

PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

4TH QUARTER 2022



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Portuguese banking system | 4th quarter of 2022

Balance-sheet structure

Total assets decreased by 4.4% in the fourth quarter of 2022. This was mainly due to a decline in cash balances at central banks and other demand deposits (2.8 p.p. contribution).

The loan-to-deposit ratio narrowed by 0.8 p.p. to 78.2%, as a result of an increase in customer deposits (+1.1%), against a background of relatively stable customer loans (+0.1%). The share of central bank funding in assets decreased by 5.1 p.p. to 3.6%.

The liquidity coverage ratio (LCR) stood at 229%, decreasing by 25 p.p. from September 2022. This effect was chiefly due to a decrease in highly liquid assets, contributing 21.3 p.p. to the narrowing of the ratio, reflecting a reduction in cash balances at central banks and other demand deposits.

Asset quality

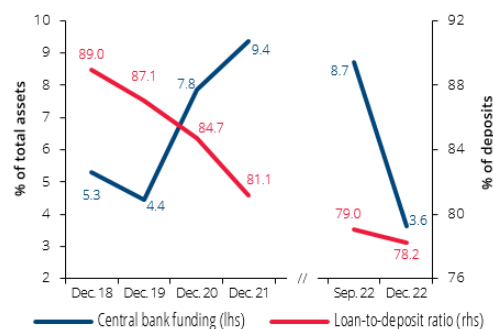
In the fourth quarter of 2022 the gross non-performing loans (NPL) ratio decreased by 0.2 p.p. to 3.0%. This reflected a decrease in NPLs (-0.3 p.p. contribution), more than offsetting the decline in performing loans (+0.1 p.p. contribution). The NPL ratio net of impairments stood at 1.3%.

Gross NPL ratios of NFCs and households fell by 0.7 p.p. and 0.1 p.p. to 6.5% and 2.3% respectively. The decrease in NPLs was the main driver behind these developments.

The NPL coverage by impairment ratio increased by 1.8 p.p. to 55.4%, reflecting a decrease in NPLs exceeding that of accumulated impairments. In NFCs it rose by 1.4 p.p. to 55.9%. The ratio for households stood at 55.1%, up by 6.0 p.p. and 0.4 p.p. to 40.4% and 64.1% in the segments of housing, and consumption and other purposes respectively.

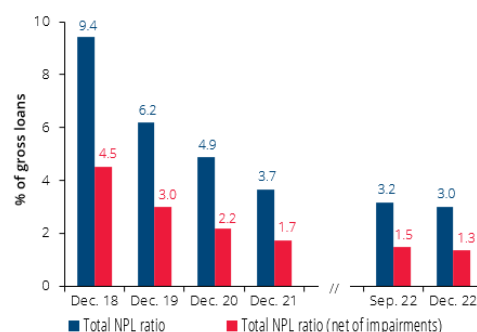
The non-financial private sector's stage 2 loan ratio stood at 11.1% (-0.4 p.p. in the quarter under review). The ratio declined by 0.4 p.p. and 0.2 p.p. to 8.1% and 16.0% in the NFC and household sector respectively.

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



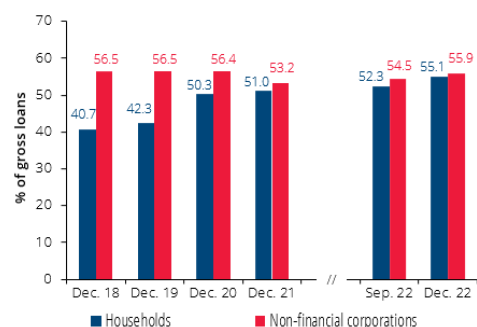
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In 2022 return on assets (ROA) and return on equity (ROE) rose significantly from 2021, to stand at 0.70% (+0.23 p.p.) and 8.8% (+3.3 p.p.) respectively. Developments in profitability reflected an increase in net interest income (+0.32 p.p. contribution to ROA) and a decrease in provisions and impairments (+0.14 p.p. contribution to ROA). Conversely, the rise in operational costs had a negative impact (-0.12 p.p. contribution to ROA).

The loan loss charge decreased by 0.04 p.p. compared with the same period a year earlier, to 0.29%.

The cost-to-income ratio fell by 3.0 p.p. year on year, to 50.4%, reflecting a greater increase in total operating income (-7.6 p.p. contribution) than in operational costs (+4.7 p.p. contribution).

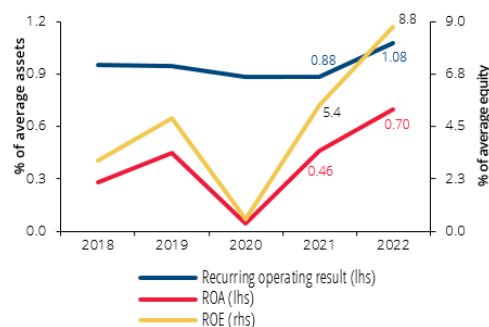
Solvency

In the fourth quarter of 2022 the total capital ratio and the Common Equity Tier 1 (CET1) ratio increased by 1.0 p.p. and 0.7 p.p. to 18.1% and 15.3% respectively. In both cases, developments reflected the reduction in the total risk exposure amount, and to a lesser extent an increase in own funds.

The average risk weight rose by 0.7 p.p. to 43.2%, due to a reduction in the share of lower risk components in assets.

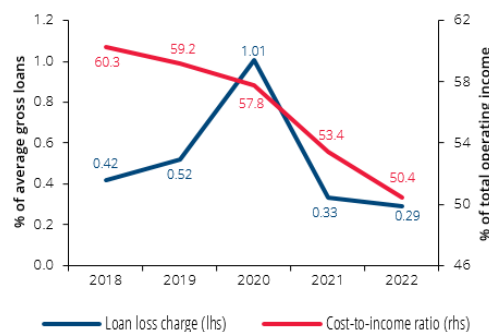
The leverage ratio rose by 0.3 p.p. from the previous quarter, to 6.7%.

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



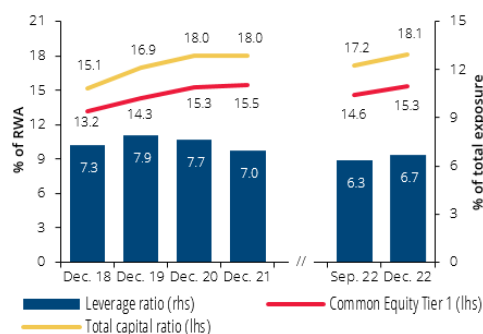
Source: Banco de Portugal.

Chart 5 • Cost-to-income and loan loss charge ratios



Source: Banco de Portugal.

Chart 6 • Own funds ratios and leverage ratio



Source: Banco de Portugal.

Note: RWA means risk-weighted assets. Total exposure includes total assets, derivatives and off-balance sheet positions, and may exclude exposures to central banks upon authorisation of the supervisory authority.

Table 1 • Portuguese banking system indicators ^(a)

	Notes	Unit	Dec. 18	Dec. 19	Dec. 20	Dec. 21	Sep. 22	Dec. 22
Assets								
Loans to customers (net of impairments)	(1)	%	59.7	59.6	57.6	55.5	54.6	57.2
Debt securities (net of impairments)	(1)	%	21.4	22.0	22.3	20.7	20.4	20.9
Portuguese government debt securities (gross value)	(2)	%	8.8	8.0	8.0	6.4	5.9	5.6
Total assets		€ billion	384.5	390.3	411.8	444.9	463.0	442.5
Total assets / GDP (nominal)		%	187.4	182.1	205.4	207.2	198.3	184.8
Liquidity and funding								
Central bank funding	(1)	%	5.3	4.4	7.8	9.4	8.7	3.6
Interbank financing (net of interbank assets)	(1)	%	6.1	6.0	4.2	3.4	3.1	3.9
Customer deposits	(1)	%	67.1	68.5	68.0	68.4	69.1	73.1
Liabilities represented by debt securities	(1)	%	4.2	4.1	3.6	4.1	3.9	4.1
Equity	(1)	%	9.1	9.3	8.8	8.3	7.7	8.1
Loan-to-deposit (Ltd) ratio	(3)	%	89.0	87.1	84.7	81.1	79.0	78.2
Highly liquid assets	(4)	%	17.1	19.6	23.1	27.2	26.1	25.2
Liquidity coverage ratio (LCR)	(5)	%	196.4	218.5	245.9	260.0	253.8	229.2
Asset quality								
Non-performing loans (gross value)		€ million	25 852	17 199	14 416	12 148	10 831	9 875
Non-performing loans (net of impairments)		€ million	12 420	8 347	6 494	5 774	5 027	4 402
NPL ratio - Total	(6)	%	9.4	6.2	4.9	3.7	3.2	3.0
NPL ratio - Households	(6)	%	5.1	3.7	3.4	2.8	2.5	2.3
NPL ratio - Non-financial corporations	(6)	%	18.5	12.3	9.7	8.1	7.2	6.5
NPL ratio net of impairments - Total	(7)	%	4.5	3.0	2.2	1.7	1.5	1.3
NPL impairment coverage ratio - Total	(8)	%	52.0	51.5	55.0	52.5	53.6	55.4
Coverage ratio - Households	(8)	%	40.7	42.3	50.3	51.0	52.3	55.1
Coverage ratio - Non-financial corporations	(8)	%	56.5	56.5	56.4	53.2	54.5	55.9
Stage 2 loans ratio - Total	(9)	%	10.1	9.4	11.2	11.6	10.6	10.3
Stage 2 loans ratio - Non-financial private sector	(9)	%	10.4	9.6	12.0	12.5	11.5	11.1
Stage 2 loans ratio - Households	(9)	%	8.6	7.7	7.8	8.5	8.6	8.1
Stage 2 loans ratio - Non-financial corporations	(9)	%	13.1	12.6	18.6	18.8	16.3	16.0
Profitability ^(b)								
Return on assets (ROA)	(10)	%	0.28	0.45	0.05	0.46	0.66	0.70
Recurring operating result	(11)	%	0.95	0.94	0.89	0.88	1.03	1.08
Return on equity (ROE)	(12)	%	3.0	4.8	0.5	5.4	8.3	8.8
Profit or loss for the year		€ million	1 074	1 752	195	1 998	2 990	3 162
Cost-to-Income	(13)	%	60.3	59.3	57.8	53.4	49.9	50.4
Loan loss charge	(14)	%	0.42	0.52	1.01	0.33	0.22	0.29
Solvency								
Common Equity Tier 1 (CET 1)	(15)	%	13.2	14.3	15.3	15.5	14.6	15.3
Additional Tier 1 (AT 1)	(15)	%	0.8	1.1	1.2	0.8	0.7	0.8
Tier 2	(15)	%	1.2	1.5	1.5	1.7	1.8	2.0
Leverage ratio	(16)	%	7.3	7.9	7.7	7.0	6.3	6.7
Average risk weight	(17)	%	54.4	53.3	48.6	44.0	42.4	43.2

Notes:

(a) Banking system data are based on accounting/prudential information on a consolidated basis from credit institutions and investment firms with assets over 5 billion euros, reported to Banco de Portugal for supervisory purposes. The change introduced in the publication *Portuguese Banking System: Latest Developments* in the 2nd quarter of 2021 was due to the entry into force of the Investment Firms Regulation.

(b) Profitability indicators are calculated with annualised flows accumulated from January up to the reference period.

(1) As a percentage of total assets.

(2) Monetary and financial statistics. As a percentage of other monetary financial institutions' assets.

(3) Ratio of customer loans (net of impairments) to customer deposits.

(4) Corresponds to the amount of liquid assets held by credit institutions that satisfy requirements set in Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. As a percentage of total assets.

(5) Ratio of liquidity buffer to net cash outflows calculated under a 30-day stress scenario.

(6) Ratio of the gross value of non-performing loans to the total gross value of loans.

(7) Ratio of non-performing loans net of impairments to the total gross value of loans.

(8) Ratio of impairments for non-performing loans to their gross value.

(9) Ratio of gross stage 2 loans to gross loans.

(10) Profit and loss for the year as a percentage of average assets.

(11) Net interest income and net commissions less operational costs; as a percentage of average assets.

(12) Profit and loss for the year as a percentage of average equity.

(13) Ratio of operational costs to total operating income.

(14) Flow of credit impairments as a percentage of total average gross credit granted to customers.

(15) As a percentage of risk-weighted assets.

(16) Up to June 2016 it corresponds to the ratio of Tier 1 capital to total assets. From September 2016 onwards it corresponds to the ratio of Tier 1 capital to total exposure (includes total assets, derivatives and off-balance sheet positions, and may exclude exposures to central banks upon authorisation of the supervisory authority).

(17) Ratio of risk-weighted assets to total assets.

