

# PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

1<sup>ST</sup> QUARTER 2023



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# Portuguese banking system | 1<sup>st</sup> quarter of 2023

## Balance-sheet structure

Total assets decreased by 1.9% in the first quarter of 2023. This was mainly due to a decrease in cash balances at central banks (-2.3 p.p.), partly offset by an increase in debt securities (+0.9 p.p.).

The loan-to-deposit ratio widened by 1.6 p.p., to 79.9%, as a result of a reduction in customer deposits (-2.6%), slightly offset by a decline in customer loans (-0.5%). The weight of central bank funding decreased by 0.7 p.p., to 2.9% of assets.

The liquidity coverage ratio (LCR) stood at 218%, decreasing by 11 p.p. from December 2022. This was due to a decrease in highly liquid assets (-22.3 p.p.), reflecting a fall in cash balances at central banks, partly offset by a decline in net liquidity outflows (+11.3 p.p.).

## Asset quality

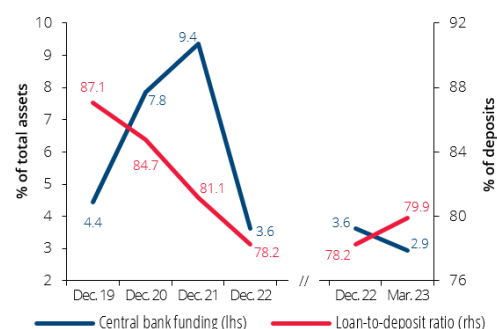
In the first quarter of 2023, the gross non-performing loans (NPL) ratio increased by 0.1 p.p. to 3.1%, reflecting a decrease in performing loans against a background of a slight reduction in NPLs. The NPL ratio net of impairments continued to stand at 1.3%.

The gross NPL ratio fell by 0.2 p.p. to 6.3% for NFCs, increasing by 0.1 p.p. to 2.4% for households.

The NPL coverage by impairment ratio rose by 0.8 p.p. to 56.3%, mainly reflecting a decrease in NPLs. In NFCs it rose by 1.9 p.p. to 57.9%. The ratio for households stood at 54.3%, decreasing by 0.9 p.p. to 39.6% and 63.3% in the segments of housing, and consumption and other purposes respectively.

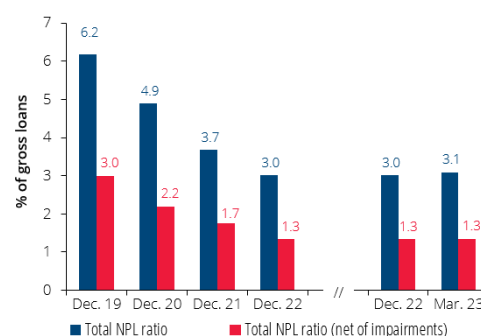
The stage 2 loan ratio of NFCs dropped by 0.3 p.p. to 15.8%. The ratio for households stood at 9.0% (+0.8 p.p.), increasing by 1.0 p.p. and 0.3 p.p. to 8.4% and 11.1% in the segments of housing, and consumption and other purposes respectively.

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



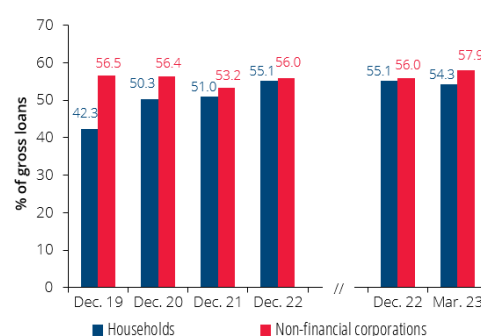
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

## Profitability

In the first quarter of 2023, return on assets (ROA) and return on equity (ROE) rose significantly year on year, to stand at 1.15% (+0.46 p.p.) and 13.9% (+5.4 p.p.) respectively. Developments in profitability mainly reflected an increase in net interest income (+0.93 p.p. contribution to ROA). Conversely, the rise in provisions and impairments and in operational costs had a negative impact (-0.20 p.p. and -0.09 p.p. contribution to ROA, respectively).

The loan loss charge increased by 0.05 p.p. compared with the same period a year earlier, to 0.37%.

The cost-to-income ratio fell by 12.6 p.p. year on year, to 39.4%, reflecting an increase in total operating income (-15.7 p.p.) that largely surpassed that of operational costs (+3.1 p.p.).

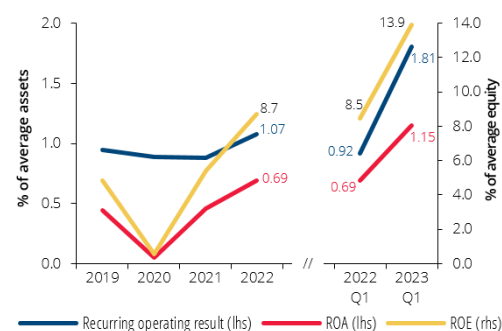
## Solvency

In the first quarter of 2023, both the total capital ratio and the Common Equity Tier 1 (CET 1) ratio increased by 0.2 p.p., to 18.4% and 15.6% respectively. These developments reflected the increase in CET 1, amid a relative stabilisation in the total risk exposure amount.

The average risk weight rose by 0.9 p.p., to 44.1%, due to a reduction in the share of lower risk components in assets.

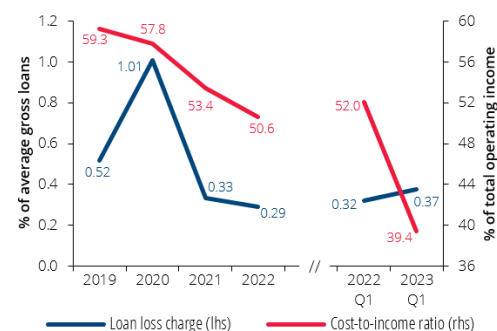
The leverage ratio rose by 0.6 p.p. from the previous quarter, to 7.3%.

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



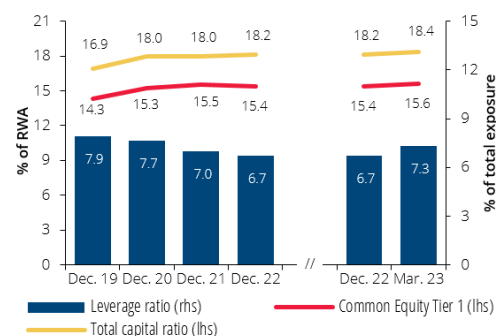
Source: Banco de Portugal.

**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 <sup>(a)</sup>**

	Notes	Unit	Dec. 19	Dec. 20	Dec. 21	Dec. 22	Mar. 22	Dec. 22	Mar. 23
<b>Assets</b>									
Loans to customers (net of impairments)	(1)	%	59.6	57.6	55.5	57.2	55.3	57.2	58.0
Debt securities (net of impairments)	(1)	%	22.0	22.3	20.7	20.9	20.8	20.9	22.2
Portuguese government debt securities (gross value)	(2)	%	8.0	8.0	6.4	5.6	6.6	5.6	5.8
Total assets		€ billion	390.3	411.8	444.9	442.5	450.2	442.5	434.1
Total assets / GDP (nominal)		%	182.1	205.4	207.2	185.0	203.2	185.0	176.7
<b>Liquidity and funding</b>									
Central bank funding	(1)	%	4.4	7.8	9.4	3.6	9.2	3.6	2.9
Interbank financing (net of interbank assets)	(1)	%	6.0	4.2	3.4	4.0	3.1	4.0	4.5
Customer deposits	(1)	%	68.5	68.0	68.4	73.1	69.0	73.1	72.5
Liabilities represented by debt securities	(1)	%	4.1	3.6	4.1	4.1	3.9	4.1	4.1
Equity	(1)	%	9.3	8.8	8.3	8.1	7.9	8.1	8.5
Loan-to-deposit (Ltd) ratio	(3)	%	87.1	84.7	81.1	78.2	80.1	78.2	79.9
Highly liquid assets	(4)	%	19.6	23.1	27.2	25.2	26.5	25.2	23.3
Liquidity coverage ratio (LCR)	(5)	%	218.5	245.9	260.0	229.3	262.0	229.3	218.3
<b>Asset quality</b>									
Non-performing loans (gross value)		€ million	17 199	14 416	12 148	9 855	11 894	9 855	9 731
Non-performing loans (net of impairments)		€ million	8 347	6 494	5 774	4 387	5 553	4 387	4 254
NPL ratio - Total	(6)	%	6.2	4.9	3.7	3.0	3.6	3.0	3.1
NPL ratio - Households	(6)	%	3.7	3.4	2.8	2.3	2.7	2.3	2.4
NPL ratio - Non-financial corporations	(6)	%	12.3	9.7	8.1	6.5	8.0	6.5	6.3
NPL ratio net of impairments - Total	(7)	%	3.0	2.2	1.7	1.3	1.7	1.3	1.3
NPL impairment coverage ratio - Total	(8)	%	51.5	55.0	52.5	55.5	53.3	55.5	56.3
Coverage ratio - Households	(8)	%	42.3	50.3	51.0	55.1	52.6	55.1	54.3
Coverage ratio - Non-financial corporations	(8)	%	56.5	56.4	53.2	56.0	54.0	56.0	57.9
Stage 2 loans ratio - Total	(9)	%	9.4	11.2	11.6	10.3	11.2	10.3	10.7
Stage 2 loans ratio - Non-financial private sector	(9)	%	9.6	12.0	12.5	11.1	12.0	11.1	11.5
Stage 2 loans ratio - Households	(9)	%	7.7	7.8	8.5	8.2	8.2	8.2	9.0
Stage 2 loans ratio - Housing	(9)	%	n.d.	7.0	7.9	7.5	7.7	7.5	8.4
Stage 2 loans ratio - Consumption and other purposes	(9)	%	n.d.	10.5	10.7	10.8	10.3	10.8	11.1
Stage 2 loans ratio - Non-financial corporations	(9)	%	12.6	18.6	18.8	16.1	18.0	16.1	15.8
<b>Profitability <sup>(b)</sup></b>									
Return on assets (ROA)	(10)	%	0.45	0.05	0.46	0.69	0.69	0.69	1.15
Recurring operating result	(11)	%	0.94	0.89	0.88	1.07	0.92	1.07	1.81
Return on equity (ROE)	(12)	%	4.8	0.5	5.4	8.7	8.5	8.7	13.9
Profit or loss for the year		€ million	1 752	195	1 998	3 144	3 082	3 144	5 055
Cost-to-income	(13)	%	59.3	57.8	53.4	50.6	52.0	50.6	39.4
Loan loss charge	(14)	%	0.52	1.01	0.33	0.29	0.32	0.29	0.37
<b>Solvency</b>									
Common Equity Tier 1 (CET 1)	(15)	%	14.3	15.3	15.5	15.4	14.9	15.4	15.6
Additional Tier 1 (AT 1)	(15)	%	1.1	1.2	0.8	0.8	0.8	0.8	0.8
Tier 2	(15)	%	1.5	1.5	1.7	2.0	1.8	2.0	2.0
Leverage ratio	(16)	%	7.9	7.7	7.0	6.7	6.7	6.7	7.3
Average risk weight	(17)	%	53.3	48.6	44.0	43.2	43.5	43.2	44.1

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 2<sup>nd</sup> 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.

