

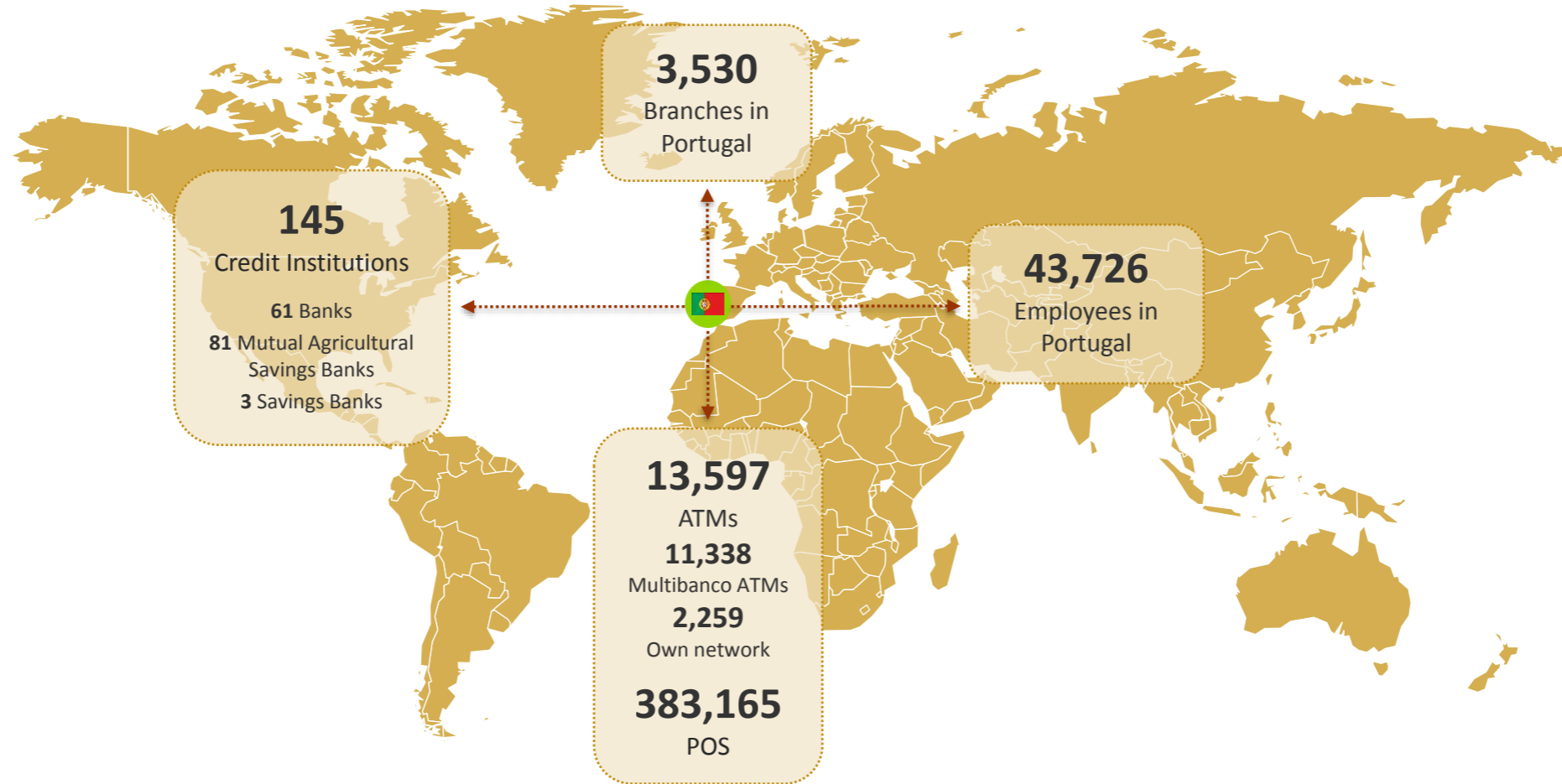
PORTUGUESE BANKING SECTOR OVERVIEW

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- I. Recent Evolution and Main Indicators
- II. Financial Position
 - Lending
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- ❑ **In 2021, the total assets of the Portuguese banking sector rose 8% over the previous year** as a result of the positive evolution of loans to customers and the significant increase in cash balances at central banks.
- ❑ On the liability side, **deposits continued to rise significantly** in the context of a high level of savings. Furthermore, due to the attractive monetary policy measures in place in the last years, **funding from the Eurosystem has increased significantly, and the Portuguese banking system has reinforced its extremely comfortable position in terms of liquidity.**
- ❑ **In 2021, the profitability of the banking system increased significantly on a year-on-year basis**, which is mostly explained by the decrease in the flow of provisions and impairments that had been registered to accommodate the impact of the pandemic crisis, as well as the increase of the operating profit.
- ❑ **The solvency of the Portuguese banking sector continued to improve and is now at high historical levels.** The sector is well capitalised and able to accommodate a possible deterioration in credit risk and an increase in non-performing assets.
- ❑ **Despite the recent unparalleled adverse shocks**, with a strong negative impact on the economic growth perspectives, **the Portuguese banking sector continues to show resilience and to respond efficiently to the economy's financing needs.**
- ❑ **The strong inflationary pressures, the potential reduction in disposable income, and the response of monetary authorities pose even more complex challenges for the banking sector.** Given this, the probability of market risk and credit risk materialisation may increase and lead to the need to build up impairments, which nonetheless, may be partially offset by the rise in interest income.

I. RECENT EVOLUTION AND MAIN INDICATORS

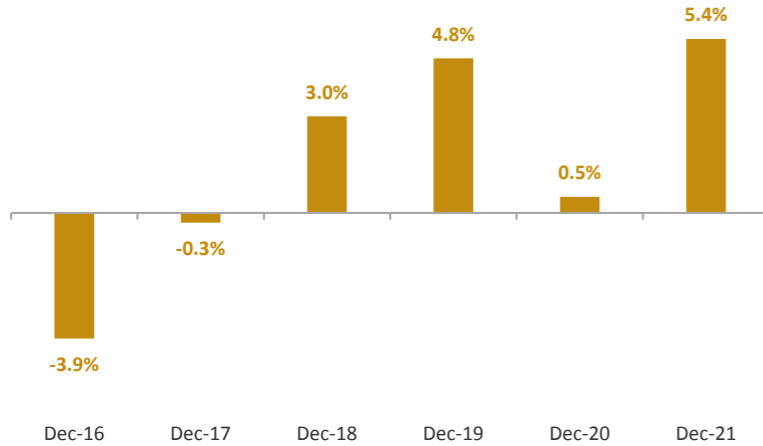


Source: APB's associates (branches, employees, and payment systems) and Banco de Portugal (credit institutions).

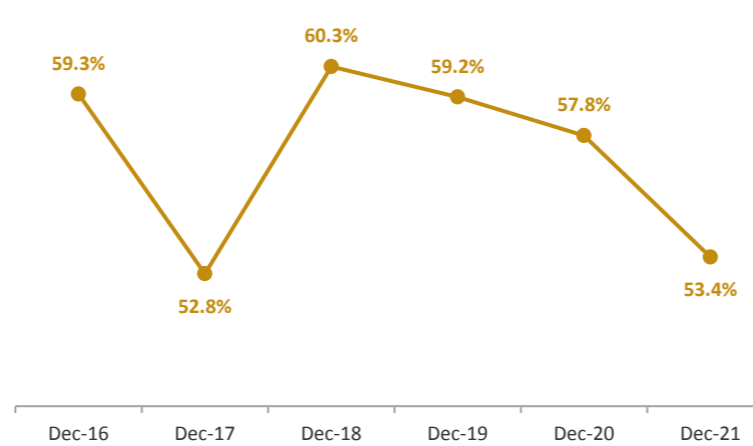
I. RECENT EVOLUTION AND MAIN INDICATORS

The Portuguese banking sector has shown to be resilient and well prepared, particularly in terms of liquidity and solvency, to face the recent adverse shocks caused by the COVID-19 pandemic and by the invasion of Ukraine by Russia.

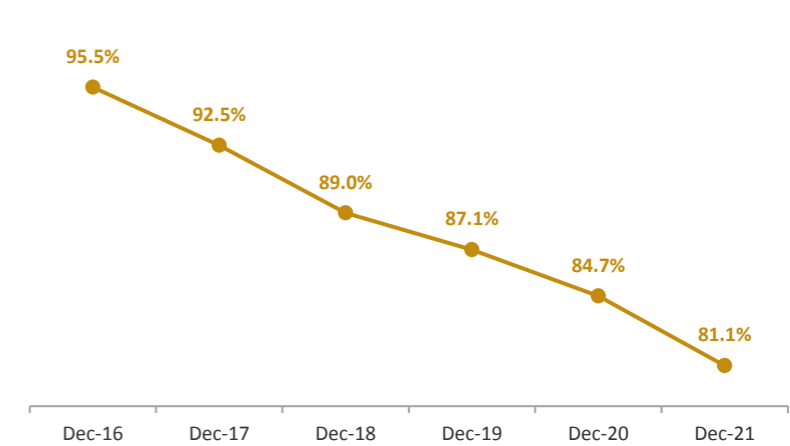
Return on Equity



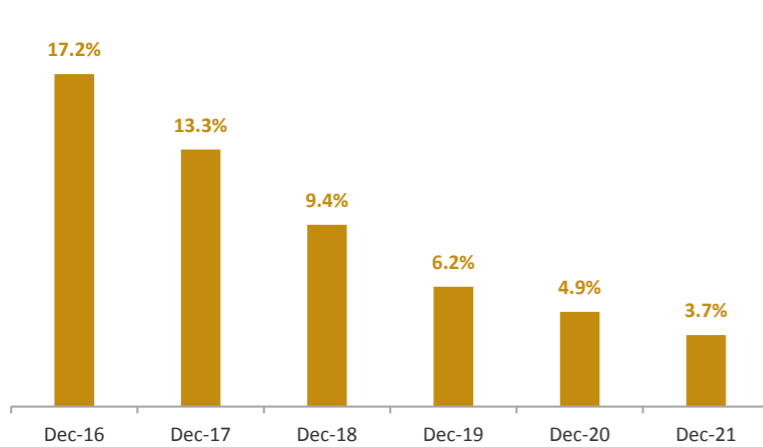
Cost-to-Income



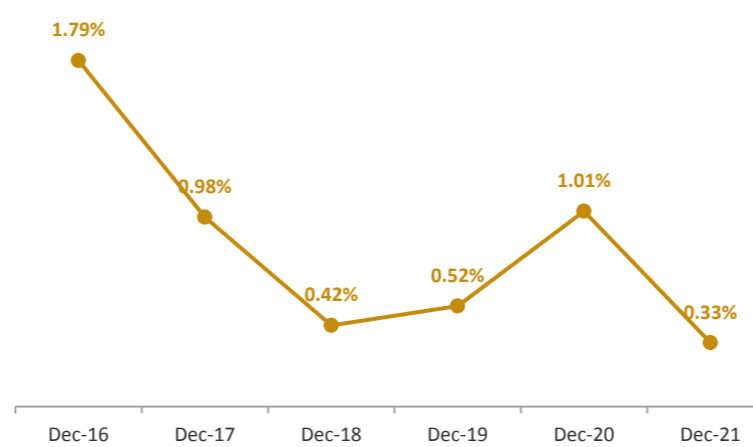
Loan-to-deposit ratio



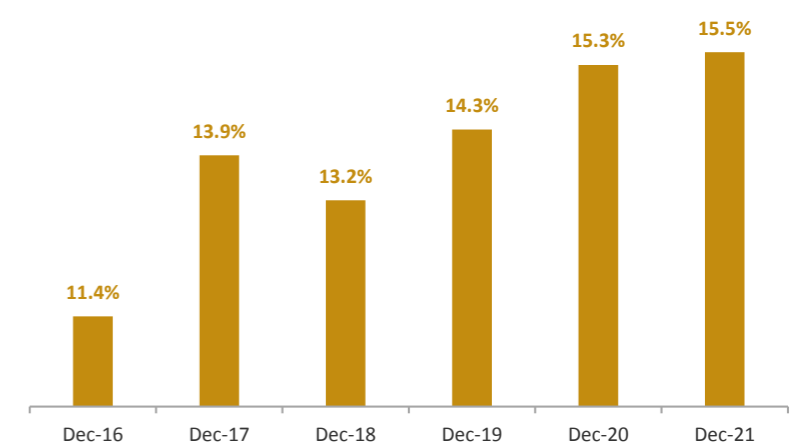
Non-Performing Loans ratio



Cost of credit risk



Common Equity Tier 1 ratio

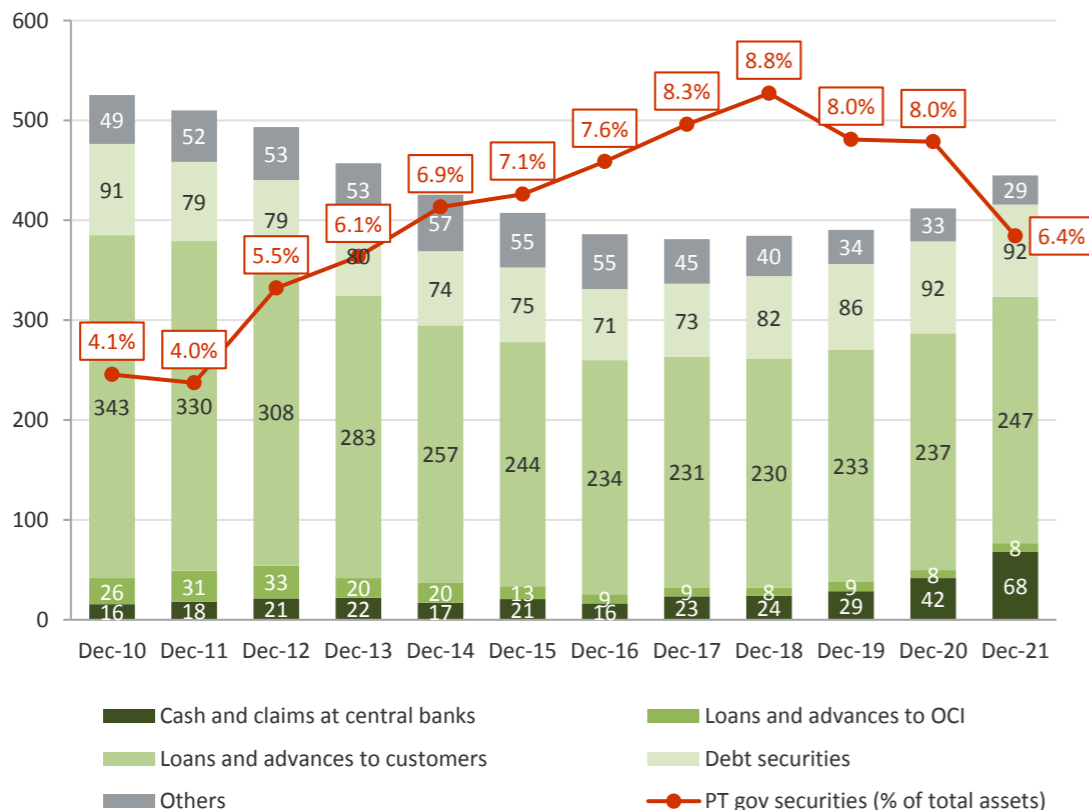


Source: Banco de Portugal (consolidated data). Return on Equity calculated based on net income after tax and before minority interests and on equity (average).

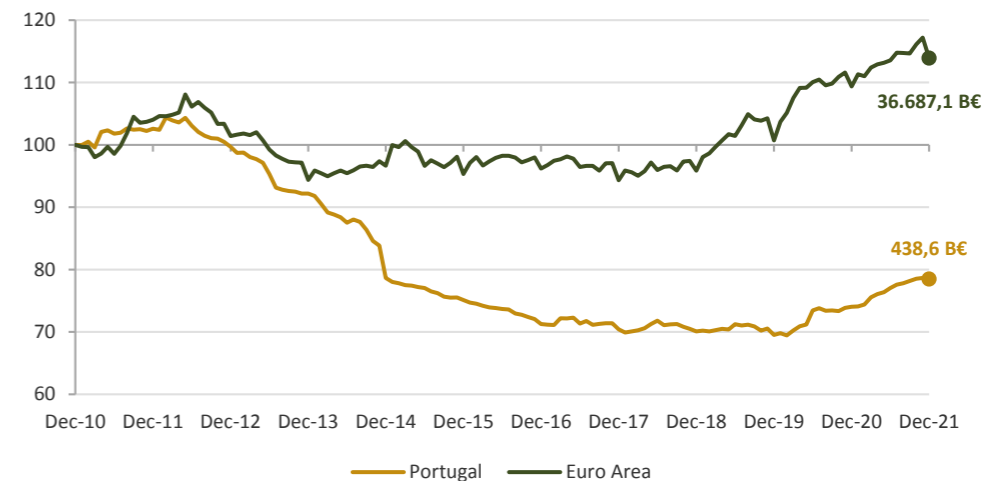
II. FINANCIAL POSITION

Total assets of the Portuguese banking sector rose 8% over December 2020, as a result of the increase of net loans to customers and the increase in cash and claims at central banks (+27.4 billion euros or approximately +75% YoY).

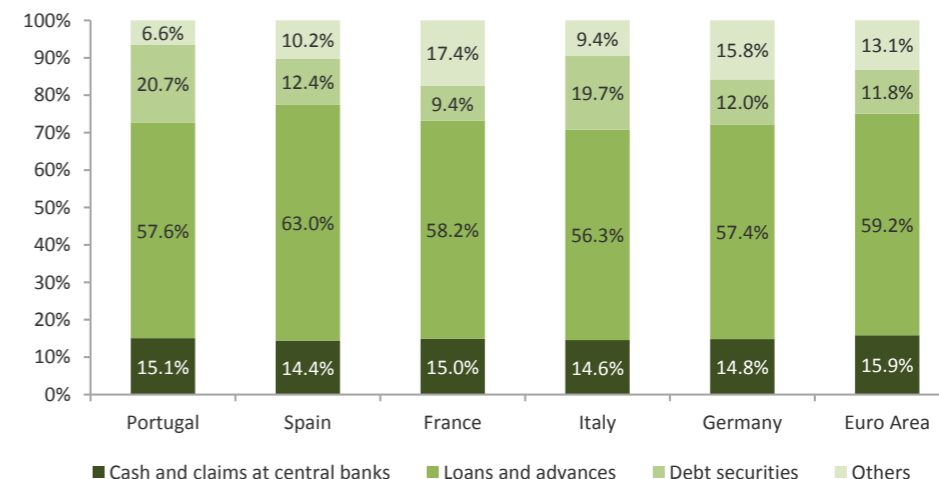
Total assets breakdown (EUR billion)



Total assets evolution – Domestic activity (Dec-10 = 100)



Total assets breakdown: Portugal vs. Euro Area (Dec-21)



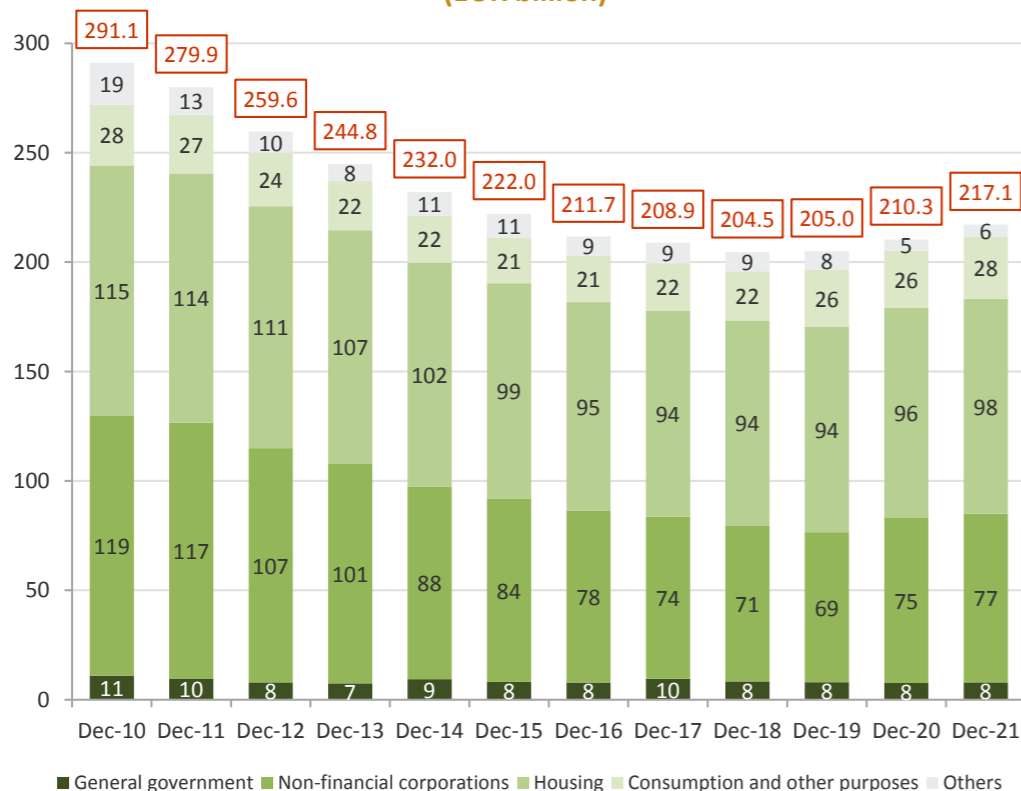
Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Banco de Portugal (consolidated data).

Source: BCE – MFI Balance Sheet Items (Monetary and Financial Statistics) and Consolidated Banking Data and Eurostat.

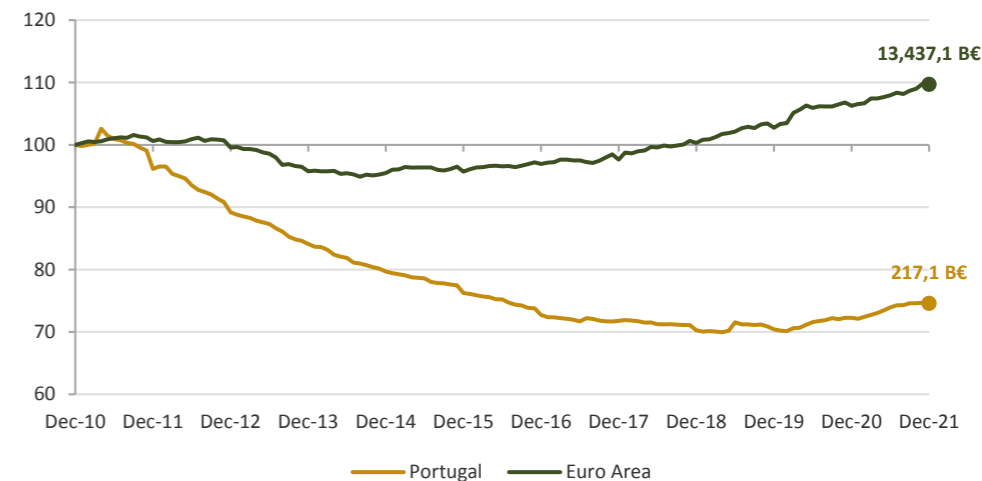
II. LENDING

In 2021, the stock of housing loans and consumer loans accelerated, while the stock of loans to NFC slowed down but maintained a positive dynamic.

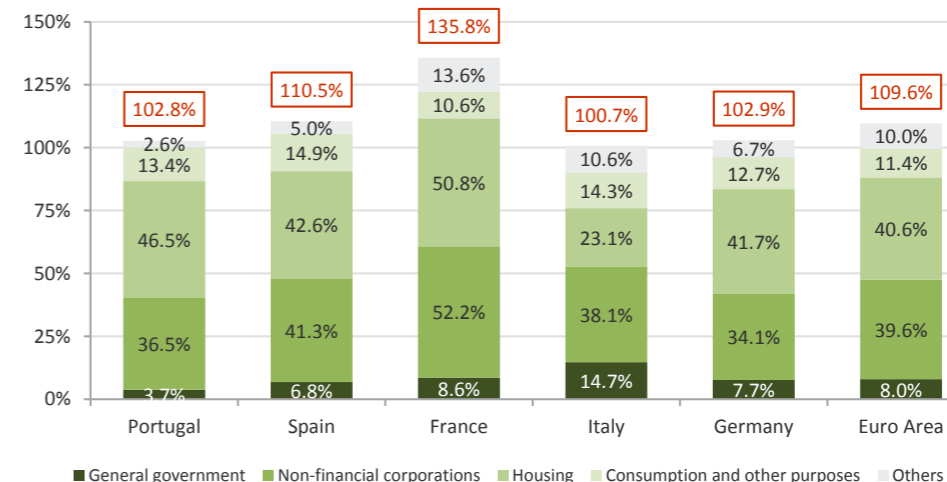
Loans to customers by institutional sector (EUR billion)



Loans to customers evolution (Dec-10 = 100)



Loans to customers by institutional sector as a % of GDP (Dec-21)

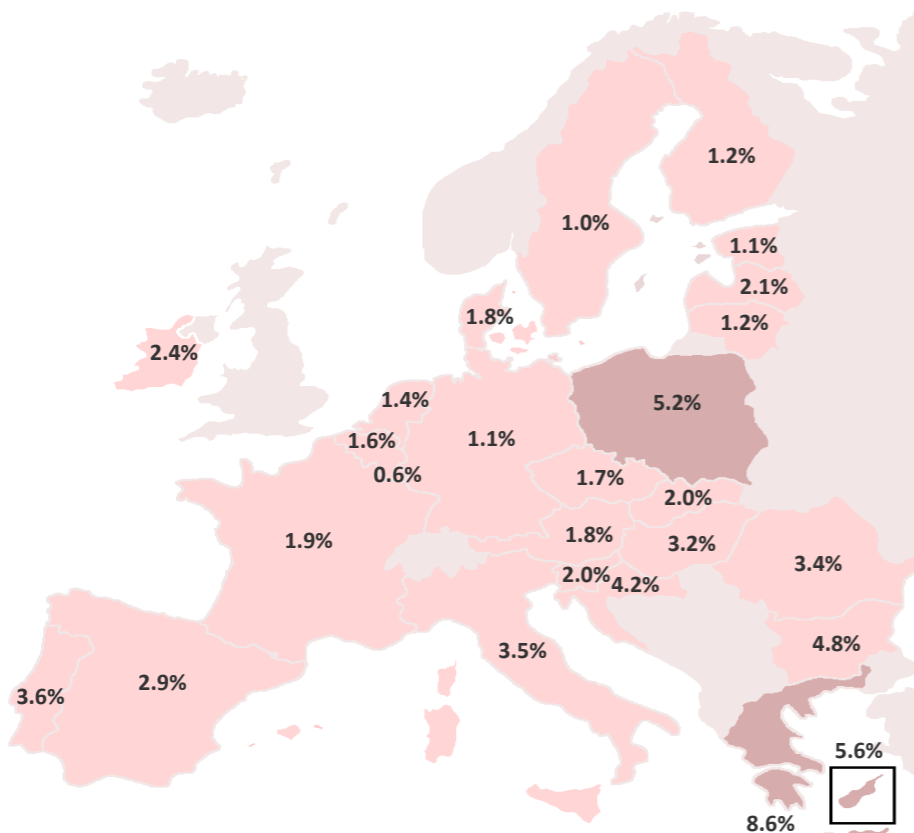


Source: Banco de Portugal (Monetary and Financial Statistics), ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat. Loans to customers are equivalent to loans granted to the non-monetary sector (gross end of period balances). Others include Non-Monetary Financial Institutions: Other Financial Intermediaries, Financial Auxiliaries, Insurance Corporations and Pension Funds.

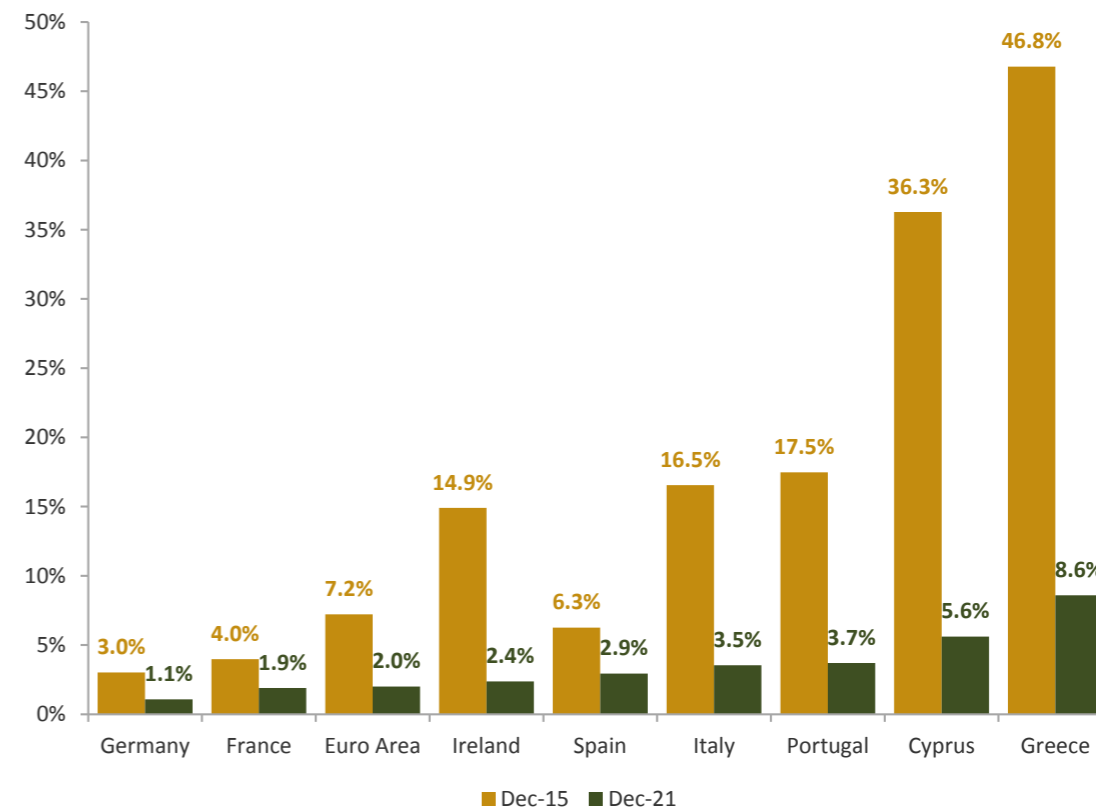
II. LENDING

Despite an extremely challenging macroeconomic environment, the Portuguese banking sector continued to progress in the reduction of the NPL stock. The NPL ratio stood at 3.7%, while on net terms decreased to 1.8%. Since December 2015, this reduction already surpassed 38 billion euros.

NPL ratio



Evolution of the NPL ratio in the EU

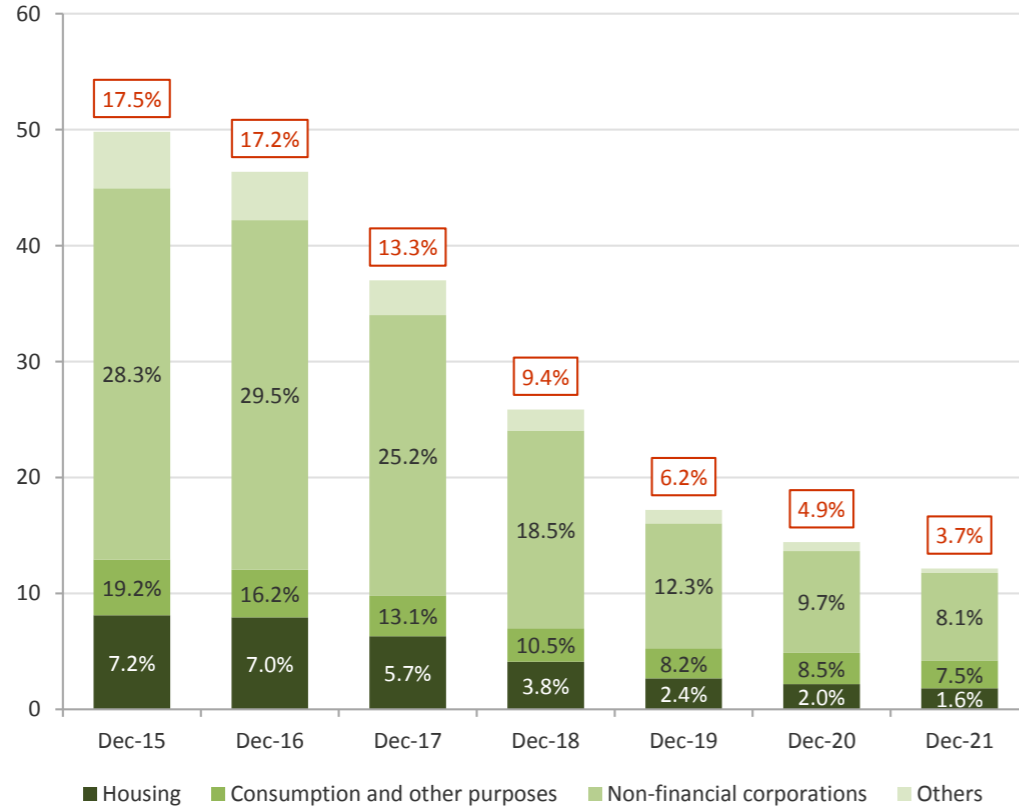


Source: ECB – Consolidated Banking Data.

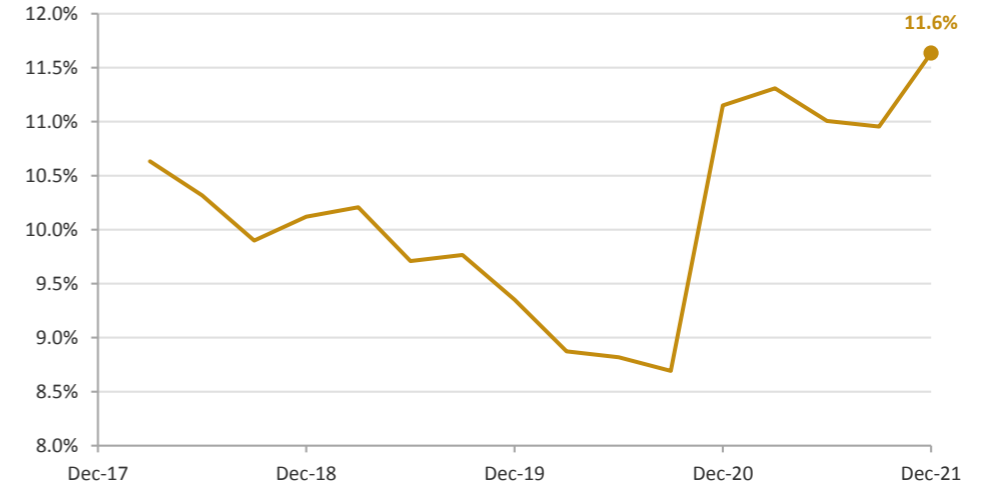
II. LENDING

In 2021, the NPL ratio maintained a downward trend on the back of the reduction of non-performing loans and the increase of performing loans. Despite the decrease of 2.8 pp over the previous year, the coverage ratio continues to compare favourably to the Euro Area average. The weight of loans classified as stage 2 increased, showing some signs of quality deterioration after the withdrawal of the support mechanisms implemented as a response to the pandemic crisis.

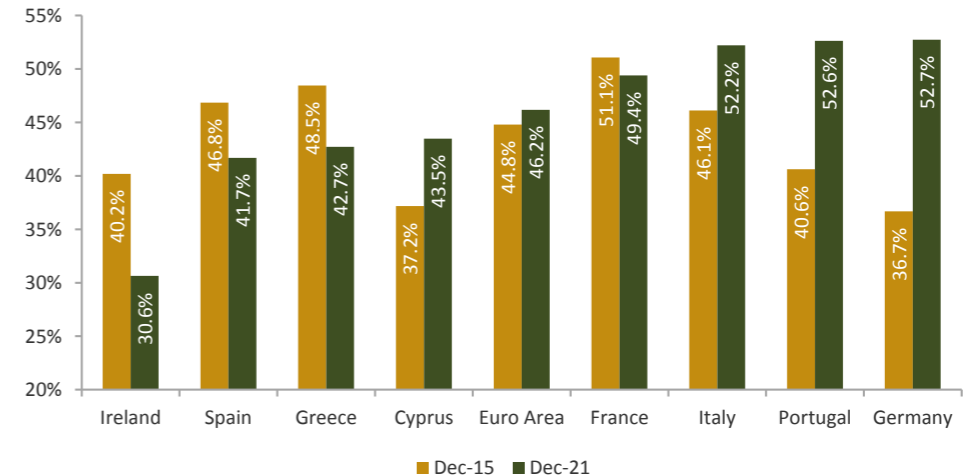
NPL amount and ratio in Portugal (EUR billion)



Stage 2 loans ratio in Portugal



Impairment coverage ratio

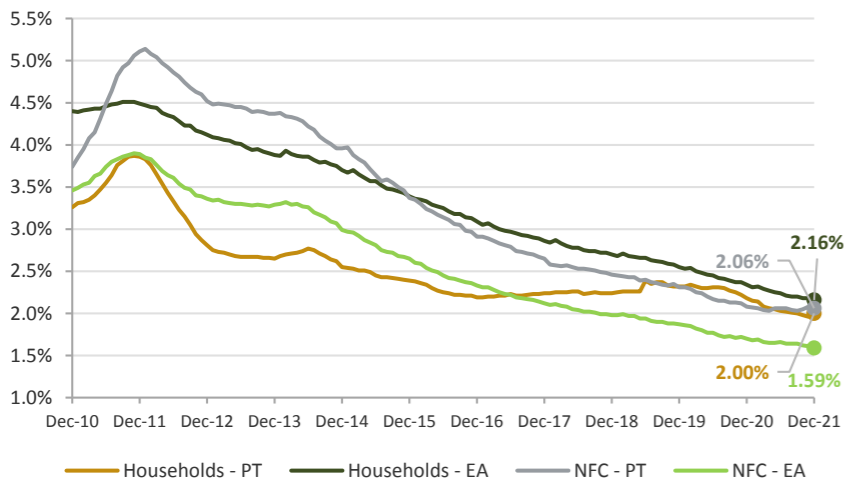


Source: Banco de Portugal (consolidated data), ECB – Consolidated Banking Data. The Impairment coverage ratio refers to non-performing loans and debt securities.

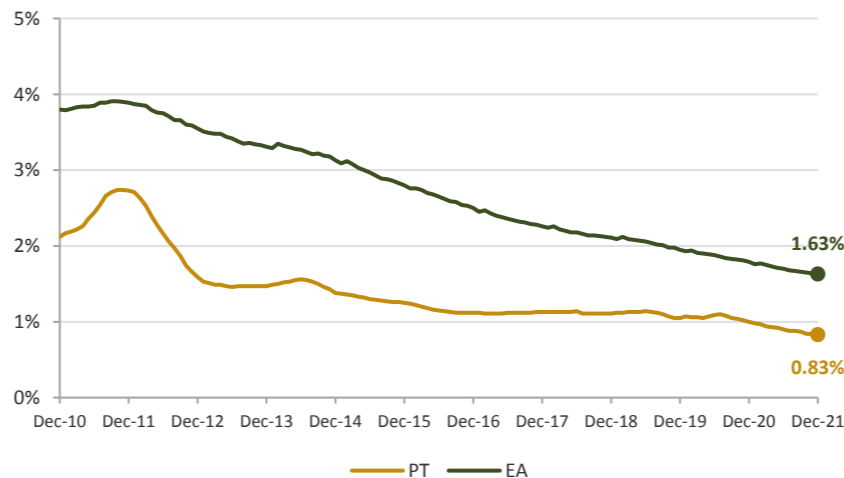
II. LENDING | LOAN CONDITIONS | INTEREST RATES

Interest rates on loans to non-financial corporations have been on a downward path and converging towards the Euro Area average, while the interest rates on households in Portugal remain below the EU average level.

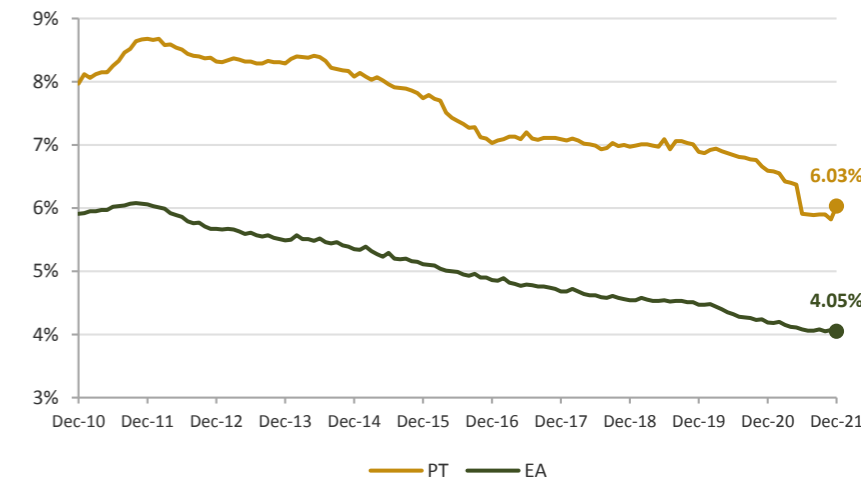
Total - Stock



Housing - Stock



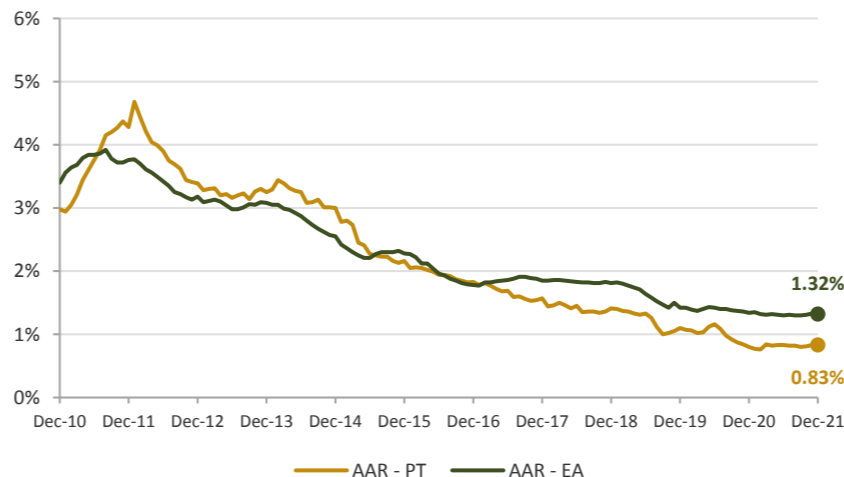
Consumption - Stock



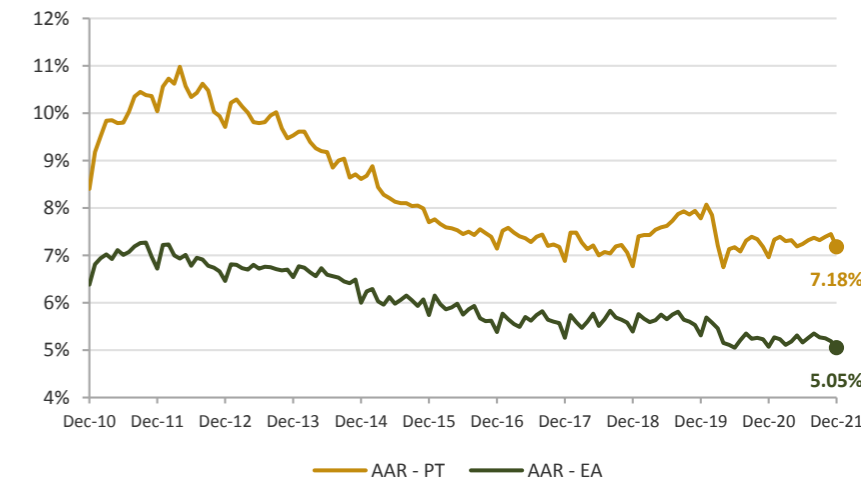
New business - NFC



New business - Housing



New business - Consumption

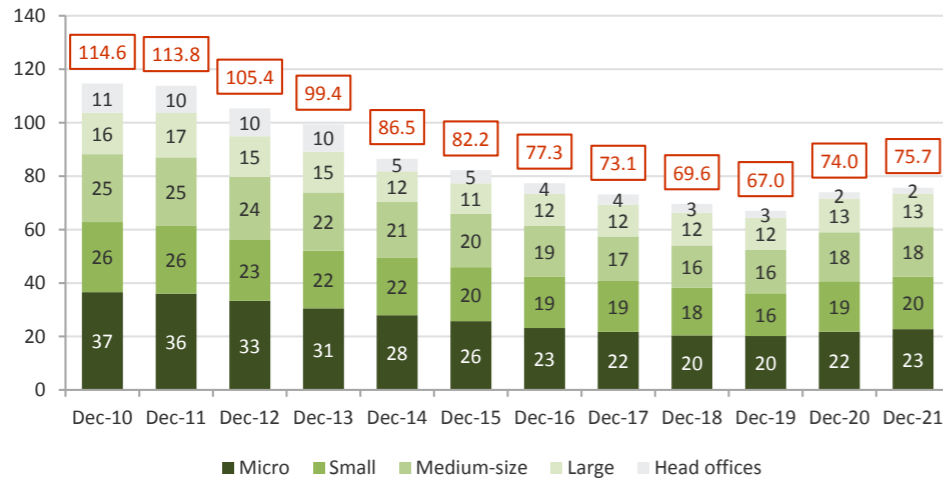


Source: ECB – MFI Interest Rate Statistics. AAR = Annualised agreed rate.

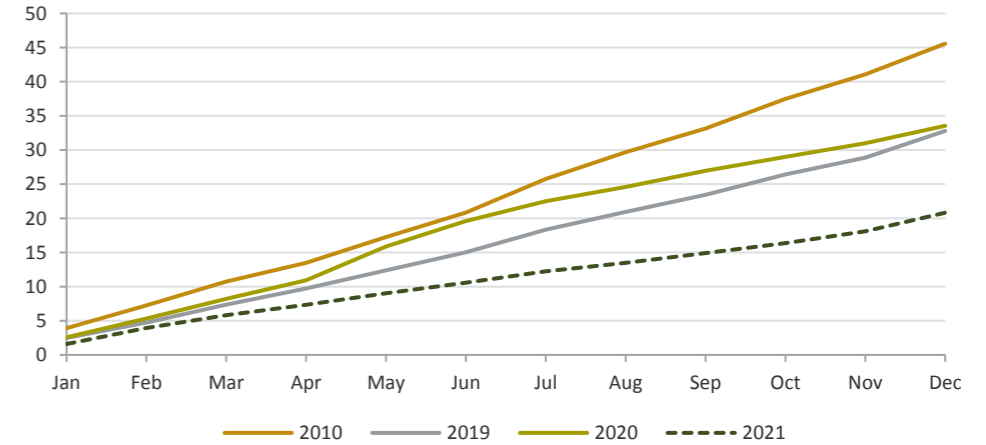
II. LENDING | NFC

The evolution of the stock of loans to non-financial corporations has decelerated since March 2021. The slowdown was more significant in the SME segment and the sectors more affected by the pandemic crisis, namely accommodation and food service activities. In 2021, the companies more affected by the pandemic crisis accounted for 28.7% of the NFC stock loan.

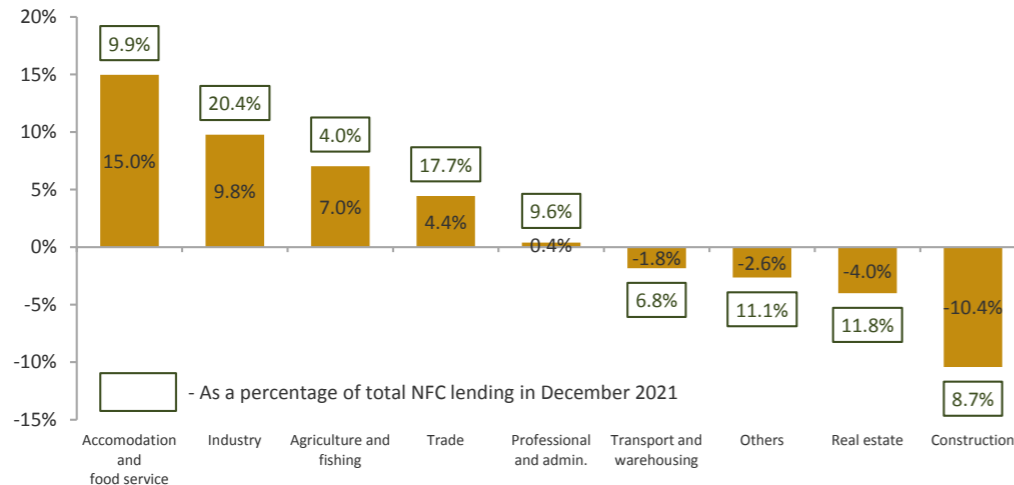
Stock of loans to NFC (EUR billion)



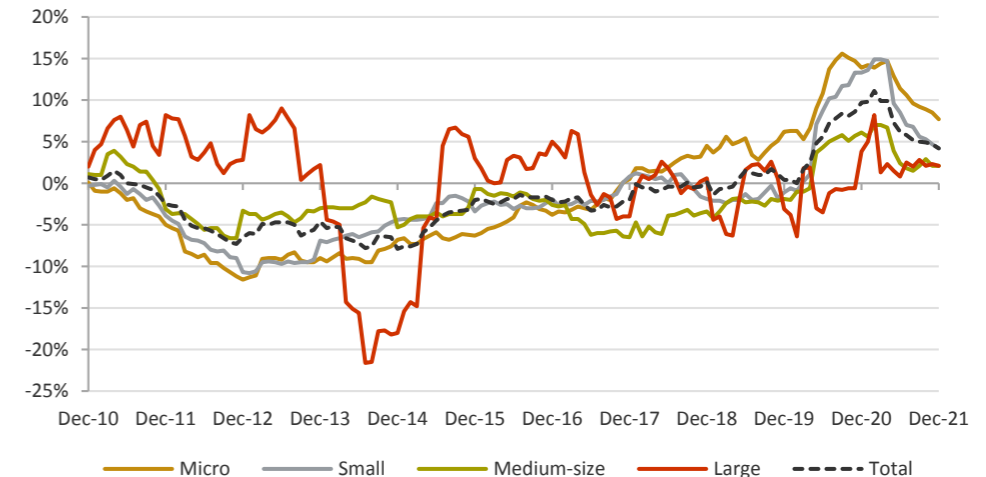
New business lending to NFC (cumulated amounts, EUR billion)



Year-on-year rate of change of the stock of loans to NFC (Dec-21)



ARC of loans to NFC

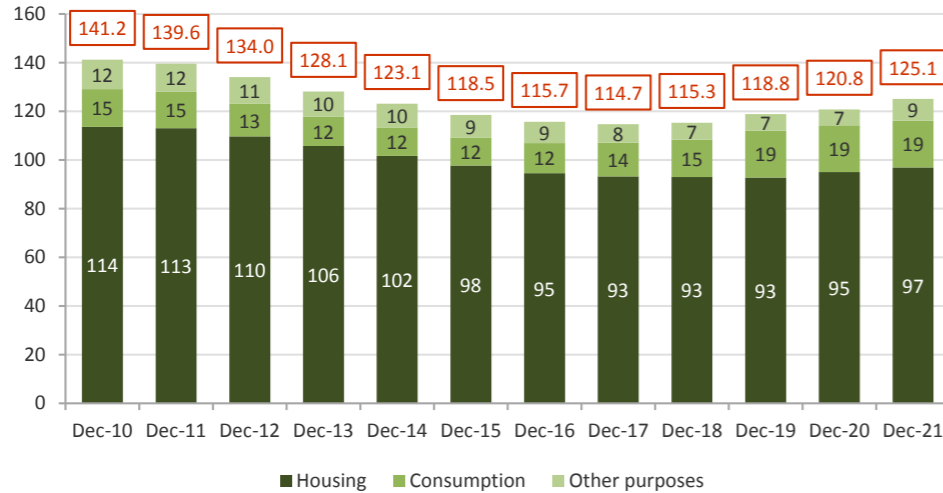


Source: Banco de Portugal (Monetary and Financial Statistics). Loans to NFC in the domestic activity; Counterparty: residents in Portugal. ARC = Annual rate of change.

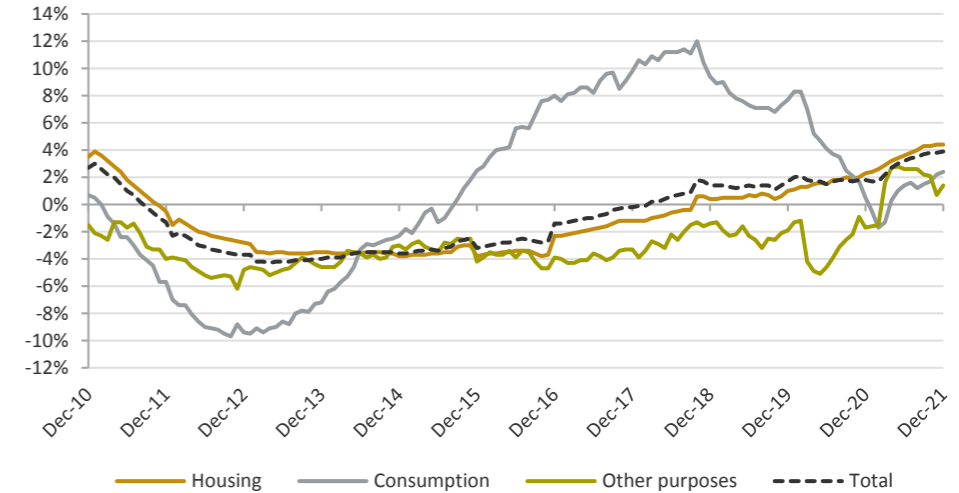
II. LENDING | HOUSEHOLDS

In 2021, the stock of loans for house purchase maintained the path of recovery. In December 2021, approximately 92% of the stock of loans to households for house purchase had a loan-to-value (LTV) ratio of 80% or less, reflecting the banking sector's resilience to a potential correction in house prices.

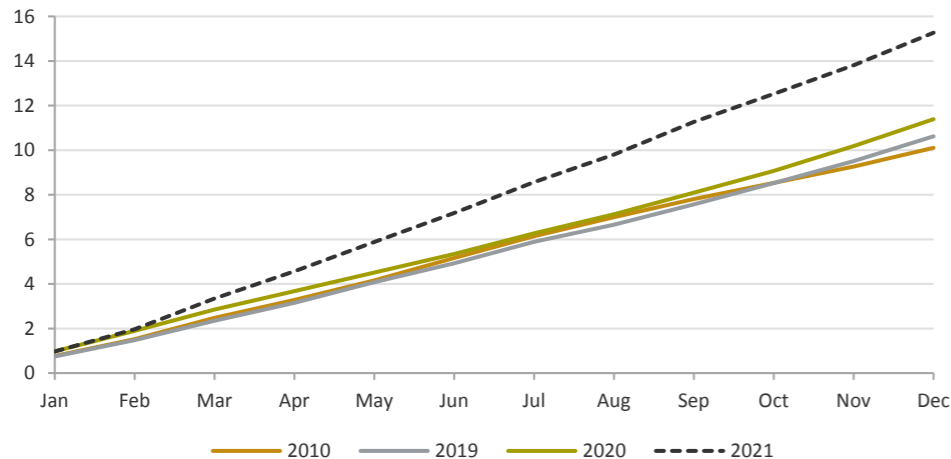
Stock of loans to households (EUR billion)



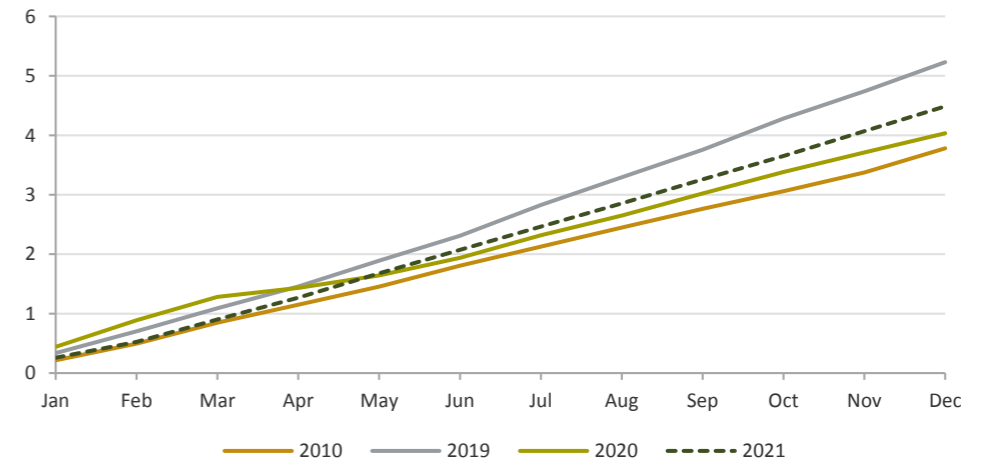
ARC of loans to households



New business lending to households - Housing (cumulated amounts, EUR billion)



New business lending to households - Consumption (cumulated amounts, EUR billion)

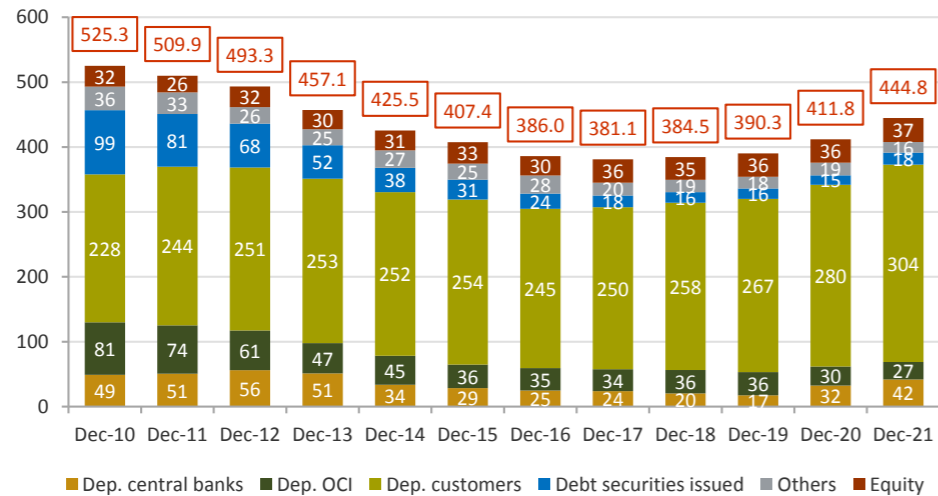


Source: Banco de Portugal (Monetary and Financial Statistics). Loans to households in the domestic activity; Counterparty: residents in Portugal. ARC = Annual rate of change.

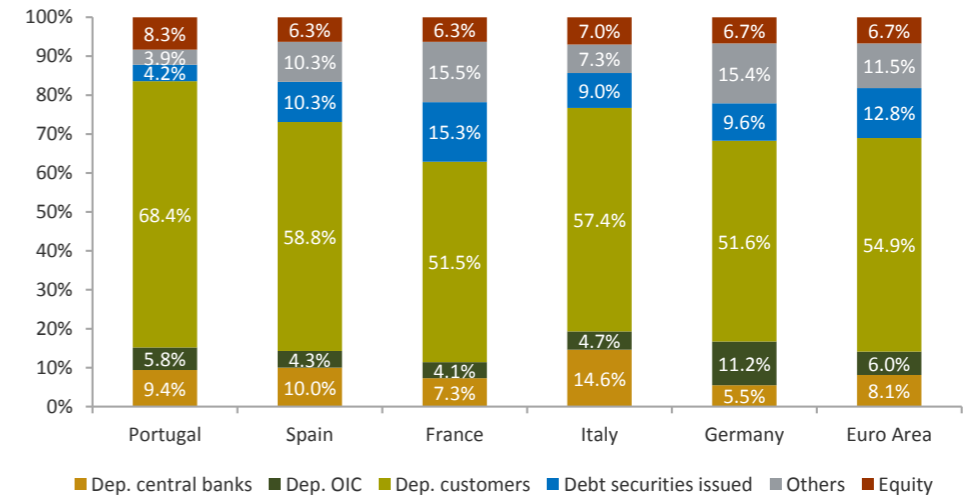
III. ORIGIN OF THE FUNDS AND LIQUIDITY

In 2021, in the context of a high level of savings, customer deposits continued to increase significantly. The trend of a decrease in the weight of term deposits and an increase in the weight of overnight deposits continued.

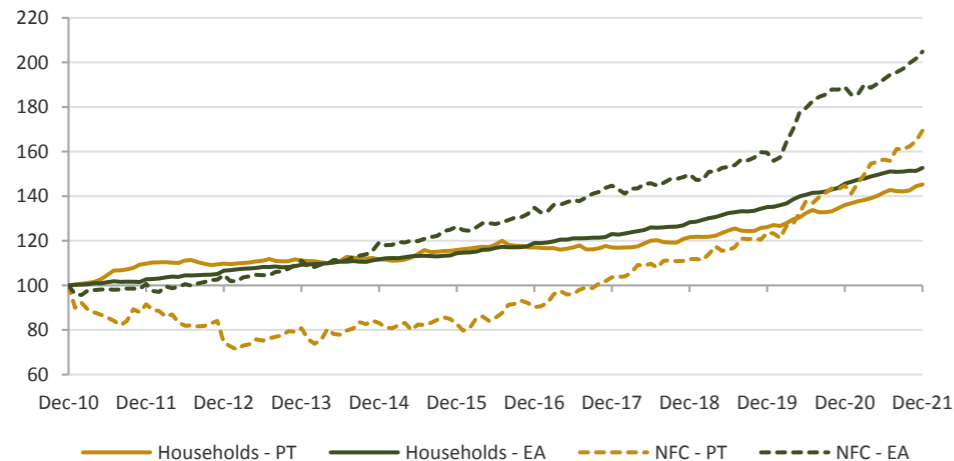
Origin of the funds (EUR billion)



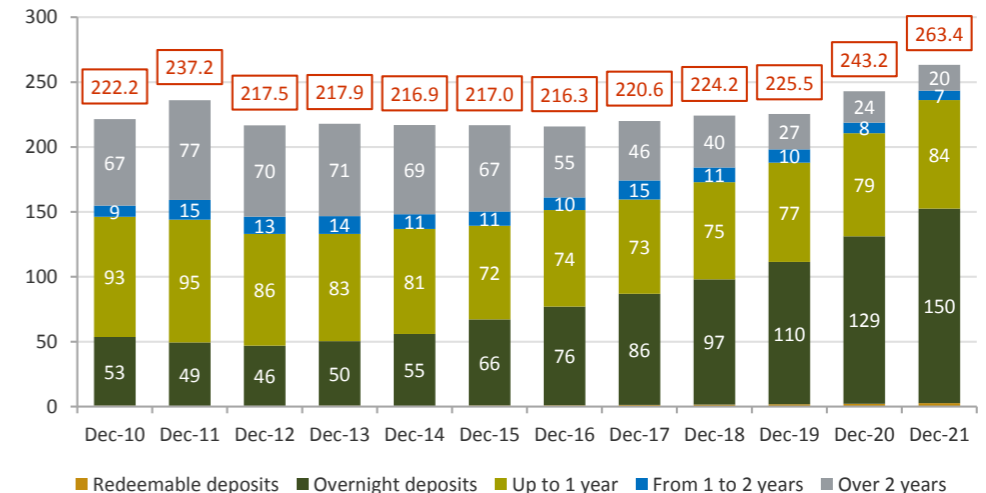
Origin of the funds: Portugal vs. Euro Area (Dec-21)



Evolution of households' deposits - Domestic activity (Dec-10 = 100)



Evolution of deposits by maturity - Domestic activity (EUR billion)

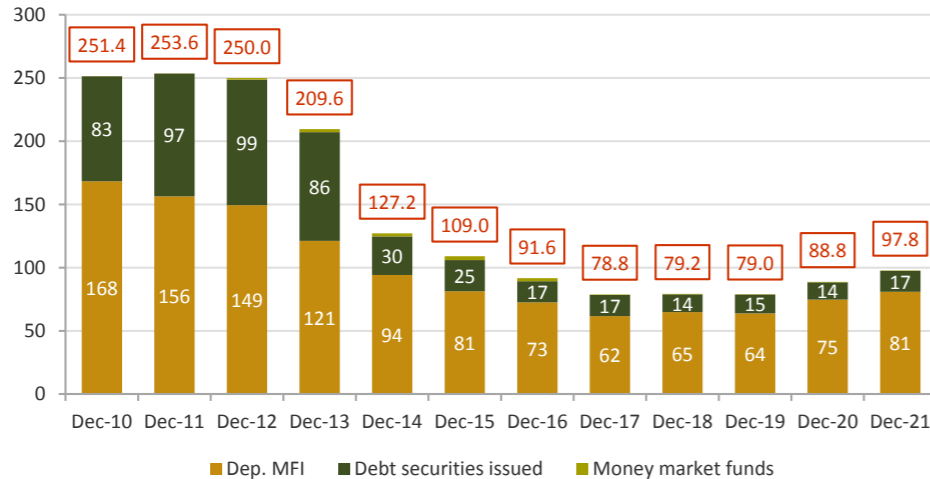


Source: Banco de Portugal (consolidated data and Monetary and Financial Statistics) and ECB – Consolidated Banking Data (consolidated data reported in FINREP format) and MFI Balance Sheet Items (Monetary and Financial Statistics). OCI = Other Credit Institutions.

III. ORIGIN OF THE FUNDS AND LIQUIDITY

Recourse to wholesale funding has been decreasing and is not very significant to the funding of the Portuguese banking sector. In turn, borrowing from the Eurosystem has increased significantly due to the attractive monetary policy measures in place for the last years.

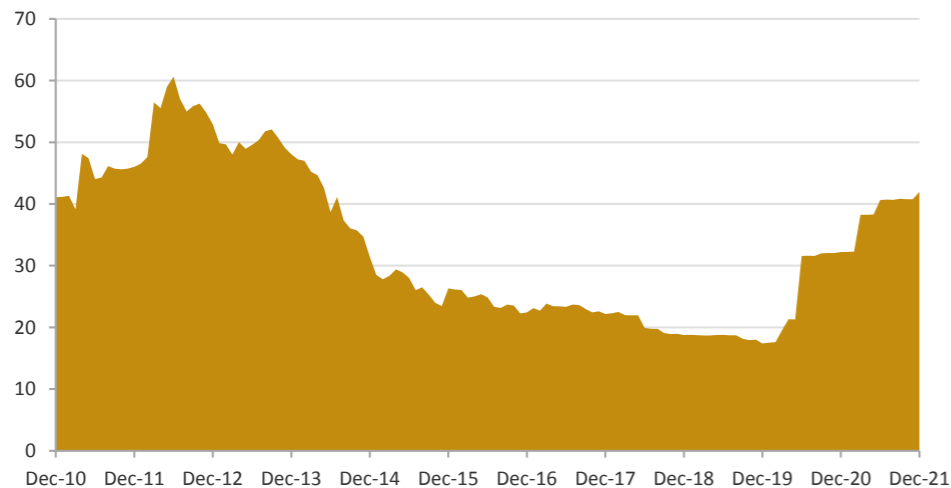
Origin of wholesale funds (EUR billion)



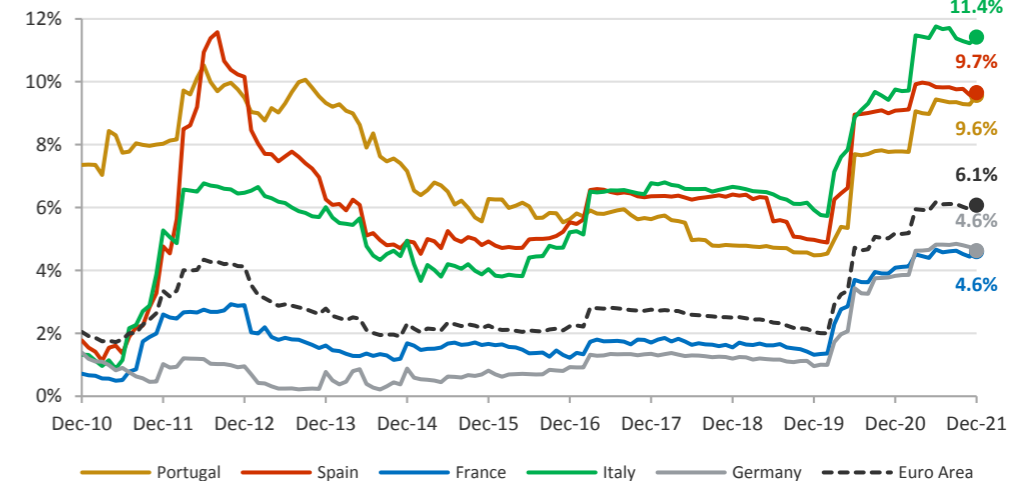
Origin of wholesale funds: Portugal vs. Euro Area (Dec-21)



Borrowing from the ECB (EUR billion)



Borrowing from the ECB: Portugal vs. Euro Area (% of total assets)

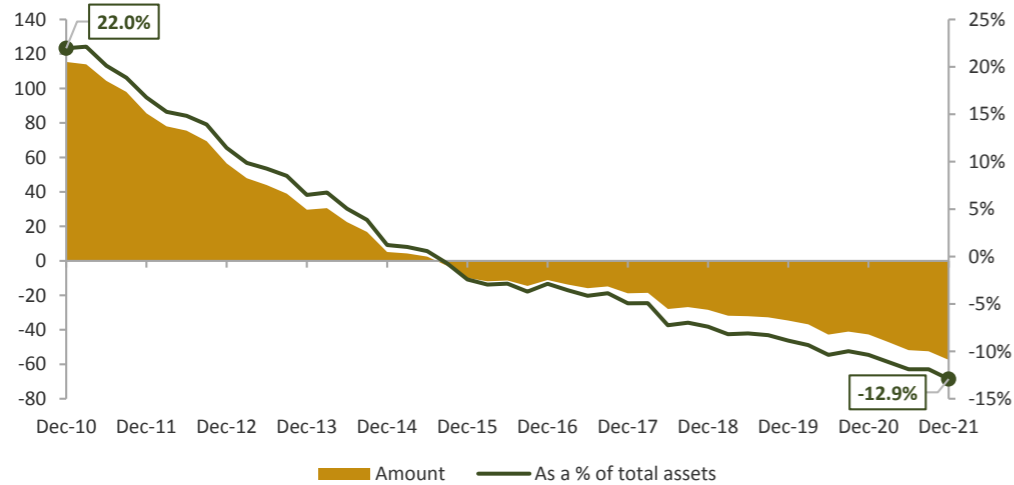


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics). Origin of wholesale funds from the domestic activity. Monetary Financial Institutions (MFI) include Central Banks and Other Monetary and Financial Institutions (OMFI).

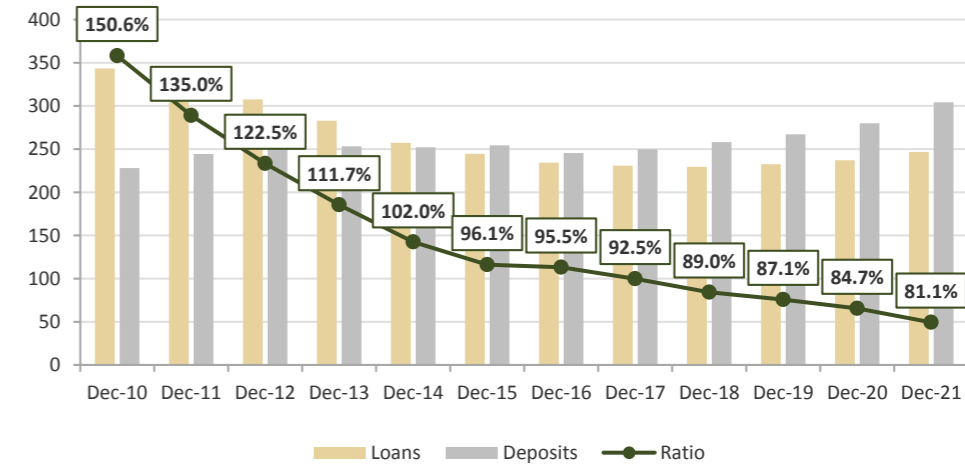
III. ORIGIN OF THE FUNDS AND LIQUIDITY

The Portuguese banking sector has reinforced its extremely comfortable position in terms of liquidity, which has allowed it to play a critical role mitigating the impacts of the COVID-19 crisis on companies and families. Deposits rose by more than loans to customers, resulting in a further decrease in the loan-to-deposit ratio.

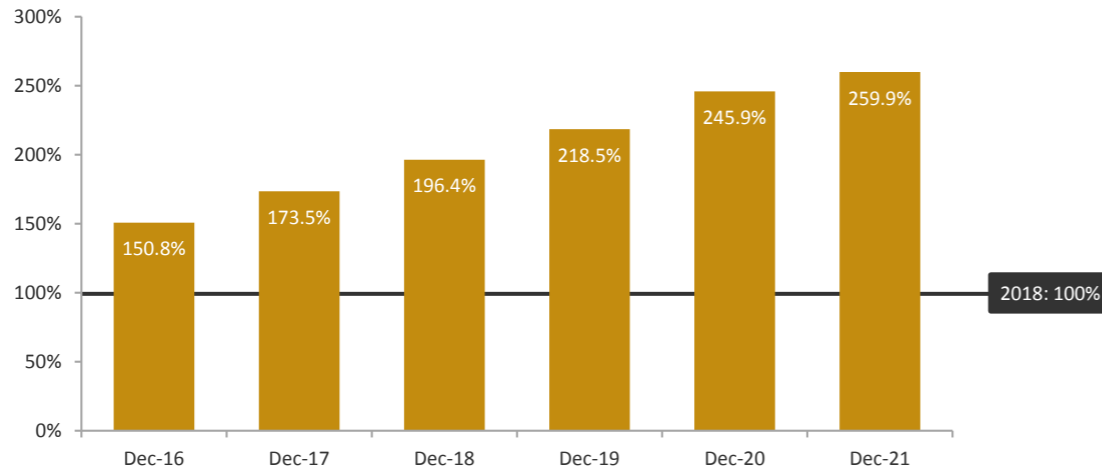
Funding gap (EUR billion and % of total assets)



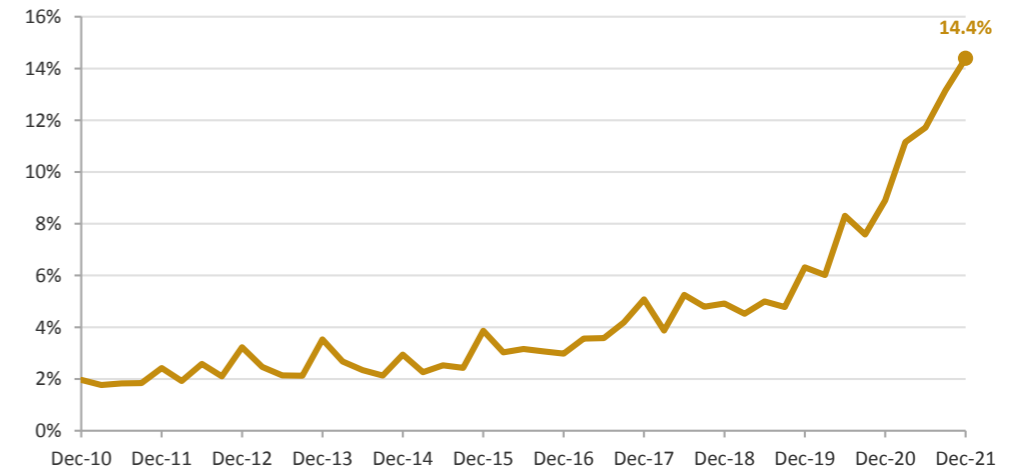
Loan-to-deposit ratio (EUR billion)



Liquidity Coverage Ratio



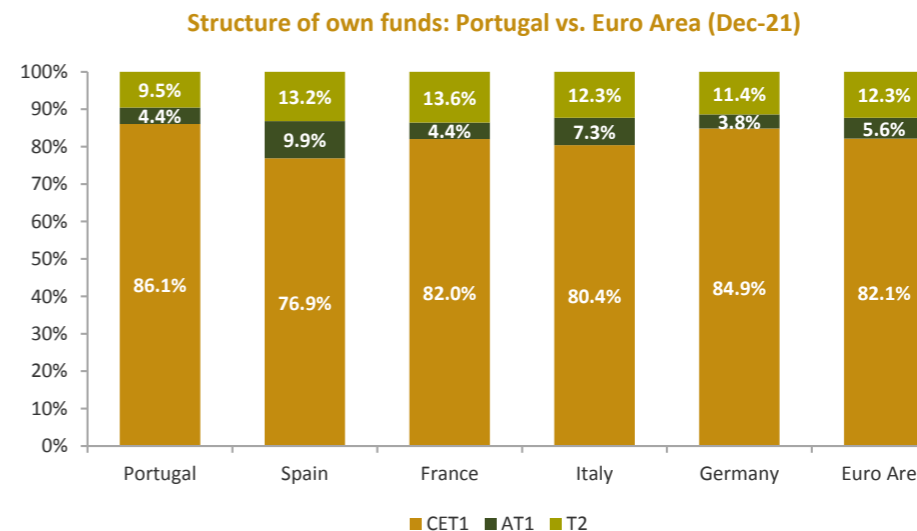
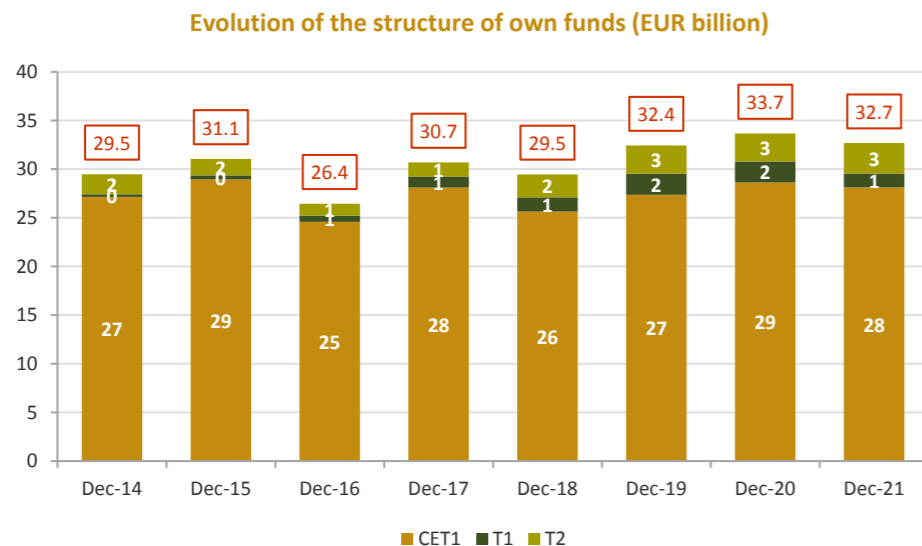
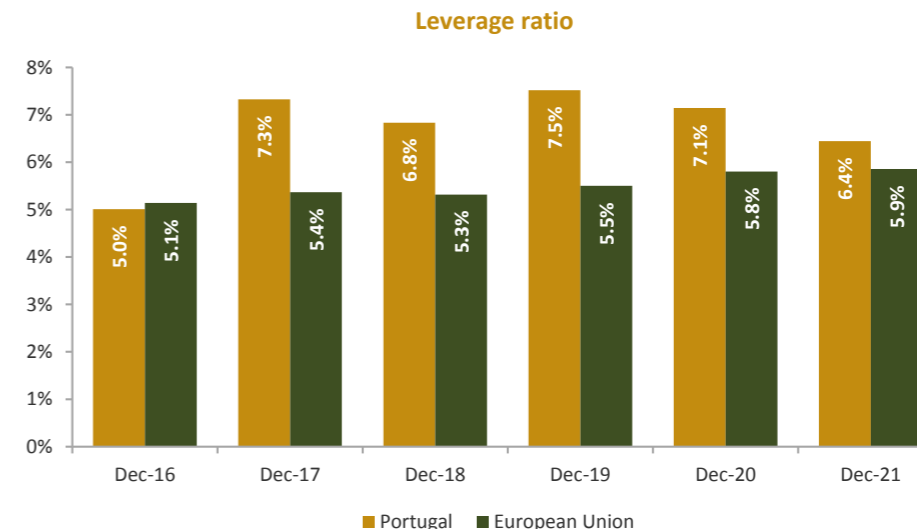
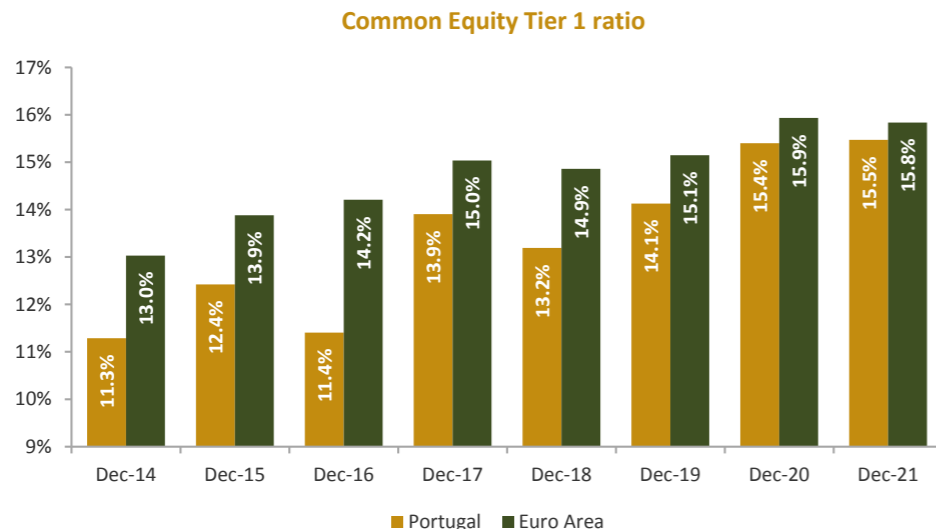
Cash and claims at central banks (% of total assets)



Source: Banco de Portugal (consolidated data).

IV. SOLVENCY

In the last few years, the solvency of the Portuguese banking sector has been improving and is now at high historical levels. In 2021, the CET1 ratio rose again and reached 15.5%. The leverage ratio is considerably higher than the EU average and the minimum reference (3%).

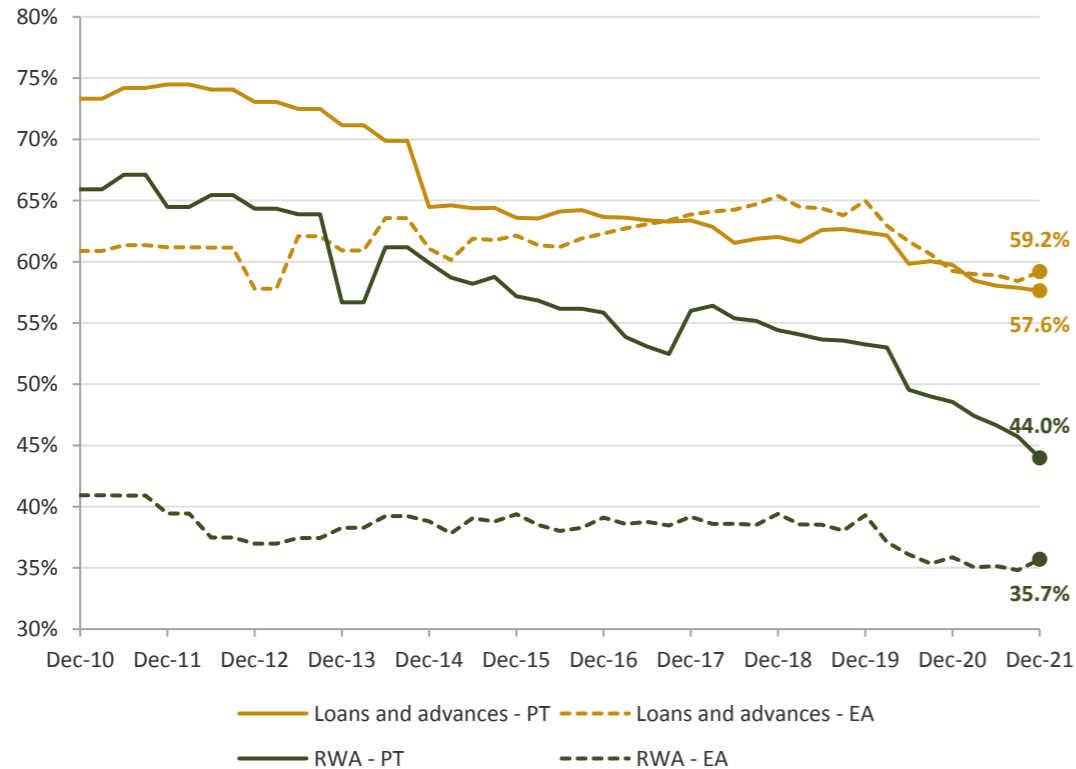


Source: ECB – Consolidated Banking Data and EBA – Risk Dashboard (leverage ratio – fully phased-in definition of Tier 1).

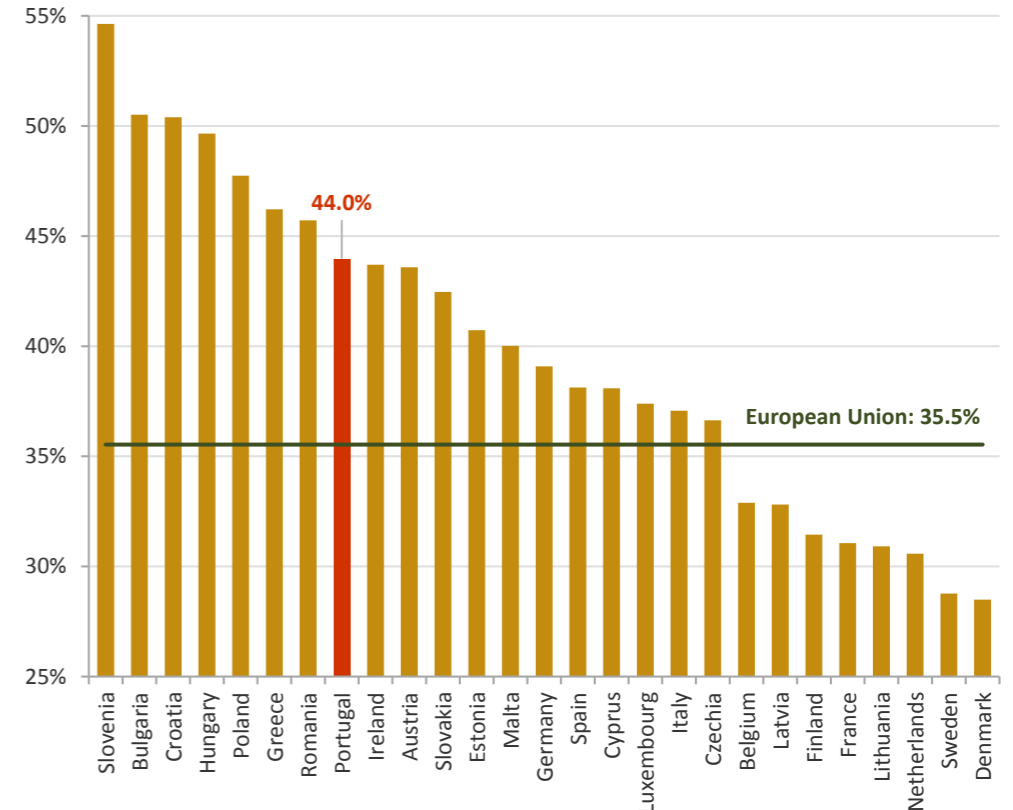
IV. SOLVENCY

The ratio of risk-weighted assets (RWA) per unit of assets for the Portuguese sector continues to compare unfavourably to the European Union, even though there has been a significant reduction in the last few years. This is due to the lower use of internal models to calculate capital requirements together with a higher level of defaults and losses from a historical perspective, which implies a level of capital requirement above the majority of the banks of the European Union.

Evolution of loans and advances and RWA (% of total assets): Portugal vs. Euro Area



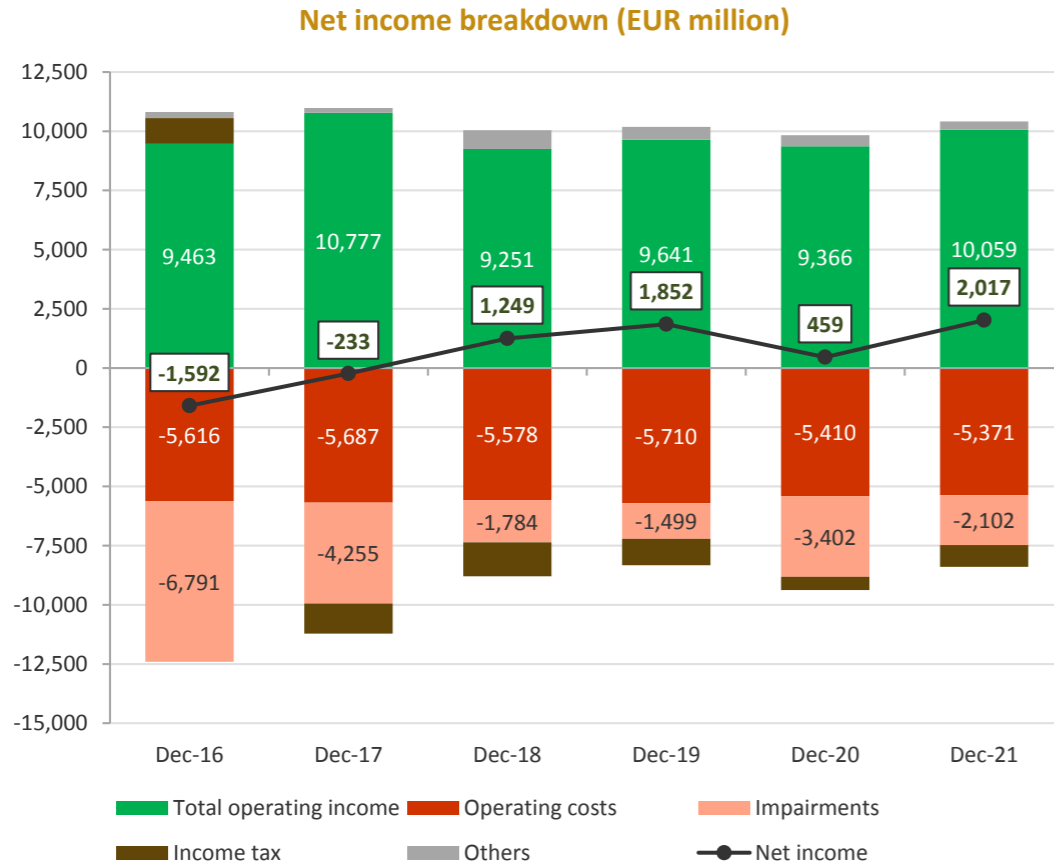
RWA as a % of total assets by country (Dec-21)



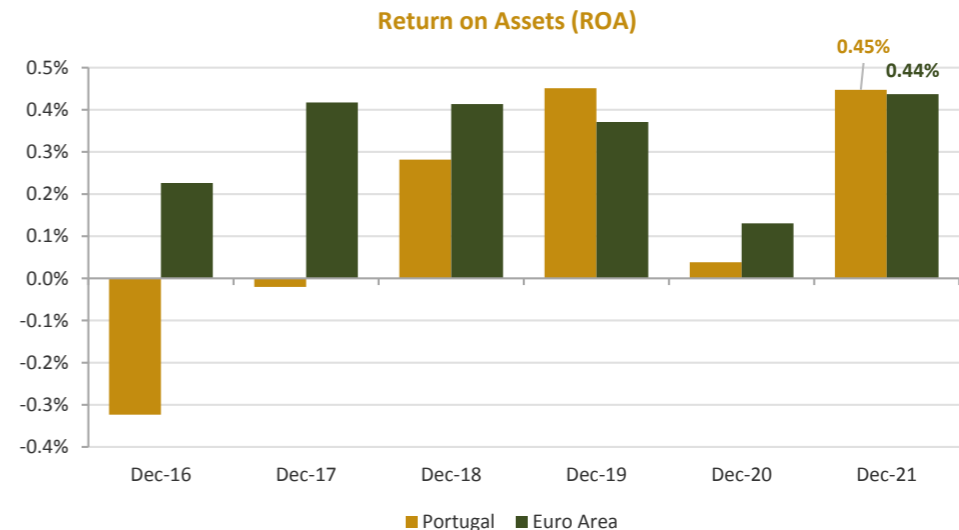
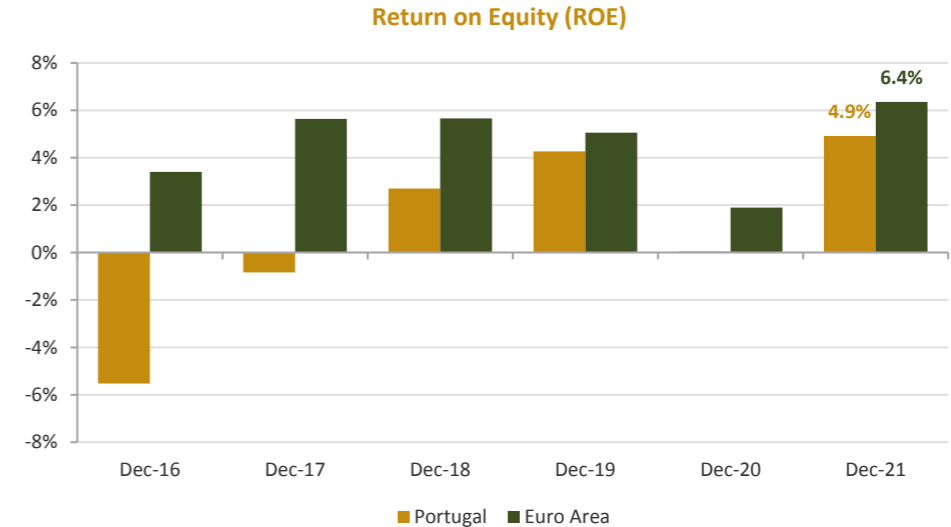
Source: ECB – Consolidated Banking Data.

V. PROFITABILITY

In 2021, the profitability of the banking sector increased on a year-on-year basis mainly due to a decrease in the flow of provisions and impairments, registered to accommodate the impact of the pandemic crisis, but also, even though at a lower extent, to the increase in total operating income. Despite the positive evolution of the sector's profitability, it is still below the European average and lower than the cost of equity, which is estimated to be between 8 and 10%.



Source: Banco de Portugal (consolidated data).

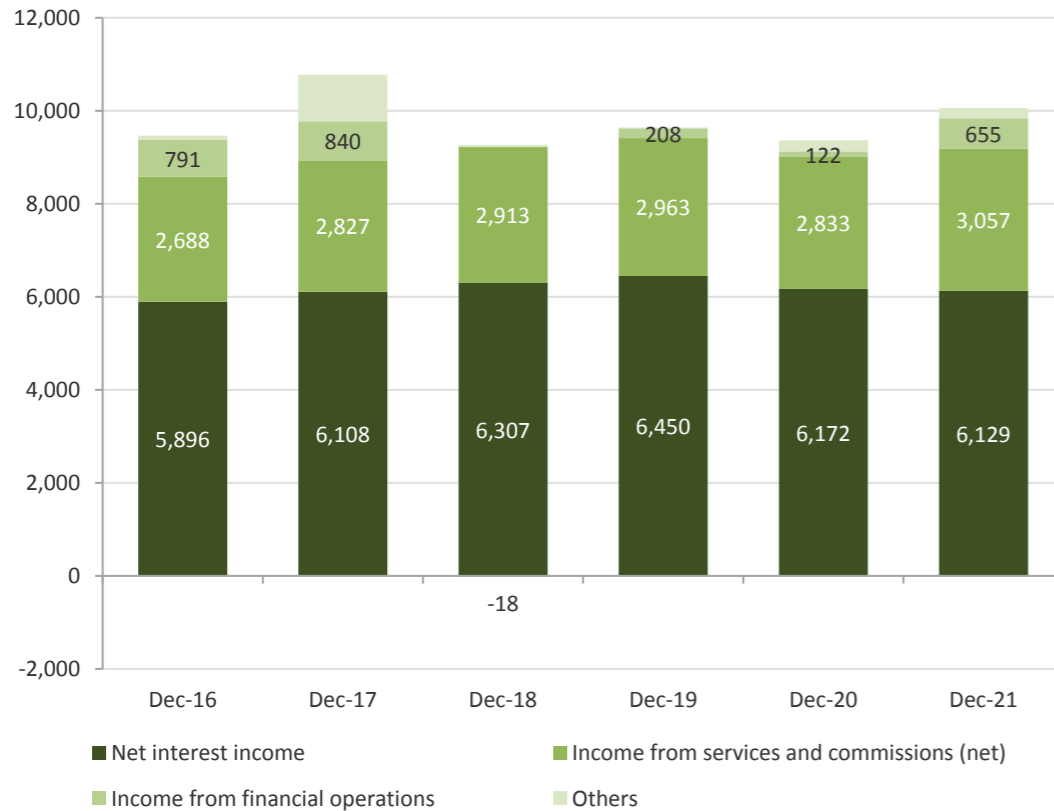


Source: ECB – Consolidated Banking Data. Calculated based on net income after tax and before minority interests and on end-of-period equity and total assets. Return on Equity excludes branches of foreign banks.

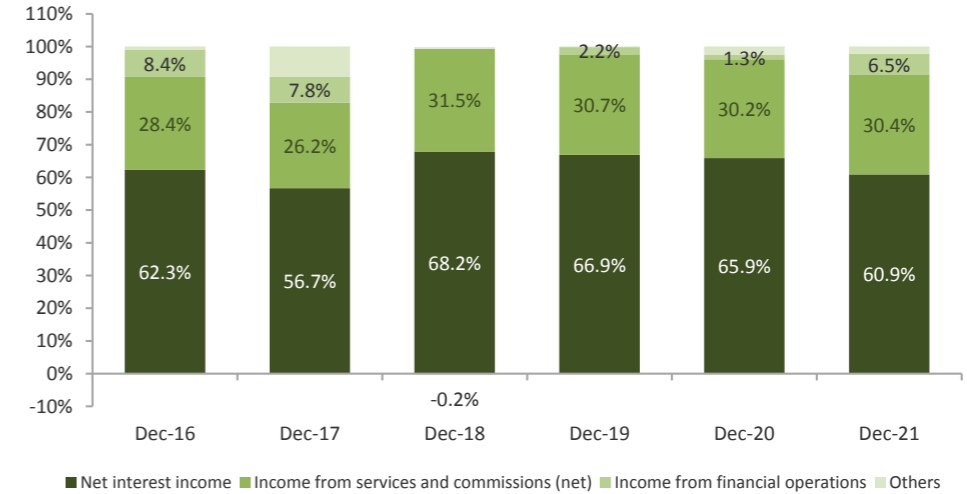
V. PROFITABILITY

The increase in total operating income was explained mainly by the rise in income from financial operations and greater diversification of revenues.

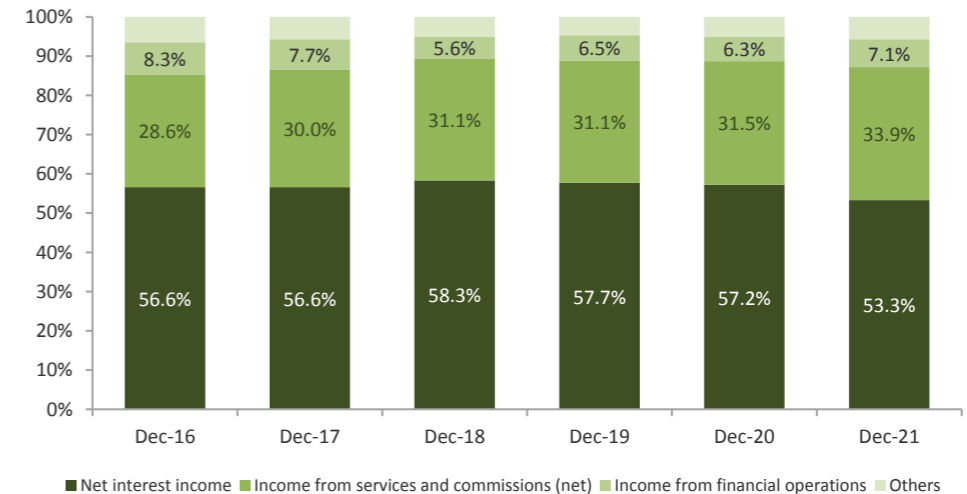
Total operating income breakdown (EUR million)



Total operating income breakdown: Portugal



Total operating income breakdown: Euro Area

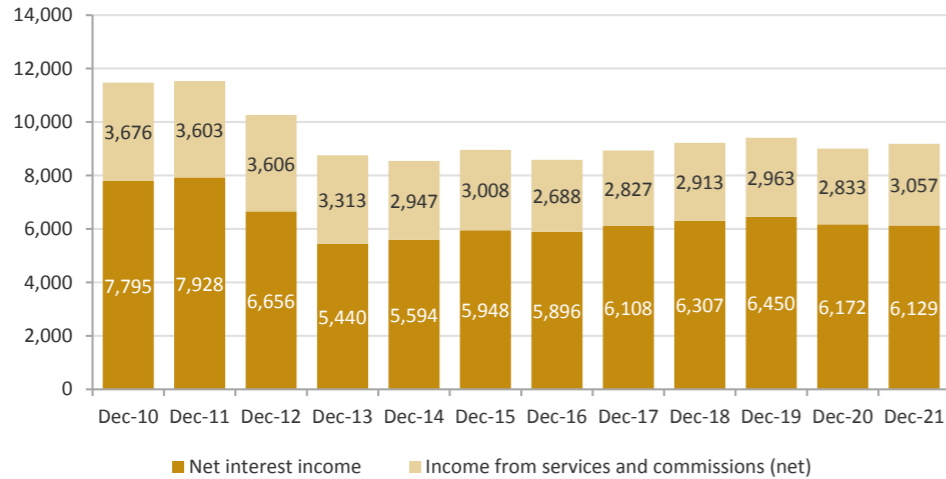


Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

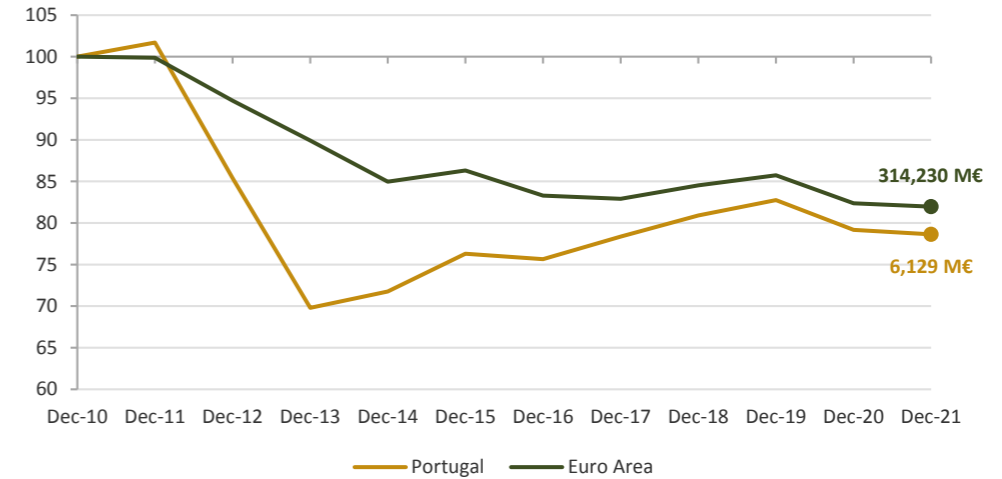
V. PROFITABILITY

Net interest income remained broadly stable on a yearly basis, while the evolution of commission is explained mainly by an increase in transactions and greater diversification of the application of customers' resources, namely in investment products, on the back of the recovery of the economic activity. However, the weight of commissions in total operating income remains below the European average.

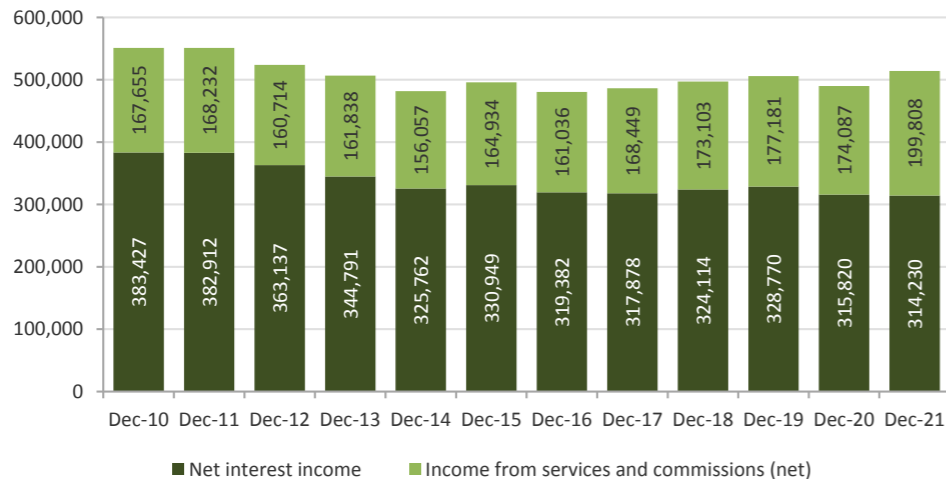
Net interest income and Commissions (EUR million) – Portugal



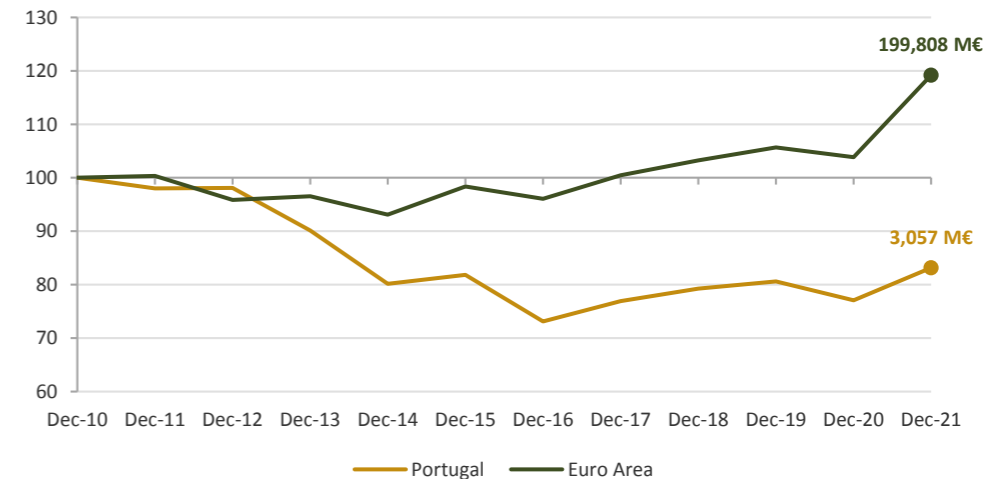
Net interest income (Dec-10 = 100)



Net interest income and Commissions (EUR million) – Euro Area



Commissions (Dec-10 = 100)

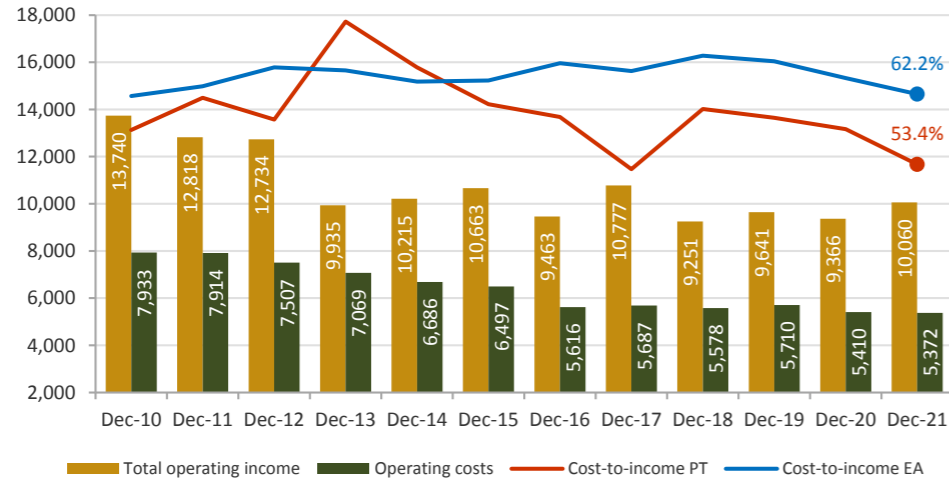


Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

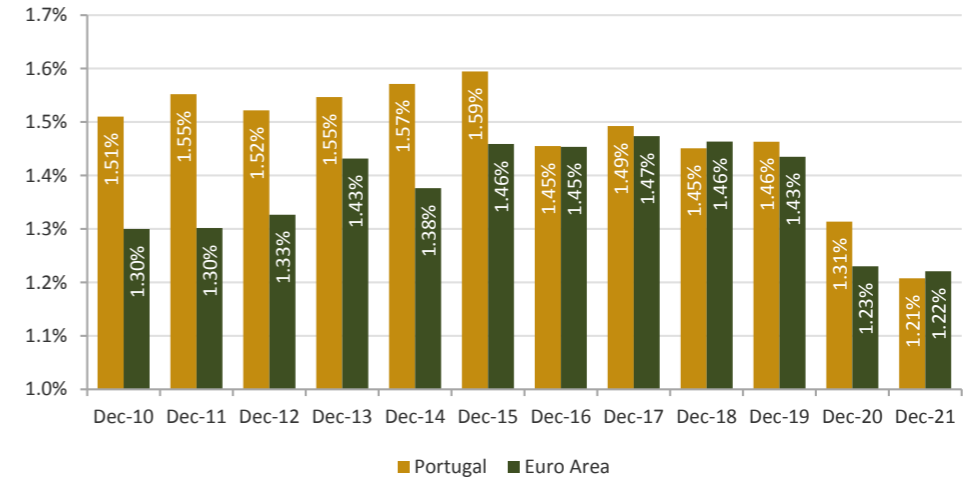
V. PROFITABILITY

In 2021, the sector's operational efficiency continued to improve, with cost-to-income decreasing by 4.4 pp to 53.4%, explained mainly by the increase in total operating income. The decrease in the cost of credit risk reflected the significant reduction in credit impairments associated with the pandemic crisis.

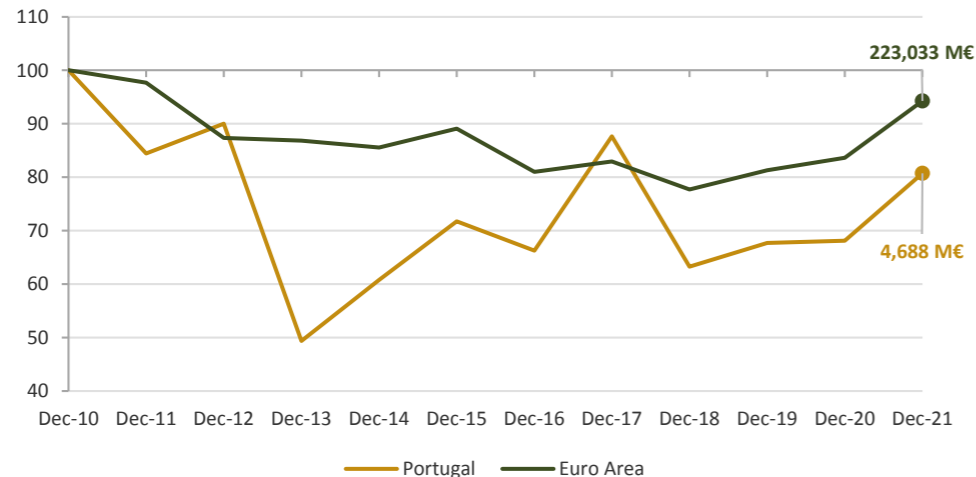
Cost-to-income breakdown (EUR million) – Portugal



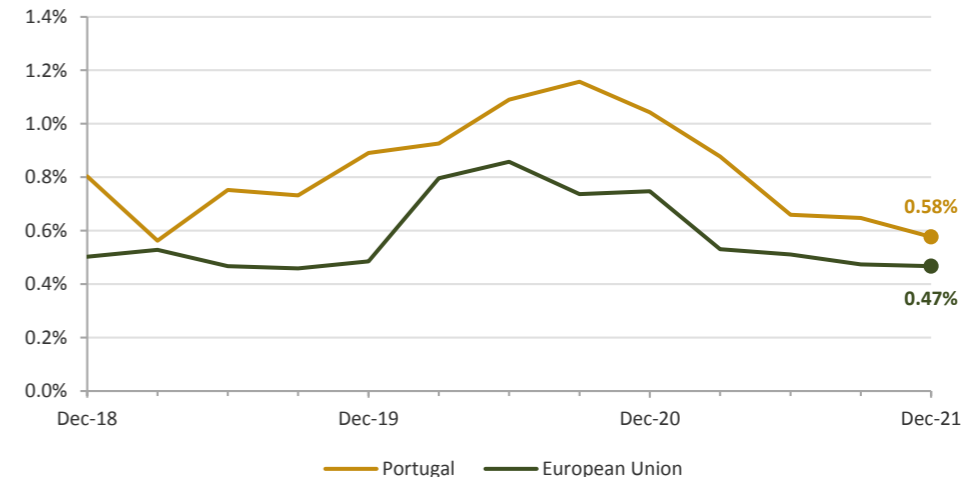
Operating costs as a % of total assets



Net operating income (Dec-10 = 100)



Cost of credit risk

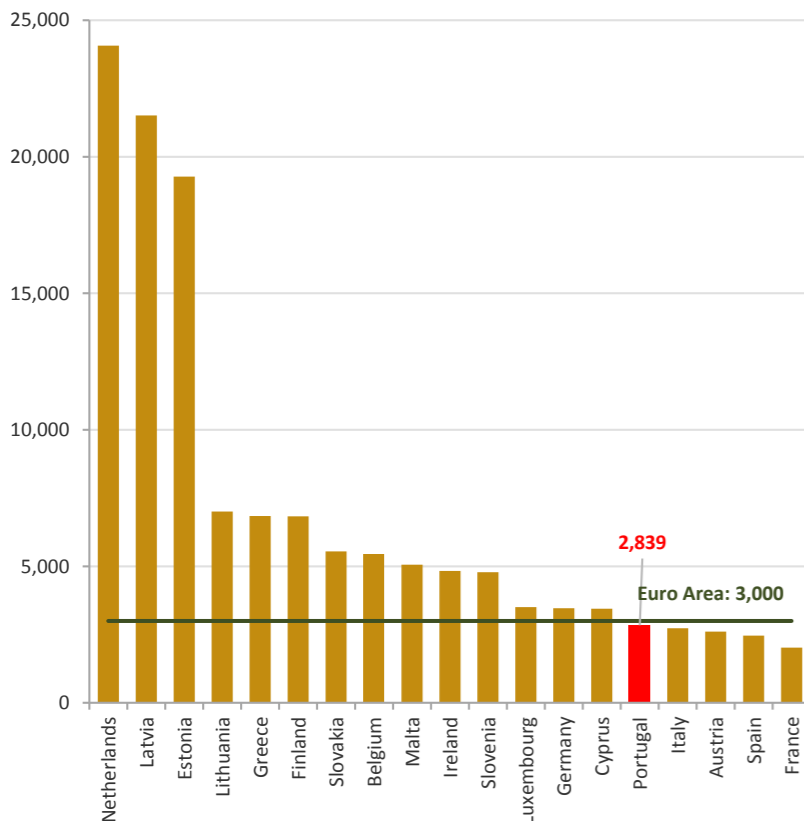


Source: Banco de Portugal (consolidated data), ECB – Consolidated Banking Data (Euro Area) and EBA – Risk Dashboard (cost of credit risk). In 2021, EBA's sample included 161 European banks, including 30 subsidiaries (sample for Portugal: BCP, CGD, LSF Nani Investments e Santander). The methodology for the calculation of EBA's cost of risk is different from the one applied by Banco de Portugal, and both definitions can be found in the following reports: Sistema Bancário Português: Desenvolvimentos recentes (Banco de Portugal) and Risk Dashboard (EBA).

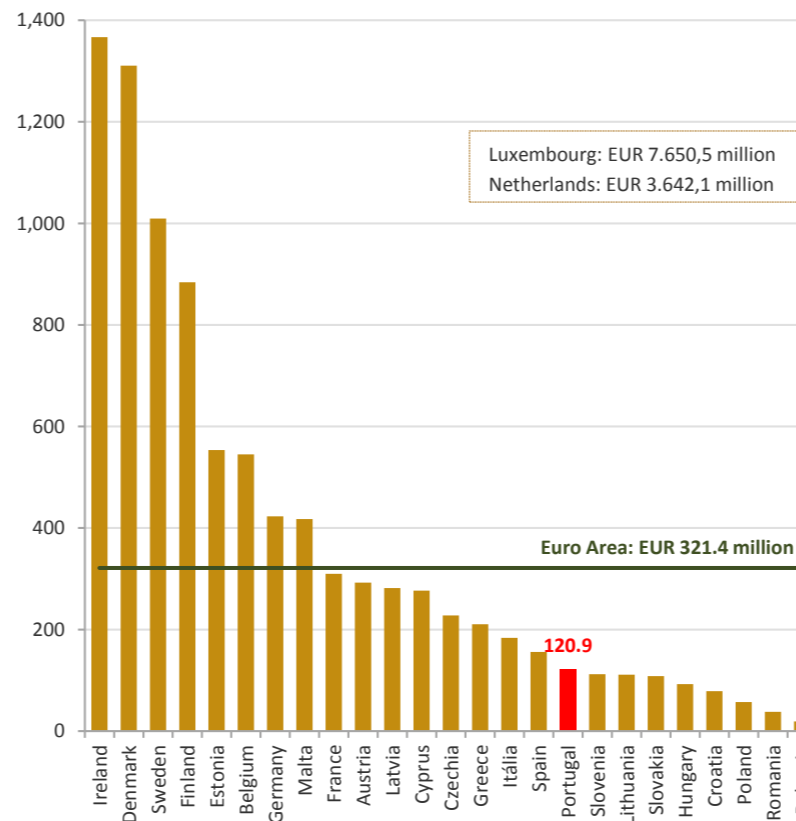
VI. PRODUCTIVITY

Following the implementation of restructuring plans by several institutions, the sector's number of inhabitants per branch remains close to the European average. However, productivity in terms of assets generated per branch and assets generated per employee remains significantly below the European average.

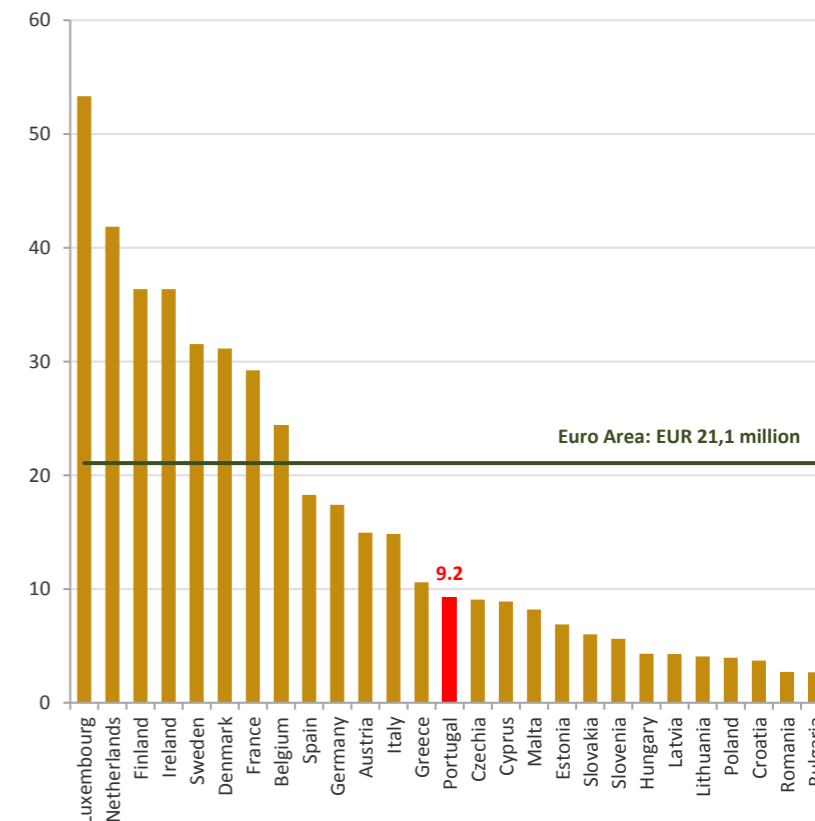
Residents per branch (Dec-21)



Total assets per branch (EUR million, Dec-21)



Total assets per employee (EUR million, Dec-21)



Source: BCE – MFI Balance Sheet Items (Monetary and Financial Statistics) and Banking Structural Financial Indicators. Domestic activity data.

- The information provided by Banco de Portugal and the ECB regarding monetary statistics differ from that provided in the context of consolidated data of the banking system. The main differences derive fundamentally from non-coincidence in the universes surveyed and from different consolidation procedures. This information is available on the Banco de Portugal and the ECB websites. Among others, the following documents may be consulted: Suplemento ao Boletim Estatístico n.º1/2001, de agosto; Instrução n.º 25/2014, de 15 de dezembro, e Sistema Bancário Português: desenvolvimentos recentes – 4.º trimestre de 2016.
- This document was published with updated information as of 28 September 2022.

PORTUGUESE BANKING SECTOR OVERVIEW