

# PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

3<sup>RD</sup> QUARTER 2021



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# Portuguese banking system | 3<sup>rd</sup> quarter of 2021

## Balance-sheet structure

In September 2021, total assets stood at €441 billion, increasing by 1.2% compared to June. These developments reflected the contribution of an increase in cash balances at central banks (1.5 p.p.) and in customer loans (0.5 p.p.), mitigated by a decrease in the portfolio of public debt securities (-1.0 p.p.).

The loan-to-deposit ratio remained stable at 82.5%, with similar contributions from customer loans and customer deposits. The weight of central bank funding fell by 0.1 p.p. to 9.2% of assets.

In the third quarter of 2021, the liquidity coverage ratio (LCR) rose by approximately 2.4 p.p. to stand at 257.7% as a result of the increase in liquid assets.

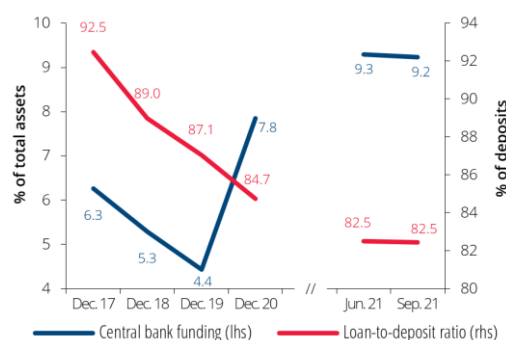
## Asset quality

In the third quarter, the gross non-performing loans (NPL) ratio decreased by 0.3 p.p. to 4.0%, reflecting a decline in NPLs (-3.6%) and an increase in performing loans (3.5%). The NPL ratio net of impairments stood at 1.8% (-0.1 p.p.).

The gross NPL ratio for NFCs stood at 8.3% (-0.4 p.p.) as a result of a decrease in NPLs. The NPL ratio for households remained at 3.1%.

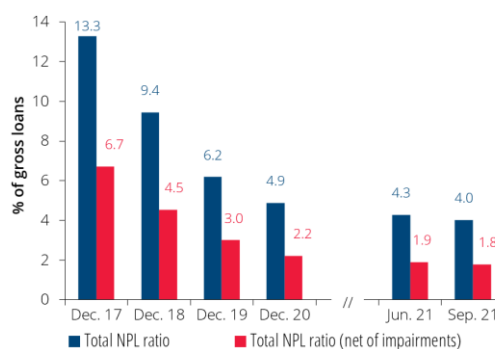
The NPL impairment coverage ratio increased by 0.2 p.p. to 55.7% due to a reduction in NPLs, offset by a relatively lower decline in accumulated impairments. This ratio dropped by 0.2 p.p. for NFCs to stand at 56.7%. The coverage ratio for households rose to 51.6%, increasing by 0.4 p.p. to 64.5% in consumption and other purposes and declining by 0.3 p.p. to 34.2% in the housing segment.

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



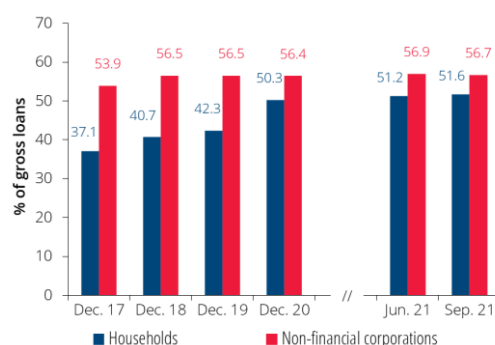
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

### Profitability

In the first three quarters of 2021, return on assets (ROA) increased by 0.31 p.p. year on year to stand at 0.46%. Return on equity (ROE) rose by 3.7 p.p. to 5.4%.

The increase in ROA resulted from a decline in credit impairments and, to a lesser extent, a higher income from financial operations. The loan loss charge fell by 0.63 p.p. to 0.37% after a significant increase in 2020 linked to the pandemic outbreak.

The cost-to-income ratio decreased by 4.7 p.p. from the same period a year earlier, to stand at 53.3%, mainly due to a higher income from financial operations.

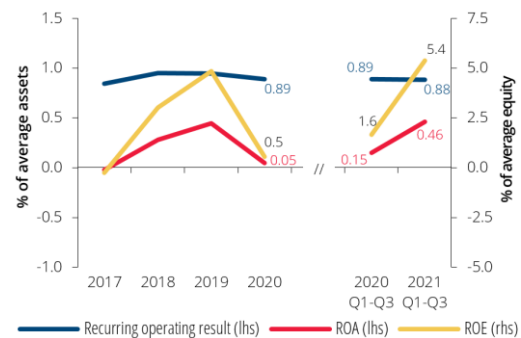
### Solvency

In the third quarter of 2021, the total capital ratio remained at 17.8%. The Common Equity Tier 1 (CET1) ratio declined by 0.1 p.p. to 15.2%. A decrease in CET1, partially offset by a decline in risk-weighted assets, contributed to these developments.

The average risk weight dropped by 1.0 p.p. to 45.7% as a result of an increase in assets and, to a lesser extent, a reduction in risk-weighted assets.

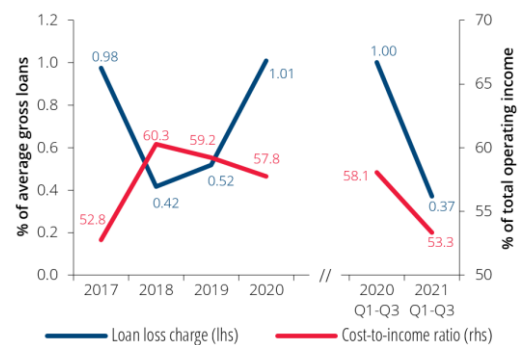
The leverage ratio fell by 0.1 p.p. from the previous quarter, to 7.3%.

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



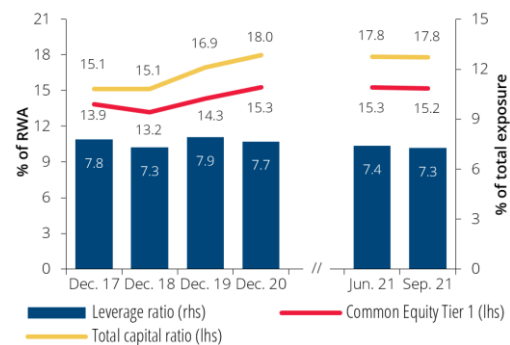
Source: Banco de Portugal.

**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. 17	Dec. 18	Dec. 19	Dec. 20	Sep. 20	Jun. 21	Sep. 21
<b>Assets</b>									
Loans to customers (net of impairments)	(1)	%	60.6	59.7	59.6	57.6	57.4	56.0	55.8
Debt securities (net of impairments)	(1)	%	19.2	21.4	22.0	22.3	23.2	22.0	20.7
Portuguese government debt securities (gross value)	(2)	%	8.3	8.8	8.0	8.0	8.3	7.1	6.5
Total assets		€ billion	381.1	384.5	390.3	411.8	411.3	435.7	440.7
Total assets / GDP (nominal)		%	194.5	187.4	182.1	205.8	202.5	212.7	212.6
<b>Liquidity and funding</b>									
Central bank funding	(1)	%	6.3	5.3	4.4	7.8	7.8	9.3	9.2
Interbank financing (net of interbank assets)	(1)	%	5.6	6.1	6.0	4.2	4.0	3.6	3.4
Customer deposits	(1)	%	65.5	67.1	68.5	68.0	67.4	67.9	67.7
Liabilities represented by debt securities	(1)	%	4.8	4.2	4.1	3.6	3.8	3.5	3.7
Equity	(1)	%	9.5	9.1	9.3	8.8	8.8	8.5	8.5
Loan-to-deposit (Ltd) ratio	(3)	%	92.5	89.0	87.1	84.7	85.2	82.5	82.5
Highly liquid assets	(4)	%	14.8	17.1	19.6	23.1	22.7	25.5	25.6
Liquidity coverage ratio (LCR)	(5)	%	173.5	196.4	218.5	245.9	235.9	255.3	257.7
<b>Asset quality</b>									
Non-performing loans (gross value)		€ million	37 001	25 852	17 199	14 416	15 439	13 469	13 044
Non-performing loans (net of impairments)		€ million	18 728	12 420	8 347	6 494	6 811	5 990	5 775
NPL ratio - Total	(6)	%	13.3	9.4	6.2	4.9	5.3	4.3	4.0
NPL ratio - Households	(6)	%	7.1	5.1	3.7	3.4	3.5	3.1	3.1
NPL ratio - Non-financial corporations	(6)	%	25.2	18.5	12.3	9.7	10.6	8.7	8.3
NPL ratio net of impairments - Total	(7)	%	6.7	4.5	3.0	2.2	2.3	1.9	1.8
NPL impairment coverage ratio - Total	(8)	%	49.4	52.0	51.5	55.0	55.9	55.5	55.7
Coverage ratio - Households	(8)	%	37.1	40.7	42.3	50.3	48.0	51.2	51.6
Coverage ratio - Non-financial corporations	(8)	%	53.9	56.5	56.5	56.4	58.4	56.9	56.7
<b>Profitability <sup>(b)</sup></b>									
Return on assets (ROA)	(9)	%	-0.02	0.28	0.45	0.05	0.15	0.44	0.46
Recurring operating result	(10)	%	0.85	0.95	0.94	0.89	0.89	0.88	0.88
Return on equity (ROE)	(11)	%	-0.3	3.0	4.8	0.5	1.6	5.1	5.4
Profit or loss for the year		€ million	-92	1 074	1 752	195	588	1 878	1 967
Cost-to-income	(12)	%	52.8	60.3	59.2	57.8	58.1	53.2	53.3
Loan loss charge	(13)	%	0.98	0.42	0.52	1.01	1.00	0.33	0.37
<b>Solvency</b>									
Common Equity Tier 1 (CET 1)	(14)	%	13.9	13.2	14.3	15.3	14.8	15.3	15.2
Additional Tier 1 (AT 1)	(14)	%	0.6	0.8	1.1	1.2	1.2	1.0	1.1
Tier 2	(14)	%	0.7	1.2	1.5	1.5	1.5	1.5	1.5
Leverage ratio	(15)	%	7.8	7.3	7.9	7.7	7.5	7.4	7.3
Average risk weight	(16)	%	56.0	54.4	53.3	48.6	49.0	46.7	45.7

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

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

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

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

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

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

(15) 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).

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