

# PORTUGUESE BANKING SECTOR OVERVIEW

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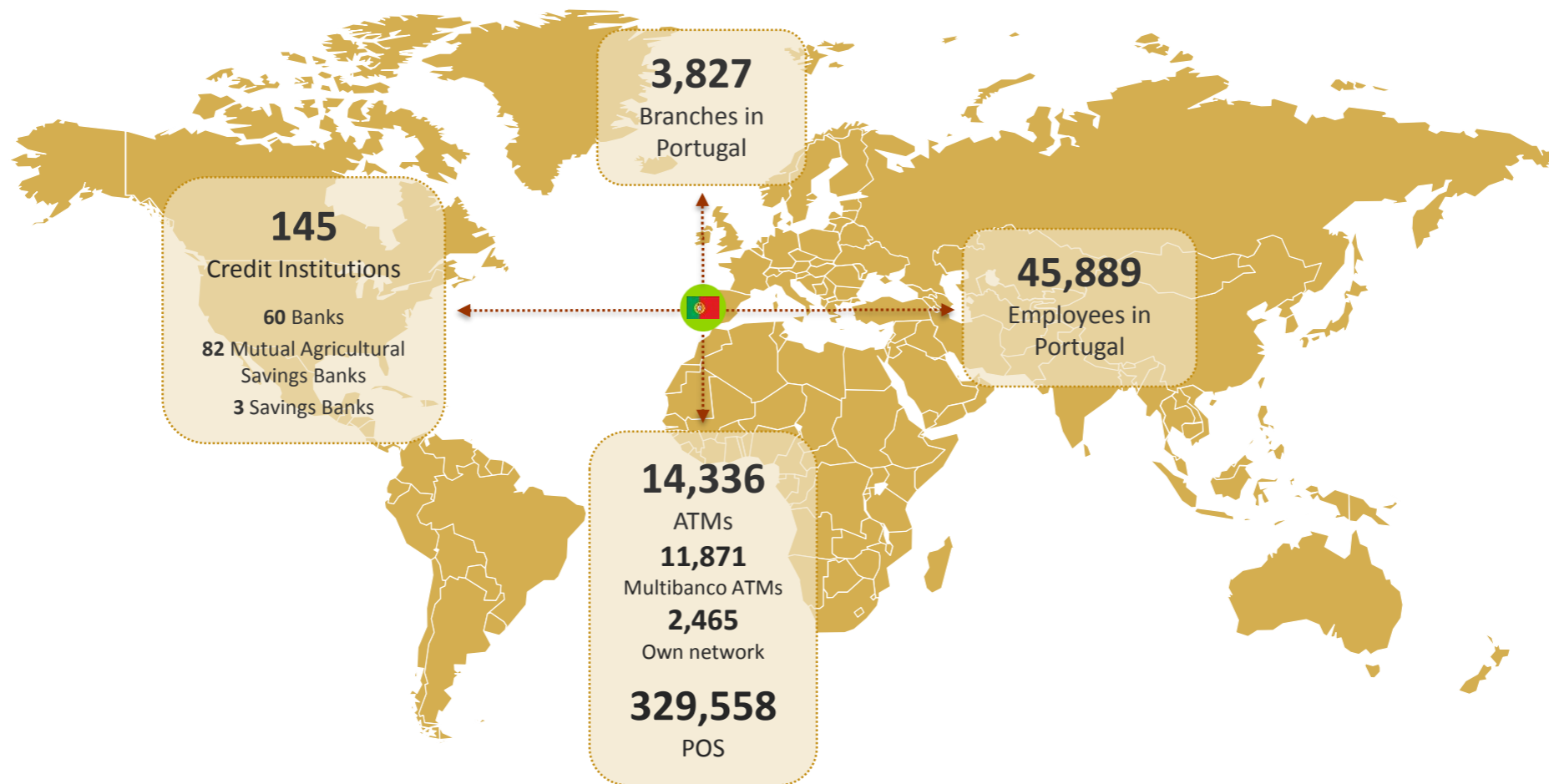
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- II. Financial Position
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- ❑ **The COVID-19 pandemic crisis generated an unprecedented economic shock and high levels of uncertainty.** The coordinated implementation of monetary, fiscal, and regulatory policy measures was crucial in providing support to the economy and mitigating the impacts on economic agents.
- ❑ **The progress made by the Portuguese banking sector since the great financial crisis is of extreme importance in the current context of the pandemic crisis.** The sector is better prepared and more resilient, especially in terms of liquidity and solvency, and has been playing a critical role in supporting the economy's financing and liquidity needs.
- ❑ On the asset side, it is worth highlighting **the positive evolution of the stock of loans to customers**, reflecting, mostly, the measures to support the economy adopted in response to the pandemic crisis, namely the publicly guaranteed schemes and the moratoria regimes.
- ❑ On the liability side, **deposits continued to rise** due to the increase in savings as a consequence of reduced consumption, related with the mobility restrictions imposed by the pandemic, and the high uncertainty regarding the duration of the crisis and its impacts.
- ❑ As a result of the attractive monetary policy measures, reinforced in this period of crisis, **funding from the Eurosystem increased significantly, with the system's liquidity remaining at extremely comfortable levels.**
- ❑ The profitability of the Portuguese banking system decreased significantly, **to values close to zero, mainly penalized by the need to increase provisioning, contributing to a further widening of the gap between ROE and the cost of capital.** The recovery of profitability is one of the main challenges faced by the sector.
- ❑ **In terms of solvency**, the system is more resilient than in the previous crisis, with greater capacity to accommodate a possible deterioration in credit risk and an increase in non performing assets.
- ❑ **The potential effects of the COVID-19 pandemic and the measures needed to control it pose critical challenges for the banking sector, which already faced significant pressure before the pandemic shock.** Among these challenges, the following stand out: the deep economic recession; the high level of uncertainty regarding the recovery; the maintenance of a low interest rate environment; the high indebtedness level of the non-financial sector; and the potential increase in defaults.

# I. RECENT EVOLUTION AND MAIN INDICATORS

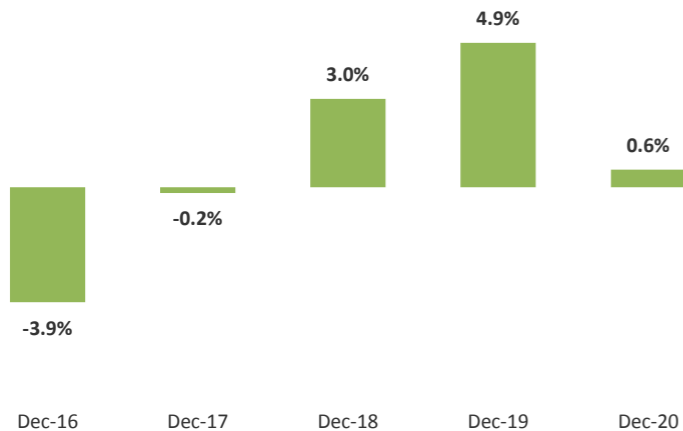


Source: APB's associates (branches, employees and payment systems) and Banco de Portugal (credit institutions).

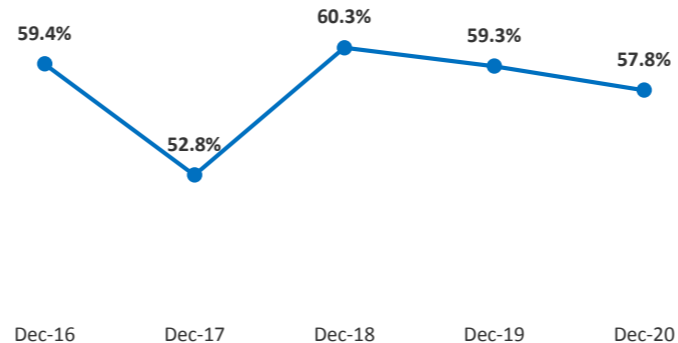
# I. RECENT EVOLUTION AND MAIN INDICATORS

The Portuguese banking sector is better prepared and more resilient to face the shock caused by the COVID-19 pandemic than it was in the global financial crisis of 2008, especially in terms of liquidity and solvency.

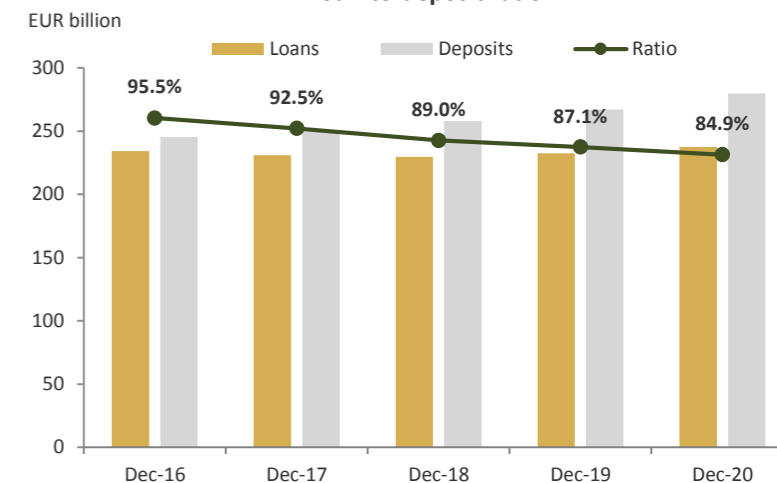
Return on Equity



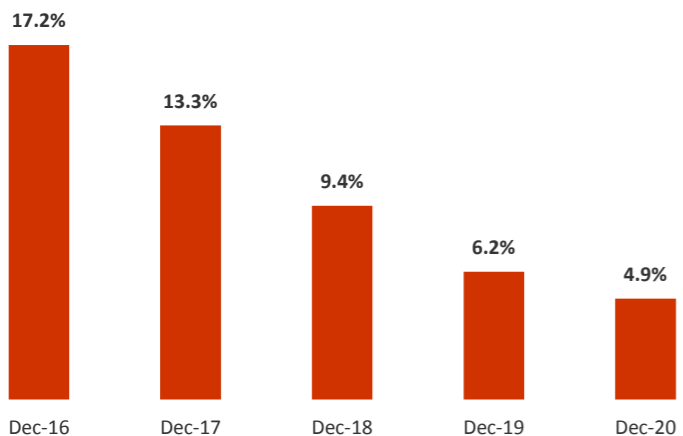
Cost-to-Income



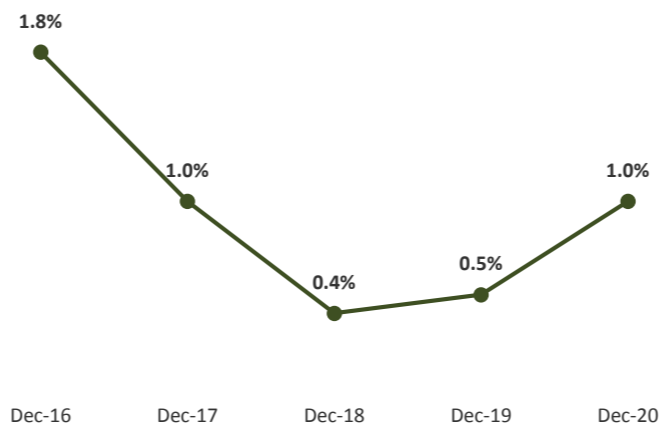
Loan-to-deposit ratio



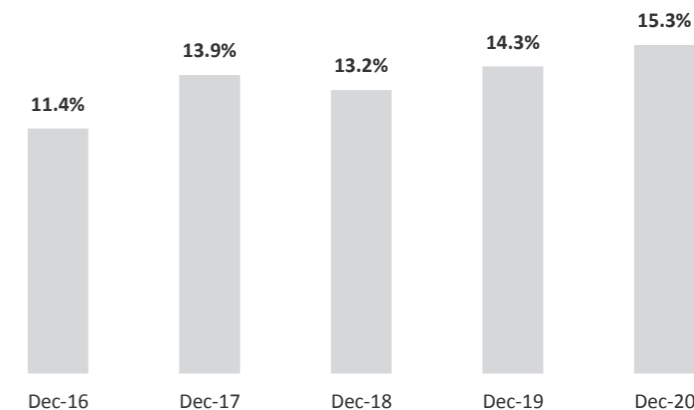
Non-Performing Loans ratio



Cost of credit risk (% of gross credit)



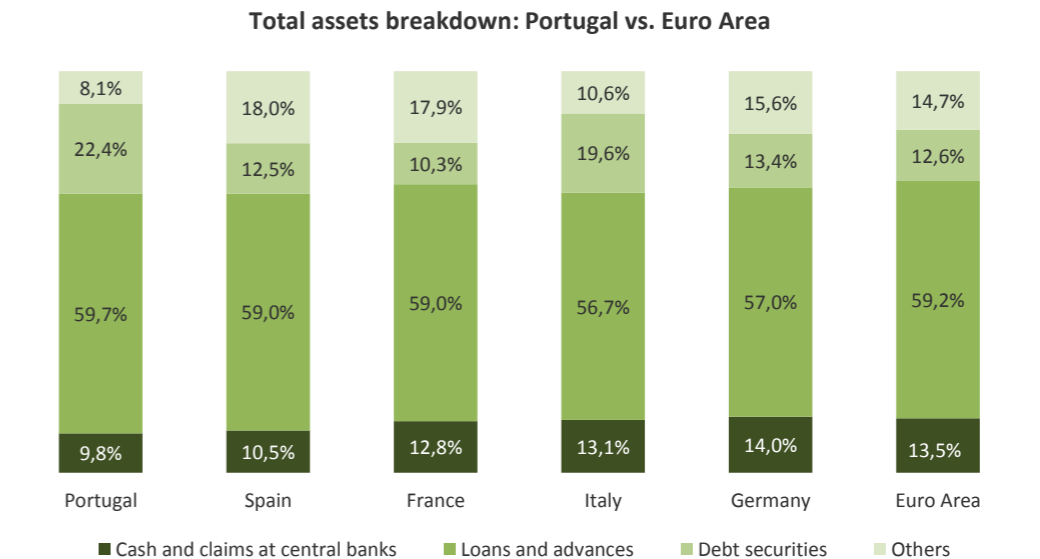
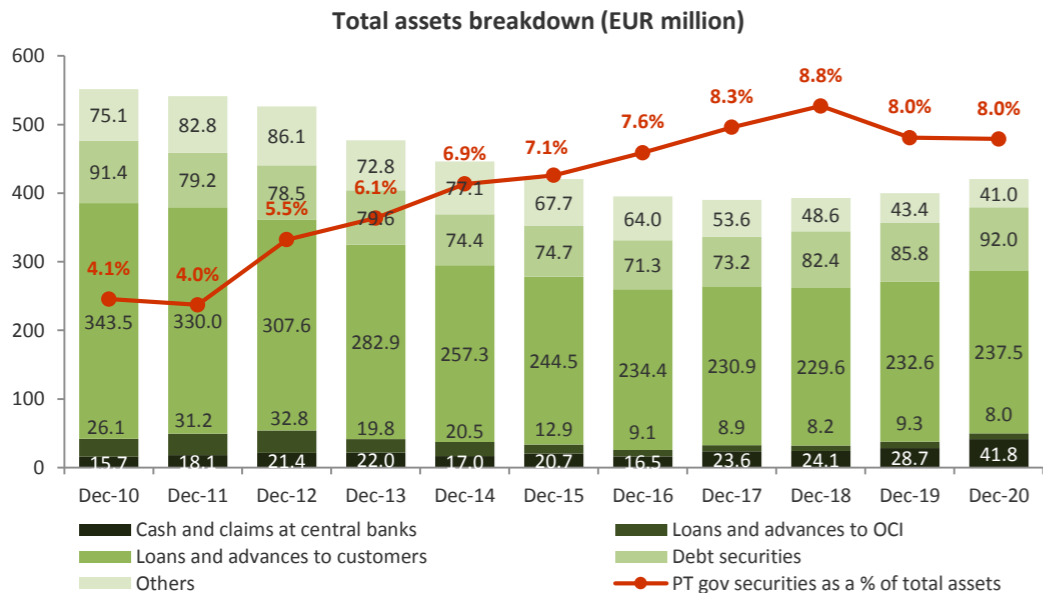
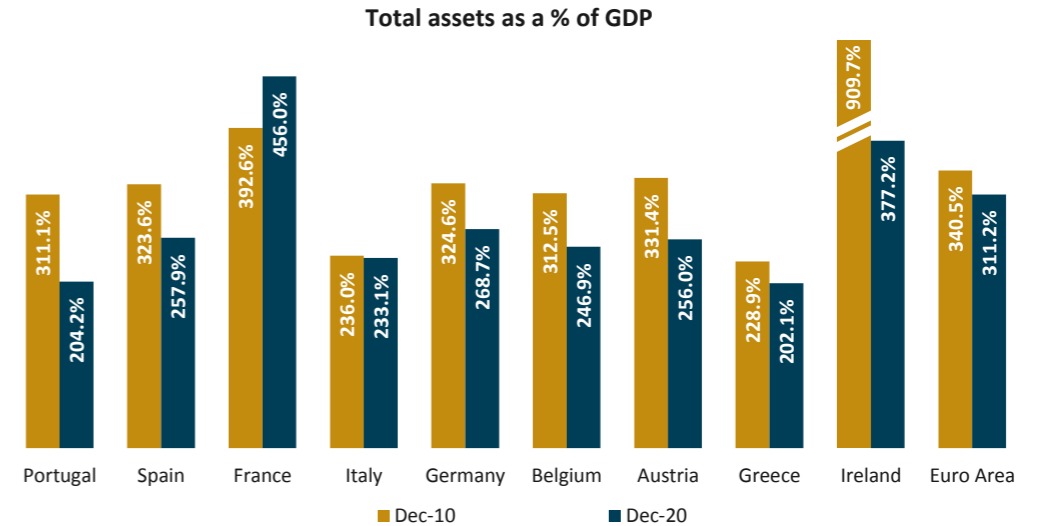
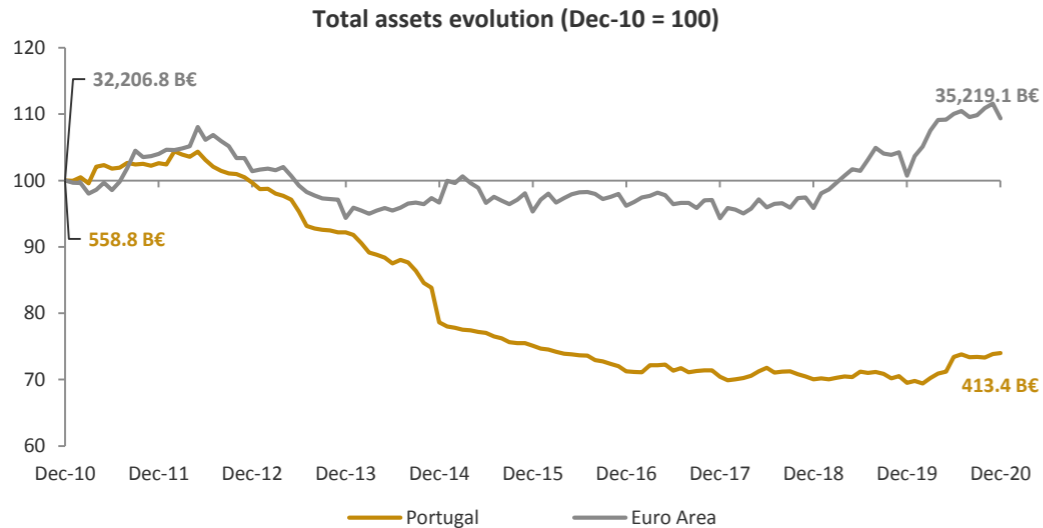
Common Equity Tier 1 ratio



Source: Banco de Portugal (consolidated data). Return on Equity calculated based on net income after tax and before minority interests and on equity (average).

## II. FINANCIAL POSITION

The measures taken to face the crisis arising from the COVID-19 pandemic led to a significant increase in loans and advances to customers. Despite this evolution, the banking sector's share of GDP remains at significantly lower levels than before the sovereign debt crisis due to the economy's deleveraging process registered in subsequent years.

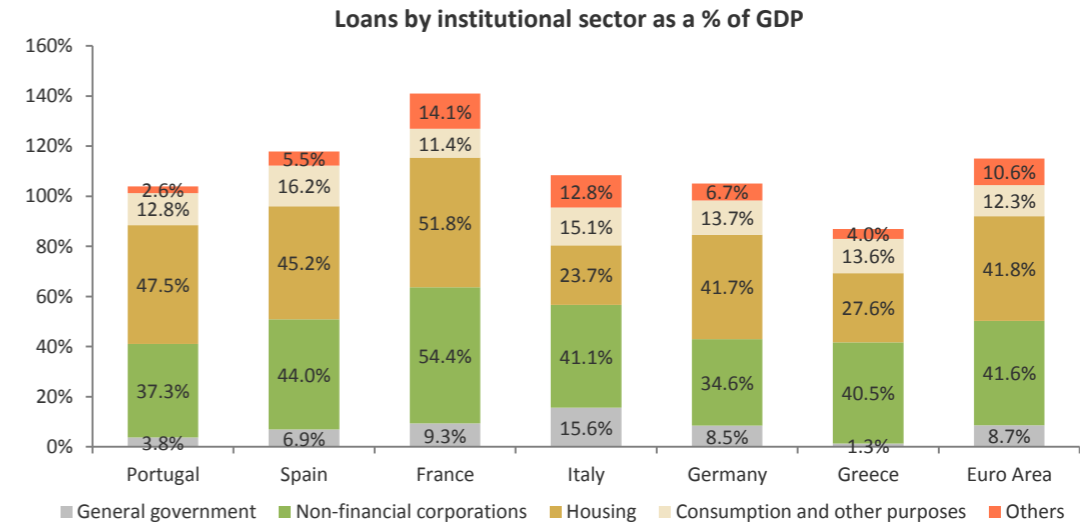
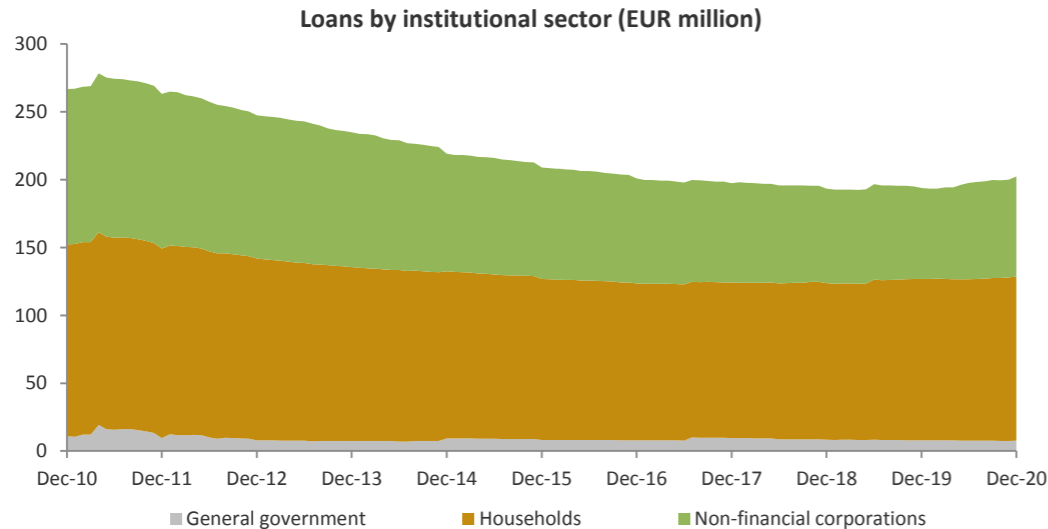
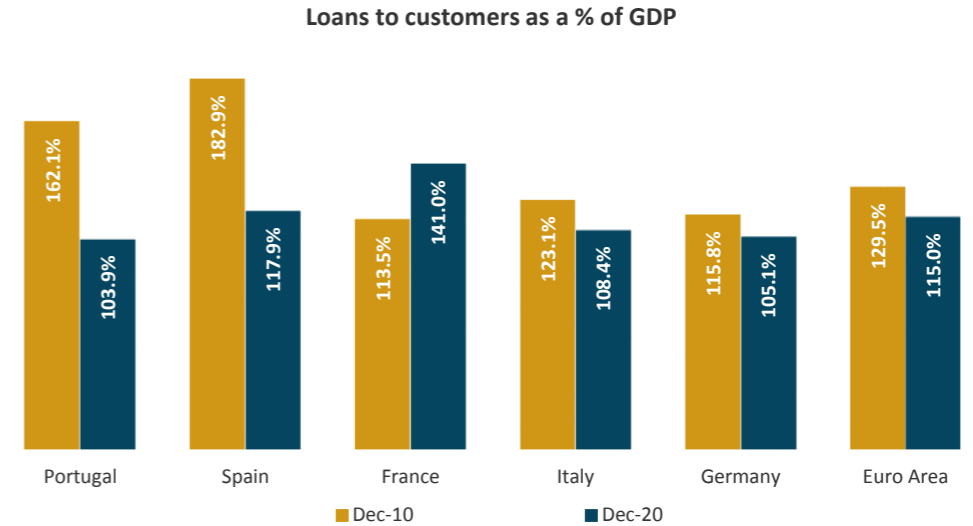
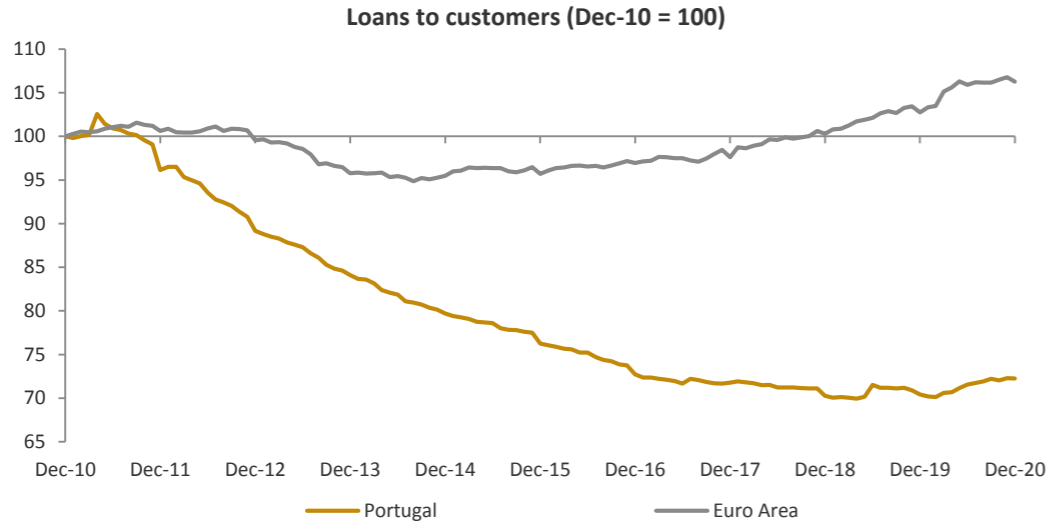


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Banco de Portugal (consolidated data).

Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Consolidated Banking Data and Eurostat.

## II. LENDING

The increase in the net stock of loans to customers vis-à-vis the end of 2019 is largely explained by the measures to support the economy adopted in response to the pandemic crisis, namely public guarantee schemes and the moratoria regime.

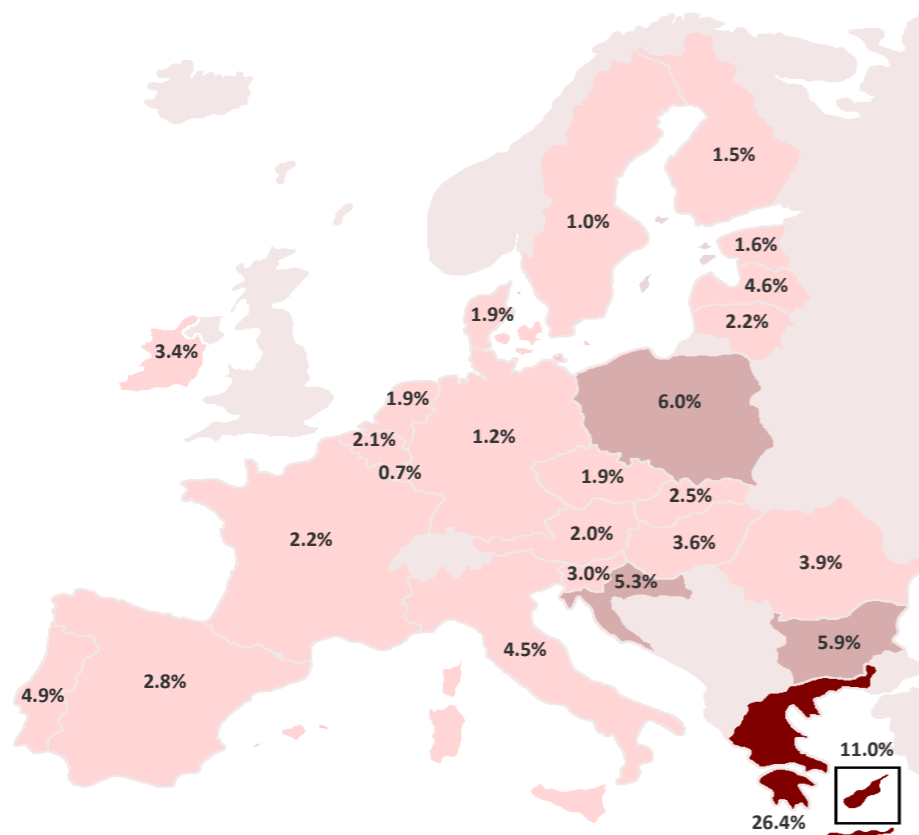


Source: Banco de Portugal (Monetary and Financial Statistics), ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat. Loans to customers are equivalent to loans granted to the non-monetary sector (gross end of period balances). Others include Non-Monetary Financial Institutions: Other Financial Intermediaries, Financial Auxiliaries, Insurance Companies and Pension Funds.

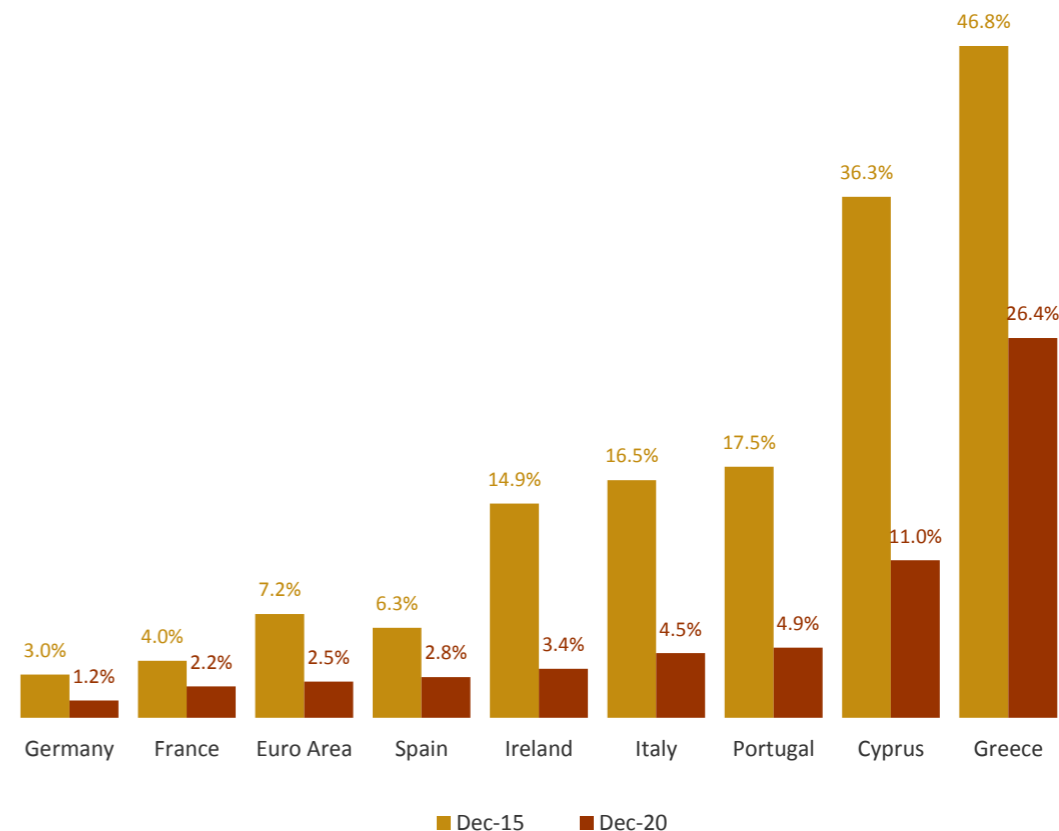
## II. LENDING

The reduction of the NPL stock remains a priority for the Portuguese banking sector. However, in the current context, the preservation of credit quality represents a significant challenge.

**NPL ratio in the EU**



**Evolution of the NPL ratio in the EU**

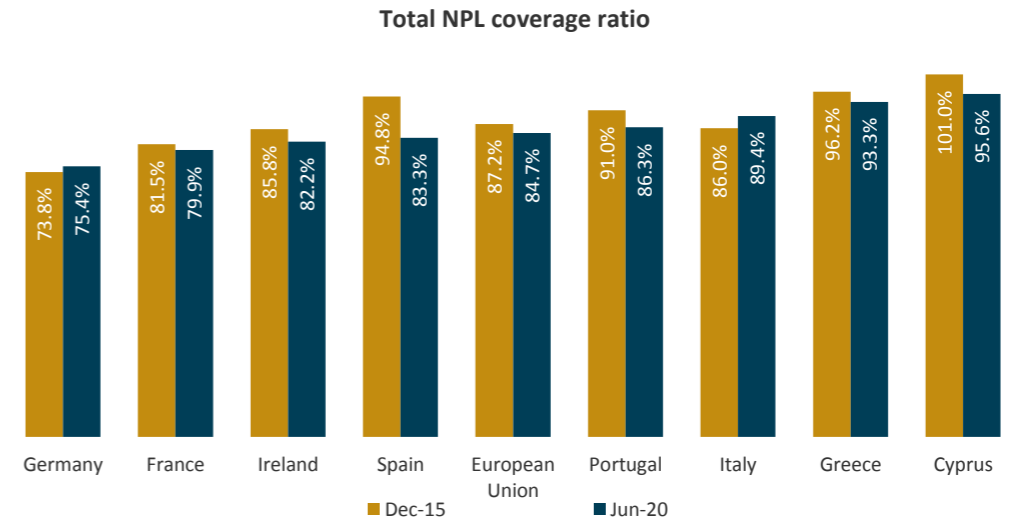
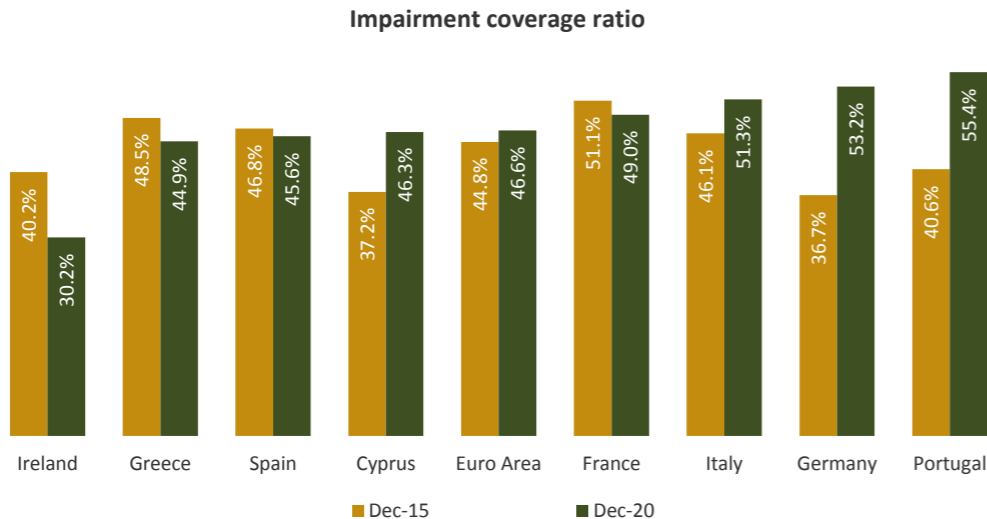
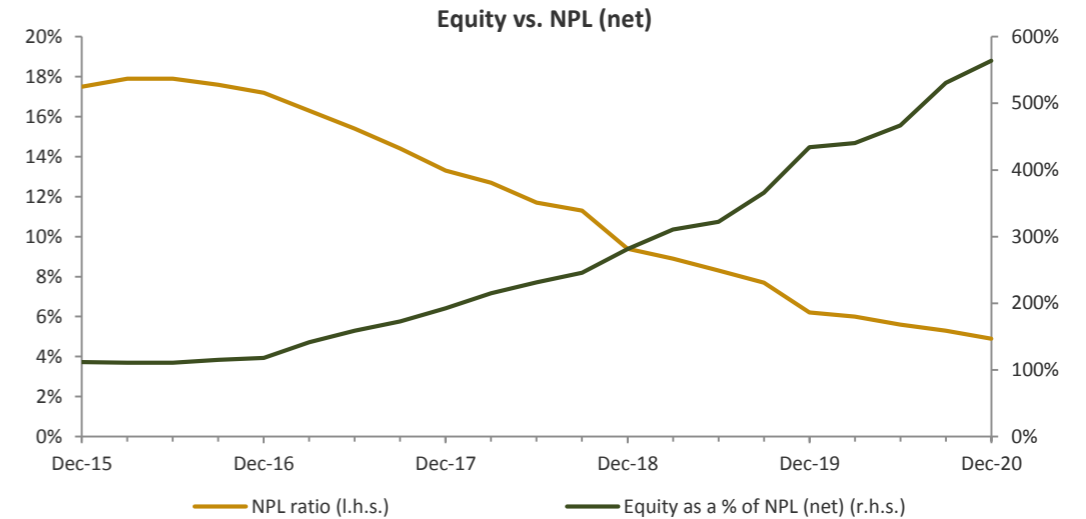
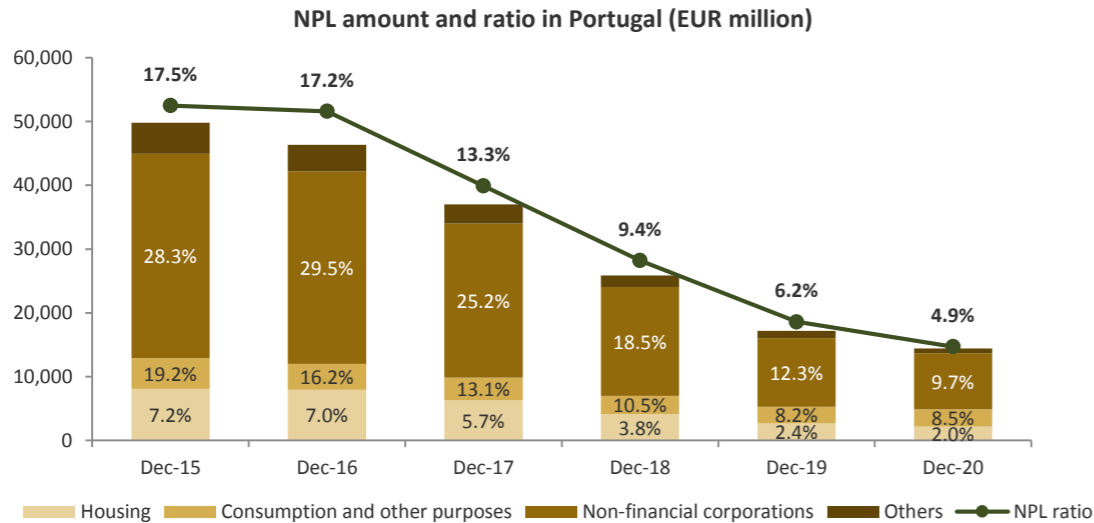


Source: ECB – Consolidated Banking Data.



## II. LENDING

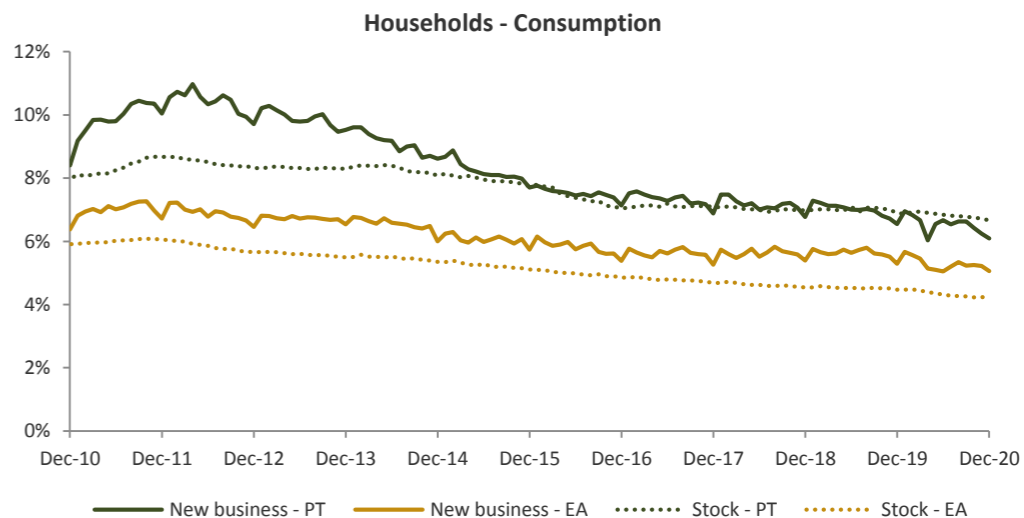
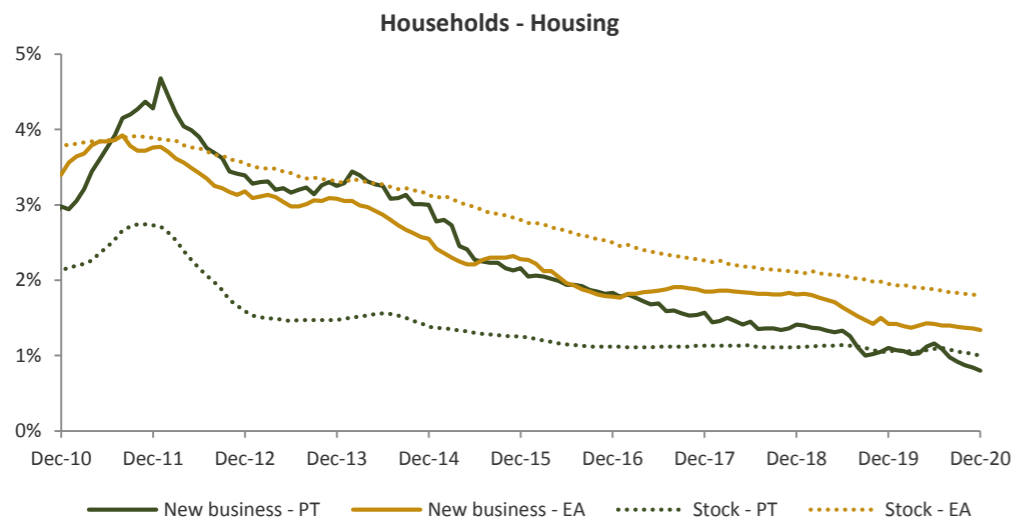
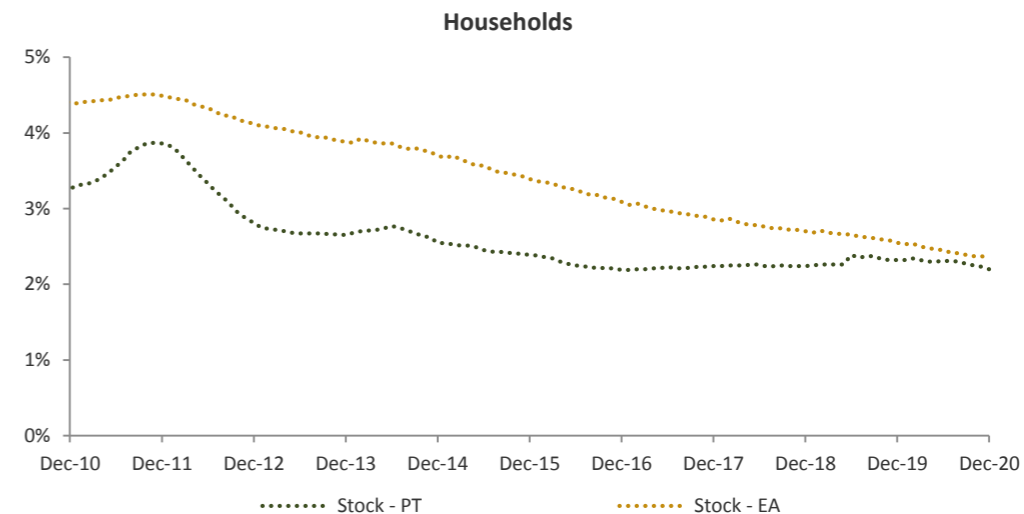
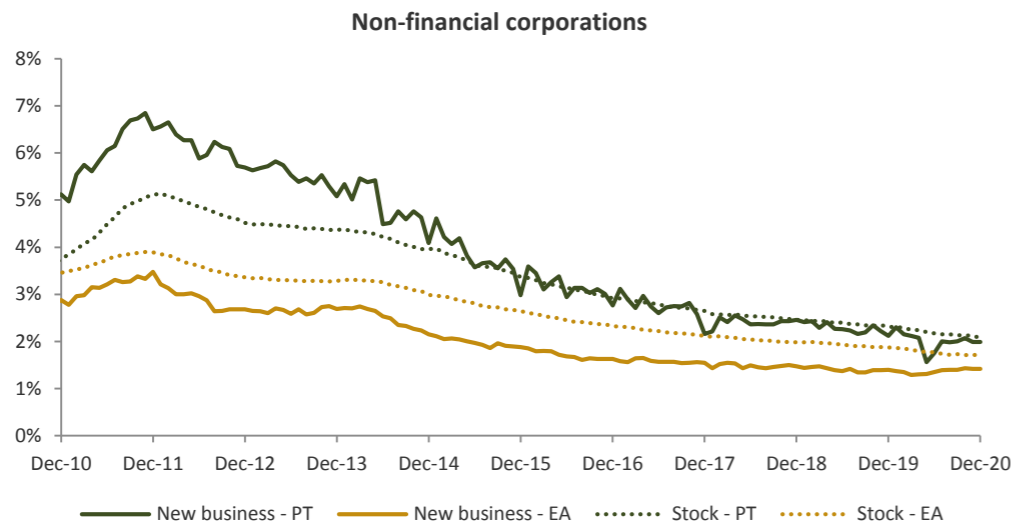
In 2020, the banking sector continued the trajectory of NPL reduction started in 2016. Impairment NPL coverage and total NPL coverage ratios have been strengthened and continue to compare favorably with the EU average. This reinforcement of impairment coverage and the reduction in the gross NPL ratio led to a reduction in the NPL ratio net of impairments to 2.2% (3% in 2019).



Source: Banco de Portugal (consolidated data), ECB – Consolidated Banking Data and EBA – EU-wide transparency exercise (total NPL coverage ratio). The impairment coverage ratio refers to non-performing loans and debt securities. Total coverage ratio includes cumulative impairments, collateral, and financial guarantees associated with non-performing loans. EBA sample includes 127 banks for Jun-20 (Portugal: BCP, CCCAM, CGD, LSF Nani Investments and Montepio).

## II. LENDING | LOAN CONDITIONS | INTEREST RATES

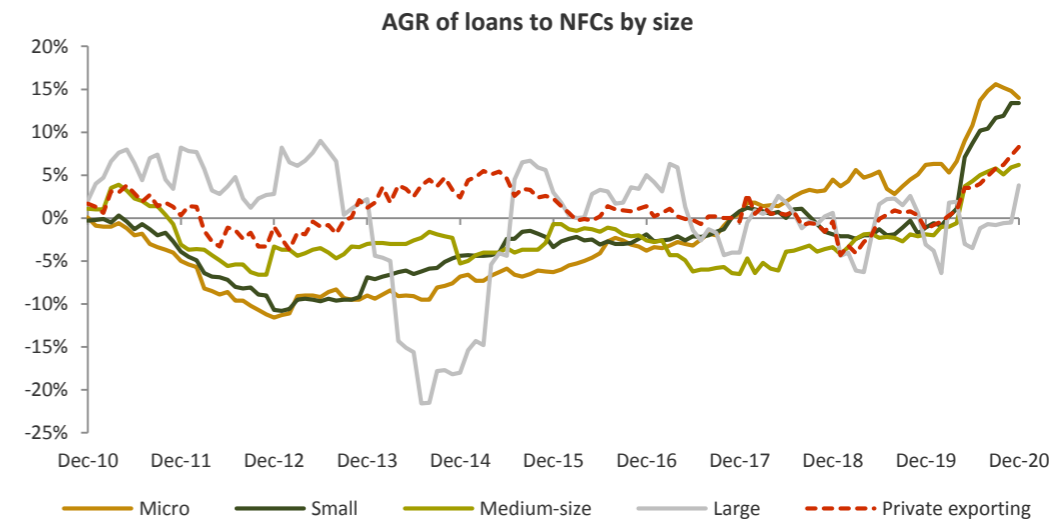
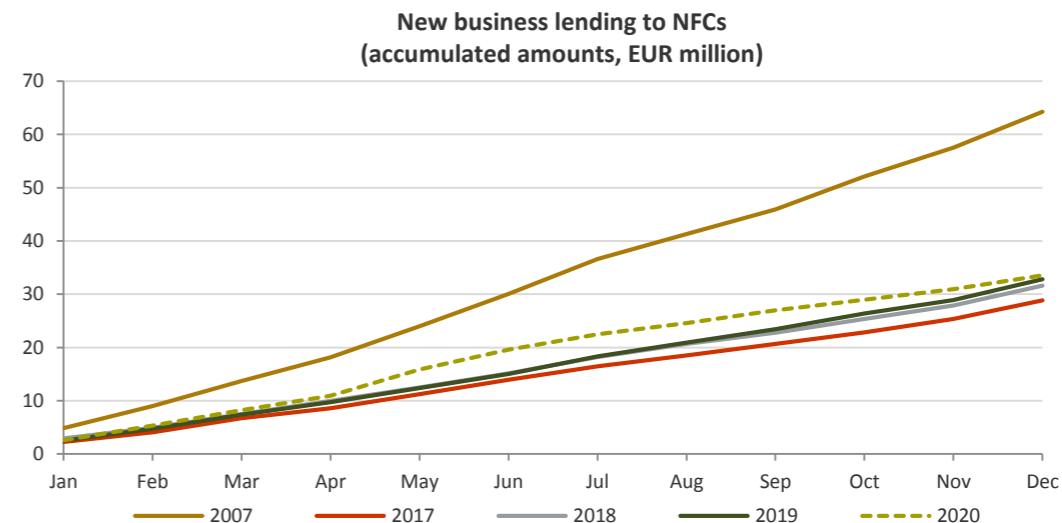
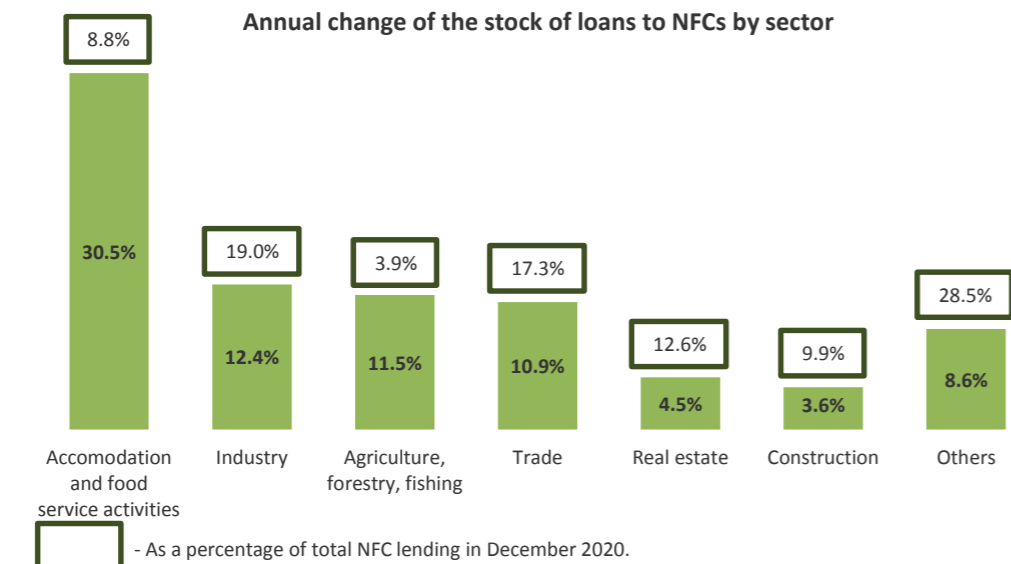
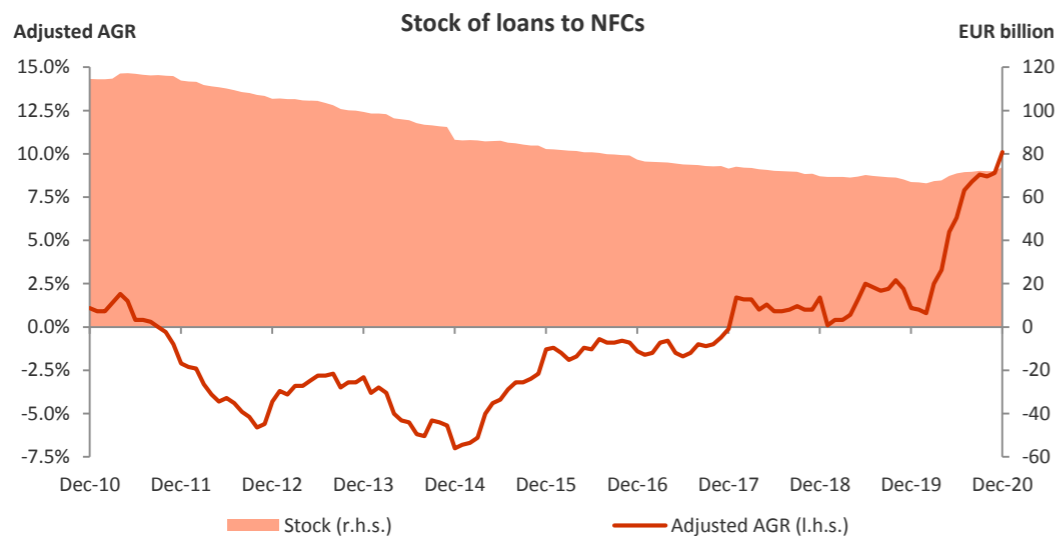
Interest rates on loans have been in a downward path and converging towards the Euro Area average. The most significant reduction observed, up to May, in interest rates on new lending to non-financial corporations (NFC) may be partially explained by the higher weight of the credits granted under the public guarantee schemes implemented in response to the pandemic crisis.



Source: ECB – MFI Interest Rate Statistics.

## II. LENDING | NFC

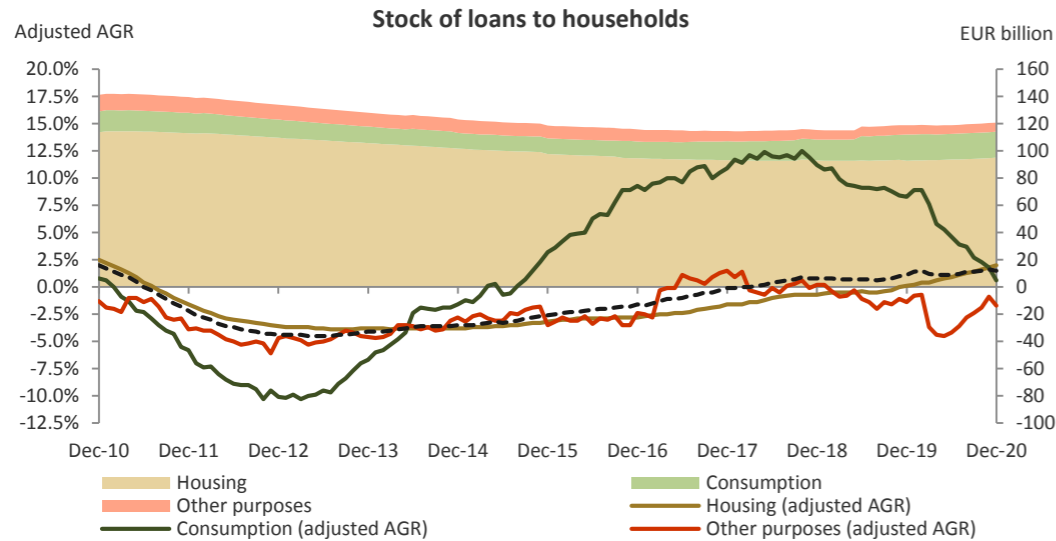
The evolution of the stock of loans to non-financial corporations has been penalized by the effort to reduce non-performing loans. In 2020, in response to the pandemic crisis, there was an increase in new loans. By sector of activity, the largest increase occurred in Accommodation and food service activities, and by size, in the SME segment.



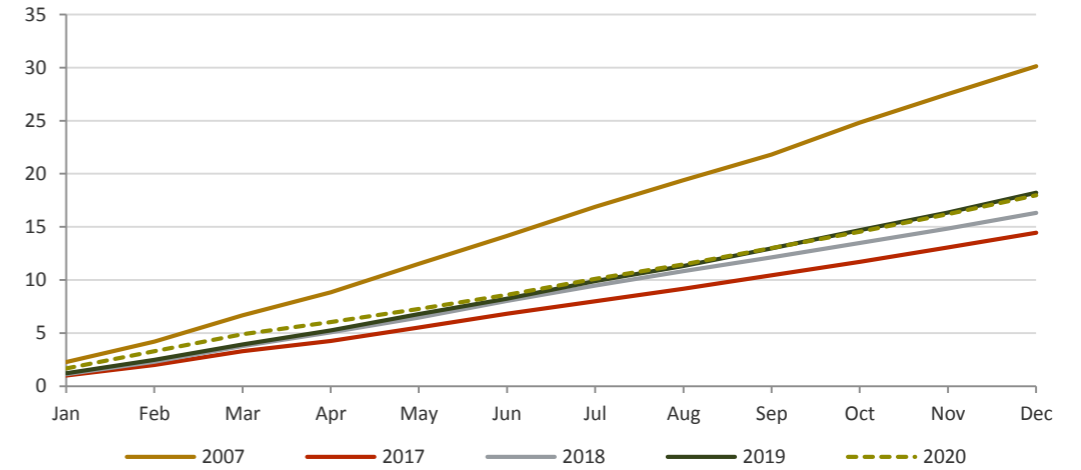
Source: Banco de Portugal (Monetary and Financial Statistics). Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

## II. LENDING | HOUSEHOLDS

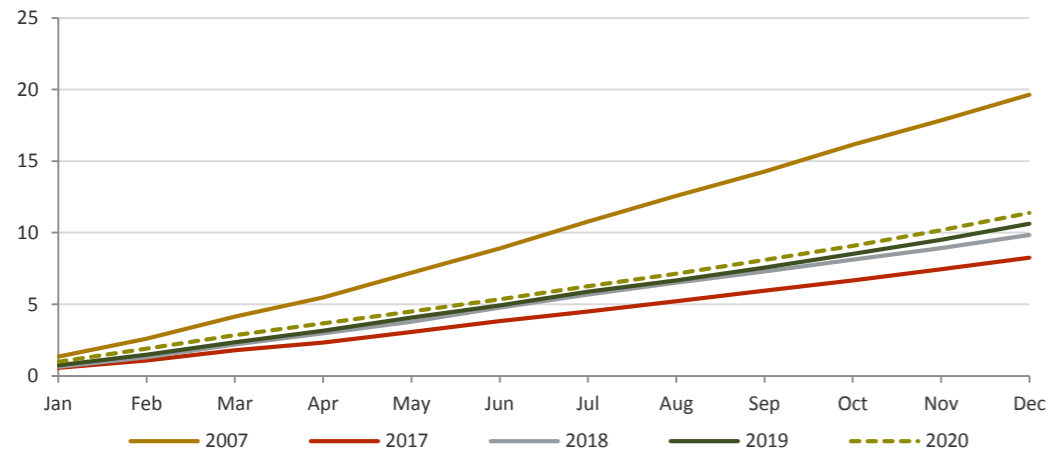
In 2020, the stock of loans for house purchase maintained the path of recovery started in 2019, essentially due to the growth of new loans and the reduction in repayments, reflecting the effects of the moratoria regimes. In turn, the annual growth rate in the stock of loans for consumption registered a significant decrease, which was more expressive in personal credit than in car loans.



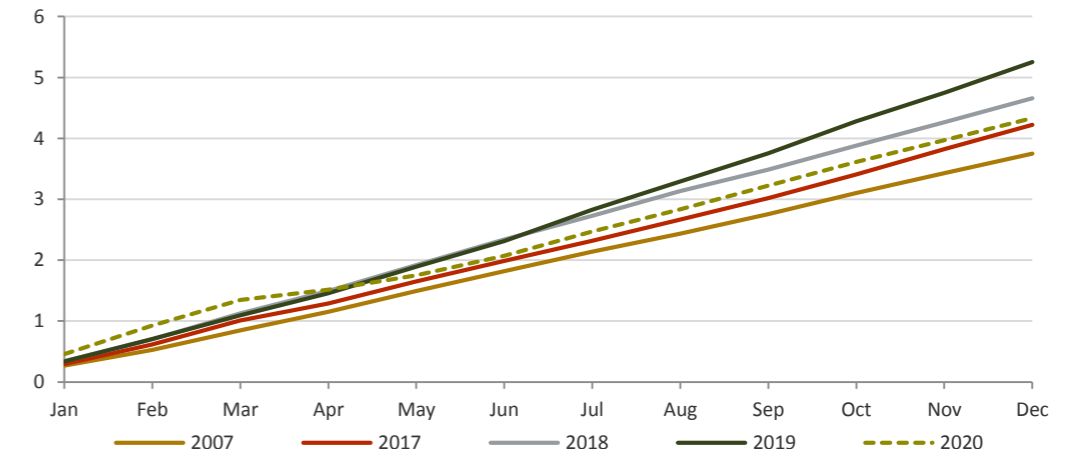
**New business lending to households (accumulated amounts, EUR million)**



**New business lending to households - Housing (accumulated amounts, EUR million)**



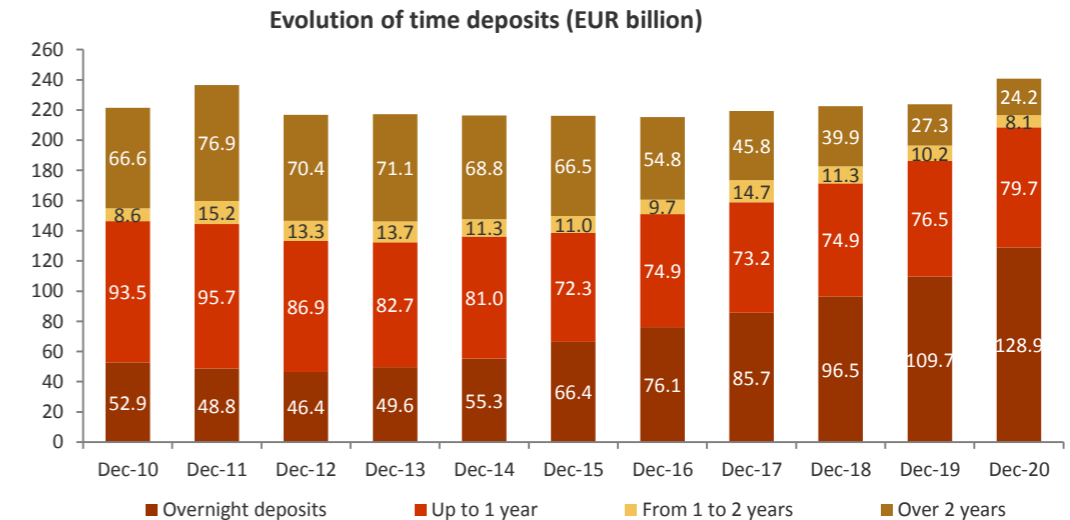
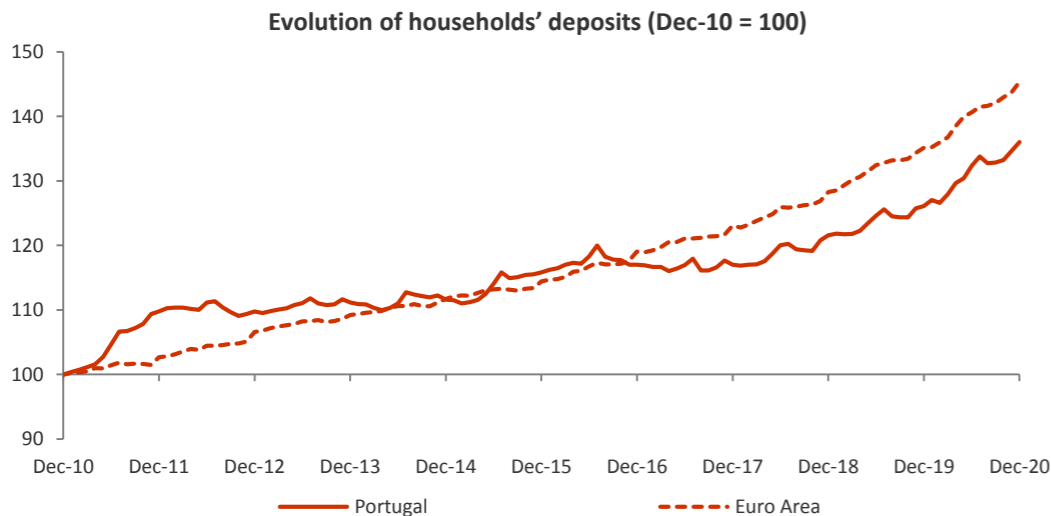
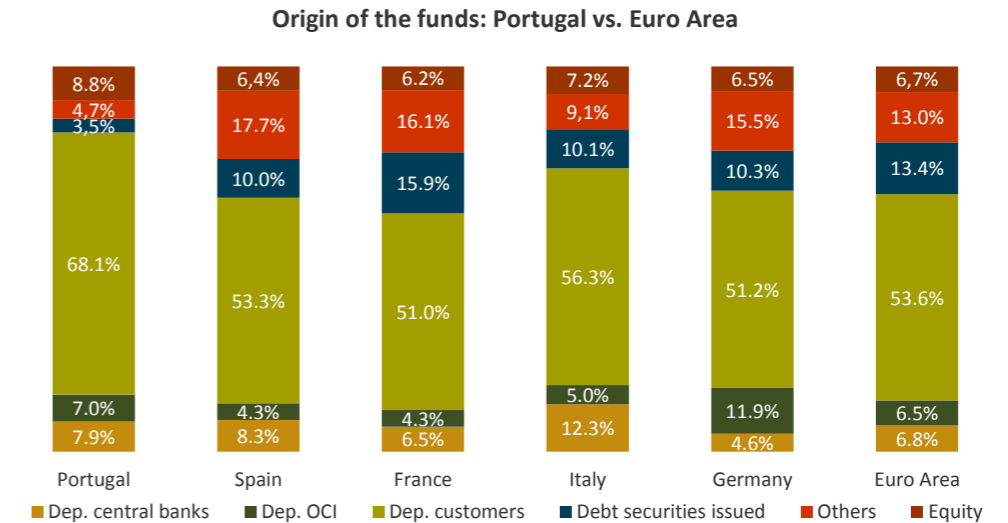
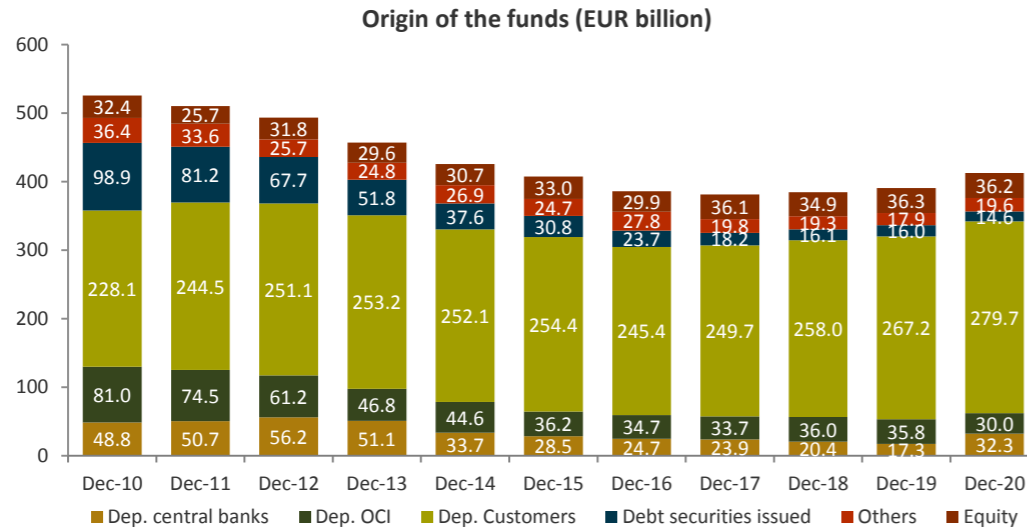
**New business lending to households - Consumption (accumulated amounts, EUR million)**



Source: Banco de Portugal (Monetary and Financial Statistics). Adjusted AGR = Annual growth rates (AGR) adjusted for securitization and liquidity-providing operations.

### III. ORIGIN OF THE FUNDS AND LIQUIDITY

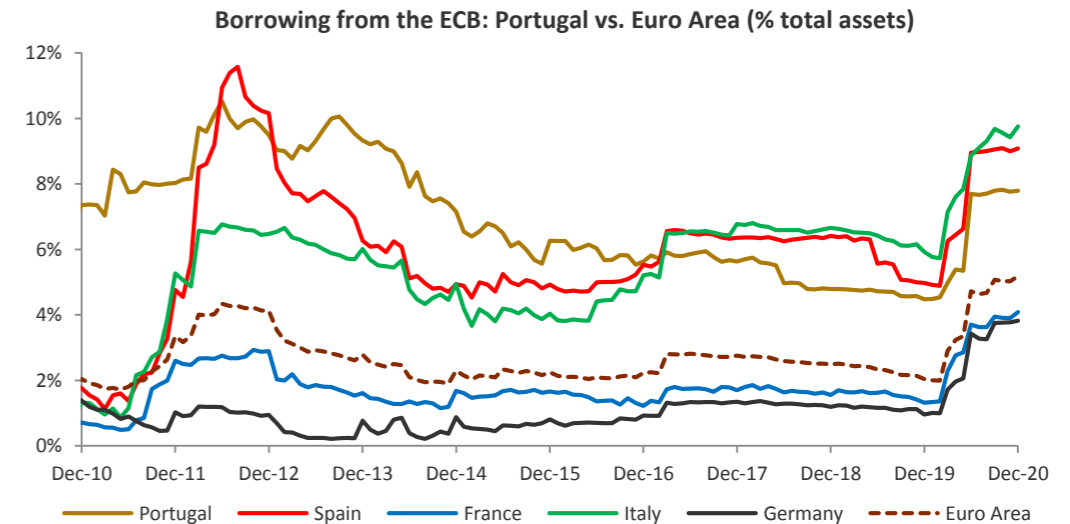
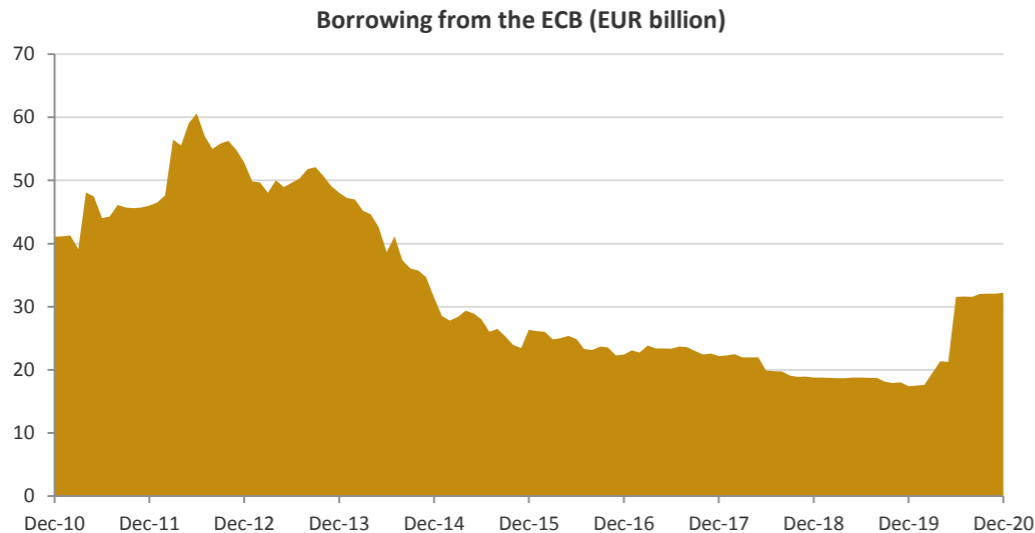
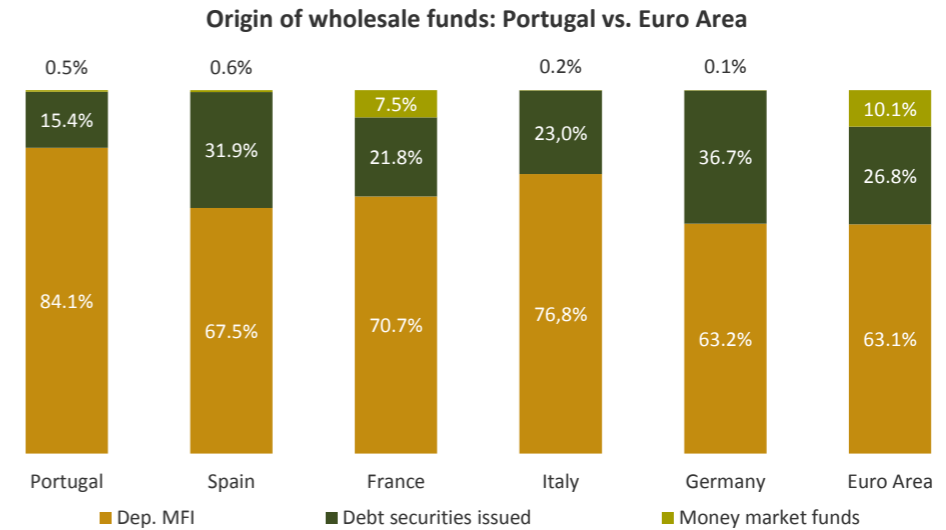
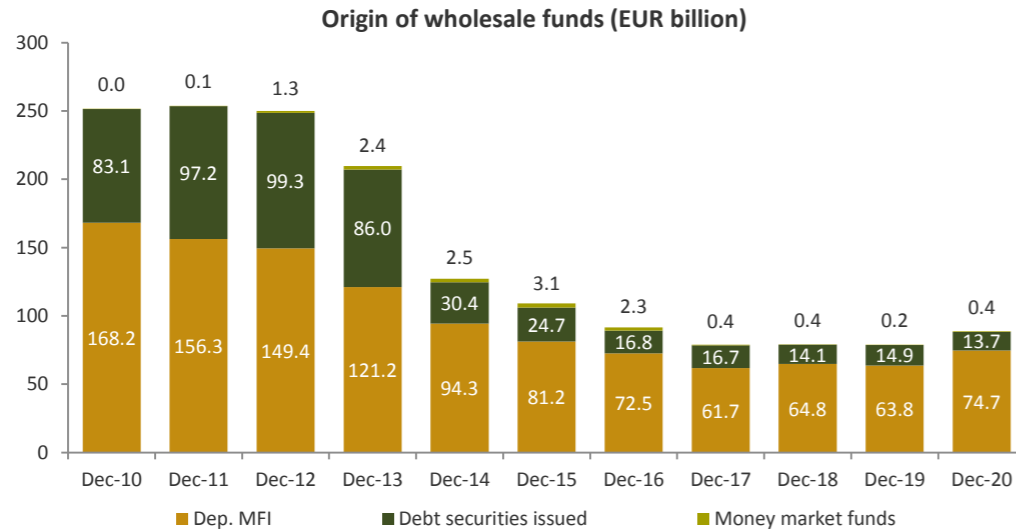
With the outbreak of the pandemic crisis and the increase in savings as a result of reduced consumption and high uncertainty regarding the duration of the crisis and its impacts, customer deposits increased significantly. In a context of very low interest rates, due to the ECB's accommodative monetary policy, there has been a decrease in the weight of time deposits and an increase in the weight of overnight deposits.



Source: Banco de Portugal (consolidated data and Monetary and Financial Statistics) and ECB – Consolidated Banking Data (consolidated data reported in FINREP format) and MFI Balance Sheet Items (Monetary and Financial Statistics). OCI = Other Credit Institutions. Households' deposits include emigrants. Deposits from the non-monetary sector (end-of-period balances).

### III. ORIGIN OF THE FUNDS AND LIQUIDITY

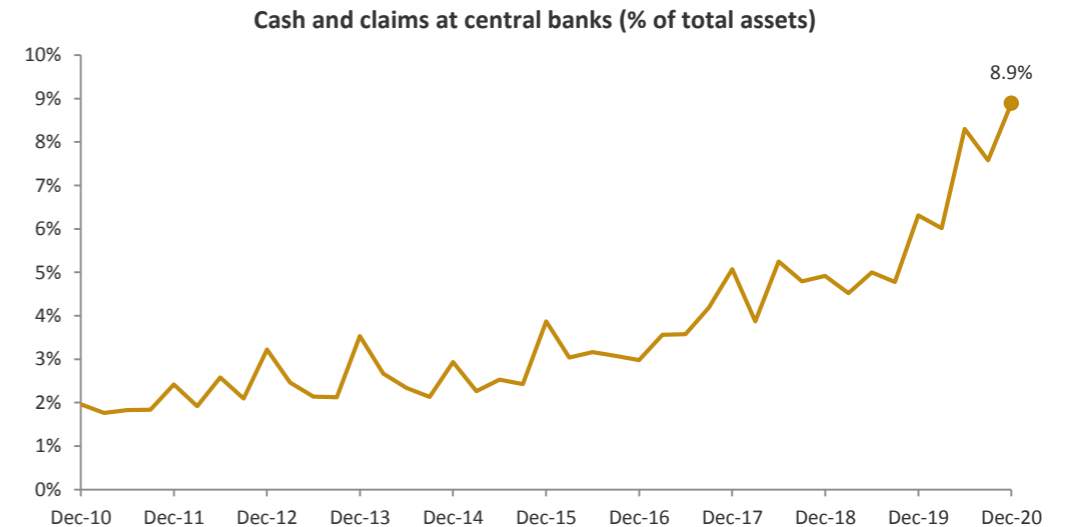
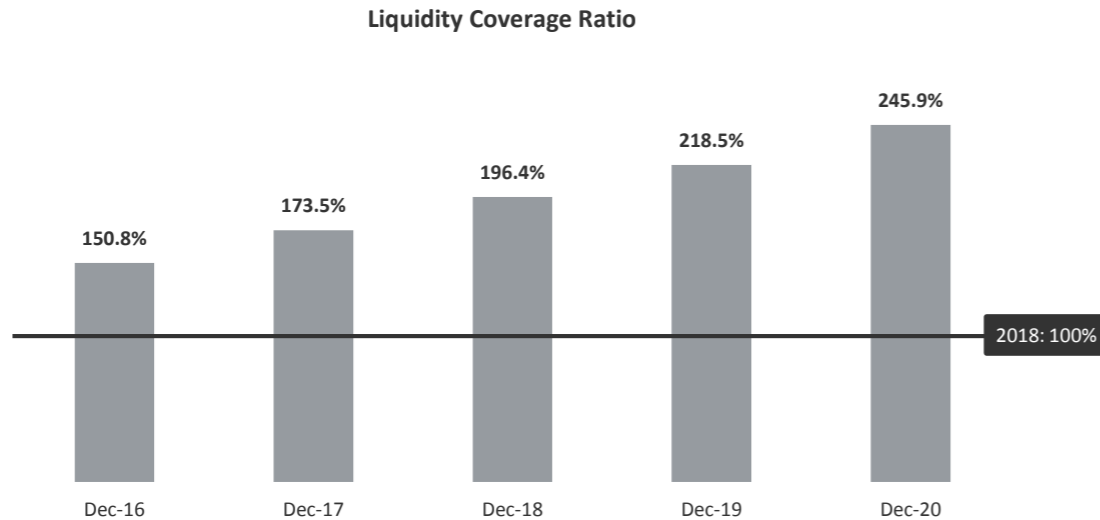
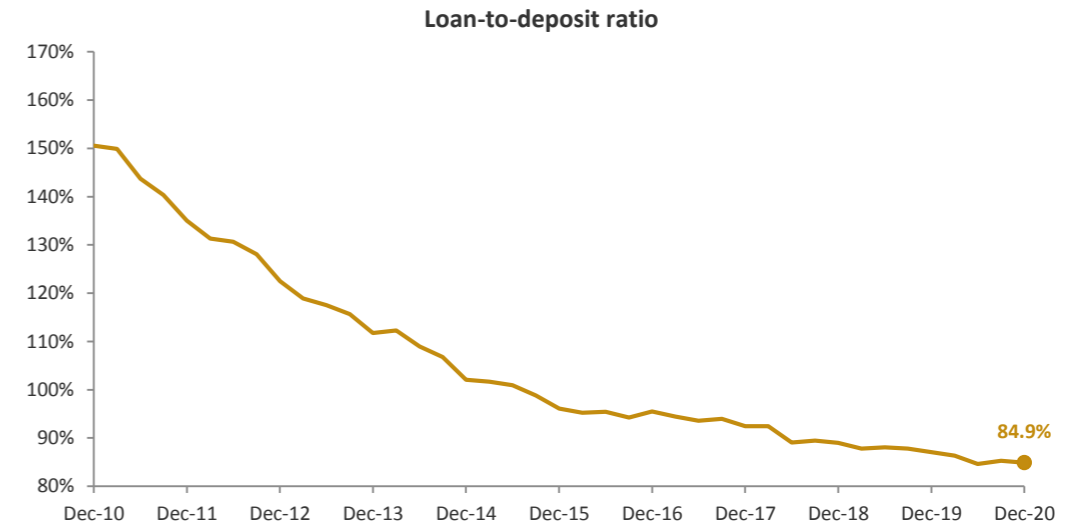
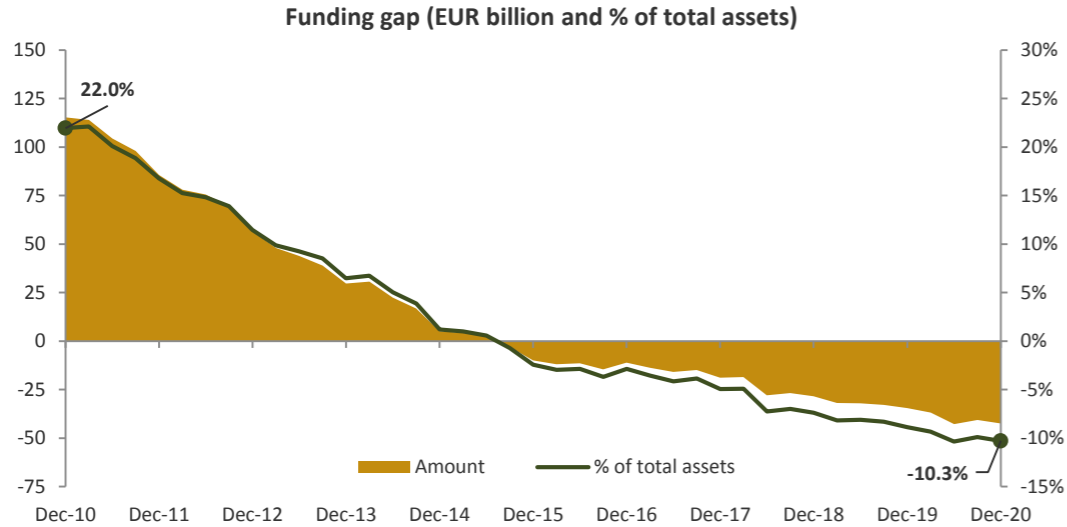
Recourse to wholesale funding has been decreasing and currently is not very significant in the Portuguese banking sector. In turn, funding from the Eurosystem increased 3.4 pp vis-à-vis 2019, representing 7.8% of total assets, due to the attractive monetary policy measures that have been significantly strengthened in the current pandemic context.



Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics). Monetary Financial Institutions (MFI) include the Central Bank and Other Monetary Financial Institutions (OMFI).

### III. ORIGIN OF THE FUNDS AND LIQUIDITY

Liquidity indicators have registered a very positive evolution. This extremely comfortable position of the Portuguese banking system in terms of liquidity has allowed it to play an essential role in mitigating the impacts of the COVID-19 crisis on companies and families.

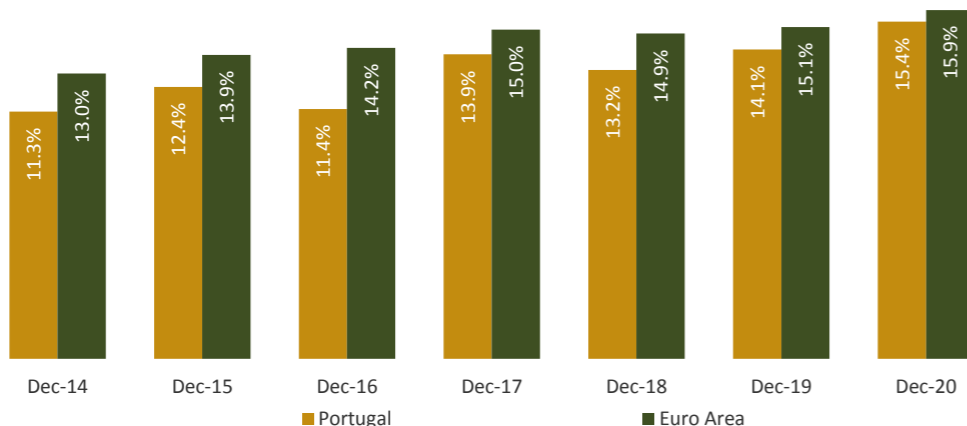


Source: Banco de Portugal (consolidated data).

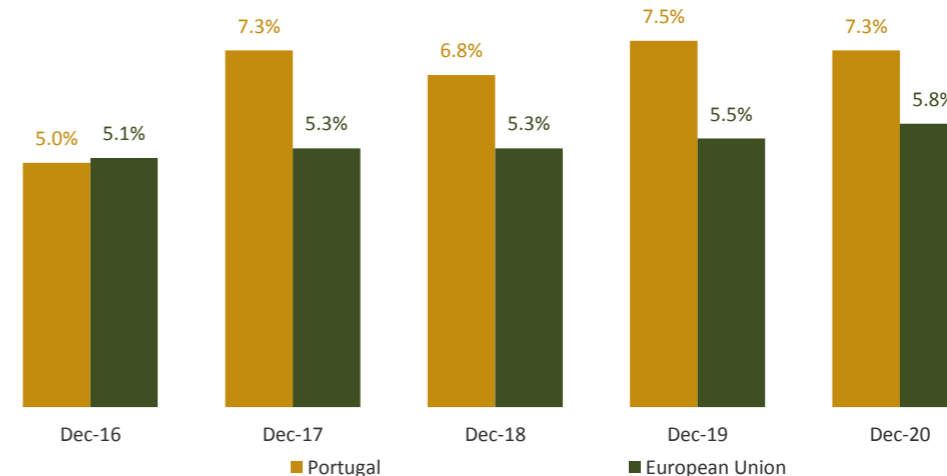
# IV. SOLVENCY

Solvency has been improving, reflecting the reinforcement of own funds, fundamentally explained by the retention of profits and the decrease in risk-weighted assets. The leverage ratio is considerably higher than the EU average and the minimum reference (3%). Together with the favorable liquidity position, the system's solvency levels allow it to respond effectively to the economy's financing needs in the current context and accommodate a possible deterioration in credit risk and an increase in NPL.

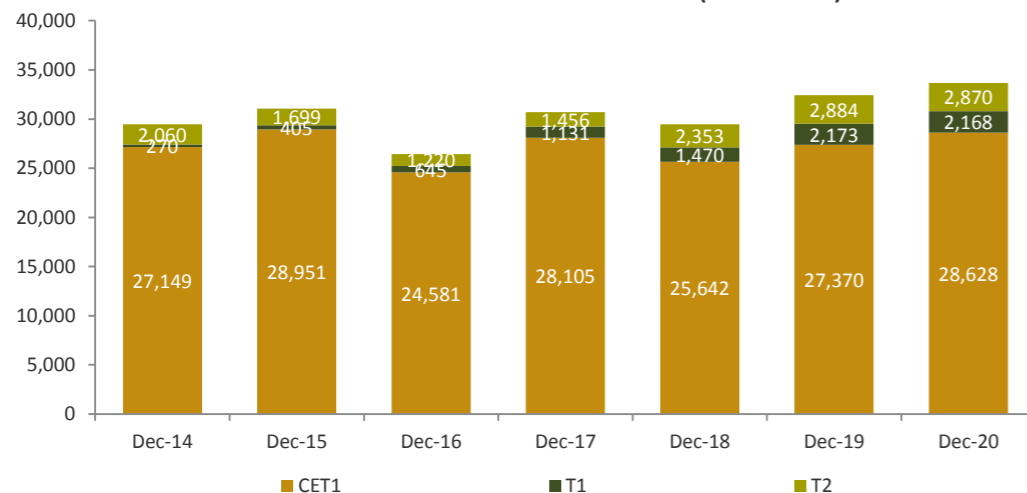
Common Equity Tier 1 (CET1) ratio



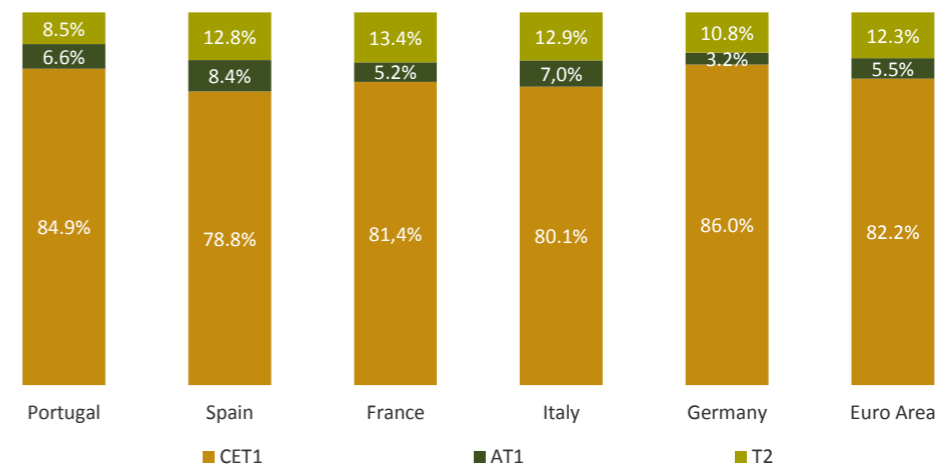
Leverage ratio



Evolution and structure of own funds (EUR million)



Structure of own funds: Portugal vs. Euro Area

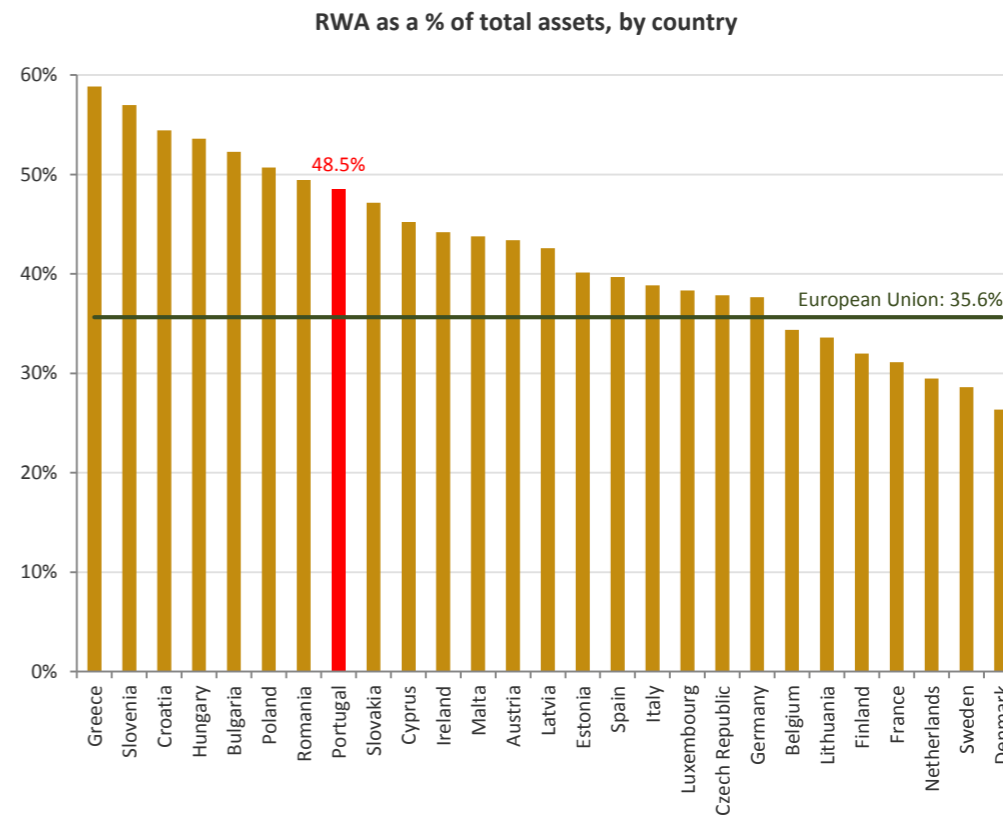
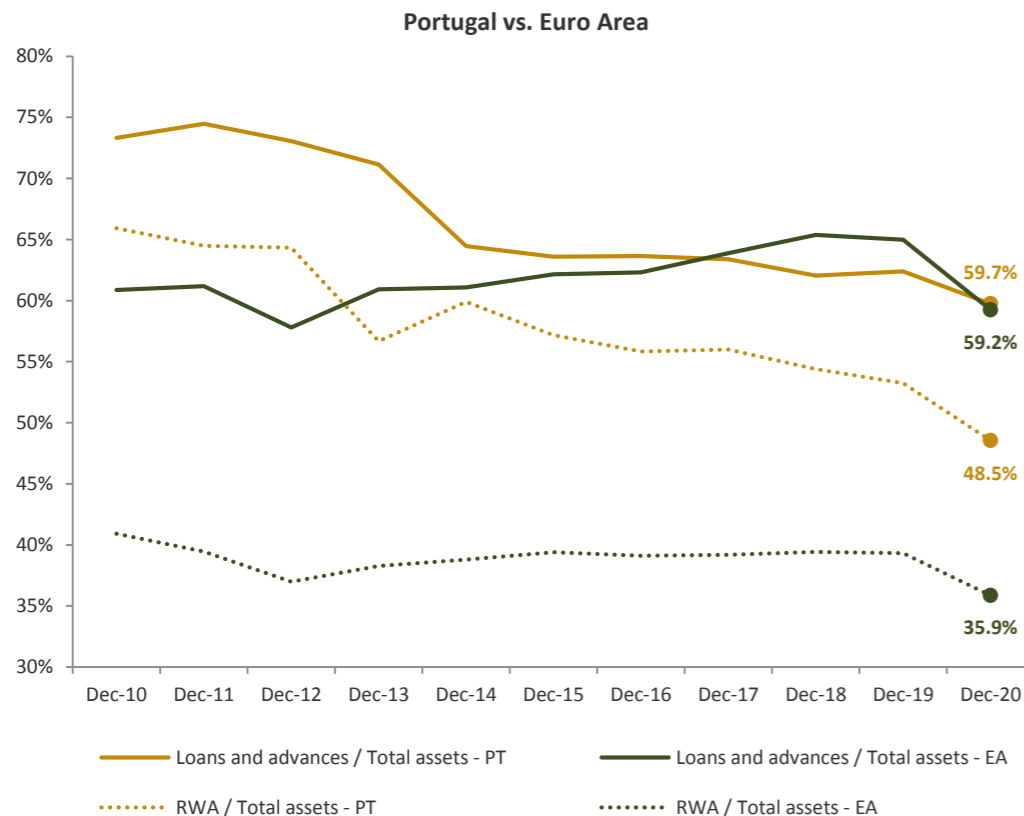


Source: ECB – Consolidated Banking Data and EBA – Risk Dashboard (leverage ratio – fully phased-in definition of Tier 1).



## IV. SOLVENCY

The ratio of risk-weighted assets (RWA) per unit of assets continues to compare unfavourably to the European Union, despite the reduction experienced in the last years.

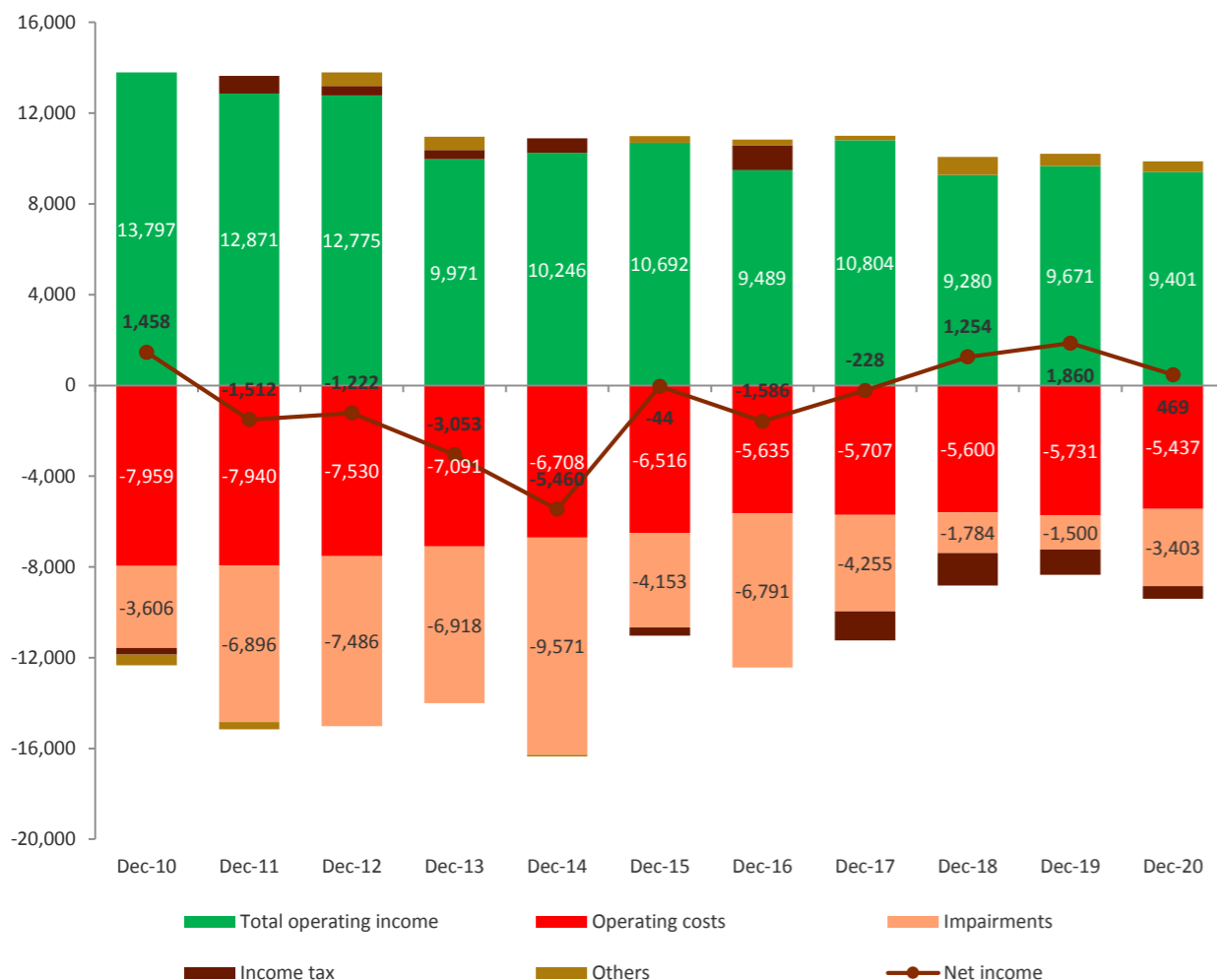


Source: ECB – Consolidated Banking Data.

## V. PROFITABILITY

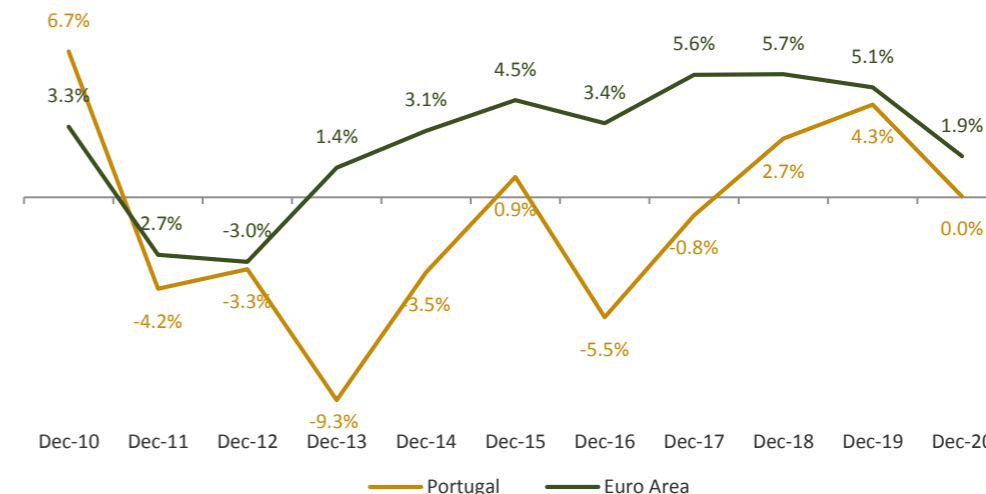
In 2020, the profitability of the banking system suffered a significant decrease, to around zero, heavily penalized by the current COVID-19 pandemic context. The decrease in profitability reflected not only a decline in total operating income but, above all, a very significant rise in the flow of provisions and impairments. Profitability reversed the trajectory of recovery that had been registered since 2016 and its recovery is one of the biggest challenges facing the sector.

Net income breakdown (EUR million)

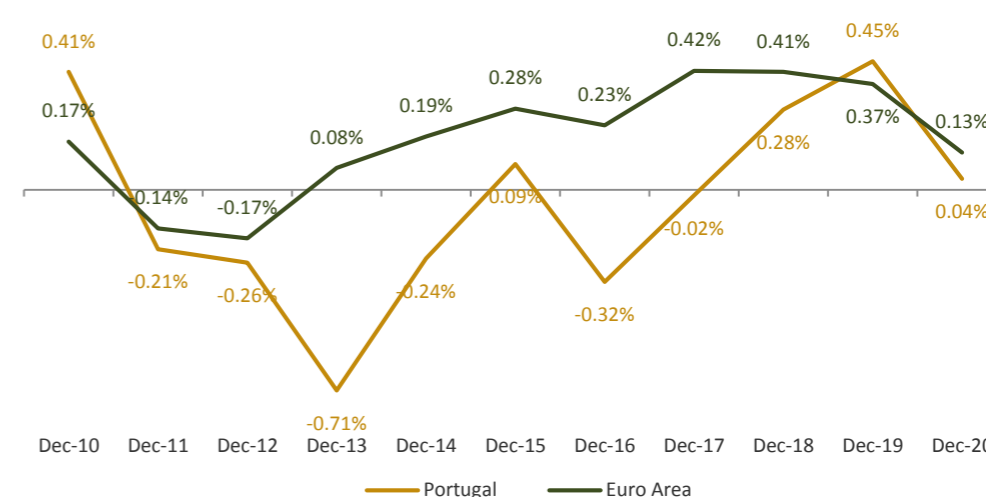


Source: Banco de Portugal (consolidated data).

Return on Equity (ROE)



Return on Assets (ROA)

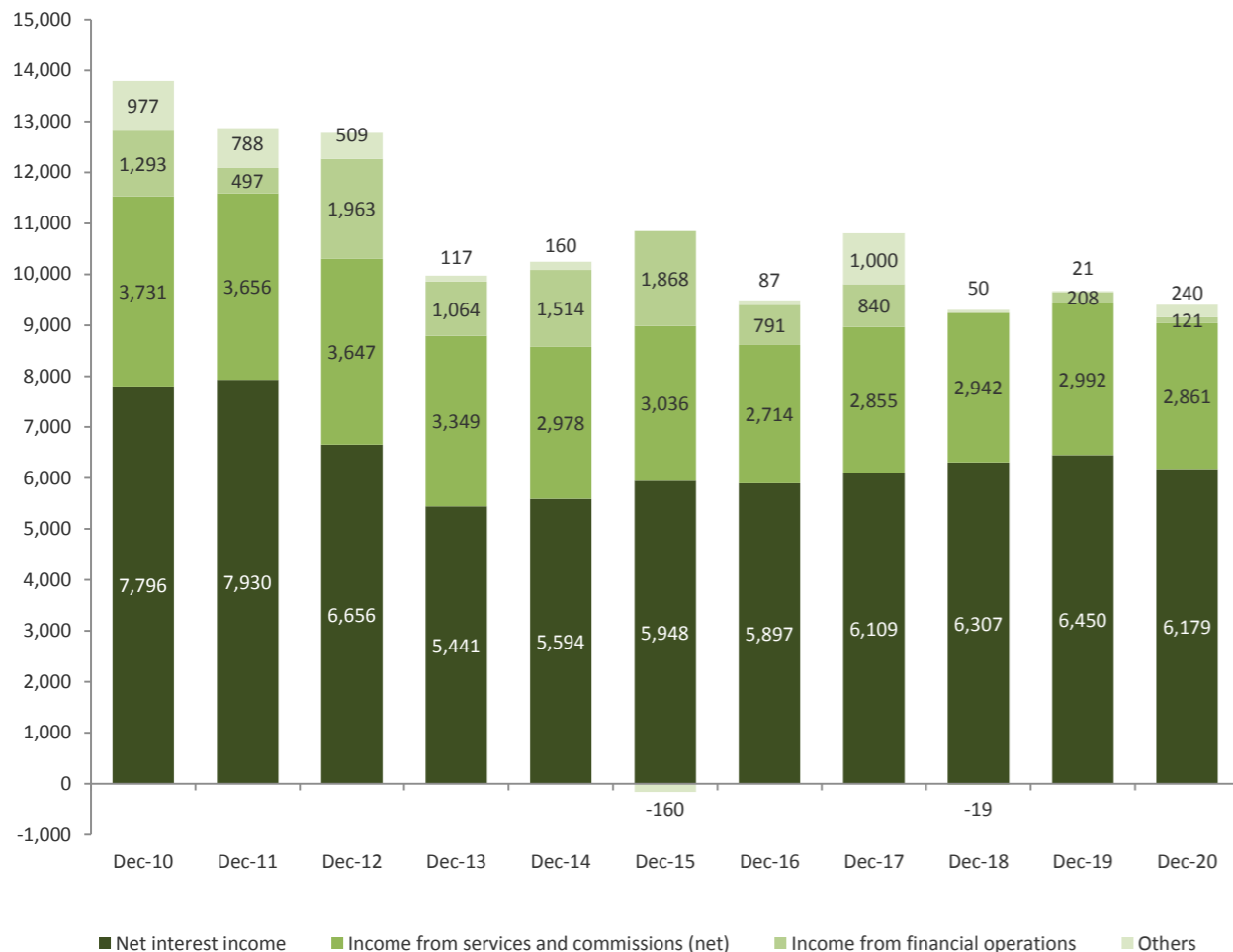


Source: ECB – Consolidated Banking Data. Calculated based on net income after tax and before minority interests and on end-of-period equity and total assets. Return on Equity excludes branches of foreign banks.

## V. PROFITABILITY

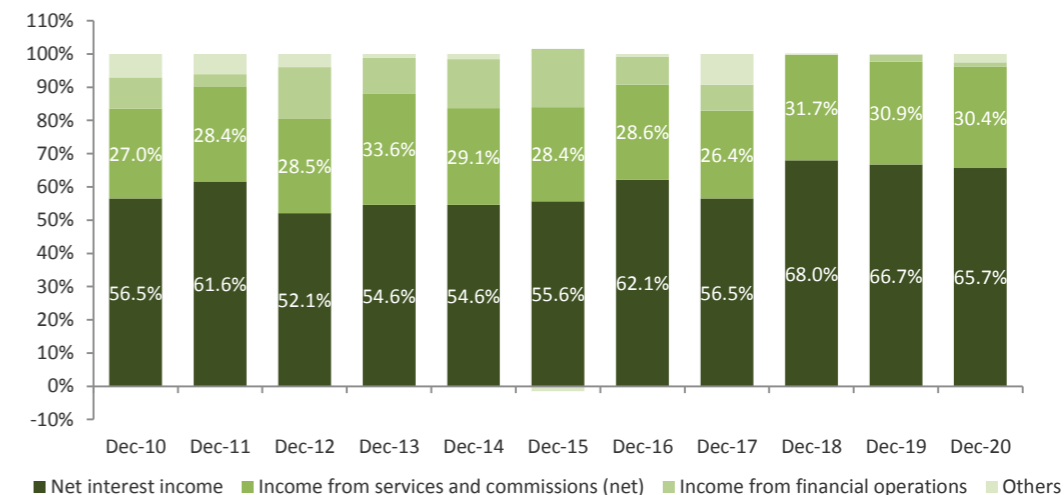
The decrease in total operating income was due to the reduction in net interest income, income from services and commissions and results from financial operations. The evolution of the results from financial operations reflects, above all, the decrease in results associated with debt securities and the negative results in equity instruments.

Total operating income breakdown (EUR million)

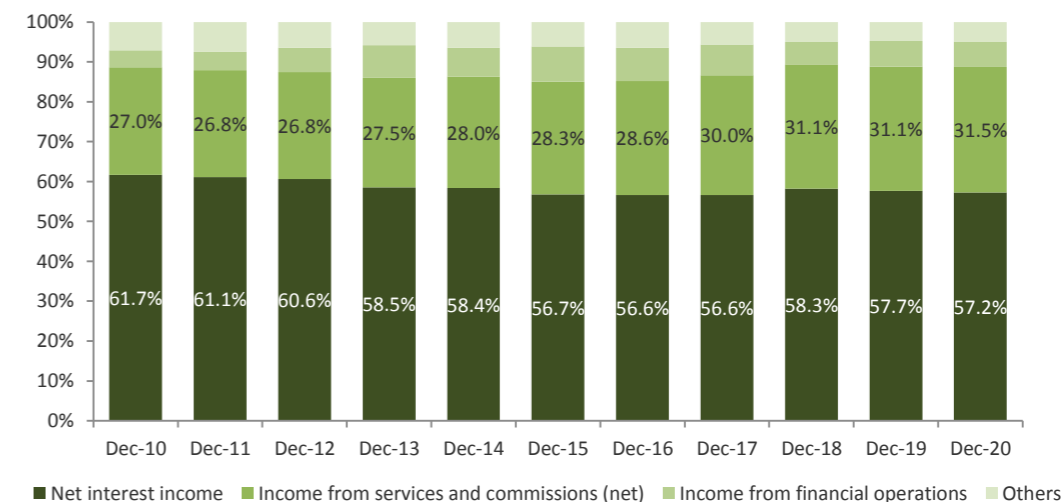


Source: Banco de Portugal (consolidated data).

Total operating income breakdown (Portugal)



Total operating income breakdown (Euro Area)

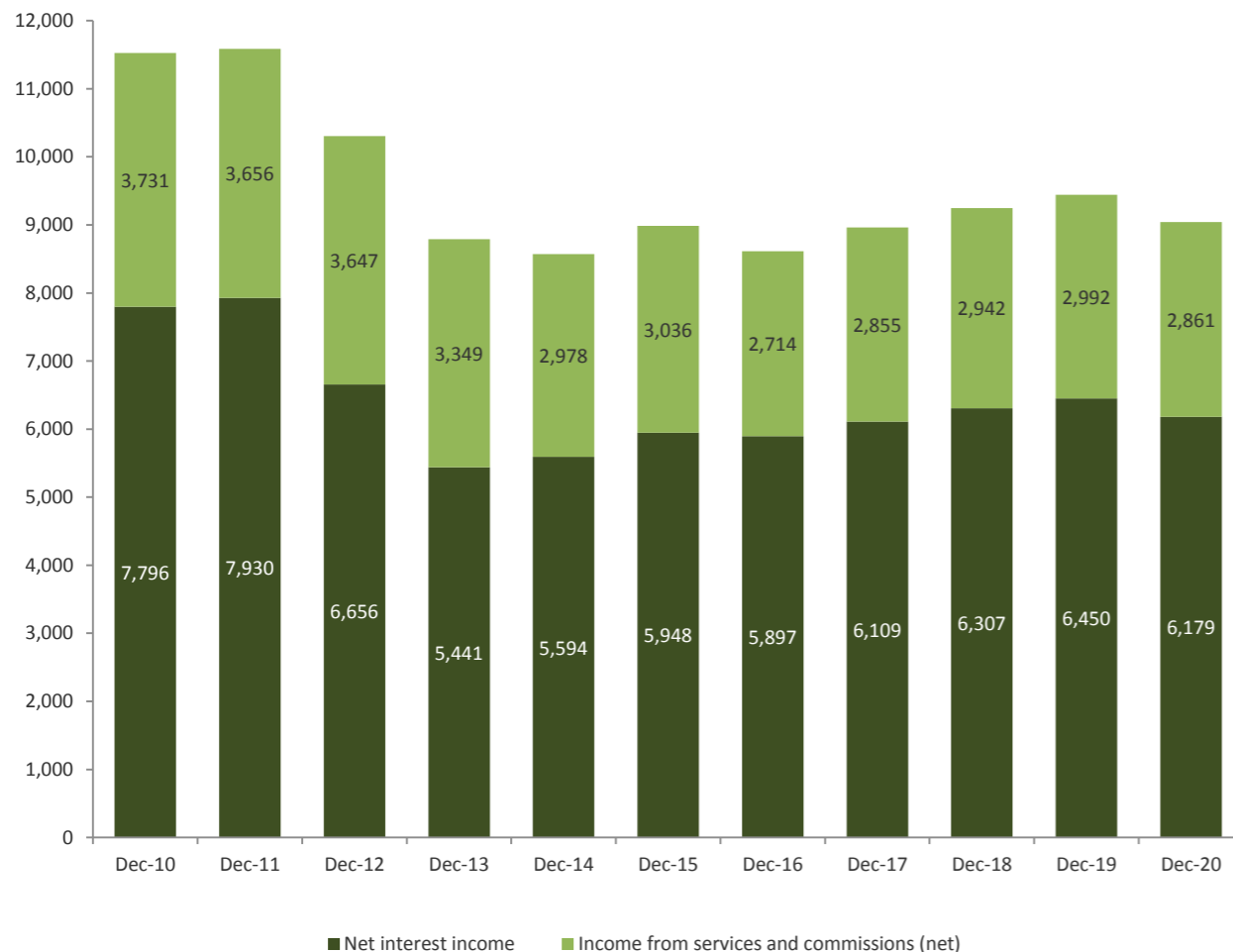


Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

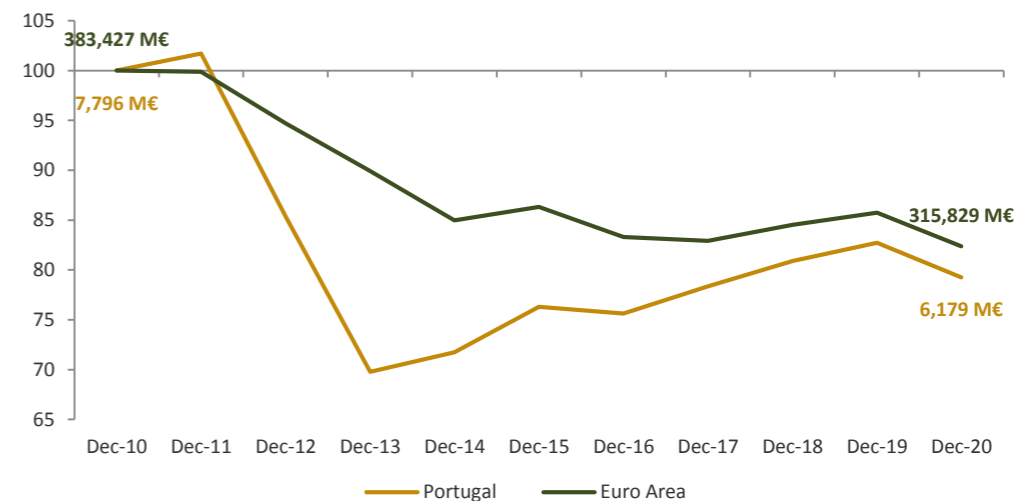
## V. PROFITABILITY

The drop in net interest income, compared to 2019, was due to a decrease in interest received, which was greater than the decrease in interest paid. However, this decline was mitigated by the reduction in the cost of funding from central banks (net of cash and investments). In turn, the decrease in commissions was the result of a lower volume of transactions and the reduction in financial intermediation activity due to the pandemic context.

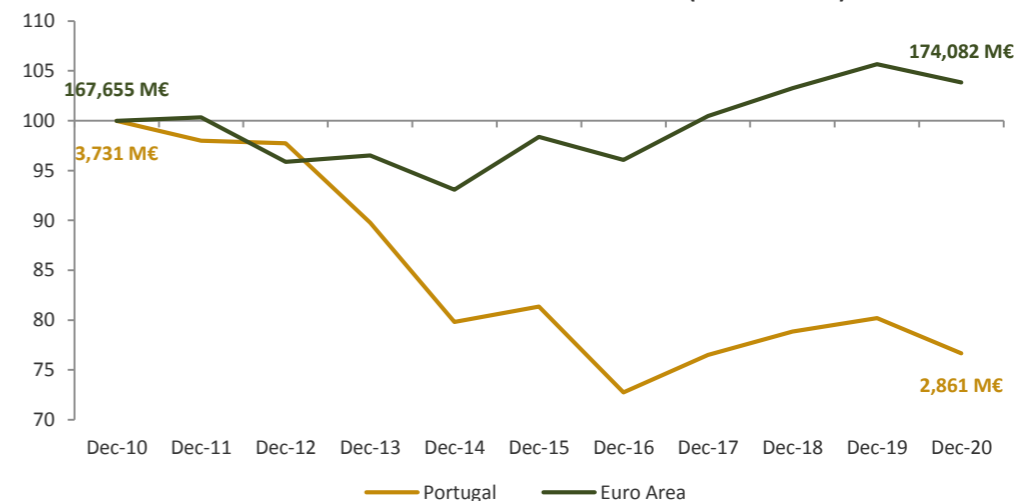
Net interest income and Commissions (EUR million)



Net interest income (Dec-10 = 100)



Income from services and commissions (Dec-10 = 100)

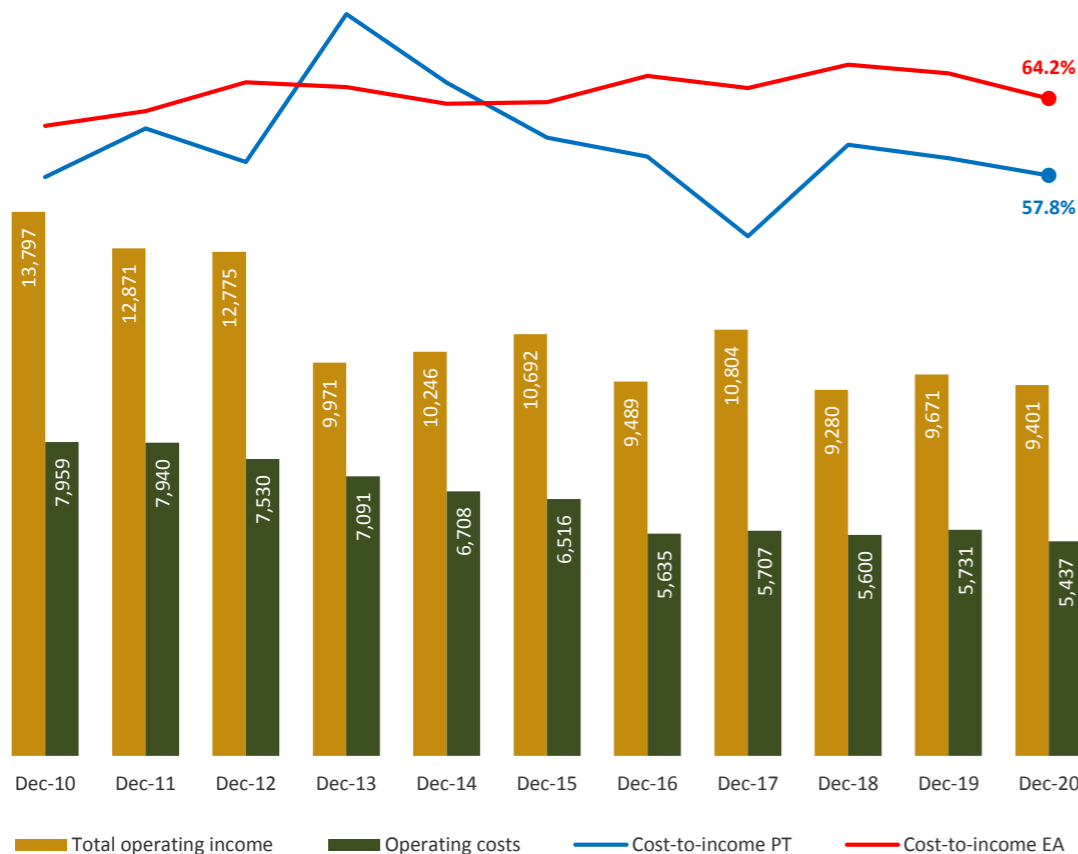


Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data.

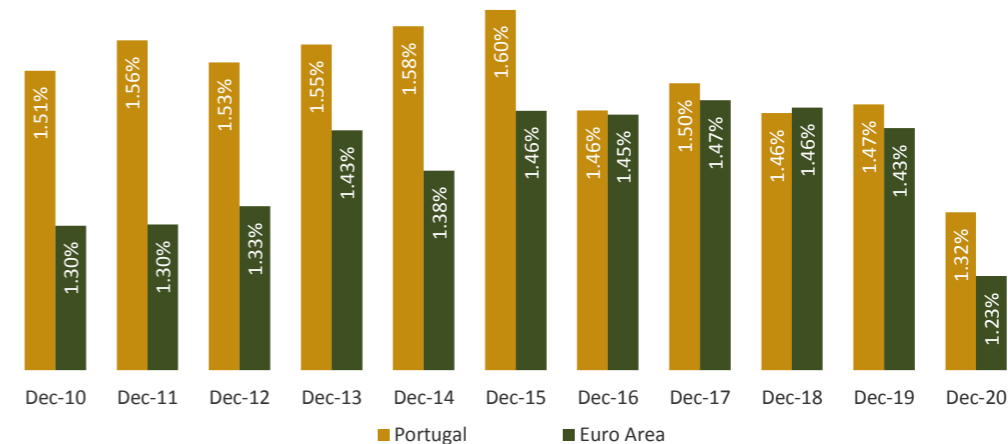
## V. PROFITABILITY

In 2020, there was an increase in the efficiency of the banking sector, with the decrease in operating costs more than offsetting the reduction in total operating income. However, operating costs as a percentage of average assets remain above the Euro Area, which represents an additional pressure for the national banking sector in a context of rising costs to meet legal and regulatory requirements and associated developments to digital transformation.

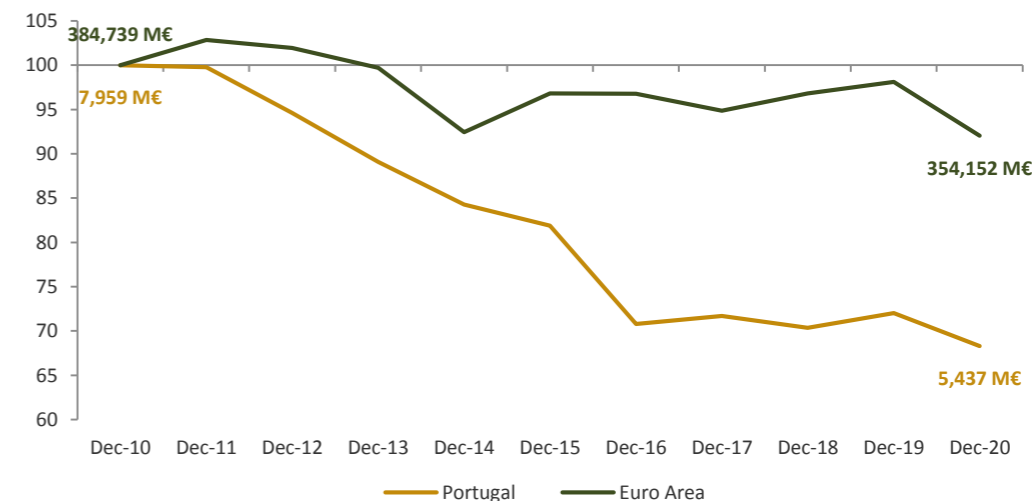
Cost-to-income breakdown (EUR million)



Operating costs as a % of total assets



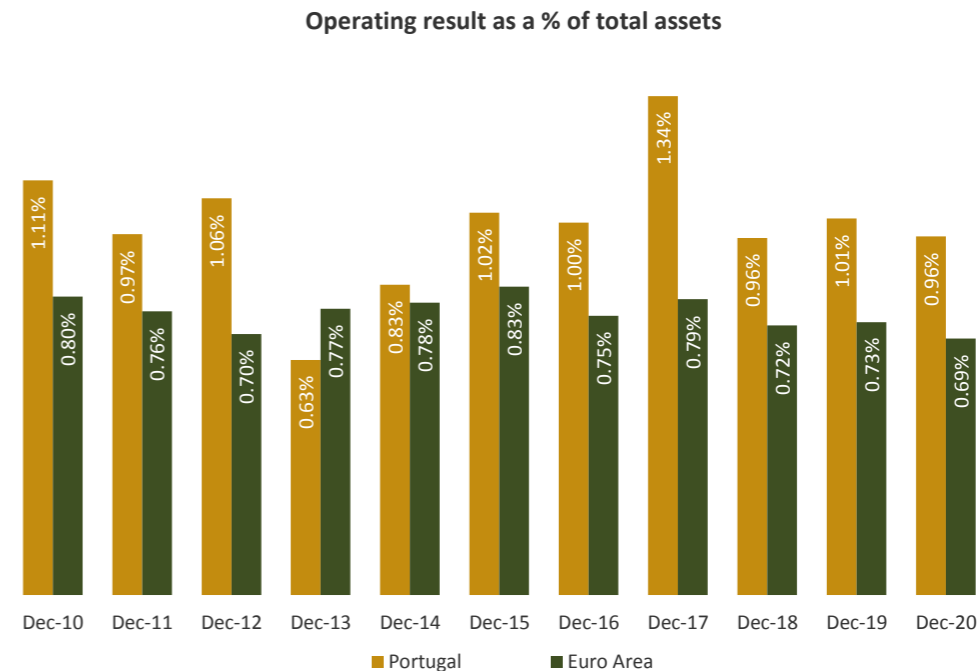
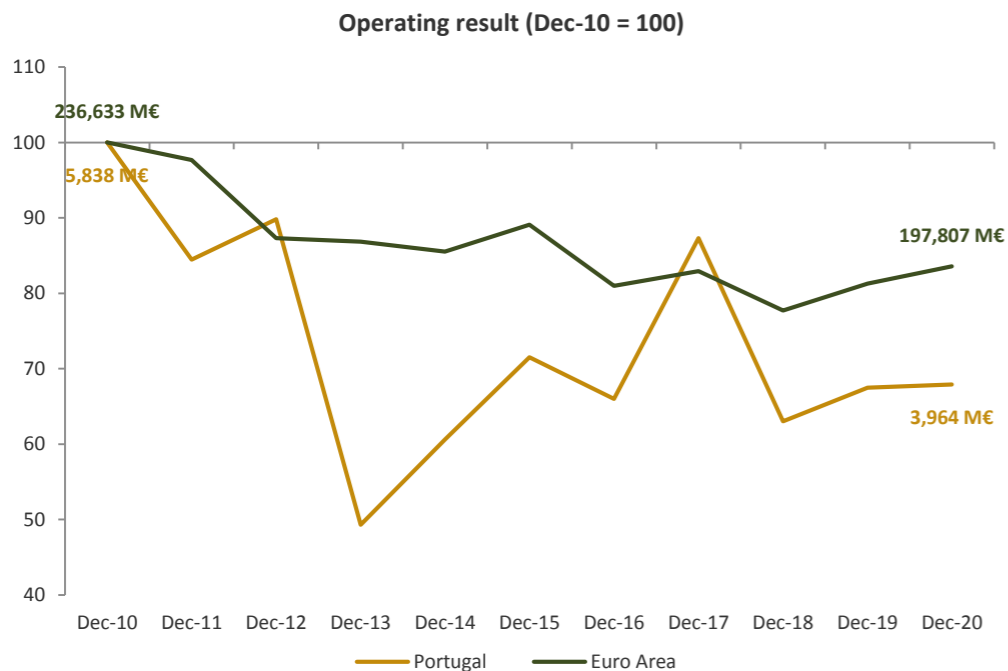
Operating costs (Dec-10 = 100)



Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

## V. PROFITABILITY

The operating result remained unchanged compared to 2019, as the decrease recorded in total operating income was broadly offset by the decrease in operating costs. The significant increase in net provisions and impairments contributed to an increase in the cost of credit risk.



Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

Cost of credit risk											
	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Portugal	0.7%	1.2%	1.7%	1.5%	2.1%	1.2%	1.8%	1.0%	0.4%	0.5%	1.0%
EU									0.5%	0.5%	0.7%

Source: Banco de Portugal (Portugal) and EBA – Risk Dashboard (European Union).

- The information provided by Banco de Portugal and the ECB regarding monetary statistics differ from that provided in the context of the consolidated data of the banking system. The main differences derive fundamentally from non-coincidence in the universes surveyed and from the different consolidation procedures. This information is available on the Banco de Portugal and the ECB websites. Among others, the following documents may be consulted: Suplemento ao Boletim Estatístico n.º 1/2001, de Agosto; Instrução n.º 25/2014, de 15 de dezembro, and Sistema Bancário Português: desenvolvimentos recentes – 4.º trimestre de 2016.
- This document was published with updated information as of 12 July 2021.

# PORTUGUESE BANKING SECTOR OVERVIEW