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# Fokus on: Covered Bonds
## 21 June 2023

# Banco BPI

### Bank profile

**Headquarter**
Porto

**Website**
www.bancobpi.pt

**Issuer-Rating**

| | | |
|---|---|---|
| Moody's | Baa1 | stable |
| S&P | BBB+ | stable |
| Fitch | BBB | stable |

Sources: Bloomberg, Issuer-Website, Helaba Research & Advisory

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Banco BPI, S.A. (BPI) is the fourth largest bank in Portugal in terms of business volume. It is a wholly owned subsidiary of the Spanish CaixaBank, S.A. As a bancassurance group, it offers a wide range of banking and insurance services to corporate, institutional and retail customers. It serves 1.9 million customers. At last count, it had 4,386 employees and 319 branches located throughout Portugal.

The bank reaches market shares of around 11 % in its home market for both customer deposits and customer loans. Historically, it has been relatively strong in the corporate customers and capital markets business. It is also active in asset management and private banking.

In the insurance business, BPI has a joint venture with Allianz, reflected in its 35% shareholding in Allianz Portugal (life and non-life) and in a distribution agreement. In February 2023, the bank announced that it would sell its 50 % stake in the Portuguese trade credit insurance provider COSEC, held through a joint venture with Euler Hermes (an Allianz Group company specializing in export insurance), to Allianz Trade, a credit insurer belonging to Allianz.

In addition to its domestic operations, BPI holds participations in commercial banks in Angola (48.1 % in Banco de Fomento Angola, BFA) and Mozambique (35.7 % in Banco Comercial e de Investimentos Mozambique). The investment in BFA is classified as a "financial investment" and the contribution to earnings attributable to it is in the form of dividends. According to Moody's, the risk associated with BPI's exposure to Angola is relatively high. The ECB supervisory authority has therefore issued a non-binding recommendation to gradually reduce BPI's exposure to Angola. According to company information, BPI is about to sell its stake in BFA.

BPI is wholly owned by Spain's CaixaBank and accounted for around 7 % of CaixaBank's consolidated assets at the end of 2022. Following the merger with Bankia in March 2021, CaixaBank S.A. (Caixa) moved from third to second place among Spain's banks in terms of total assets and became the institution with the most extensive business activities in the country. The bancassurance group, which belongs to the savings bank sector, has a broad range of banking, insurance and asset management products and has good market positions, particularly with households and smaller companies in Spain and Portugal.

### Banco BPI: Key financial figures

| | 2021 | 2022 | Q1 2023 | | 2021 | 2022 | Q1 2023 |
|---|---|---|---|---|---|---|---|
| Customer Loans (bn EUR) | 24.3 | 25.5 | 28.7 | Net Interest Income (m EUR) | 460 | 559 | 208 |
| Customer Deposits (bn EUR) | 28.9 | 30.3 | 29.2 | Net Commission Income (m EUR) | 288 | 296 | 73 |
| Total Assets (bn EUR) | 41.4 | 38.9 | 39.2 | Total Revenues (m EUR) | 888 | 1,003 | 274 |
| Risk-Weighted Assets (bn EUR) | 18.2 | 17.3 | 18.1 | Total Operating Expenses (m EUR) | 432 | 461 | 125 |
| Balance Sheet Equity (bn EUR) | 3.7 | 3.9 | 3.7 | Loan Loss Provision Expenses (m EUR) | 43 | 60 | 24 |
| | | | | Net Income Attributable to Parent (m EUR) | 307 | 365 | 85 |
| Loans To Total Assets (%) | 59 | 65 | 73 | | | | |
| Loans To Deposits (%) | 84 | 84 | 98 | Net interes income/interest earning assets (%) | 1.16 | 1.32 | 2.13 |
| Equity Capital / Total Assets (%) | 8.9 | 9.9 | 9.5 | Cost-To-Income (%) | 49 | 46 | 46 |
| Npl Ratio (%) | 2.6 | 2.2 | 2.0 | Risk Ratio (Loan Loss Provisions/Avg. Loans, %) | 0.18 | 0.24 | 0.35 |
| Coverage Ratio (%) | 81 | 91 | 96 | Return on Average Equity (%) | 8.7 | 9.4 | 8.9 |
| CET1 Ratio (%) | 14.2 | 14.8 | 14.3 | Return on Average Assets (%) | 0.77 | 0.86 | 0.87 |

Sources: Bloomberg, S&P Capital IQ Pro, Helaba Research & Advisory

# Banco BPI Mortgage Bank Covered Bonds

| Covered Bond-Ratings | | | TPI/Unused notches |
|---|---|---|---|
| Moody's | Aa2 | - | 2 |
| Fitch | - | - | - |
| S&P | - | - | - |

Sources: Issuer's website, Moody's, Fitch, Bloomberg, Helaba Research & Advisory

| Regulatory/Transparency/Eligibility for Central Banks/ESG | |
|---|---|
| Uniform national repoting | - |
| Harmonized reporting format (HTT) | Yes |
| Covered Bond Label | Yes |
| Risk weight according to CRR/Basel III | 10% |
| LCR Classification | Level 1b |
| ECB Note eligibility | Yes |
| Issuance from Green, Social or Sustainable Covered Bonds | - |

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Banco BPI's covered bonds have an 'Aa2' rating from Moody's, which is implicitly capped by the country ceiling. At the end of March, the volume of covered bonds was approximately EUR 7 billion. The cover pool consists of 100 % Portuguese residential mortgage loans.

The geographical focus of the cover assets is in the Lisbon region (40%). This is followed by Northern Portugal (25%), Central Portugal (18.2%), Alentejo (6.8%) and the Algarve (5.9%).

Around 97% of loans secured against real estate, of which most are used by the owners themselves and 1.5% are used as second or holiday homes. Loans between EUR 100,000 and EUR 200,000 make up the bulk of the financing, at around 30%. The approximately 165,000 residential loans form a very granular cover pool. It should be noted that the average weighted, non-indexed loan-to-value ratio was a good 53.4% at the end of March. The credit quality of the portfolio is also underpinned by the low concentration of the top 10 loans at 0.1%.

## Minor Interest rate risk but no currency risk, high maturity mismatch

The loans are fixed at a low 10% and the covered bonds at 7.1%. Approximately 100% of the loan portfolio is denominated in EUR, so there are no currency risks.

With a weighted average residual maturity of 13.8 years for the mortgage cover pool and 2.9 years for the covered bonds, there is a high maturity mismatch between assets and liabilities.

## High credit quality - issuer commits to minimum OC ratio

At the end of March 2023, the Mortgage Covered Bonds had an overcollateralisation (OC) of 24.8%, which is above the statutory overcollateralisation ratio of 5%. The issuer has committed to maintain a minimum OC of 14 %.

Given Banco BPI's solid rating, it is not surprising that Moody's stated rating buffer is 2 notches above the issuer's reference rating. All other things being equal, Banco BPI would have to be downgraded by this number of notches before the covered bond rating would be downgraded.

## Legal Covered Bond Framework

The new covered bond legislation implementing the EU Directive (CBD) ("Regime Jurídico de Obrigações Cobertas" or "RJOC") entered into force on 1 July 2022. Under this new legal framework, covered bonds are now referred to as "obrigações cobertas". The RJOC contains transitional clauses with which the previous Portuguese laws on covered bonds continue to apply to mortgages and public sector covered bonds issued until (before) 8 July 2022.

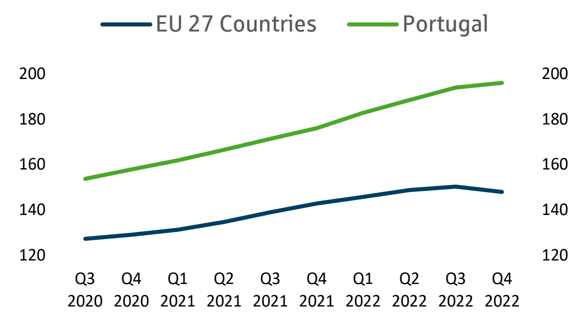
The RJOC regulates the supervision of the issuer and sets minimum requirements for the covered bonds and the cover pool in line with the CBD.
Residential real estate loans up to 80% LTV and commercial real estate loans up to 60% LTV can be included in the cover pool. The statutory minimum overcollateralisation is 5% (nominal) if the requirements of Art. 129 CRR for qualifying cover assets are met. The issuance of soft bullets is also permitted.
The main innovation of the RJOC is the introduction of a mandatory liquidity buffer covering the maximum cumulative net liquidity outflows over the next 180 days as defined in the directive. The buffer may consist of cash held in accounts with eligible counterparties, normally rated "A", or liquid assets as defined in the EU regulation.

## Portugal's housing market - upward trend loses some momentum

Property price data from the Instituto Nacional de Estatica (INE), available for the year 2022, shows a price increase of 13.92 % to an average of €1,449 per square metre in Portugal. This is the highest increase since 2014, when the price increase began. Property prices rose the most in tourist regions such as Lisbon and the Algarve. Unsurprisingly, prices in Portugal also rose during the Corona pandemic, when demand for housing gained further momentum. In the first three quarters of 2022, the total number of property transactions rose accordingly, by 8% year-on-year to 129,374. In the first three quarters of 2022, the number of new building permits rose again by 3.1% yoy to 22,845.

**House price indices: A peak in Portugal?**

Index points, 2015 = 100




sources: Eurostat, Helaba Research & Advisory

The Golden Visa programme is also boosting property demand in Portugal. Non-EU citizens are granted a five-year residence permit, allowing them to work and study in and travel to Schengen countries, provided a property investment of at least EUR 500,000.

The Portuguese property market has some of the lowest prices per square metre compared to other European city centre properties. This is certainly contributing to the robust growth in demand for property in the country. Overall, Portuguese house prices in November 2022 were around 61% higher than their previous nominal peak in 2010, with the largest increases being in the regions of Lisbon (73%), the Algarve (70%) and northern Portugal (63%).

In its Financial Stability Report (May 2023), the Banco de Portugal highlights several risks, including the potential default of the most vulnerable households due to high inflation, rising short-term interest rates and a possible deterioration in the unemployment rate. The dominance of variable interest rates in housing loans also means that a rise in short-term interest rates would lead to a relatively rapid and significant increase in debt burdens. This would lead to a cooling of the housing market and effect the value of collateral for property-backed loans.
The central bank expects the rising interest rate environment to contribute to a slowdown in price increases in the Portuguese residential property market.

### Strengths

- Good credit rating
- Buffer to issuer's reference rating of 2 notches
- Approximately 97% of the properties secured are owner occupied
- Low loan-to-value ratio

### Weaknesses

- High maturity mismatch

## Mortgage Covered Bonds: Selected key figures

| Coverage data | |
|---|---|
| Outstanding covered bonds (M€) | 7.000 |
| Total cover assets (M€) | 8.734 |
| Derivatives | - |
| Substitute assets | 2,2% |
| Over-collateralisation | 24,8% |

| Market risk indicators | |
|---|---|
| Covered bonds with fixed coupon (after swap) | 7,1% |
| Cover assets with fixed rate | 10,2% |
| Weighted average life covered bonds (in years) | 2,9 |
| Weighted average life cover pool (in years) | 13,8 |

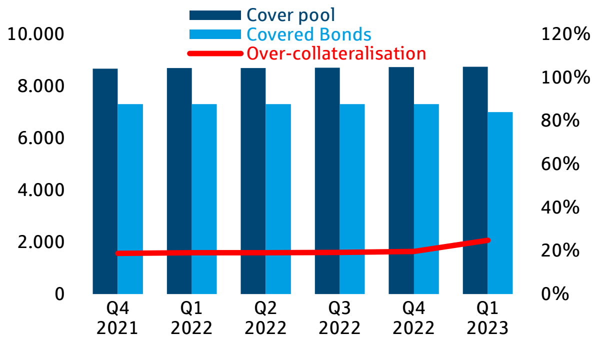
| Credit risk indicators | |
|---|---|
| Residential cover pool | 100,0% |
| Commercial cover pool | 0,0% |
| Weighted average LTV unindexed (residential) | 53,4% |
| Weighted average LTV indexed (residential) | - |
| Average loan seasoning (> 5 years) | 62,8% |
| Non-performing loans (≥ 90 days) | 0,0% |
| 10 largest exposures | 0,1% |
| Number of borrowers | - |
| Bullet repayment / interest-only loans | 1,2% |
| Residential loans - buy-to-let | 1,3% |

Sources: Issuer's website, Bloomberg, Moody's Global Covered Bonds Monitoring Overview Q1 2023, Helaba Research & Advisory

| Rating relevant key figures: | Moody's | Fitch | S&P |
|---|---|---|---|
| Credit risk (Moody's: Collateral Score, S&P: WAFFxWALS) | 5,0% | - | - |
| Market risk (Moody's) | 9,7% | - | - |
| OC level consistent with current rating | 0,5% | - | - |

### Overcollateralization of the previous 6 quarters

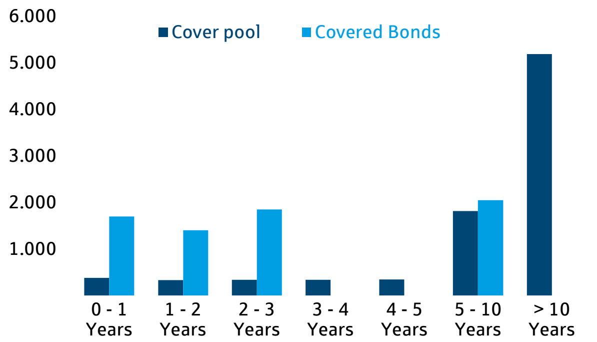
Mio. EUR




Sources: Issuer's website, Helaba Research & Advisory

### Maturities by duration bands

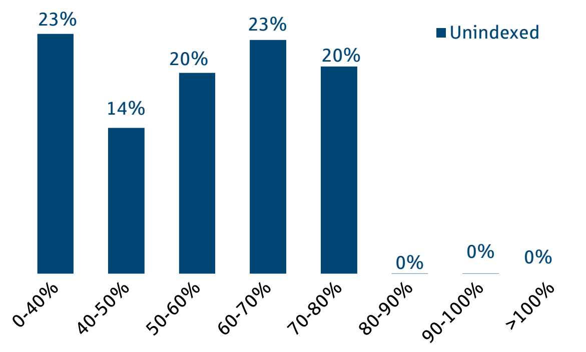
Vertraglich, Mio. EUR




Sources: Issuer website, Helaba Research & Advisory

### Cover pool by loan-to-value ratio

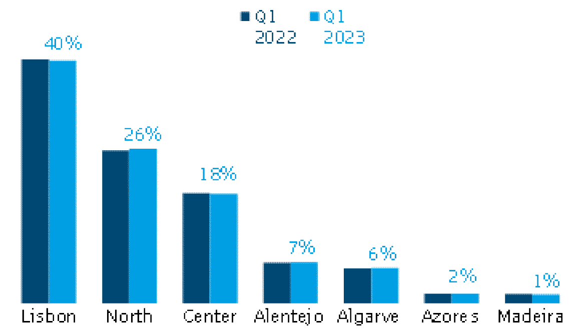
Non-indexed, %




Sources: Issuer's website, Helaba Research & Advisory

### Cover pool by regions

%




Sources: Issuer's website, Helaba Research & Advisory

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