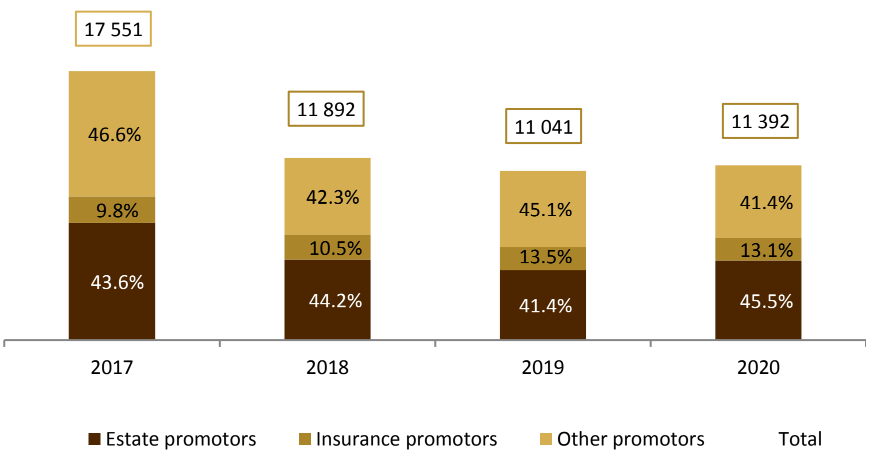


Source: FIs, APB. Does not include 4 mobile branches.

External promoters

Financial institutions also use external promoters as a distribution channel. They sell bank products, but are not integrated in the financial institutions themselves. Examples of external promoters are real estate agents and financial consultants.

Graph 12: Evolution in the number and type of external promotors

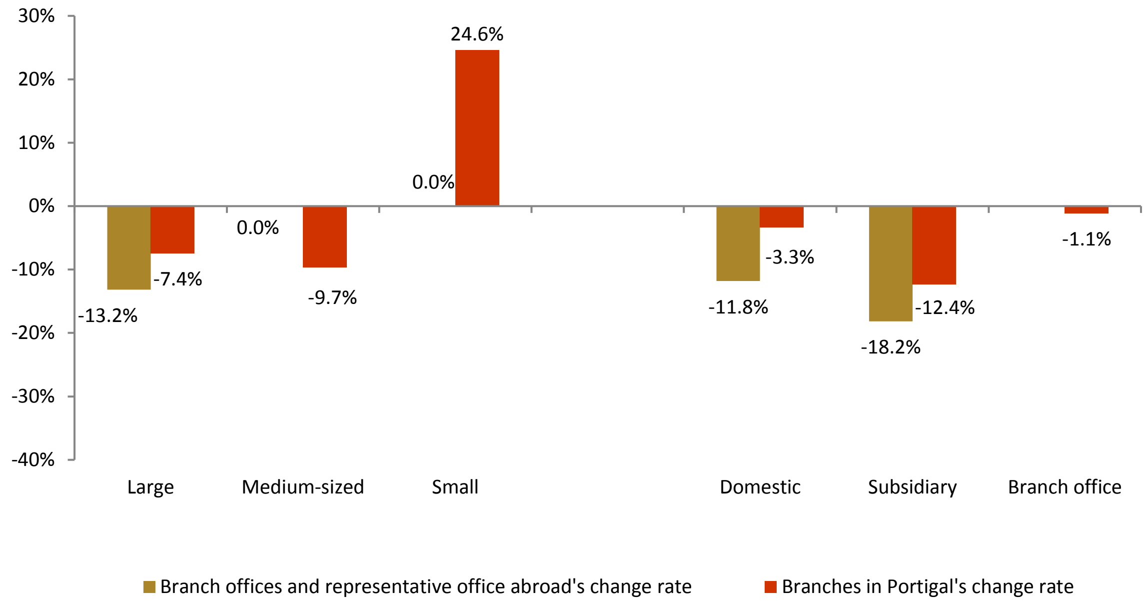


Source: FIs, APB.

IV.2. Branches and representative offices abroad

At the end of 2020, financial institutions' branch network abroad consisted of a total of 106 units (-12% compared to 2019): 77 units in Europe, 8 in the American continent, 19 in Asia, and 2 in Africa. In geographical terms, financial institutions' networks of branches and representative offices are mainly concentrated in Europe, and in particular in France and Switzerland.

Graph 13: Change in the number of branches in Portugal and in the number of branches and representative offices abroad broken down by size and origin /type of legal structure - 2020



Source: FIs, APB.

IV.3. ATMs and homebanking

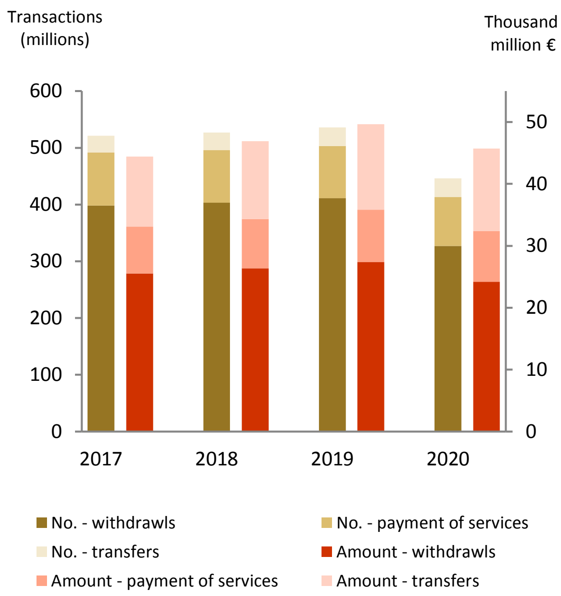
In 2020, the APB members' financial institutions had a total of 14,039[8] ATMs[9], which, despite a 3.1% reduction compared to 2019, is still one of the highest numbers in Europe. Of all ATMs of the APB members, 82.4% were integrated in the Multibanco system, and the remaining 17.6% belonged to own brand networks. In 2020 the APB members' financial institutions represented 96.1% of the Multibanco network.

The lock-down measures imposed in the context of the pandemic crisis particularly affected people's mobility and ultimately impacted the transactions made through ATMs. These transactions registered a significant decrease year-on-year, both in terms of amount (-8% compared to 2019) and in terms of number (-16.8% compared to 2019). In terms of the amount of transactions, there were sharp decreases in withdrawals (-11.8%), transfers (-3.5%) and payments of services (-2.9%). By number of transactions, payments of services decreased by 6.5%, withdrawals by 6.3% and transfers

[8] Includes Multibanco network and own brand networks of APB members' financial institutions. The sample used for the analysis of the ATM network includes 11 member financial institutions.
[9] Automated Teller Machine.

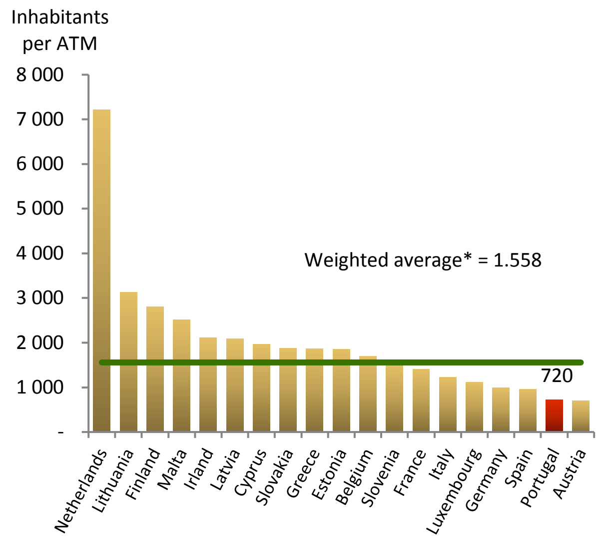
by 0.7%. On the other hand, there was a 10.6% increase in the average amount per transaction, to 102.44 euros.

Graph 14: Transactions in ATMs



Source: SIBS.

Graph 15: Inhabitants per ATM in the Euro Area



Source: Eurostat, ECB.

Note: *Average number of inhabitants per ATM weighted by the population of each country.

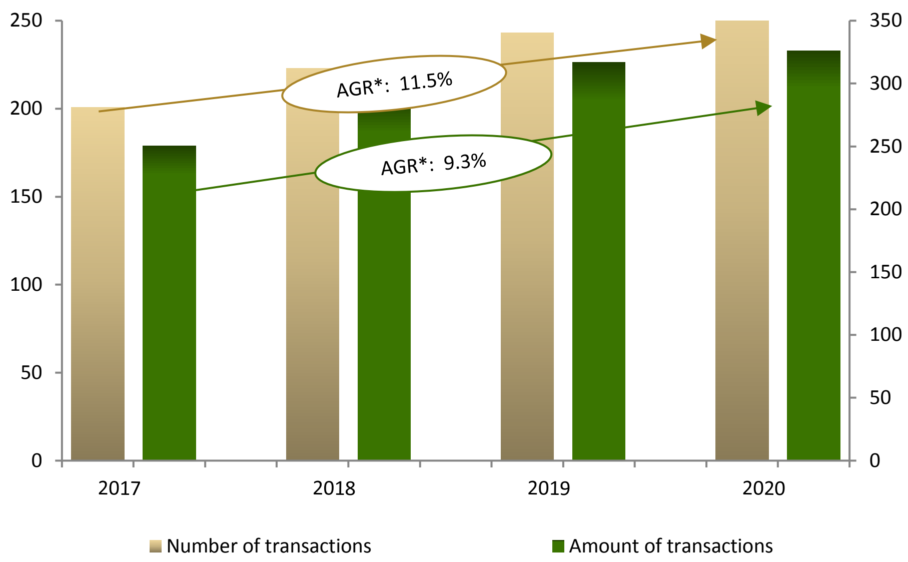
In 2020, the number of users of homebanking[10] services reached 5,146,079, which represents a yoy increase of 6.9%. This is in line with the pandemic crisis, which led to an acceleration of digitisation.

The number and amount of homebanking transactions [11] increased by 14.4% and 3.0%, respectively. By transaction amount, payments of services remained practically flat (-0.8%), while transfers increased by 3.2%. By number of transactions, payments rose by 24.8% and transfers by 7.8%.

[10] Information on users of homebanking services is only available for 13 member financial institutions.

[11] The data concerning the number and volume of transactions cover all the member financial institutions in the sample (25). Data provided by SIBS.

Graph 16: Evolution in the number and volume of service payments via homebanking



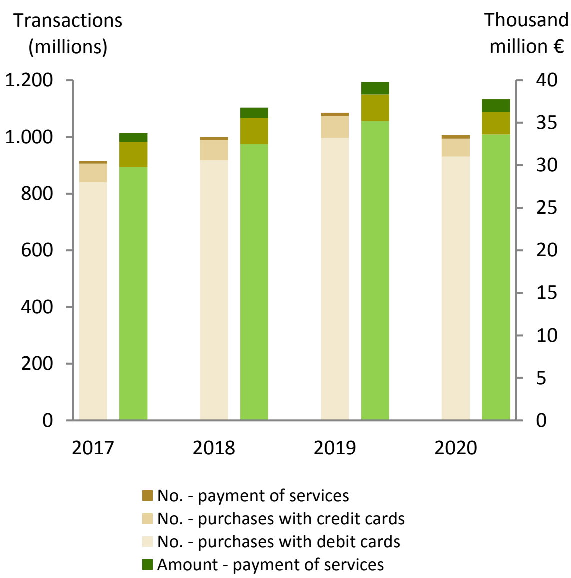
Source: SIBS.

Note: *ARC - Annual average rate of change.

IV.4. POS[12]

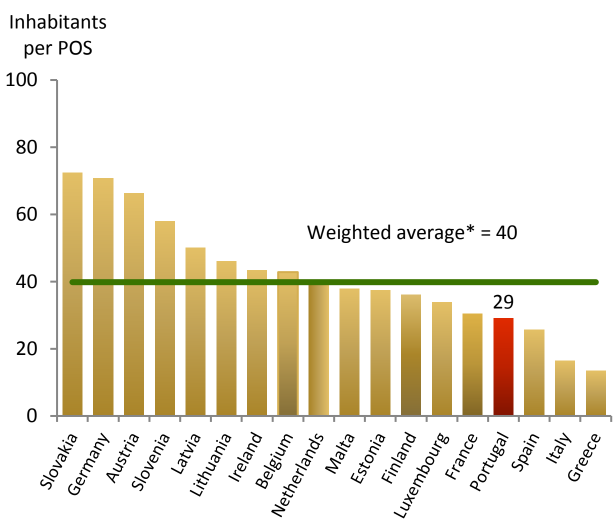
The increase in the number of installed POS[13,14] (+4% yoy) was accompanies a decrease in both the number of transactions made through this channel (-7.3% yoy) and the respective amount (-5.1% yoy), which is justified by the sharp contraction in economic activity this year.

Graph 17: Transactions via POS



Source: SIBS.

Graph 18: Inhabitants per POS in the Euro Area



Source: Eurostat, ECB, APB.

Note: *Average number of inhabitants per POS weighted by the population of each country.

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[12] Point of Sale.

[13] Information on the POS network is only available for 11 member financial institutions.

[14] The data concerning the number and volume of transactions cover all the member financial institutions in the sample (25).

V. Performance analysis

V.1. Balance sheet analysis

The measures taken to tackle the crisis caused by the COVID-19 pandemic led to an expressive increase in the aggregate assets of financial institutions, which at 31 December 2020 totalled around 355 billion euros (+7.4% yoy). The weight of the banking system in the economy increased to 175.3% of GDP, from 154.5% in 2019. Even so, the banking sector's share of GDP remains below its level before the sovereign debt crisis. This is due to the economy's deleveraging process in the years that followed this crisis.

Table 1: Composition and evolution of aggregate assets structure, as at 31 December (2018 – 2020)

	2018	2019	2020
Cash and cash equivalents			
Total (million €)	17 655	21 848	34 839
Annual change rate	-	*23.8%*	*59.5%*
As % of total assets	*5.4%*	*6.6%*	*9.8%*
Financial assets at fair value through profit or loss			
Total (million €)	20 945	19 720	16 262
Annual change rate	-	*-5.8%*	*-17.5%*
As % of total assets	*6.4%*	*6.0%*	*4.6%*
Financial assets at fair value through other comprehensive income			
Total (million €)	32 225	33 063	35 176
Annual change rate	-	*2.6%*	*6.4%*
As % of total assets	*9.8%*	*10.0%*	*9.9%*
Financial assets at amortised cost			
Total (million €)	228 800	230 954	243 898
Annual change rate	-	*0.9%*	*5.6%*
As % of total assets	*69.6%*	*69.9%*	*68.7%*
Other assets[1]			
Total (million €)	29 563	24 918	24 801
Annual change rate	-	*-15.7%*	*-0.5%*
As % of total assets	*9.0%*	*7.5%*	*7.0%*
Total assets	329 188	330 503	354 976
Annual change rate	-	*0.4%*	*7.4%*

Source: FIs, APB.

Note: [1] Includes: Hedging derivatives, Fair value changes of the hedged items in portfolio hedge of interest rate risk, Investments in subsidiaries, joint ventures and associated companies, tangible assets, intangible assets, tax assets, other assets and Non-current assets and disposal groups classified as held for sale.

The increase in aggregate assets was mainly driven by the increase in cash and deposits (+59.5%), debt securities (+10%) and loans to customers (+3.8%).

Table 2: Composition of financial assets structure, as at 31 December (2018 – 2020)

	2018				2019				2020			
	Financial assets at fair value through profit or loss	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Total**	**Financial assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Total**	**Financial assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Total**
Derivatives[1] (million €)	3 657	-	-	3 657	3 392	-	-	3 392	3 090	-	-	3 090
As % of total	*17.5%*	-	-	1.3%	*17.2%*	-	-	1.2%	*19.0%*	-	-	1.0%
Equity instruments (million €)	6 068	1 165	-	7 233	5 054	1 035	-	6 089	4 285	895	-	5 180
As % of total	*29.0%*	*3.6%*	-	2.6%	*25.6%*	*3.1%*	-	2.1%	*26.4%*	*2.5%*	-	1.8%
Debt securities (million €)	11 176	31 052	41 170	83 398	11 178	32 017	41 768	84 963	8 802	31 131	53 565	93 498
As % of total	*53.3%*	*96.4%*	*18.0%*	29.6%	*56.7%*	*96.8%*	*18.1%*	29.9%	*54.1%*	*88.5%*	*22.0%*	31.7%
Loans and advances (million €)	44	8	187 630	187 682	96	11	189 186	189 293	85	3 150	190 333	193 568
As % of total	*0.2%*	*0.0%*	*82.0%*	66.5%	*0.5%*	*0.0%*	*81.9%*	66.8%	*0.5%*	*9.0%*	*78.0%*	65.5%
Total	20 945	32 225	228 800	281 970	19 720	33 063	230 954	283 737	16 262	35 176	243 898	295 335

Source: FIs, APB.

Note: [1] Does not include hedging derivatives.

Table 3: Loans and advances to customers, as at 31 December (2018 – 2020)

	2018	2019	2020
Companies and public sector			
Total (million €)	84 557	79 460	84 204
Annual change rate	-	*-6.0%*	*6.0%*
As % of total loans and advances to customers	*45.1%*	*42.9%*	*43.9%*
Mortgages			
Total (million €)	87 405	89 694	94 285
Annual change rate	-	*2.6%*	*5.1%*
As % of total loans and advances to customers	*46.6%*	*48.4%*	*49.2%*
Consumer credit and other			
Total (million €)	15 468	16 203	13 320
Annual change rate	-	*4.7%*	*-17.8%*
As % of total loans and advances to customers	*8.3%*	*8.7%*	*6.9%*
Total loans and advances to customers	187 430	185 357	191 809
Annual change rate		*-1.1%*	*3.5%*
Total impairment of loans and advances to customers	(12 722)	(8 375)	(8 144)
Total net	174 708	176 982	183 665
Annual change rate	-	*1.3%*	*3.8%*

Source: FIs, APB.

Loans to customers (gross) expanded by 3.5% compared to 2019, mainly due to the measures adopted to support the economy in response to the pandemic crisis, notably State-guaranteed loans and moratorium schemes. Loans to Companies and the Public Administration registered an annual increase of 6%, which was due to companies' increased liquidity needs in the pandemic context. By activity sector, the largest increase in lending was in the Trade and Accommodation and Restaurants segments, and by size, in the SME segment.

In 2020, gross mortgage loans maintained the recovery trajectory that began in 2019, rising by 5.1%, essentially as a result of new lending growth and the reduction in repayments, reflecting the effects of the moratorium schemes. In turn, gross consumer and other loans to individuals recorded a significant reduction of 17.8%, which contrasts with the high growth rates of recent years and is explained by the lock down restrictions implemented in response to COVID-19.

Net loans to customers, accounting for a 54% share of aggregate assets, were up by 3.8% year-on-year.

Table 4: Asset quality, as at 31 December (2018-2020)

	2018				2019				2020			
	Total	**Mortgages**	**Consumer credit and other**	**Companies and public sector**	**Total**	**Mortgages**	**Consumer credit and other**	**Companies and public sector**	**Total**	**Mortgages**	**Consumer credit and other**	**Companies and public sector**
Non-performing loans (million €)	22 109	3 483	1 764	15 054	13 577	2 196	1 208	8 977	11 107	1 729	1 231	7 321
NPL Ratio	10.2%	3.9%	13.3%	21.2%	6.2%	2.4%	8.6%	13.4%	5.5%	1.8%	8.9%	10.2%
NPL Coverage Ratio	52.4%	26.0%	60.7%	57.4%	52.9%	24.0%	63.1%	59.0%	56.7%	28.8%	71.9%	59.2%

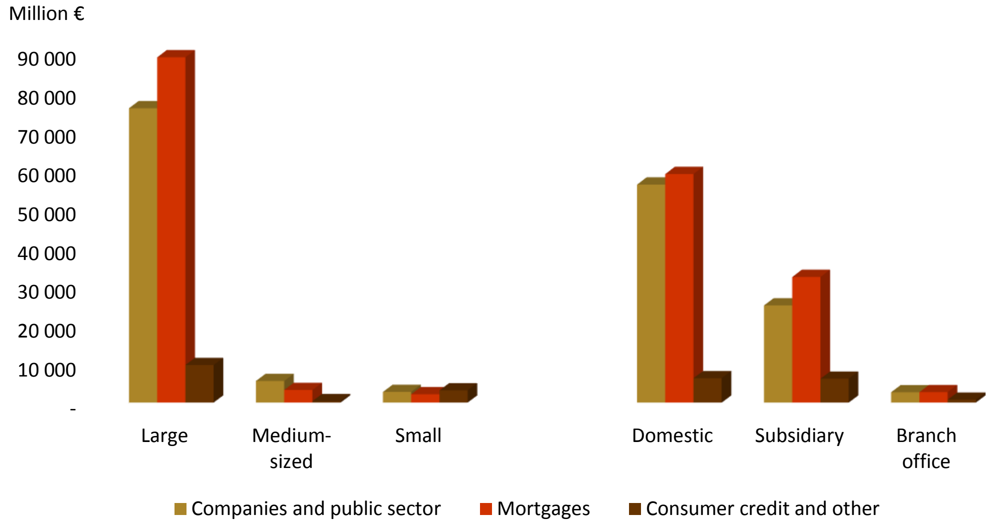
Source: FIs, APB.

Despite the unfavourable economic environment induced by the pandemic crisis, reducing the stock of NPL remained a priority for the Portuguese banking sector, which in 2020 continued the downward trajectory recorded since 2016.

Compared to the previous year, NPLs contracted by around €2.5 billion, which was due to sales and write-offs, and the NPL ratio decreased to 5.5%. Although still high in comparison to the Euro Area average (2.5% in December 2020), the progress made in reducing the NPL has been very significant. NPL of Companies and the Public Administration, accounting for 65.9% of the total amount of member FIs' NPL, decreased by 18.4% relative to 2019, with the NPL ratio dropping by 3.2 p.p., to 10.2%.

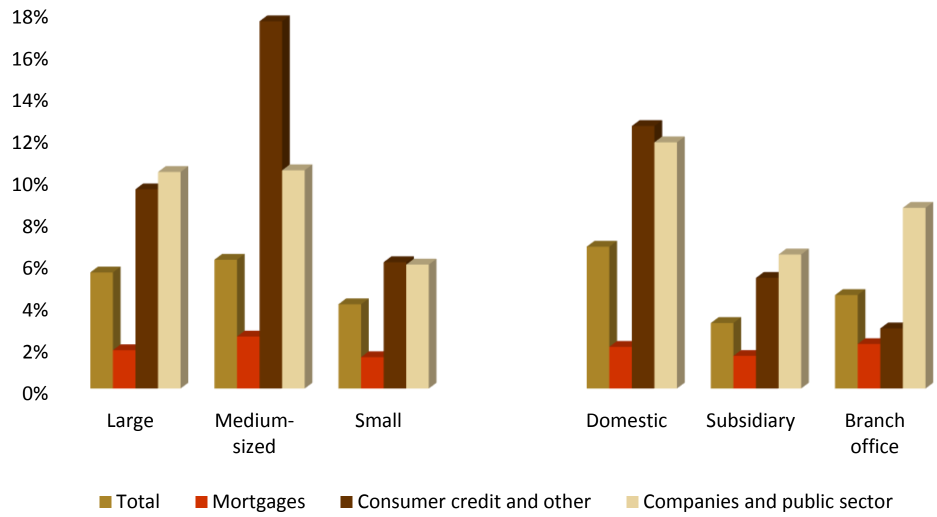
In 2020, there was a significant increase in impairment coverage, with the ratio rising by 3.8 p.p. to 56.7%.

Graph 19: Loans and advances to customers, by size and by origin / type of legal structures, as at 31 December 2020



Source: FIs, APB.

Graph 20: NPL Ratio by size and by origin / type of legal structures, as at 31 December 2020



Source: FIs, APB.

Exposure to public debt securities has been increasing over recent years, accounting for 16.7% of total assets at the end of 2020 (+1 p.p. yoy).

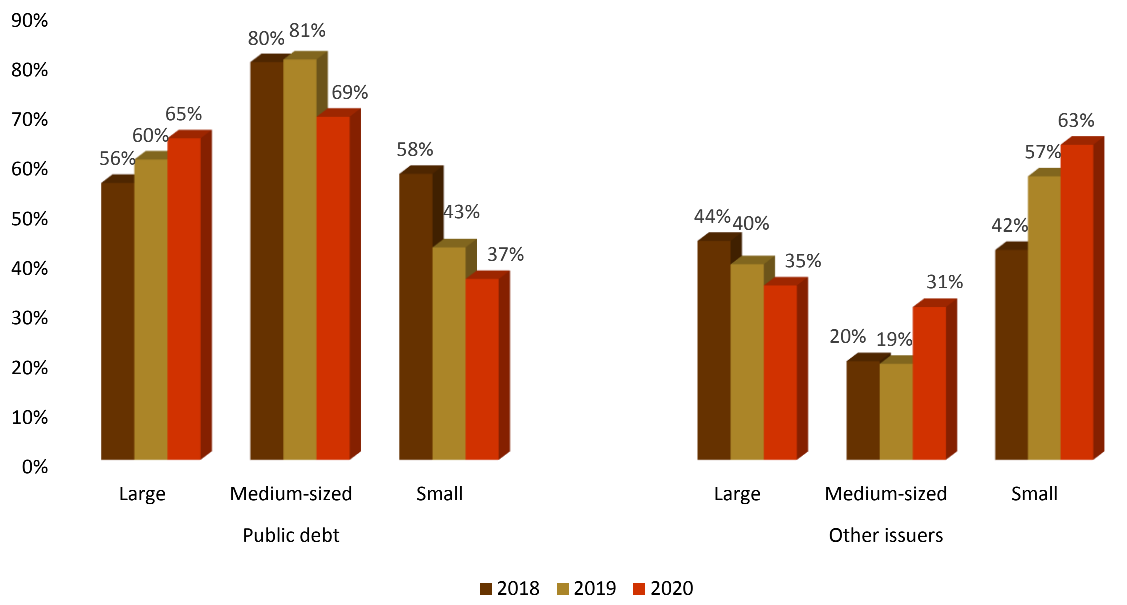
The share of debt securities at amortized cost, i.e., where changes in value are only recognized on the balance sheet when sold, increased to 15.1% of assets in 2020 (12.6% in 2019).

Table 5: Composition of debt securities portfolio, as at 31 December (2018-2020)

	2018	2019	2020
Public debt			
Total (million €)	48 756	52 003	59 213
Annual change rate	-	*6.7%*	*13.9%*
As % of total	*58.5%*	*61.2%*	*63.3%*
Other issuers			
Total (million €)	34 642	32 960	34 284
Annual change rate	-	*-4.9%*	*4.0%*
As % of total	*41.5%*	*38.8%*	*36.7%*
Total debt securities	83 398	84 963	93 498
Annual change rate		1.9%	10.0%
Public debt as % of total assets	14.8%	15.7%	16.7%

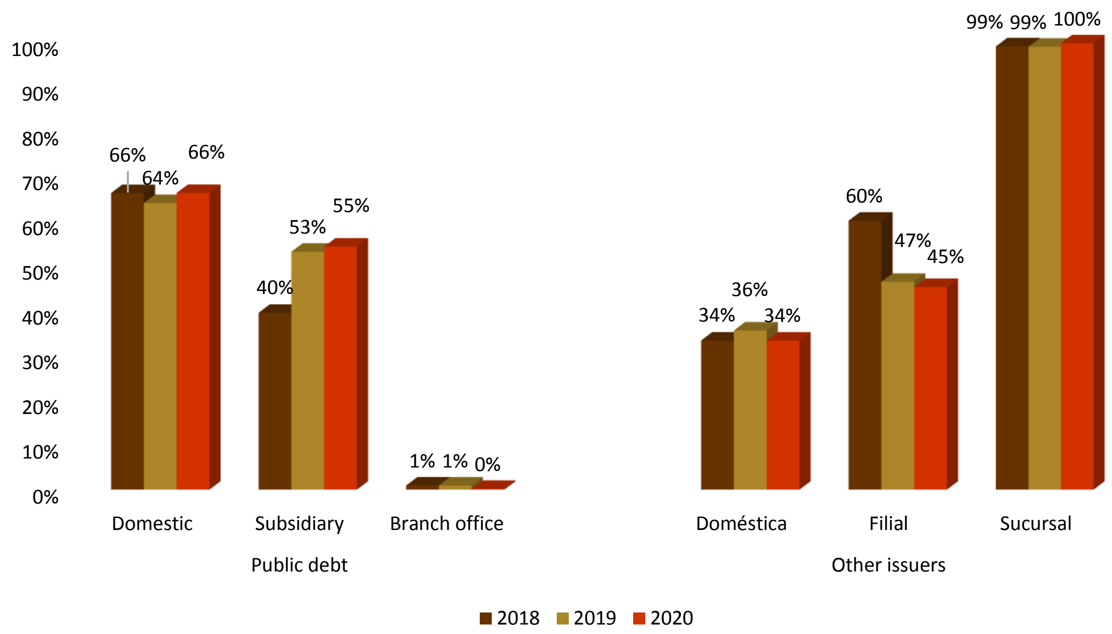
Source: FIs, APB.

Graph 21: Debt securities of FIs, by size, as at 31 December



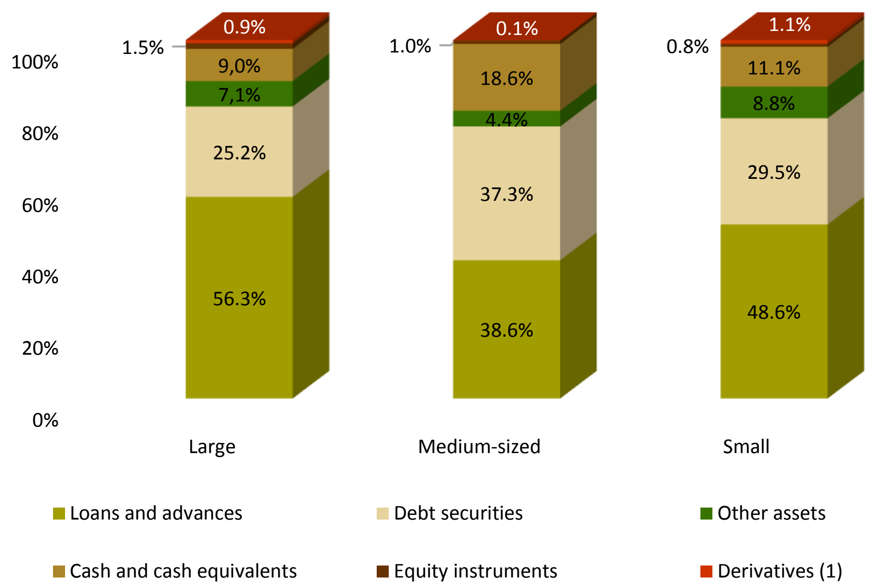
Source: FIs, APB.

Graph 22: Debt securities of FIs, by origin / type of legal structures, as at 31 December



Source: FIs, APB.

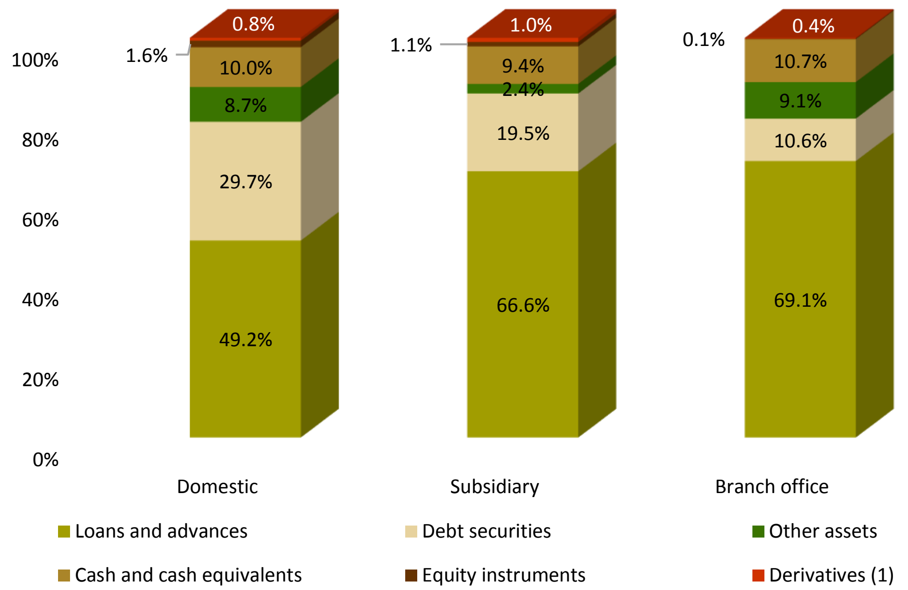
Graph 23: Total asset structure by size, as at 31 December 2020



Source: FIs, APB.

Note: (1) Does not include hedging derivatives.

Graph 24: Total asset structure by origin / type of legal structure, as at 31 December 2020



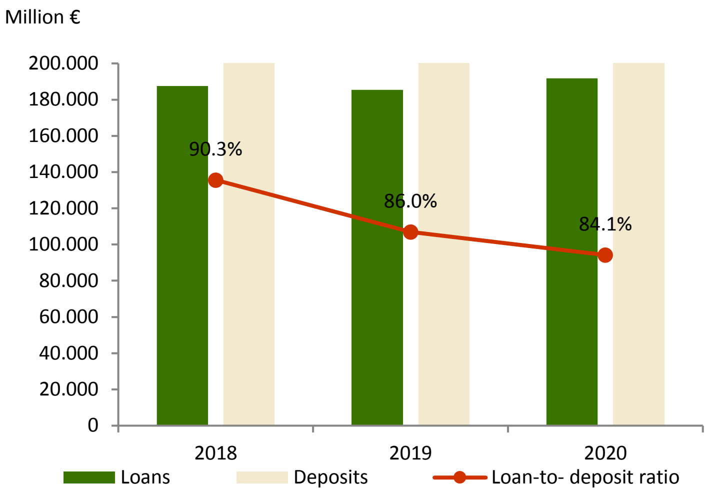
Source: FIs, APB.

Note: (1) Does not include hedging derivatives.

In the evolution of liabilities, it is worth noting the 5.8% year-on-year increase in customer deposits, reflecting the boost to saving levels from lower consumption, together with the restrictions imposed by the pandemic, and the high uncertainty about the duration and impacts of the crisis. In 2020, customer deposits accounted for 70% of the funding structure of financial institutions. The evolution of deposits is explained by the increase in both individual customers' deposits and corporate and public administration deposits, which rose by 6.3% and 4.8%, respectively. In a context of very low interest rates resulting from the ECB's accommodative monetary policy, demand deposits continued to increase at a faster pace (15.6% yoy) than deposits with agreed maturity (5.5% yoy).

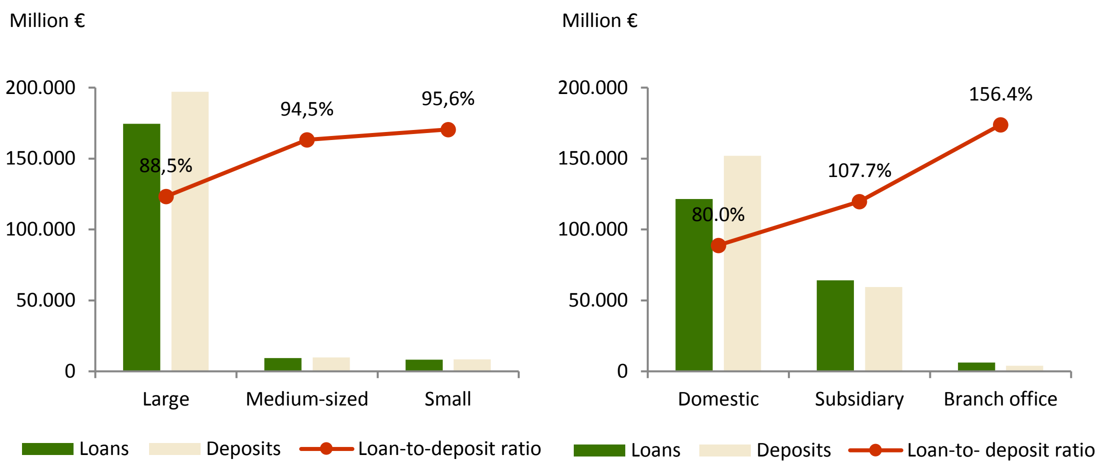
With loans to customers posting a smaller increase than customer deposits, the loan to deposits ratio continued to decrease, standing at 80.6% in 2020, which compares with 82.2% in 2019.

Graph 25: Loan-to-Deposit ratio, as at 31 December 2020



Source: FIs, APB.

Graph 26: Loan-to-Deposit ratio by size and by origin / type of legal structure, as at 31 December 2020



Source: FIs, APB.

Funding from market sources continued to diminish (-10.6% vs. 2019) and its weight in financial institutions' funding structure is currently negligible. Funding from the Eurosystem increased by 4 pp year-on-year and, in 2020, represented 9.1% of assets, which is explained by the attractive monetary policy measures that were significantly reinforced in the current pandemic context.

Table 6: Composition and evolution of aggregate financing structure, as at 31 December (2018-2020)

	2018	2019	2020
Financial liabilities at fair value through profit or loss			
Total (million €)	6 936	6 544	4 732
Annual change rate	-	*-5.7%*	*-27.7%*
As % of total assets	*2.1%*	*2.0%*	*1.3%*
Financial liabilities at amortised cost			
Total (million €)	285 576	286 273	311 425
Annual change rate	-	*0.2%*	*8.8%*
As % of total assets	*86.8%*	*86.6%*	*87.7%*
Other liabilities			
Total (million €)	8 211	8 152	9 414
Annual change rate	-	*-0.7%*	*15.5%*
As % of total assets	*2.5%*	*2.5%*	*2.7%*
Total Liabilities	300 723	300 968	325 571
Annual change rate	-	*0.1%*	*8.2%*
As % of total assets	*91.4%*	*91.1%*	*91.7%*
Equity			
Total (million €)	28 464	29 535	29 405
Annual change rate	-	*3.8%*	*-0.4%*
As % of total assets	*8.6%*	*8.9%*	*8.3%*
Total Liabilities and Equity	329 188	330 503	354 976

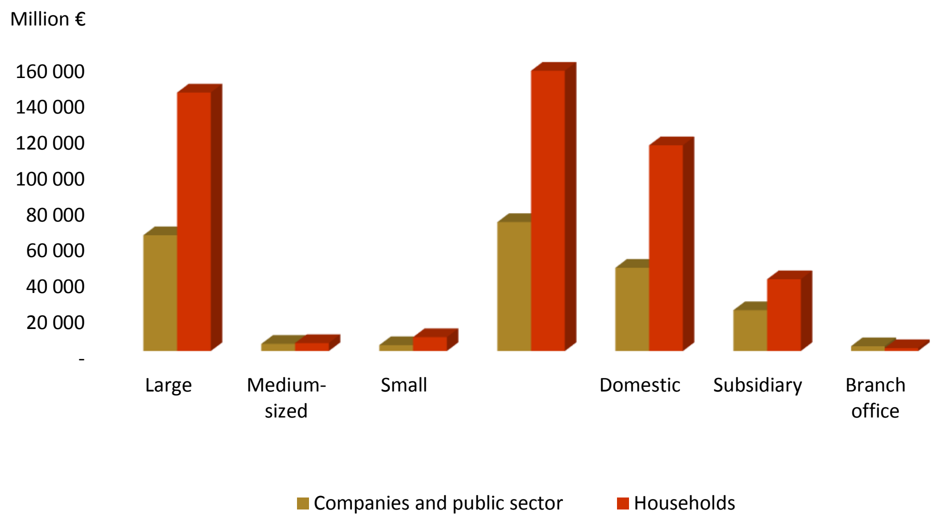
Source: FIs, APB.

Table 7: Deposits from customers, as at 31 December (2018-2020)

	2018	2019	2020
Companies and public sector			
Total (million €)	66 077	68 484	71 803
Annual change rate	-	*3.6%*	*4.8%*
As % of total deposits from customers	*31.9%*	*31.8%*	*31.5%*
Households			
Total (million €)	141 385	146 936	156 194
Annual change rate	-	*3.9%*	*6.3%*
As % of total deposits from customers	*68.1%*	*68.2%*	*68.5%*
Total deposits from customers	207 462	215 420	227 998
Annual change rate	-	*3.8%*	*5.8%*

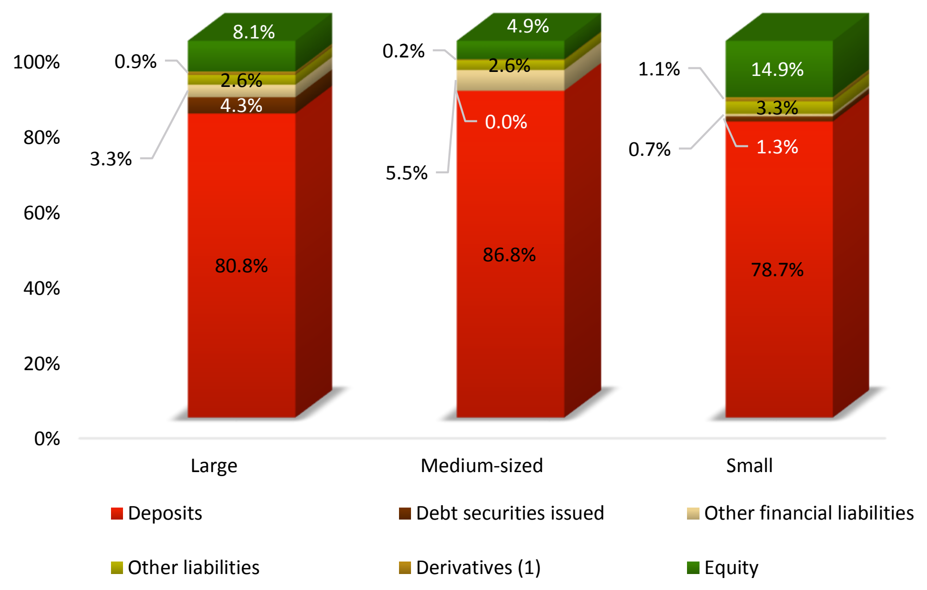
Source: FIs, APB.

Graph 27: Deposits from customers by size and type of legal structure, as at 31 December 2020



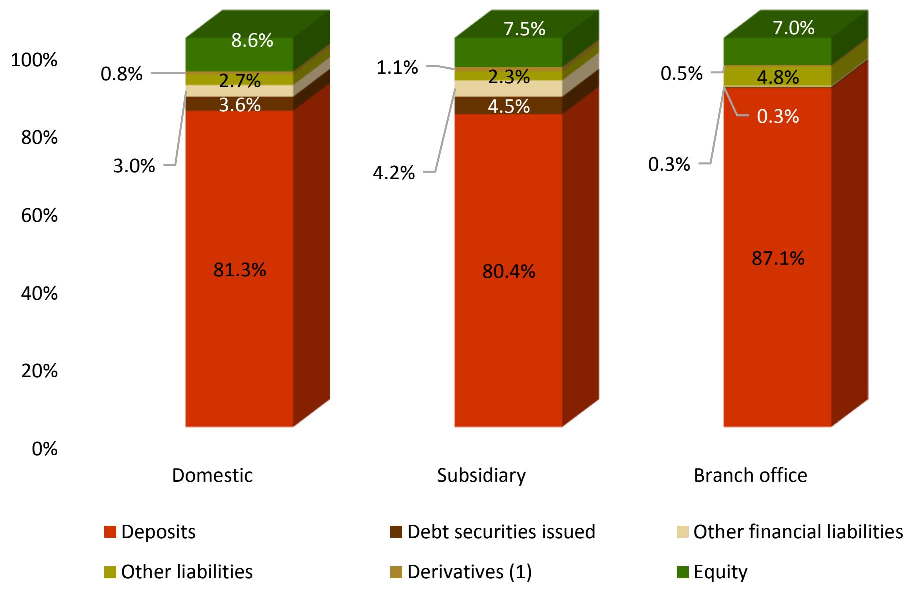
Source: FIs, APB.

Graph 28: Liabilities structure by size, as at 31 December 2020



Source: FIs, APB.
Note: [(1)] Does not include hedging derivatives.

Graph 29: Liabilities structure by origin / type of legal structure, as at 31 December 2020



Source: FIs, APB.
Note: [(1)] Does not include hedging derivatives.

V.2. Income statement analysis

The aggregate profitability of financial institutions fell significantly in 2020, heavily penalised by the COVID-19 pandemic context, and thus reversed the recovery trend observed since 2017. The deterioration in profitability was driven not only by a contraction in operating income but, above all, by a very significant rise in the flow of loan impairments.

Table 8: Aggregate income statement (2018-2020)

	2018 million €	2019 million €	2020 million €
Interest income	6 253	5 974	5 370
Interest expense	-2 225	-1 904	-1 434
Net interest income (NII)	**4 028**	**4 070**	**3 936**
Fee and commission income	2 622	2 665	2 547
Fee and commission expense	-458	-453	-438
Net results from fees and commissions	2 164	2 212	2 109
Net results from financial operations	-65	77	-169
Other results	1 025	449	350
Operating income (OI)	**7 152**	**6 808**	**6 226**
Staff costs	-2 257	-2 263	-2 183
General administrative expenses	-1 393	-1 277	-1 171
Depreciation and amortisation	-207	-374	-390
Operating costs	-3 857	-3 914	-3 744
Gross operating results (GOR)	**3 295**	**2 894**	**2 482**
Provisions net of reversals	-438	-122	-266
Impairment of financial assets, net of reversals	-900	-1 064	-2 000
Impairment of investments in subsidiaries, joint ventures and associates, net of reversals	-207	25	-129
Impairment of non-financial assets, net of reversals	-335	-269	-315
Provisions and impairment	-1 880	-1 430	-2 710
Negative goodwill recognised in profit or loss	-	52	-
Share of profit or loss investments in associates	74	86	106
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	95	132	51
Other results	169	270	157
Profit or loss before tax (PLBT)	**1 584**	**1 734**	**-71**
Tax expenses or income related to profit or loss from continuing operations	-1 132	-780	-396
Profit or (-) loss after tax from discontinued operations	78	-	-41
Net income for the year (NI)	**530**	**954**	**-508**

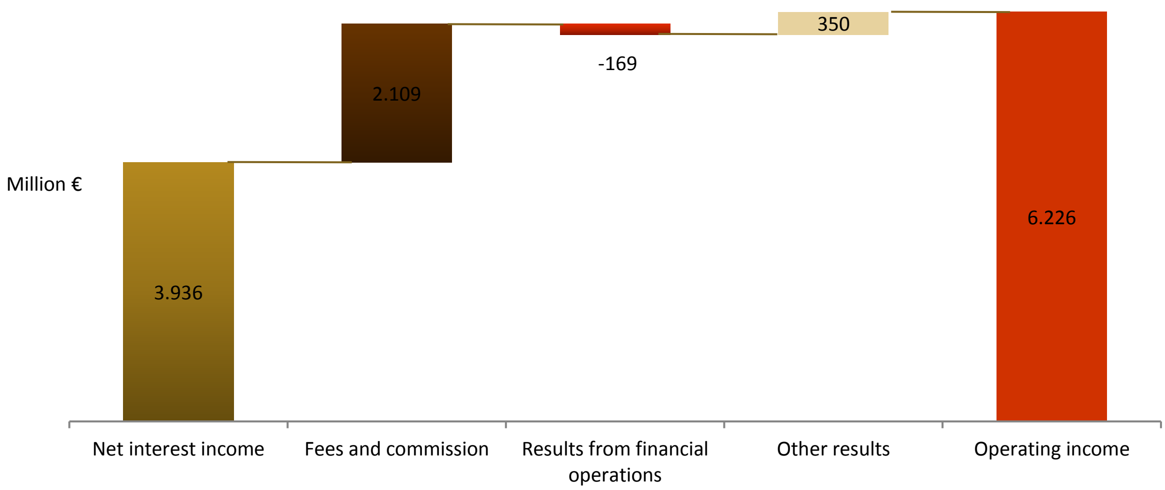
Source: FIs, APB.

The aggregate net interest income of financial institutions totalled 3.9 billion euros, decreasing by 3.3% year-on-year. This reduction reflects a larger decrease in interest earned than in interest paid. The performance of interest received is largely explained by the reduction in its components loans and advances (-238 million euros) and debt securities (-152 million euros), while the reduction in interest paid mainly reflects the drop in the deposits component (-179 million euros). However, the positive impact from the reduction in the cost of funding from central banks (4 million euros or -22.6% yoy), which mitigated the fall in net interest income, should be noted.

Net fee and commission income was down by 4.7%, due to a lower volume of transactions and a reduction in financial intermediation activity, as a result of the pandemic context.

Gains from financial operations amounted to -169 million euros, which compares with 77 million euros in 2019. This performance translates a decrease in income from public debt securities and negative results on capital instruments.

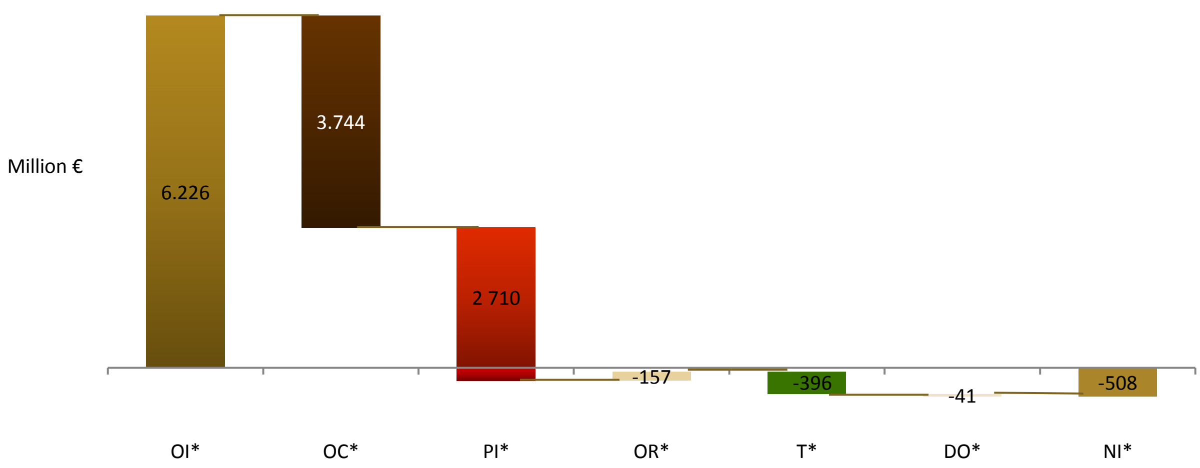
Graph 30: Composition of Operating income, 2020



Source: FIs, APB.

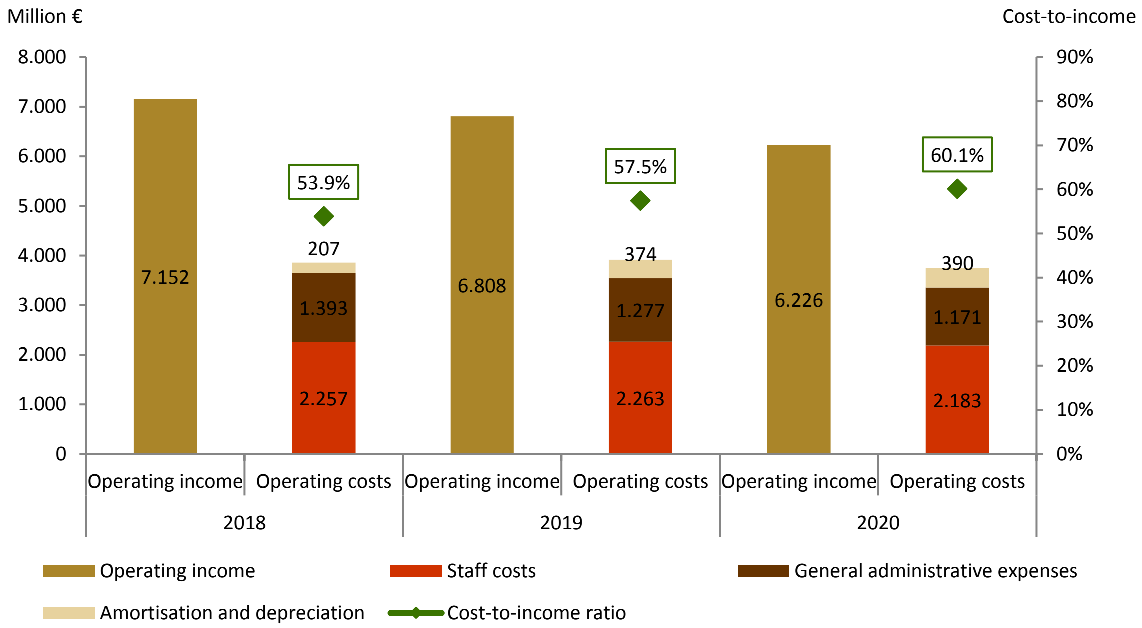
Operating costs dropped by 4.3% year-on-year, where the decrease in staff costs and general administrative expenses more than offset the increase in depreciation and amortisation for the year.

Graph 31: Composition of Net income, 2020



Source: FIs, APB.
Note: *OI – operating income; OC* – operating costs; PI* – provisions and impairments; OR* – other results; T* - taxes; DO* – discontinued operations; NI* - net income.

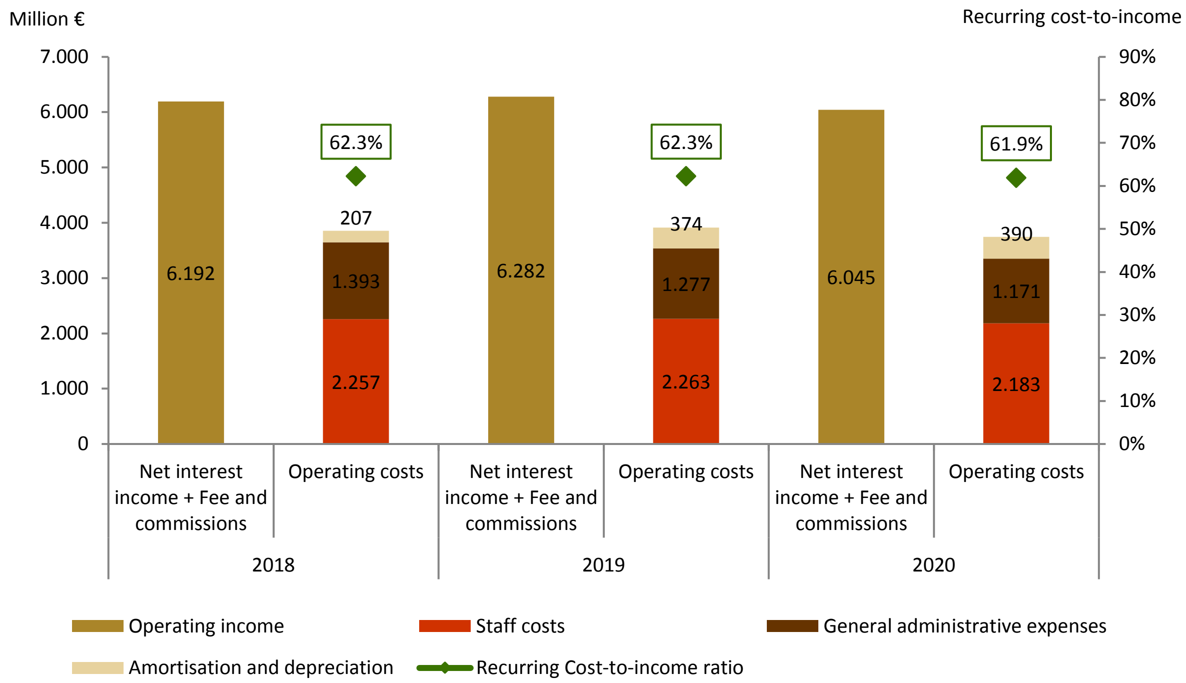
Graph 32: Evolution of operating income, operational costs and cost-to-income ratio



Source: FIs, APB.

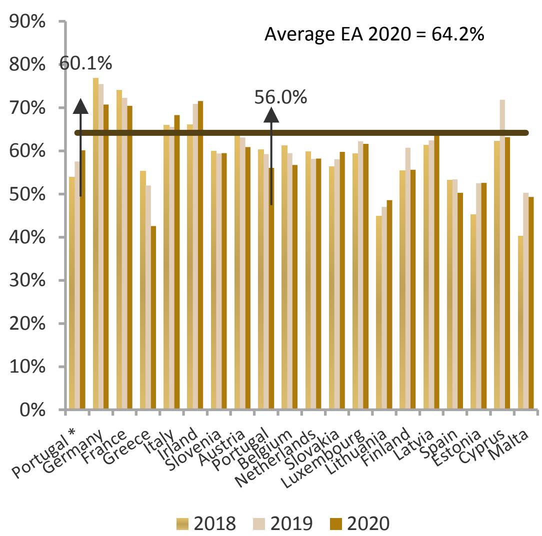
The efficiency ratio (cost-to-income) rose by 2.6 p.p. to 60.1%, as the decline in operating income surpassed the decline in operating costs. Despite this increase, the efficiency ratio stands below the average in the Euro Area.

Graph 33: Recurring Cost-to-income

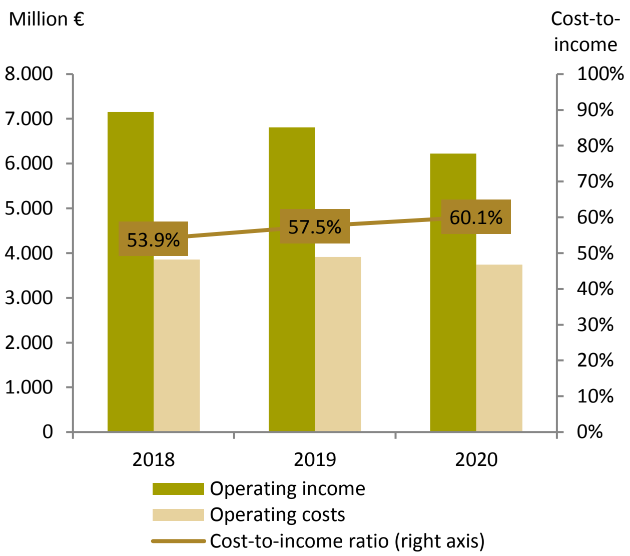


Source: FIs, APB.

Graph 34: Cost-to-income ratio in the Euro Area



Graph 35: Cost-to-income ratio in Portugal

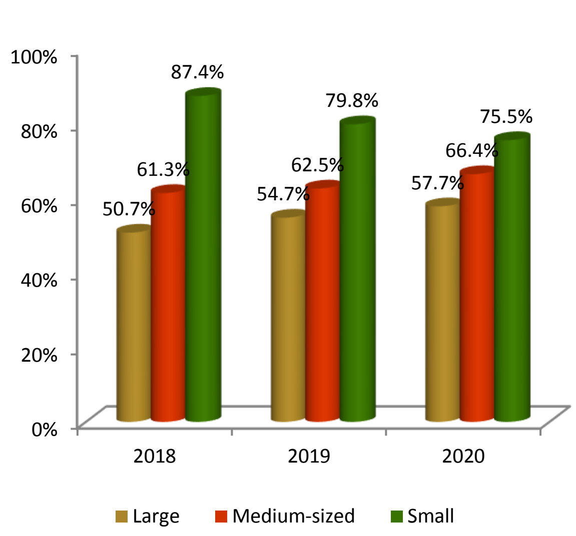


Source: ECB, FIs, APB.

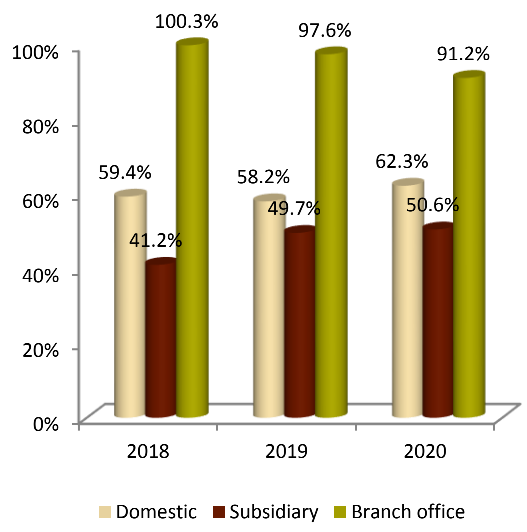
Note*: Efficiency ratio of APB's member financial institutions.

Graph 36: Evolution of cost-to-income ratio

a) By size



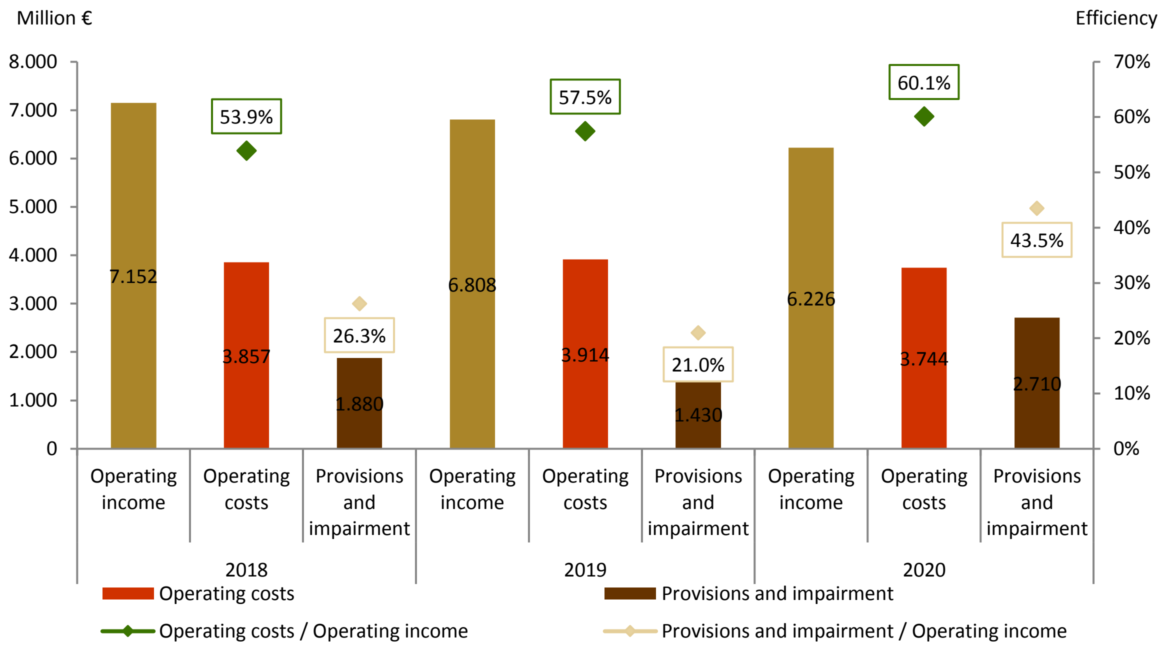
b) By origin / type of legal structure



Source: FIs, APB.

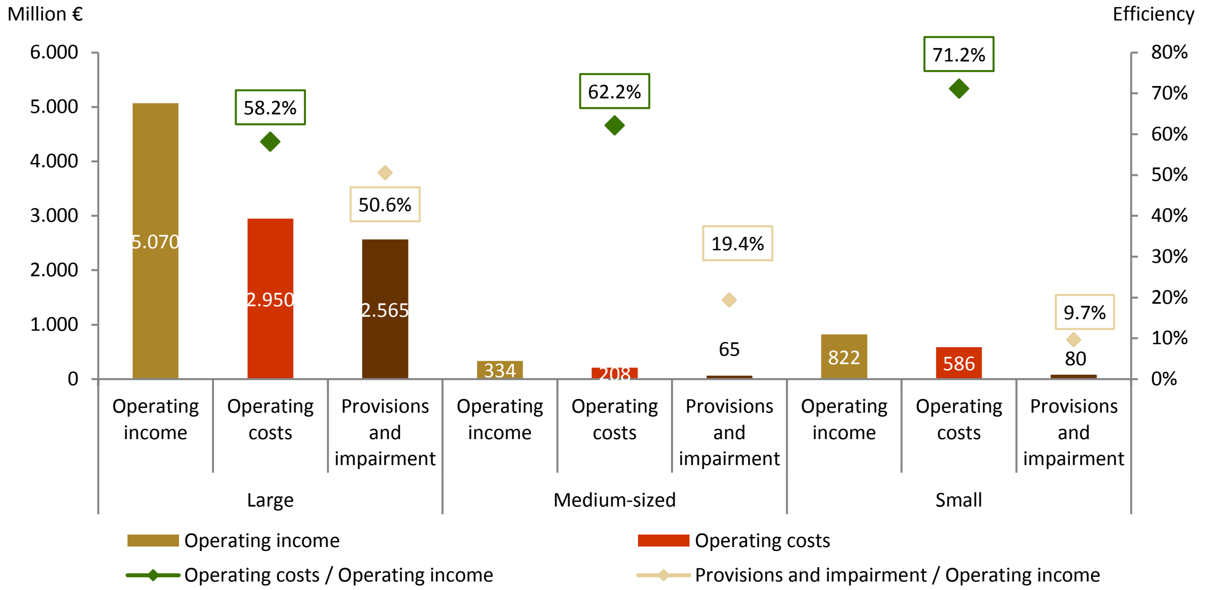
With regard to provisions and impairments, there was a significant increase compared to 2019, justified by the perception of increased credit risk in the context of the COVID-19 pandemic crisis, which generated an unprecedented economic shock. Provisions and impairments totalled approximately 2.7 billion euros in 2020, which compares with 1.4 billion euros in the previous year.

Graph 37: Evolution of operating income, operational costs and impairment



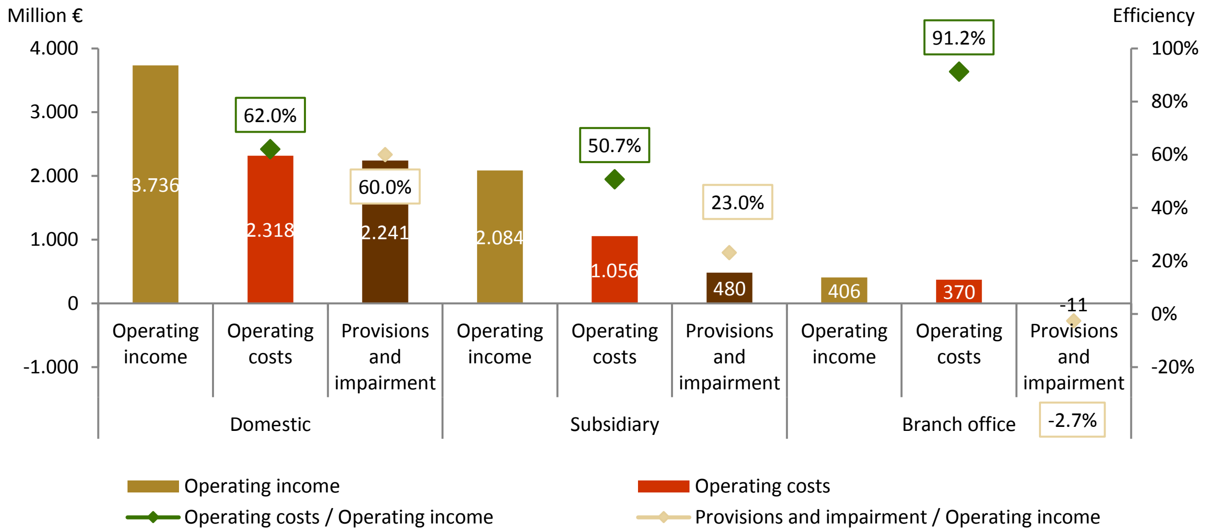
Source: FIs, APB.

Graph 38: Evolution of operating income, operational costs and impairment, by size, 2020



Source: FIs, APB.

Graph 39: Evolution of operating income, operational costs and impairment, by origin / type pf legal structure, 2020



Source: FIs, APB.

V.3. Taxes and para-fiscal levies analysis

For purposes of this analysis, an approximate aggregate amount of the total corporate income tax payable to the State by member institutions has been calculated. This calculation considered the estimated tax base for 2019 and 2020 based on profit or loss before tax and changes in equity recognised in reserves and retained earnings and corrected by the adjustments made pursuant to the corporate income tax code ("CIRC").

Although tax benefits for the banking sector are the same as those for other companies, banks are subject to several restrictions. In this regard, it is important to mention the amendments introduced by Law no. 2/2014 of 16 January, namely regarding the increase from 75% to 90% in the minimum limit of corporate income tax paid after deduction of the tax credit for international double taxation, and of the reduction in the limit of deductible tax losses in each taxation period from 75% to 70% of taxable profit.

The general taxation rate provided for in the CIRC remained unchanged for 2019 and 2020 financial years, at 21%.

Based on our calculations, the total corporate income tax payable to the State by member institutions is estimated at around 72 million euros in 2020 (versus 155 million euros in 2019), which corresponds to an estimated corporate income tax rate of 20.5% (versus 22.1% in 2019).

Table 9: Approximate total amount of tax payable to the State in terms of corporate tax in 2019 and 2020. It is based on estimated figures for the tax base, which were calculated from the net income before tax and changes in equity recognized in reserves and retained earnings

	2019 million €	2020 million €
Net income before tax [a)]	**1 693**	**(87)**
Adjustments for calculation of taxable income / tax loss		
Applicable to all tax payers subject to corporate income tax:		
Capital gains and impairment in investments (net)	(396)	22
Elimination of double taxation of distributed profits	(187)	(139)
Tax benefits	(12)	(11)
Non-relevant expenses and income for tax purposes	242	(60)
Provisions for other risks	(509)	(181)
Allocation of profits of non-resident companies subject to special tax schemes	70	50
Employment termination and retirement benefits and other post-employment or long-term benefits	(284)	(225)
Impairment for credit risk	(833)	170
Other [b)]	(392)	359
Taxable income / Tax loss	**(608)**	**(102)**
Use of tax losses from prior years	(141)	(93)
Tax base [c)]	**702**	**350**
Income tax	155	72
Income tax rate (%)	**22.1%**	**20.5%**

Source: FIs, APB.

[a)] Net income before tax of the 21 financial institutions in the sample in this chapter.

[b)] Includes positive and negative changes in equity not reflected in the net income for the year but recognised in reserves and retained earnings.

[c)] Aggregate taxable income consists of the sum of taxable income and tax losses of the financial institutions in the sample. The financial institutions that recorded a tax loss in the year have no tax base, and therefore the Tax Base field only includes the aggregate figures for members that record taxable income (even after deduction of losses), this amount being necessarily higher than the amount of aggregate taxable income (which contains said losses).

Financial institutions also contribute to the Portuguese State with local State taxes and autonomous taxation. In addition, they are also subject to tax in the countries where they operate. In 2019 and 2020 the amounts paid under these headings totalled 69 million euros and 58 million euros, respectively.

Table 10: Approximate local taxes, autonomous taxation and income tax levied in foreign countries (2019-2020)

	2019 million €	2020 million €
Income tax levied in foreign countries net of the deduction of double taxation	8	13
Autonomous taxation	11	9
Local taxes [a)]	50	36
Total local taxes, autonomous taxation and income tax levied in foreign countries	**69**	**58**

Source: FIs, APB.

[a)] The approximate amount of local surtaxes was calculated by applying a rate of 1.5% to taxable income, plus an additional 3% to 7% depending on the amount of taxable income.

Financial institutions are also subject to other operating taxes, such as stamp duty, non-deductible value added tax (VAT) and municipal property tax ("IMI"). In Table 11, these taxes are grouped under the heading operating taxes.

In 2010, the State Budget for 2011 (Law no. 55 – A/2010 of 31 December, art. 141) established a special tax on banks (Banking Sector Contribution). As set out in Order no. 121/2011 of the Ministry of Finance and Public Administration, of 30 March, this contribution applies to:

a) liabilities calculated and approved by taxable persons minus Tier 1 and Tier 2 capital, and deposits covered by the Deposit Guarantee Fund, at a rate of 0.05% of the amount calculated.

b) the notional value of off-balance-sheet derivative financial instruments calculated by taxable persons, at a rate of 0.00015% of the amount calculated.

The Banking Sector contribution of the group of member financial institutions totalled 153 million euros in 2019 (156 million euros in 2019).

In 2020, the Law n. nº 27-A/2020 of 24 July, established an additional solidarity contribution on the banking sector with the aim of reinforcing the funding mechanisms of the social security system. The calculation base for this contribution is the same used for the calculation of the banking sector contribution and the rates applied for a) and b) above are 0.02% e 0.00005%, respectively.

The additional solidarity contribution on the banking sector of the group of member financial institutions totalled 28 million euros in 2020.

Other levies include contributions to the Social Security, pension funds and SAMS (Banking Sector Medical and Social Service).

Table 11: Tax and parafiscal burden (2019-2020)

	2019 million €	2020 million €
Tax Burden		
Operating taxes [a)]	250	254
Banking sector contribution	156	153
Additional solidarity contribution on the banking sector	-	28
Contribution to resolution fund and single resolution fund	175	174
Total	582	608
Parafiscal Burden		
Single social rate	279	281
Pension expenses	369	478
Other expenses	98	103
Total	746	862
Total	**1 328**	**1 470**

Source: FIs, APB.

[a)] Include stamp duty, non-deductible VAT and IMI.

VI. Solvency analysis [15]

Table 12: Capital adequacy as at 31 December (2018-2020)

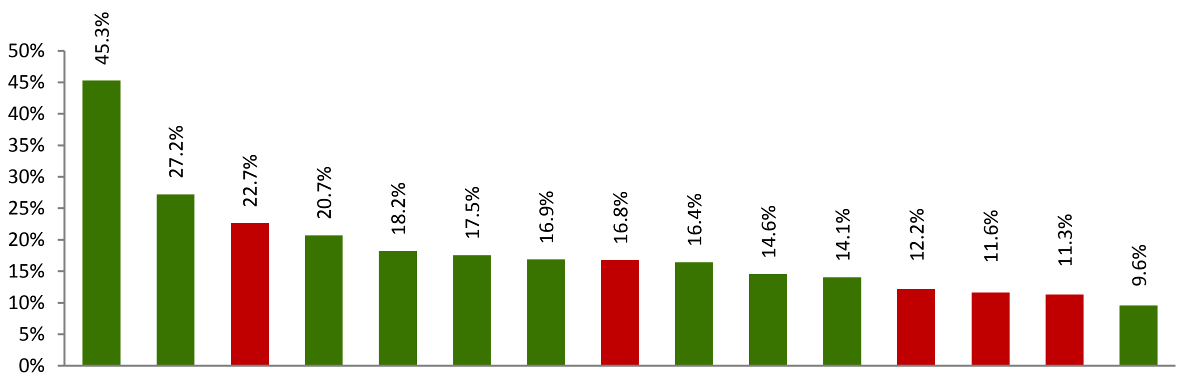
	2018	2019	2020
Total Assets (Million €)			
Total assets [a)]	346 412	353 123	372 317
Own Funds (Million €)			
Common Equity Tier 1 (CET1)	25 262	27 044	27 763
Tier 1	26 580	29 069	29 813
Tier 2	2 237	2 774	2 787
Total eligible own funds	28 817	31 843	32 600
Risk-weighted assets (Million €)			
Credit risk	165 906	155 773	159 537
Market risk	4 569	5 421	5 917
Operational risk	15 043	15 501	15 217
Exposures – credit valuation adjustment	618	408	372
Other	1 650	788	1 312
Risk-weighted assets	187 786	177 891	182 355
Capital Ratios (%)[16]			
CET1	13.5%	15.2%	15.2%
Tier 1	14.2%	16.3%	16.3%
Total Capital Ratio	15.3%	17.9%	17.9%

Source: FIs, APB.

[a)] Does not include off-balance sheet items.

The aggregate CET1 ratio stood at 15.2%, and the total solvency ratio at 17.9%, both remaining stable compared to the previous year.

Graph 40: Common Equity Tier 1 Ratio, as at 31 December 2020



Source: FIs, APB.

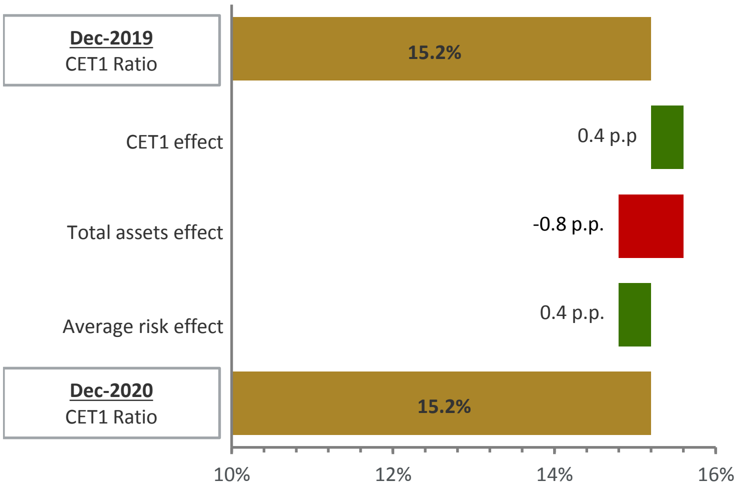
Note: CET1 ratios sorted in descending order. The red (green) columns identify the institutions whose solvency ratio decreased (increased) from 2019 to 2020.

[15] The solvency review is based on the financial statements subject to prudential requirements of domestic institutions and subsidiaries. This criterion resulted in a sample of 15 member FIs. For two of them we used their individual accounts and for the remainder their consolidated accounts.

[16] Phased-in ratios.

The CET1 ratio remained stable from the previous year, reflecting the joint effect of the increase in own funds (+0.4 p.p.), the reduction in the average risk of assets (+0.4 p.p.)[17] and the negative contribution, albeit small, of total assets (-0.8 p.p.).

Graph 41: Breakdown of the chage in CET1 Ratio



Source: FIs, APB.

The increase in CET1 capital was mainly due to the non-distribution of profits until September 2021 in view of the recommendations of the ECB, the Bank of Portugal and the European Systemic Risk Board, aimed at preserving the capital of financial institutions and promoting lending to the economy, given the negative economic effects of the pandemic crisis.

The main reason behind the increase in aggregate risk weighted assets (RWAs) was the increase in RWAs for credit risk (3.7 billion euros). On the capital front, RWAs for credit risk also remained the main source of capital consumption, absorbing 87.5% of the total requirements.

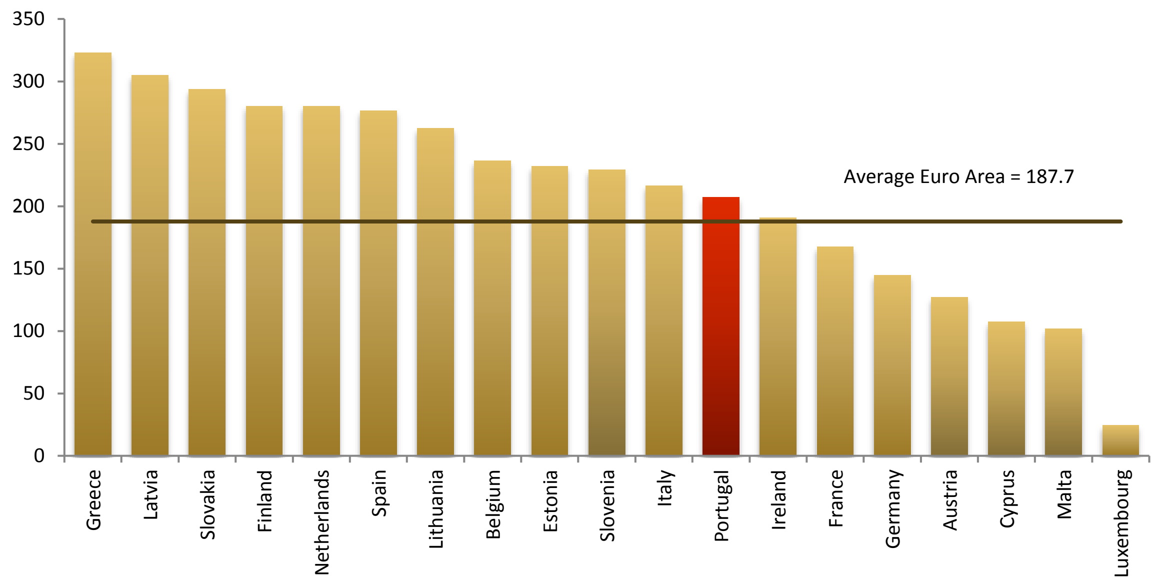
[17] For an understanding of these three elements, we remind readers that solvency is calculated as: Own funds / (Total assets * Average risk), where average risk, also called the average risk weight of assets, is the ratio of risk-weighted assets to total assets.

VII. Productivity Indicators

Productivity Indicators[18], namely those that quantify performance per branch or employee, reflect the impact of restructuring or resizing processes of the Portuguese banking system's operating structures implemented over the last years.

The number of inhabitants per employee of member financial institutions is close to the average in the Euro Area.

Graph 42: Inhabitants per employee in the Euro Area



Source: Eurostat and ECB.

[18] This review was based on the total number of employees (in domestic and international activity) and the total number of branches (including bank branches in Portugal and branches and representative offices abroad).

Table 13: Other productivity indicators (2018-2020)

	2018	2019	2020
Number of employees [a]			
Total	46 611	46 549	45 667
Annual change rate	-	*-0.1%*	*-1.9%*
Inhabitants per employee			
Total (number of inhabitants)	220	221	226
Annual change rate	-	*0.3%*	*2.0%*
Average total assets[b] per employee			
Total (thousands €)	7 048	7 086	7 505
Annual change rate	-	*0.5%*	*5.9%*
Average cost[c] per employee			
Total (thousands €)	48	49	48
Annual change rate	-	*0.4%*	*-1.7%*
Operating income per employee			
Total (thousands €)	153	146	136
Annual change rate	-	*-4.7%*	*-6.8%*
Number of branches [a]			
Total	4 166	4 052	3 820
Annual change rate	-	*-2.7%*	*-5.7%*
Inhabitants per branch			
Total (number of inhabitants)	2 467	2 541	2 696
Annual change rate	-	*3.0%*	*6.1%*
Branches per 100.000 inhabitants			
Total (number of branches)	41	39	37
Annual change rate		*-2.9%*	*-5.7%*
Average total assets [b] per branch			
Total (thousands €)	78 856	81 403	89 722
Annual change rate	-	*3.2%*	*10.2%*
Deposits per branch			
Total (thousands €)	49 799	53 164	59 688
Annual change rate		*6.8%*	*12.3%*
Operating income per branch			
Total (thousands €)	1 717	1 680	1 630
Annual change rate	-	*-2.1%*	*-3.0%*

Source: FIs, APB.

[A] Number of employees (in domestic and international activity) and number of branches (bank branches in Portugal and branches and representative offices abroad).

[B] Arithmetic average of assets in period n and assets in period n-1.

Table 14: Other productivity indicators, by size and by origin / type of legal structure (2018-2020)

	Large			Medium-sized			Small			Domestic			Subsidiary			Branch office		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Number of employees [a]																		
Total	34 830	33 992	32 509	5 463	5 944	5 875	6 318	6 613	7 283	29 530	29 101	28 013	12 123	11 872	11 463	4 958	5 576	6 191
Annual change rate	-	*-2.4%*	*-4.4%*	-	*8.8%*	*-1.2%*	-	*4.7%*	*10.1%*	-	*-1.5%*	*-3.7%*	-	*-2.1%*	*-3.4%*	-	*12.5%*	*11.0%*
Inhabitants per employee																		
Total (number of inhabitants)	295	303	317	1 881	1 732	1 753	1 627	1 557	1 414	348	354	368	848	867	898	2 073	1 846	1 663
Annual change rate	-	*2.7%*	*4.6%*	-	*-7.9%*	*1.2%*	-	*-4.3%*	*-9.2%*	-	*1.7%*	*3.9%*	-	*2.3%*	*3.6%*	-	*-10.9%*	*-9.9%*
Average total assets[b] per employee																		
Total (thousands €)	8 309	8 537	9 273	4 299	4 166	4 594	2 474	2 254	1 964	7 685	7 801	8 488	7 684	7 896	8 353	1 696	1 628	1 489
Annual change rate	-	*2.7%*	*8.6%*	-	*-3.1%*	*10.3%*	-	*-8.9%*	*-12.9%*	-	*1.5%*	*8.8%*	-	*2.8%*	*5.8%*	-	*-4.0%*	*-8.5%*
Average cost[c] per employee																		
Total (thousands €)	53	53	53	22	23	17	48	48	49	49	49	48	52	51	53	38	40	40
Annual change rate	-	*1.3%*	*-0.2%*	-	*1.5%*	*-24.1%*	-	*0.0%*	*1.2%*	-	*1.5%*	*-3.7%*	-	*-2.1%*	*3.7%*	-	*3.5%*	*-0.1%*
Operating income per employee																		
Total (thousands €)	177	167	163	63	67	57	103	113	114	140	146	139	225	183	188	58	66	66
Annual change rate	-	*-5.8%*	*-2.4%*	-	*6.5%*	*-14.9%*	-	*9.6%*	*1.0%*	-	*4.5%*	*-5.3%*	-	*-18.5%*	*2.5%*	-	*14.1%*	*-0.4%*
Number of branches [a]																		
Total	2 951	2 837	2 620	850	914	896	365	301	304	3 053	2 971	2 863	1 038	994	871	75	87	86
Annual change rate	-	*-3.9%*	*-7.6%*	-	*7.5%*	*-2.0%*	-	*-17.5%*	*1.0%*	-	*-2.7%*	*-3.6%*	-	*-4.2%*	*-12.4%*	-	*16.0%*	*-1.1%*
Inhabitants per branch																		
Total (number of inhabitants)	3 482	3 629	3 931	12 090	11 265	11 494	28 155	34 206	33 876	3 366	3 465	3 597	9 900	10 358	11 823	137 022	118 344	119 747
Annual change rate	-	*4.2%*	*8.3%*	-	*-6.8%*	*2.0%*	-	*21.5%*	*-1.0%*	-	*3.0%*	*3.8%*	-	*4.6%*	*14.1%*	-	*-13.6%*	*1.2%*
Branches per 100.000 inhabitants																		
Total (number of branches)	29	28	25	8	9	9	4	3	3	30	29	28	10	10	8	0.7	0.8	0.8
Annual change rate	-	*-4.0%*	*-7.7%*	-	*7.3%*	*-2.0%*	-	*-17.7%*	*1.0%*	-	*-2.9%*	*-3.7%*	-	*-4.4%*	*-12.4%*	-	*15.8%*	*-1.2%*
Average total assets [b] per branch																		
Total (thousands €)	98 067	102 283	115 055	27 632	27 092	30 123	42 826	49 524	47 059	74 336	76 415	83 051	89 748	94 307	109 928	112 120	104 313	107 187
Annual change rate	-	*4.3%*	*12.5%*	-	*-2.0%*	*11.2%*	-	*15.6%*	*-5.0%*	-	*2.8%*	*8.7%*	-	*5.1%*	*16.6%*	-	*-7.0%*	*2.8%*
Deposits per branch																		
Total (thousands €)	64 916	69 476	79 586	9 935	10 720	11 008	20 415	28 303	31 679	47 943	50 827	55 877	55 724	60 838	73 098	43 343	45 292	50 739
Annual change rate	-	*7.0%*	*14.6%*	-	*7.9%*	*2.7%*	-	*38.6%*	*11.9%*	-	*6.0%*	*9.9%*	-	*9.2%*	*20.2%*	-	*4.5%*	*12.0%*
Operating income per branch																		
Total (thousands €)	2 087	1 996	2 017	405	437	374	1 780	2 475	2 725	1 355	1 434	1 356	2 627	2 191	2 475	3 842	4 252	4 758
Annual change rate	-	*-4.3%*	*1.0%*	-	*7.8%*	*-14.2%*	-	*39.1%*	*10.1%*	-	*5.8%*	*-5.4%*	-	*-16.6%*	*13.0%*	-	*10.7%*	*11.9%*

Source: FIs, APB.

[a] Number of employees (in domestic and international activity) and number of branches (bank branches in Portugal and branches and representative offices abroad). [b] Arithmetic average of assets in period n and assets in period n-1.

VIII. International activity analysis [19]

The analysis of the international activity was based on the aggregate consolidated activity of seven members banking groups (BCP, BPI, CGD, Montepio, Novo Banco, BIG and Haitong). Total net assets of these FIs' international activity amounted to 44.5 billion euros, which is 3.4% less (-1.6 billion euros) than in 2019. This reduction reflects the Strategic Plans implemented by some FI that involved some retrenchment of their international presence, as well as the exchange rate devaluations occurred in some of these geographies.

The assets of Members' international activity dropped to 15.7% of total consolidated assets, from 17.2% in 2019.

Table 15: Consolidated balance sheet regarding international business activity (2018-2020)

	2018	2019	2020
Aggregate Assets			
Total (million €)	48 445	46 057	44 497
Annual change rate	-	*-4.9%*	*-3.4%*
As % of total consolidated net assets	*18.4%*	*17.2%*	*15.7%*

Source: FIs, APB.

In terms of profitability, the international activity maintained a positive contribution, with net income (NI) from this area totalling 216 million euros, which compares with 351 million euros in 2019 (-38.3%).

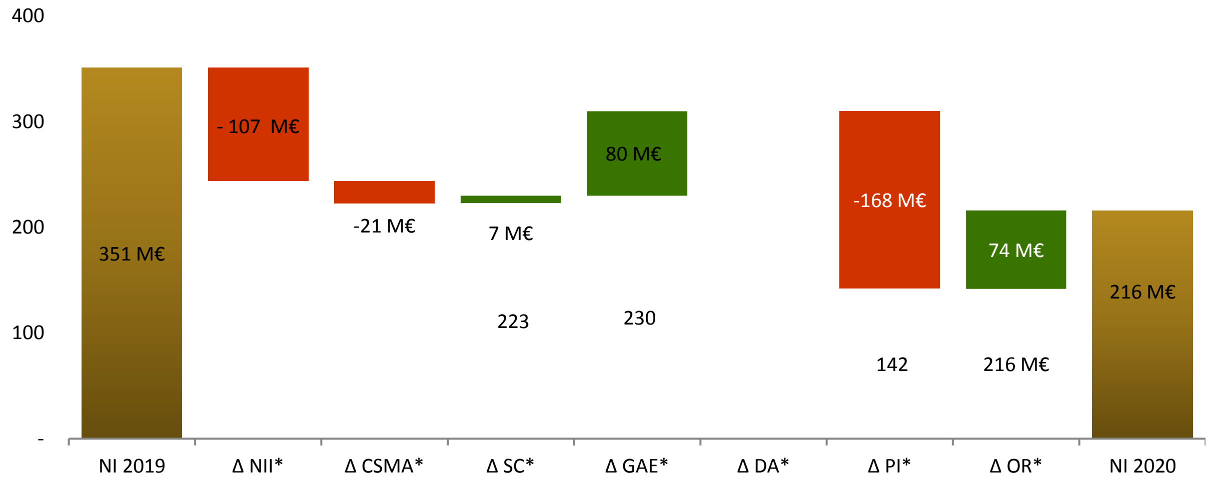
[19] The international activity includes the activity developed by the subsidiaries.

Table 16: Consolidated income statement – international business activity (2018-2020)

	2018	2019	2020
Net interest income			
Total (million €)	1 164	1 249	1 142
Annual change rate	*1.7%*	*7.3%*	*-8.6%*
As % of total consolidated net interest income	*29.7%*	*30.9%*	*29.5%*
Operating income			
Total (million €)	1 471	1 688	1 560
Annual change rate	*8.2%*	*14.8%*	*-7.6%*
As % of total consolidated operating income	*25.7%*	*28.9%*	*28.4%*
Operating costs			
Total (million €)	759	846	759
Annual change rate	*-1.8%*	*11.6%*	*-10.4%*
As % of total consolidated operating costs	*22.0%*	*24.1%*	*23.4%*
Provisions and impairment			
Total (million €)	222	327	495
Annual change rate	-39.1%	47.0%	51.4%
As % of total consolidated provisions and impairment	15.4%	24.0%	18.6%
Other results			
Total (million €)	-2	-164	-90
Annual change rate	*-98.3%*	*7103.3%*	*44.9%*
As % of total consolidated other results	*84.1%*	*30.8%*	*45.8%*
Net income			
Total (million €)	487	351	216
Annual change rate	*439.7%*	*-28.0%*	*-38.3%*
As % of total consolidated net income	*-470.9%*	*81.7%*	*-35.8%*

Source: FIs, APB.

Graph 43 Contribution from the main components of NI from the international activity to the change in NI between 2019 and 2020

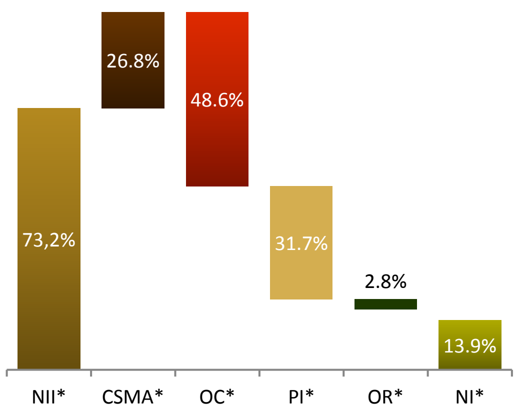


Source: FIs, APB.
Note: NI – Net income; Δ NII* – change in net interest income; Δ CSMA* – change in customer services and market activities; Δ SC* – change in staff costs; Δ GAE* – change in general and administrative expenses; Δ DA* – Change in depreciation and amortisation; Δ PI* – Change in provisions and impairments; Δ OR* – Change in other results.

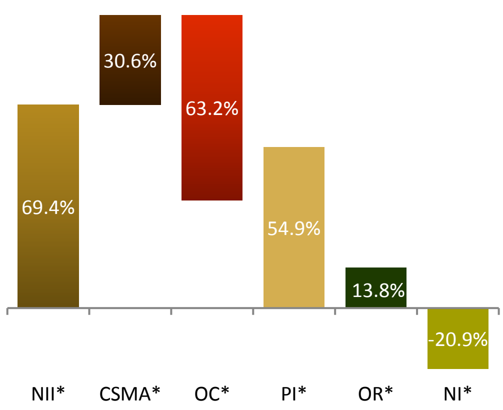
The structure of earnings from the international activity shows significant differences compared to the domestic activity structure, with the former featuring a higher relative share of net interest income and a significantly lower share of operating costs.

Graph 44: Breakdown of NI as a percentage of operating income 2020

a) International activity

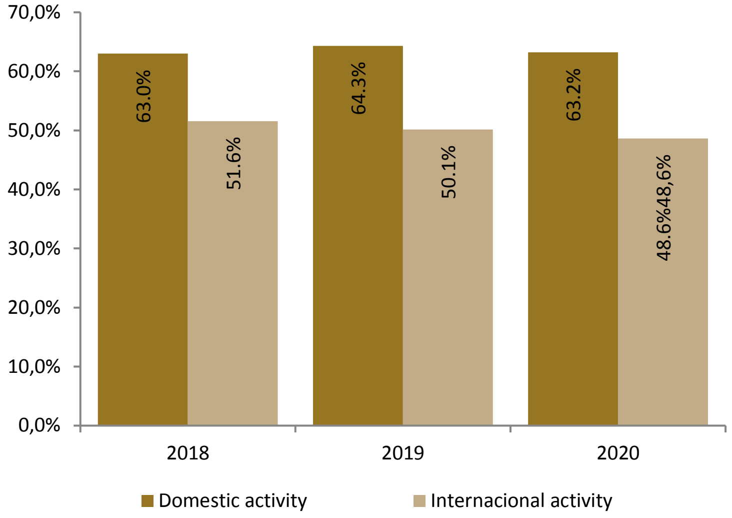


b) Domestic activity



Source: FIs, APB.
Note: * NII – net interest income; CSMA – customer services and market activities; OC – operating costs; PI – provisions and impairments; OR –other results; NI – net income.

Graph 45: Cost-to-income: domestic activity vs. Internacional, 2020



Source: FIs, APB.

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List of financial institutions that are members of the APB

Financial institutions - Domestic

Financial Institutions	Name of Group used in the presentation of consolidated accounts
Banco BIC Português, S.A.	
Banco Comercial Português, S.A. Banco ActivoBank, S.A.	Banco Comercial Português Group
Banco CTT, S.A.	Banco CTT Group
Banco de Investimento Global, S.A.	Banco de Investimento Global Group
Banco Finantia, S.A.	Banco Finantia Group
Banco Invest, S.A.	Banco Invest Group
Banco Carregosa, S.A.	
Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL (SICAM - Sistema Integrado de Crédito Agrícola Mútuo)	Crédito Agrícola Group
Caixa de Crédito Agrícola Mútuo de Leiria	
Caixa de Crédito Agrícola Mútuo de Mafra	
Caixa Económica da Misericórdia de Angra do Heroísmo	
Caixa Económica Montepio Geral Montepio Investimento, S.A.	Caixa Económica Montepio Geral Group
Caixa Geral de Depósitos, S.A. Caixa - Banco de Investimento, S.A.	Caixa Geral de Depósitos Group Caixa – Banco de Investimento Group
Novo Banco, S.A. BEST – Banco Eletrónico de Serviço Total, S.A. Novo Banco dos Açores, S.A.	Novo Banco Group

Financial institutions - Subsidiaries

Financial Institutions	Name of Group used in the presentation of consolidated accounts
Banco BPI, S.A.	BPI Group
Banco Credibom, S.A.	Banco Credibom Group
Banco Santander Totta, S.A.	Santander Totta, SGPS, S.A.
Haitong Bank, S.A.	Haitong Bank Group

Financial institutions – Branch offices

Financial Institutions	Name of Group used in the presentation of consolidated accounts
ABANCA Corporación Bancaria, S.A. – Sucursal em Portugal	
Banco Bilbao Vizcaya Argentaria (Portugal), S.A.	
Bankinter, S.A. – Sucursal em Portugal	
BNP Paribas – Sucursal em Portugal BNP Paribas Securities Services, S.A. – Sucursal em Portugal	
Deutsche Bank, AG – Sucursal em Portugal	
WiZink Bank, S.A. – Sucursal em Portugal	

Source: APB.

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