

# PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

4<sup>TH</sup> QUARTER 2021



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# Portuguese banking system | 4<sup>th</sup> quarter of 2021

## Balance-sheet structure

Total assets increased by 1% in the fourth quarter of 2021. Growth in cash balances at central banks (1.3 p.p.) contributed in particular to this increase.

The loan-to-deposit ratio declined by 1.2 p.p. to 81.2%, owing to a 1.9% increase in customer deposits, mitigated by a 0.4% rise in loans to customers. The weight of central bank funding increased by 0.1 p.p. to 9.4% of assets.

In December 2021, the liquidity coverage ratio (LCR) stood at 260%, up by 2 p.p. from September, as a result, in particular, of an increase in liquid assets.

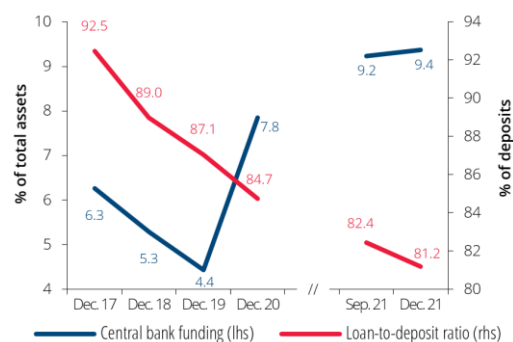
## Asset quality

In the fourth quarter of 2021, the gross non-performing loans (NPL) ratio declined by 0.4 p.p. to 3.6%. These developments reflected a decrease in NPLs and an increase in performing loans, with contributions of -0.3 p.p. and -0.1 p.p. respectively. The NPL ratio net of impairments stood at 1.7%.

The gross NPL ratios for NFCs and households stood at 8.1% (-0.3 p.p.) and 2.8% (-0.2 p.p.), respectively, reflecting in particular a reduction in NPLs.

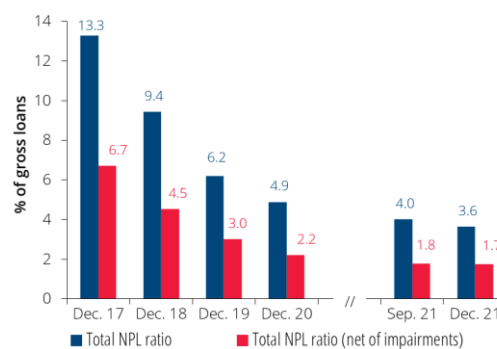
The NPL impairment coverage ratio declined by 3.5 p.p. to 52.2%. These developments reflected a decrease in accumulated impairments, partly offset by the reduction in NPLs. For NFCs, the ratio declined by 3.8 p.p. to 52.9%. The coverage ratio for households decreased to 50.9%, increasing by 0.3 p.p. to 64.8% in consumption and other purposes and falling by 1.5 p.p. to 32.6% in the housing segment.

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



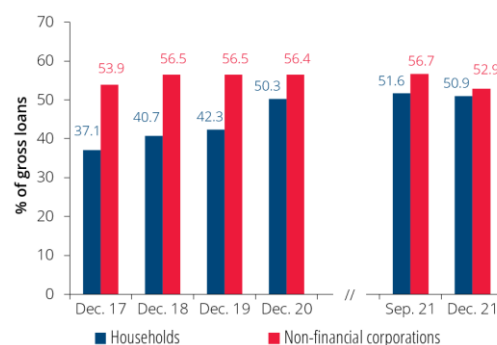
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

### Profitability

In 2021 return on assets (ROA) increased by 0.41 p.p. compared with 2020 to stand at 0.46%. Return on equity (ROE) rose by 4.9 p.p. to 5.4%. The recurring operating result remained unchanged from 2020.

Developments in ROA reflected lower credit impairments and, to a lesser extent, higher income from financial operations.

After a sharp increase in 2020, related to the outbreak of the pandemic, the loan loss charge decreased by 0.68 p.p. to 0.33% in 2021.

The cost-to-income ratio continued the downward trend that started in 2019, standing at 53.4% in 2021 (-4.4 p.p. from 2020). This decline was chiefly due to an increase in total operating income and, to a lesser extent, a decrease in operational costs.

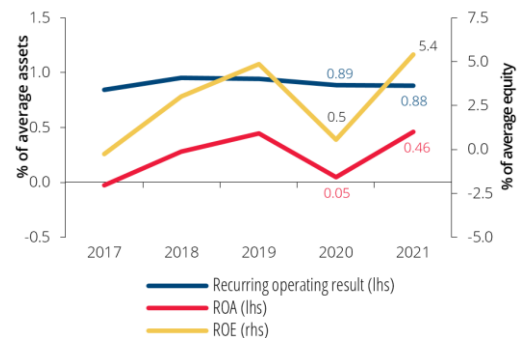
### Solvency

In the fourth quarter of 2021, the total capital ratio and the Common Equity Tier 1 (CET1) ratio increased by 0.2 p.p. and 0.3 p.p. to stand at 18.0% and 15.5% respectively. A decrease in risk-weighted assets, partly offset by a decline in capital, contributed to these developments.

The average risk weight declined by 1.7 p.p. to 44.0%, as a result of an increase in assets and a reduction in risk-weighted assets.

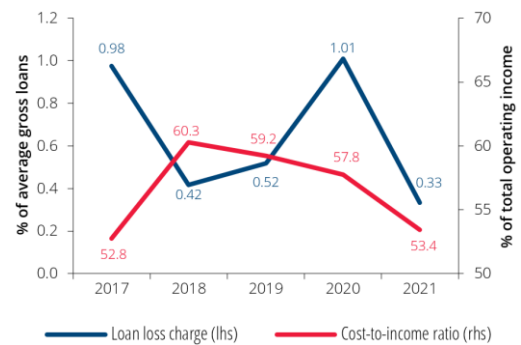
The leverage ratio fell by 0.2 p.p. from the previous quarter, to 7.0%.

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



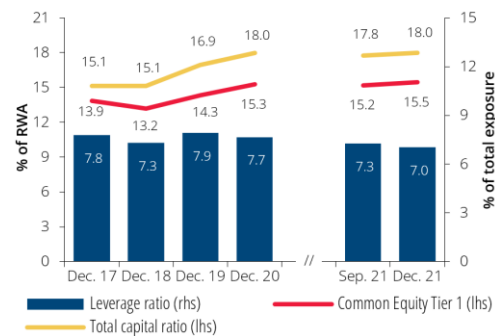
Source: Banco de Portugal.

**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. 21	Dec. 21
<b>Assets</b>								
Loans to customers (net of impairments)	(1)	%	60.6	59.7	59.6	57.6	55.8	55.5
Debt securities (net of impairments)	(1)	%	19.2	21.4	22.0	22.3	20.7	20.7
Portuguese government debt securities (gross value)	(2)	%	8.3	8.8	8.0	8.0	6.5	6.4
Total assets		€ billion	381.1	384.5	390.3	411.8	440.7	444.9
Total assets / GDP (nominal)		%	194.5	187.4	182.1	205.8	211.7	210.4
<b>Liquidity and funding</b>								
Central bank funding	(1)	%	6.3	5.3	4.4	7.8	9.2	9.4
Interbank financing (net of interbank assets)	(1)	%	5.6	6.1	6.0	4.2	3.4	3.4
Customer deposits	(1)	%	65.5	67.1	68.5	68.0	67.7	68.4
Liabilities represented by debt securities	(1)	%	4.8	4.2	4.1	3.6	3.7	4.2
Equity	(1)	%	9.5	9.1	9.3	8.8	8.5	8.3
Loan-to-deposit (Ltd) ratio	(3)	%	92.5	89.0	87.1	84.7	82.4	81.2
Highly liquid assets	(4)	%	14.8	17.1	19.6	23.1	25.6	27.2
Liquidity coverage ratio (LCR)	(5)	%	173.5	196.4	218.5	245.9	257.7	259.9
<b>Asset quality</b>								
Non-performing loans (gross value)		€ million	37 001	25 852	17 199	14 416	13 044	12 032
Non-performing loans (net of impairments)		€ million	18 728	12 420	8 347	6 494	5 775	5 747
NPL ratio - Total	(6)	%	13.3	9.4	6.2	4.9	4.0	3.6
NPL ratio - Households	(6)	%	7.1	5.1	3.7	3.4	3.1	2.8
NPL ratio - Non-financial corporations	(6)	%	25.2	18.5	12.3	9.7	8.3	8.1
NPL ratio net of impairments - Total	(7)	%	6.7	4.5	3.0	2.2	1.8	1.7
NPL impairment coverage ratio - Total	(8)	%	49.4	52.0	51.5	55.0	55.7	52.2
Coverage ratio - Households	(8)	%	37.1	40.7	42.3	50.3	51.6	50.9
Coverage ratio - Non-financial corporations	(8)	%	53.9	56.5	56.5	56.4	56.7	52.9
<b>Profitability <sup>(b)</sup></b>								
Return on assets (ROA)	(9)	%	-0.02	0.28	0.45	0.05	0.46	0.46
Recurring operating result	(10)	%	0.85	0.95	0.94	0.89	0.88	0.88
Return on equity (ROE)	(11)	%	-0.3	3.0	4.8	0.5	5.4	5.4
Profit or loss for the year		€ million	-92	1 074	1 752	195	1 967	1 992
Cost-to-income	(12)	%	52.8	60.3	59.2	57.8	53.4	53.4
Loan loss charge	(13)	%	0.98	0.42	0.52	1.01	0.37	0.33
<b>Solvency</b>								
Common Equity Tier 1 (CET 1)	(14)	%	13.9	13.2	14.3	15.3	15.2	15.5
Additional Tier 1 (AT 1)	(14)	%	0.6	0.8	1.1	1.2	1.1	0.8
Tier 2	(14)	%	0.7	1.2	1.5	1.5	1.5	1.7
Leverage ratio	(15)	%	7.8	7.3	7.9	7.7	7.3	7.0
Average risk weight	(16)	%	56.0	54.4	53.3	48.6	45.7	44.0

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.

