

# PORTUGUESE BANKING SYSTEM: LATEST DEVELOPMENTS

1<sup>ST</sup> QUARTER 2022



BANCO DE  
PORTUGAL  
EUROSISTEMA

Lisbon, 2022 • [www.bportugal.pt](http://www.bportugal.pt)

Cut-off date: 20 June 2022.

**Portuguese Banking System: latest developments** • Banco de Portugal Rua do Comércio, 148 | 1100-150 Lisboa • [www.bportugal.pt](http://www.bportugal.pt) • Edition Financial Stability Department • Design Communication and Museum Department | Design Unit • Translation International Relations Department | Translation Unit ISSN 2183-9646 (online)

# Portuguese banking system | 1<sup>st</sup> quarter of 2022

## Balance-sheet structure

In the first quarter of 2022, total assets increased by 1.2%. Loans to customers and exposure to debt securities contributed to this increase by 0.41 p.p. and 0.34 p.p. respectively.

The loan-to-deposit ratio narrowed by 1.1 p.p. to 80.1%, due to a 2.1% rise in customer deposits, mitigated by a 0.7% increase in loans to customers. The weight of central bank funding decreased by 0.1 p.p., via the denominator effect, to 9.2% of assets.

The liquidity coverage ratio (LCR) stood at 262%, increasing by 2 p.p. from December 2021. This was due to the decline in net liquidity outflows (6.4 p.p.), offset by the reduction in highly liquid assets (-4.4 p.p.).

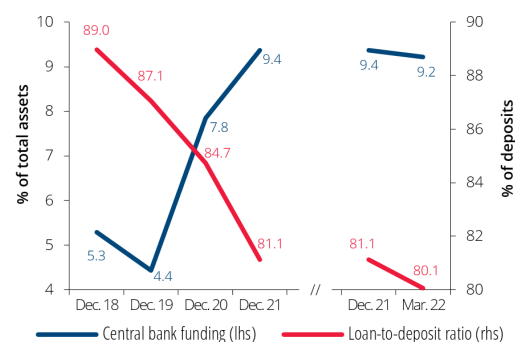
## Asset quality

In the first quarter of 2022, the gross non-performing loans (NPL) ratio decreased by 0.1 p.p. to 3.6%, reflecting a decrease in NPLs (-2.1%). The NPL ratio net of impairments remained stable at 1.7%.

The gross NPL ratio of NFCs dropped by 0.2 p.p. to 8.0%. These developments were equally due to both an increase in performing loans and a decrease in NPLs. The NPL ratio for households declined by 0.1 p.p. to 2.7%, mainly as a result of a reduction in NPLs.

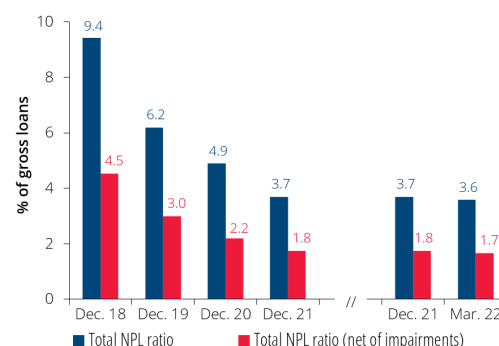
The NPL coverage by impairment ratio increased by 0.8 p.p. to 53.3%, reflecting a decrease in NPLs that exceeded that of accumulated impairments. NFCs rose by 0.8 p.p. to 54.0%. The coverage ratio for households rose to 52.6% (+1.5 p.p.), standing at 34.1% (+1.4 p.p.) and 65.8% (+0.9 p.p.) in the segments of housing and consumption and other purposes respectively.

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



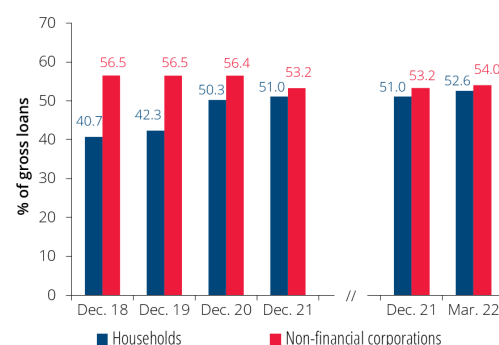
Source: Banco de Portugal.

Chart 2 • NPL ratios



Source: Banco de Portugal.

Chart 3 • NPL coverage ratios



Source: Banco de Portugal.

### Profitability

In the first quarter of 2022, return on assets (ROA) and return on equity (ROE) rose year on year, to stand at 0.69% (+0.28 p.p.) and 8.4% (+3.8 p.p.), respectively. Developments in profitability reflected the decline in provisions and impairments and, to a lesser extent, the increase in net interest income.

The loan loss charge decreased by 0.22 p.p. compared with the same period a year earlier, to 0.32%.

The cost-to-income ratio fell by 0.6 p.p. year on year, to stand at 52.0%, reflecting a greater increase in total operating income than in operational costs.

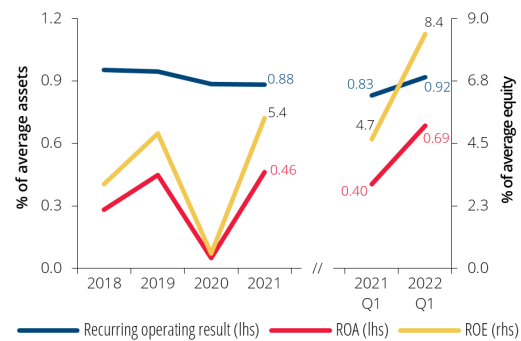
### Solvency

In the first quarter of 2022, both the total capital ratio and the Common Equity Tier 1 (CET1) ratio decreased by 0.5 p.p. and 0.6 p.p. to 17.5% and 14.9%, respectively. The decline in CET 1 capital contributed to these developments, against a backdrop of stable total risk exposure.

The average risk weight dropped by 0.4 p.p. to 43.5%, due to an increase in the share of lower risk components.

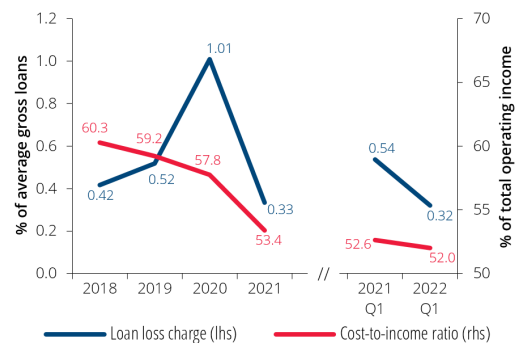
The leverage ratio decreased by 0.3 p.p. from the previous quarter, to 6.7%.

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



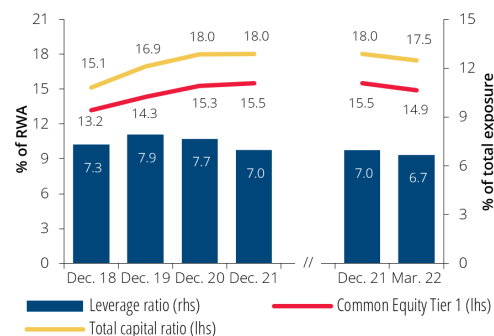
Source: Banco de Portugal.

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

|   | Notes | Unit      | Dec. 18 | Dec. 19 | Dec. 20 | Dec. 21 | Mar. 21 | Dec. 21 | Mar. 22 |
|---|-------|-----------|---------|---------|---------|---------|---------|---------|---------|
| <b>Assets</b>                                       |       |           |         |         |         |         |         |         |         |
| Loans to customers (net of impairments)             | (1)   | %         | 59.7    | 59.6    | 57.6    | 55.5    | 56.4    | 55.5    | 55.2    |
| Debt securities (net of impairments)                | (1)   | %         | 21.4    | 22.0    | 22.3    | 20.7    | 21.7    | 20.7    | 20.8    |
| Portuguese government debt securities (gross value) | (2)   | %         | 8.8     | 8.0     | 8.0     | 6.4     | 7.2     | 6.4     | 6.6     |
| Total assets  |       | € billion | 384.5   | 390.3   | 411.8   | 444.8   | 423.3   | 444.8   | 450.2   |
| Total assets / GDP (nominal)                        |       | %         | 187.4   | 182.1   | 205.8   | 210.5   | 213.5   | 210.5   | 206.8   |
| <b>Liquidity and funding</b>                        |       |           |         |         |         |         |         |         |         |
| Central bank funding                                | (1)   | %         | 5.3     | 4.4     | 7.8     | 9.4     | 9.0     | 9.4     | 9.2     |
| Interbank financing (net of interbank assets)       | (1)   | %         | 6.1     | 6.0     | 4.2     | 3.4     | 3.8     | 3.4     | 3.1     |
| Customer deposits                                   | (1)   | %         | 67.1    | 68.5    | 68.0    | 68.4    | 67.5    | 68.4    | 69.0    |
| Liabilities represented by debt securities          | (1)   | %         | 4.2     | 4.1     | 3.6     | 4.1     | 3.5     | 4.1     | 3.9     |
| Equity  | (1)   | %         | 9.1     | 9.3     | 8.8     | 8.3     | 8.6     | 8.3     | 7.9     |
| Loan-to-deposit (Ltd) ratio                         | (3)   | %         | 89.0    | 87.1    | 84.7    | 81.1    | 83.5    | 81.1    | 80.1    |
| Highly liquid assets                                | (4)   | %         | 17.1    | 19.6    | 23.1    | 27.2    | 24.6    | 27.2    | 26.5    |
| Liquidity coverage ratio (LCR)                      | (5)   | %         | 196.4   | 218.5   | 245.9   | 259.9   | 265.9   | 259.9   | 262.0   |
| <b>Asset quality</b>                                |       |           |         |         |         |         |         |         |         |
| Non-performing loans (gross value)                  |       | € million | 25 852  | 17 199  | 14 416  | 12 148  | 14 027  | 12 148  | 11 894  |
| Non-performing loans (net of impairments)           |       | € million | 12 420  | 8 347   | 6 494   | 5 772   | 6 242   | 5 772   | 5 553   |
| NPL ratio - Total                                   | (6)   | %         | 9.4     | 6.2     | 4.9     | 3.7     | 4.6     | 3.7     | 3.6     |
| NPL ratio - Households                              | (6)   | %         | 5.1     | 3.7     | 3.4     | 2.8     | 3.4     | 2.8     | 2.7     |
| NPL ratio - Non-financial corporations              | (6)   | %         | 18.5    | 12.3    | 9.7     | 8.1     | 9.3     | 8.1     | 8.0     |
| NPL ratio net of impairments - Total                | (7)   | %         | 4.5     | 3.0     | 2.2     | 1.8     | 2.0     | 1.8     | 1.7     |
| NPL impairment coverage ratio - Total               | (8)   | %         | 52.0    | 51.5    | 55.0    | 52.5    | 55.5    | 52.5    | 53.3    |
| Coverage ratio - Households                         | (8)   | %         | 40.7    | 42.3    | 50.3    | 51.0    | 50.2    | 51.0    | 52.6    |
| Coverage ratio - Non-financial corporations         | (8)   | %         | 56.5    | 56.5    | 56.4    | 53.2    | 57.3    | 53.2    | 54.0    |
| <b>Profitability <sup>(b)</sup></b>                 |       |           |         |         |         |         |         |         |         |
| Return on assets (ROA)                              | (9)   | %         | 0.28    | 0.45    | 0.05    | 0.46    | 0.40    | 0.46    | 0.69    |
| Recurring operating result                          | (10)  | %         | 0.95    | 0.94    | 0.89    | 0.88    | 0.83    | 0.88    | 0.92    |
| Return on equity (ROE)                              | (11)  | %         | 3.0     | 4.8     | 0.5     | 5.4     | 4.7     | 5.4     | 8.4     |
| Profit or loss for the year                         |       | € million | 1 074   | 1 752   | 195     | 1 996   | 1 687   | 1 996   | 3 069   |
| Cost-to-Income                                      | (12)  | %         | 60.3    | 59.2    | 57.8    | 53.4    | 52.6    | 53.4    | 52.0    |
| Loan loss charge                                    | (13)  | %         | 0.42    | 0.52    | 1.01    | 0.33    | 0.54    | 0.33    | 0.32    |
| <b>Solvency</b>                                     |       |           |         |         |         |         |         |         |         |
| Common Equity Tier 1 (CET 1)                        | (14)  | %         | 13.2    | 14.3    | 15.3    | 15.5    | 15.2    | 15.5    | 14.9    |
| Additional Tier 1 (AT 1)                            | (14)  | %         | 0.8     | 1.1     | 1.2     | 0.8     | 1.0     | 0.8     | 0.8     |
| Tier 2  | (14)  | %         | 1.2     | 1.5     | 1.5     | 1.7     | 1.5     | 1.7     | 1.8     |
| Leverage ratio                                      | (15)  | %         | 7.3     | 7.9     | 7.7     | 7.0     | 7.4     | 7.0     | 6.7     |
| Average risk weight                                 | (16)  | %         | 54.4    | 53.3    | 48.6    | 44.0    | 47.4    | 44.0    | 43.5    |

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.

