PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

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Portuguese banking system | 2nd quarter of 2023

Balance-sheet structure

Total assets slightly increased in the second quarter of 2023 (+0.05%). The increase in debt securities (+0.25 p.p.) was partly offset by a reduction in loans to credit institutions (-0.22 p.p.).

The loan-to-deposit ratio decreased by 0.3 p.p. compared with the first quarter, to 79.6%. This was due to an increase in customer deposits (0.4%) and, to a lesser degree, an increase in loans to customers (0.1%). The weight of central bank funding decreased by 1.6 p.p., to 1.4% of assets.

The liquidity coverage ratio (LCR) remained at 218%. The decrease in liquidity outflows (+0.2 p.p.) offset the reduction in highly liquid assets, in particular cash balances at central banks and other demand deposits (-0.1 p.p.).

Asset quality

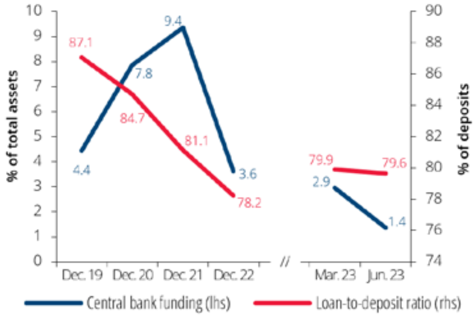
In the second quarter of 2023, the gross non-performing loans (NPL) ratio remained unchanged (3.1%), as a result of a decrease in NPLs (-0.5%) and a reduction in performing loans (-0.2%). The NPL ratio net of impairments stood at 1.3% (-0.1 p.p.).

The NFC's gross NPL ratio dropped by 0.1 p.p., to 6.2%, while for households it remained at 2.4%.

The NPL coverage by impairment ratio rose by 0.4 p.p. to 56.6%, reflecting both the reduction in NPL and the increase in accumulated impairments. In NFCs it rose by 0.5 p.p. to 58.4%. The ratio for households stood at 54.4% (-0.1 p.p.), corresponding to 38.6% (-0.9 p.p.) and 64.0% (+0.8 p.p.) in the segments of housing, and consumption and other purposes, respectively.

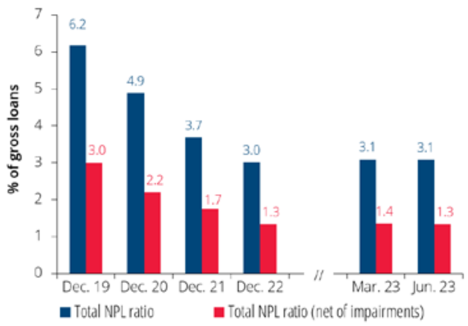
The stage 2 loan ratio stood at 14.8% (-1.0 p.p.) and 9.5% (+0.5 p.p.) for NFCs and households respectively, increasing to 9.1% in housing (+0.7 p.p.) and standing at 10.7% in consumption and other purposes (-0.4 p.p.).

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



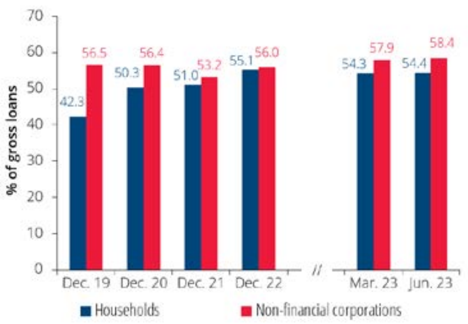
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

Profitability

In the first half of 2023, the banking system's profitability continued the growth trend observed in the past two years, with return on assets (ROA) and return on equity (ROE) increasing by 0.44 p.p. and 4.8 p.p. year on year, standing at 1.16% and 13.7% respectively. Developments in profitability reflected an increase in net interest income (+1.01 p.p. contribution to ROA), which was partly offset by a rise in provisions and impairments (-0.34 p.p. contribution).

The loan loss charge increased by 0.3 p.p. compared with the same period a year earlier, to 0.46%, reflecting a rise in provisions and impairments.

The cost-to-income ratio fell by 12.8 p.p. year on year, to stand at 38.8%, mainly due to the significant increase in total operating income (-16.9 p.p. contribution). Operational costs posted a 9.5% increase year on year resulting from staff costs and other administrative expenses.

Solvency

In the second quarter of 2023, the total capital ratio and the Common Equity Tier 1 (CET1) ratio stood at 19.0% and 16.4% respectively (+0.6 p.p. and +0.8 p.p., from March 2023). These developments reflected the increase in CET1, amid a relative stabilisation in the total risk exposure amount.

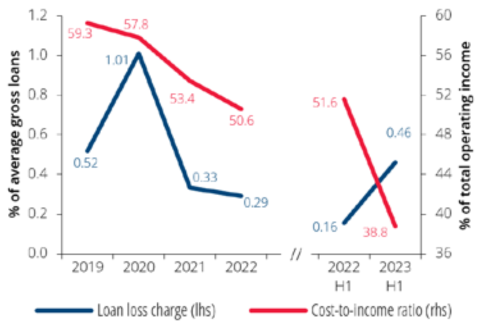
The average risk weight slightly rose from March 2023, to 44.2%, with a marginal increase in the risky assets.

The leverage ratio rose by 0.4 p.p. from the previous quarter, to 7.3%.

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

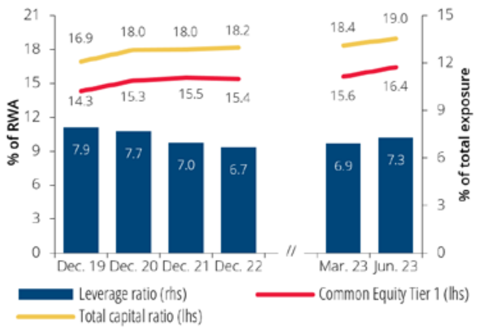
Source: Banco de Portugal.

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 [(a)]

	Notes	Unit	Dec. 19	Dec. 20	Dec. 21	Dec. 22	Jun. 22	Mar. 23	Jun. 23
Assets									
Loans to customers (net of impairments)	(1)	%	59.6	57.6	55.5	57.2	55.0	58.0	58.0
Debt securities (net of impairments)	(1)	%	22.0	22.3	20.7	20.8	20.4	22.2	22.5
Portuguese government debt securities (gross value)	(2)	%	8.0	8.0	6.4	5.6	6.1	5.8	5.7
Total assets		€ billion	390.3	411.8	444.9	442.5	458.0	434.2	434.4
Total assets / GDP (nominal)		%	182.1	205.4	207.2	185.0	201.0	176.5	172.3
Liquidity and funding									
Central bank funding	(1)	%	4.4	7.8	9.4	3.6	8.9	2.9	1.4
Interbank financing (net of interbank assets)	(1)	%	6.0	4.2	3.4	4.0	3.2	4.5	6.0
Customer deposits	(1)	%	68.5	68.0	68.4	73.1	69.4	72.6	72.8
Liabilities represented by debt securities	(1)	%	4.1	3.6	4.1	4.1	3.8	4.1	4.2
Equity	(1)	%	9.3	8.8	8.3	8.1	7.9	8.5	8.7
Loan-to-deposit (Ltd) ratio	(3)	%	87.1	84.7	81.1	78.2	79.2	79.9	79.6
Highly liquid assets	(4)	%	19.6	23.1	27.2	25.2	26.7	23.3	23.2
Liquidity coverage ratio (LCR)	(5)	%	218.5	245.9	260.0	229.3	262.0	218.3	218.3
Asset quality									
Non-performing loans (gross value)		€ million	17,199	14,416	12,148	9,861	11,403	9,737	9,691
Non-performing loans (net of impairments)		€ million	8,347	6,494	5,774	4,392	5,400	4,259	4,202
NPL ratio - Total	(6)	%	6.2	4.9	3.7	3.0	3.4	3.1	3.1
NPL ratio - Households	(6)	%	3.7	3.4	2.8	2.3	2.6	2.4	2.4
NPL ratio - Non-financial corporations	(6)	%	12.3	9.7	8.1	6.5	7.6	6.3	6.2
NPL ratio net of impairments - Total	(7)	%	3.0	2.2	1.7	1.3	1.6	1.4	1.3
NPL impairment coverage ratio - Total	(8)	%	51.5	55.0	52.5	55.5	52.6	56.3	56.6
Coverage ratio - Households	(8)	%	42.3	50.3	51.0	55.1	51.9	54.3	54.4
Coverage ratio - Non-financial corporations	(8)	%	56.5	56.4	53.2	56.0	53.2	57.9	58.4
Stage 2 loans ratio - Total	(9)	%	9.4	11.2	11.6	10.3	10.5	10.7	10.7
Stage 2 loans ratio - Non-financial private sector	(9)	%	9.6	12.0	12.4	11.1	11.2	11.5	11.4
Stage 2 loans ratio - Households	(9)	%	7.7	7.8	8.5	8.2	8.1	9.0	9.5
Stage 2 loans ratio - Housing	(9)	%	n.d.	7.0	7.9	7.5	7.5	8.4	9.1
Stage 2 loans ratio - Consumption and other purposes	(9)	%	n.d.	10.5	10.7	10.8	10.2	11.1	10.7
Stage 2 loans ratio - Non-financial corporations	(9)	%	12.6	18.6	18.7	16.0	16.2	15.7	14.8
Profitability [(b)]									
Return on assets (ROA)	(10)	%	0.45	0.05	0.46	0.69	0.71	1.15	1.16
Recurring operating result	(11)	%	0.94	0.89	0.88	1.08	0.99	1.81	1.95
Return on equity (ROE)	(12)	%	4.8	0.5	5.4	8.7	8.9	13.9	13.7
Profit or loss for the year		€ million	1,752	195	1,998	3,144	3,217	5,058	5,044
Cost-to-Income	(13)	%	59.3	57.8	53.4	50.6	51.6	39.4	38.8
Loan loss charge	(14)	%	0.52	1.01	0.33	0.29	0.16	0.37	0.46
Solvency									
Common Equity Tier 1 (CET 1)	(15)	%	14.3	15.3	15.5	15.4	15.0	15.6	16.4
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	1.7
Leverage ratio	(16)	%	7.9	7.7	7.0	6.7	6.6	6.9	7.3
Average risk weight	(17)	%	53.3	48.6	44.0	43.2	43.0	44.1	44.2

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

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