

PORTUGUESE BANKING SECTOR OVERVIEW

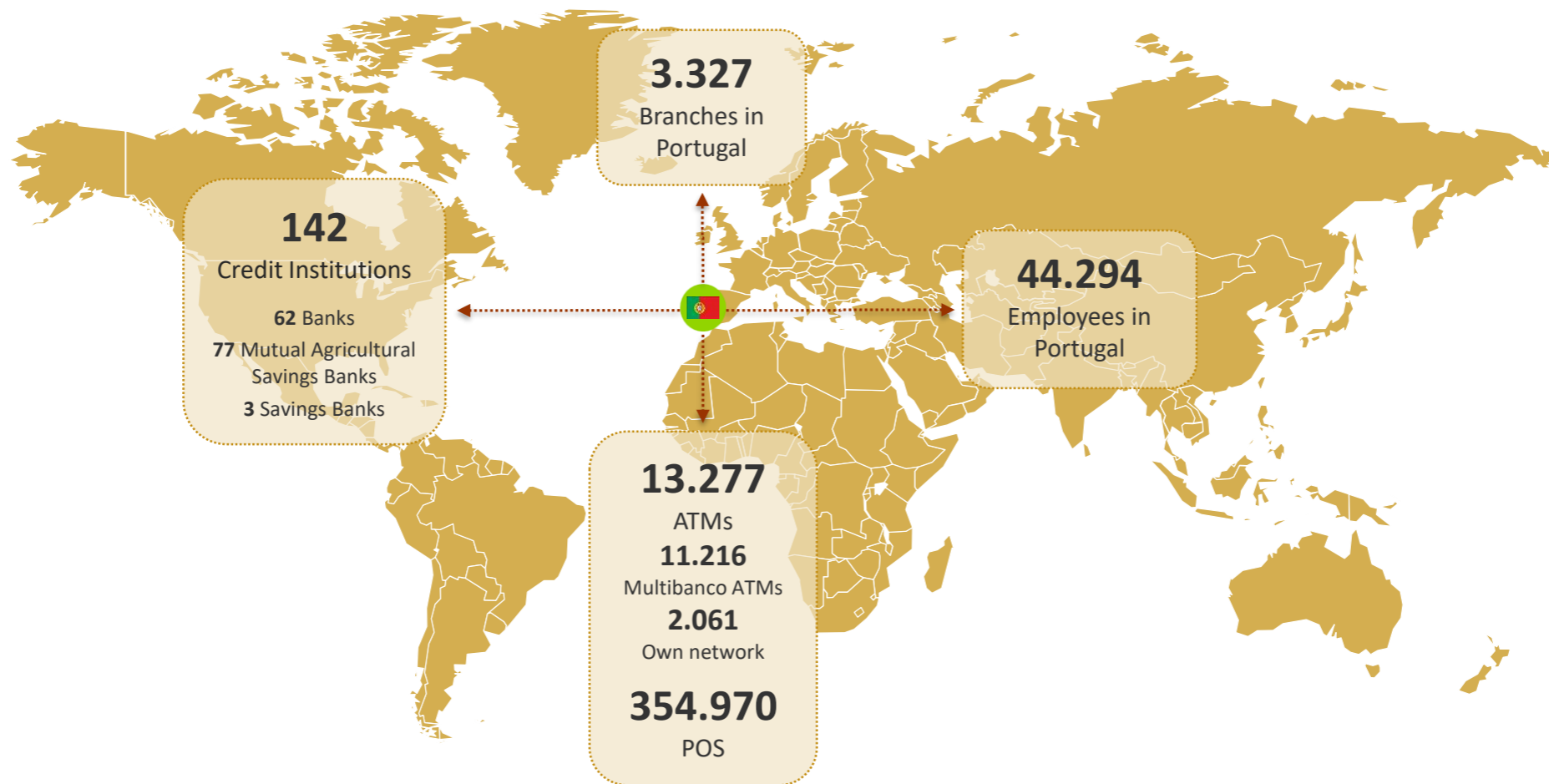
DECEMBER 2023

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- ❑ **The profitability of the Portuguese banking sector continued the upward trend of recent years, with a very significant improvement in 2023.** This evolution was fundamentally due to the increase in net interest income, reflecting the significant rise in interest rates, which more than offset the increase in the flow of provisions and credit impairments and the increase, albeit to a lesser extent, in operating costs.
- ❑ **The sector's total assets remained practically stable (-0.1%) compared to December 2022,** as the increase in debt securities (+8.8%) was offset by the reduction in cash/liquidity (-7.2%), loans to credit institutions (-8.0%), as well as loans to customers, which fell by 1.5 billion euros (-0.6%).
- ❑ **On the liabilities side, customer deposits practically stabilised compared to the previous year (-0.4%).** There was an increase in the share of term deposits in the context of a sharp rise in interest rates, from around 40% in 2022 to 48% in 2023. **In turn, the share of financing obtained from the Eurosystem continued to fall,** with banks repaying a significant part of their TLTRO III loans early in response to the increases in applicable interest rates. **Recourse to market funding sources in the banking sector's funding structure continued to be negligible.**
- ❑ **The solvency of the Portuguese banking sector strengthened again in 2023,** with the Common Equity Tier 1 (CET1) ratio reaching 17.1% and surpassing the Euro Area average. The evolution of this ratio reflects the increase in profitability and other comprehensive income. In turn, the leverage ratio rose to 6.8%, remaining considerably higher than the EU average and the regulatory reference minimum threshold (3%).
- ❑ **The banking sector continued to strengthen its levels of capital, liquidity and profitability and to respond to the economy's financing needs. However, the banking sector will continue to face complex challenges** insofar as the strong geopolitical tensions and continued restrictive monetary conditions could increase the materialization of credit risk, especially for the most vulnerable families and companies, with a greater likelihood of correction both in the price of financial assets and in the residential real estate market. In addition, in the current extremely challenging economic, regulatory, and competitive context, it remains essential to continue the digital transformation of financial services, the transition to a sustainable economy, and the incorporation of these challenges into risk management, as well as strengthening operational resilience in the face of threats arising from increasingly sophisticated cyberattacks.

I. RECENT EVOLUTION AND MAIN INDICATORS

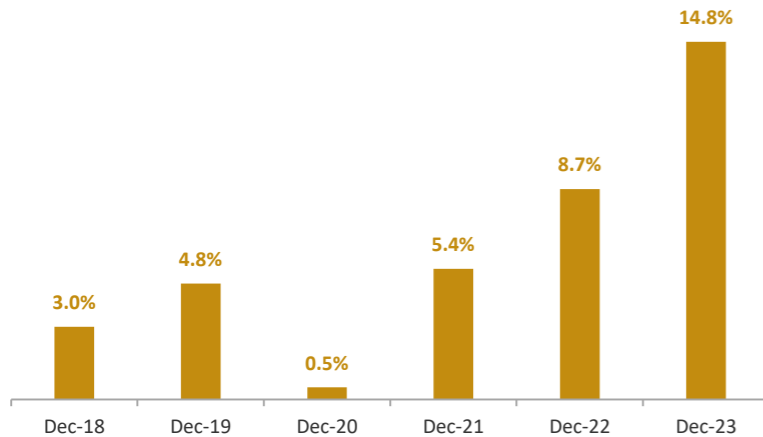


Source: APB's Associates (branches, employees and payment systems) and Banco de Portugal (credit institutions).

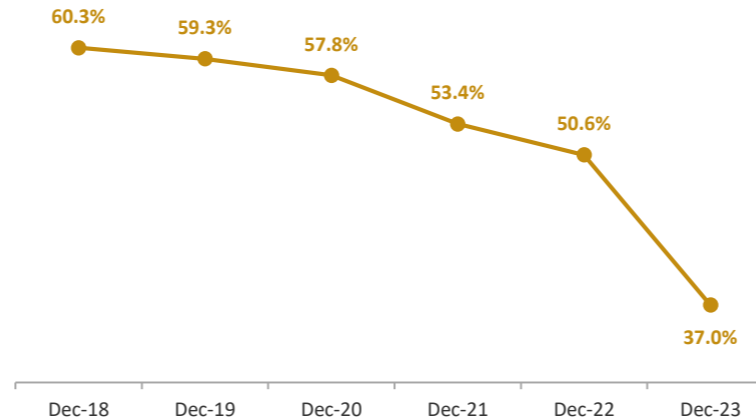
I. RECENT EVOLUTION AND MAIN INDICATORS

In a context of geopolitical tensions, disinflation, economic slowdown and high interest rates, the Portuguese banking sector recorded higher levels of profitability, liquidity and capital, thus strengthening its capacity to continue to respond efficiently to the economy's financing needs.

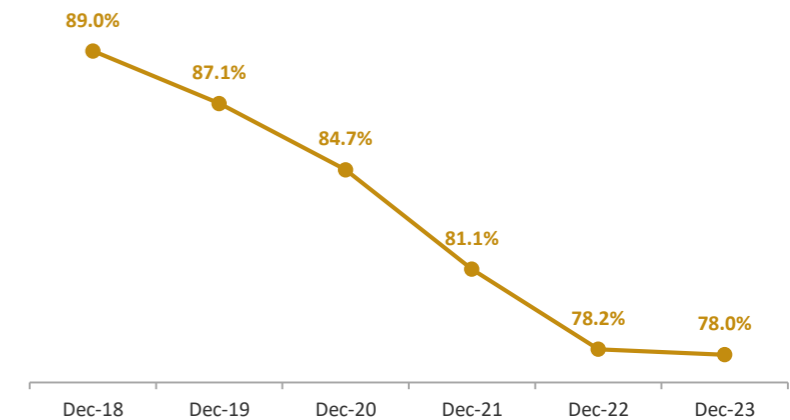
Return on Equity



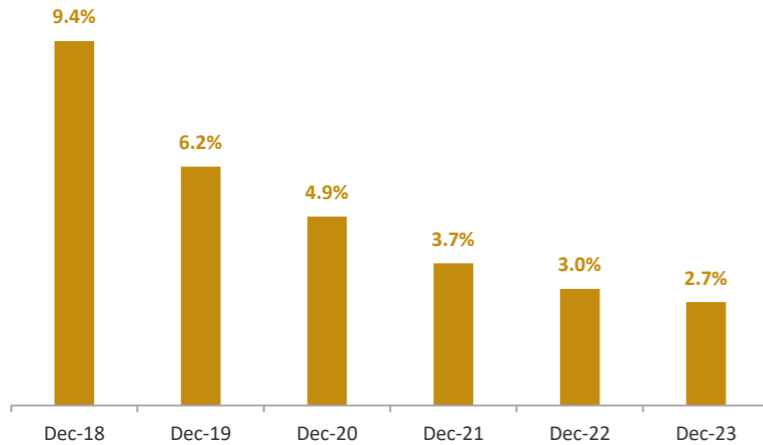
Cost-to-Income



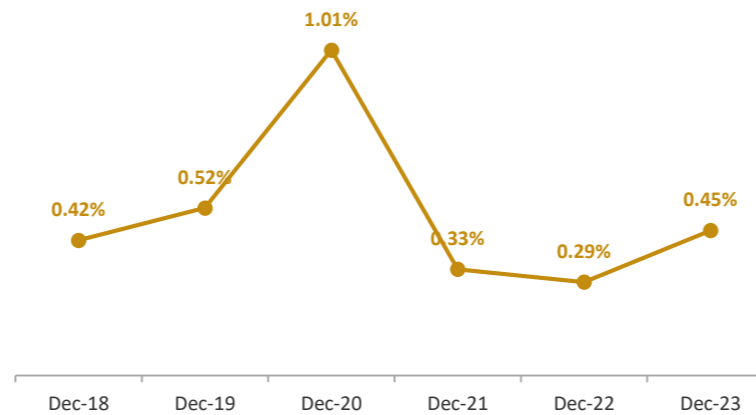
Loan-to-deposit ratio



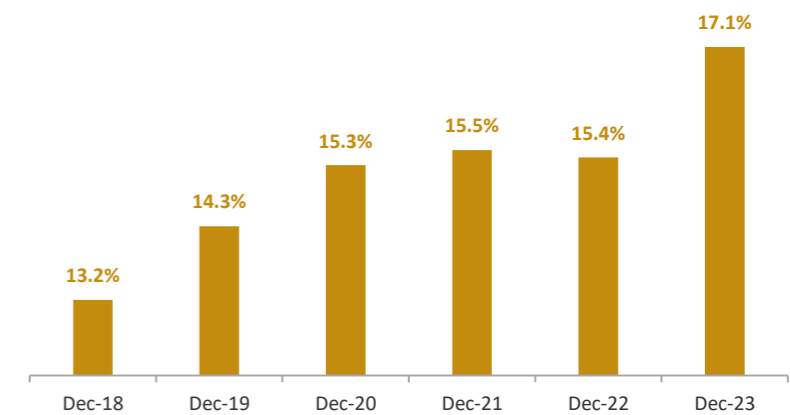
NPL ratio



Cost of credit risk



Common Equity Tier 1 ratio

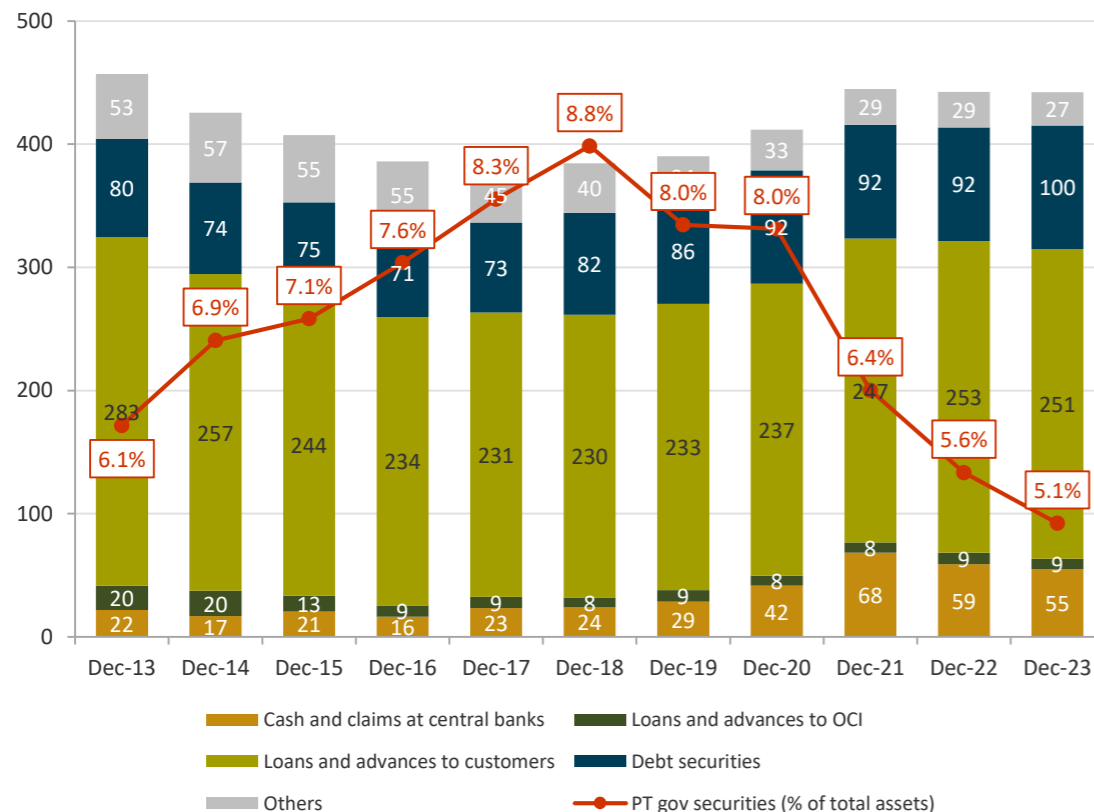


Source: Banco de Portugal (consolidated data). Return on Equity is calculated based on net income after tax and before minority interests and average equity.

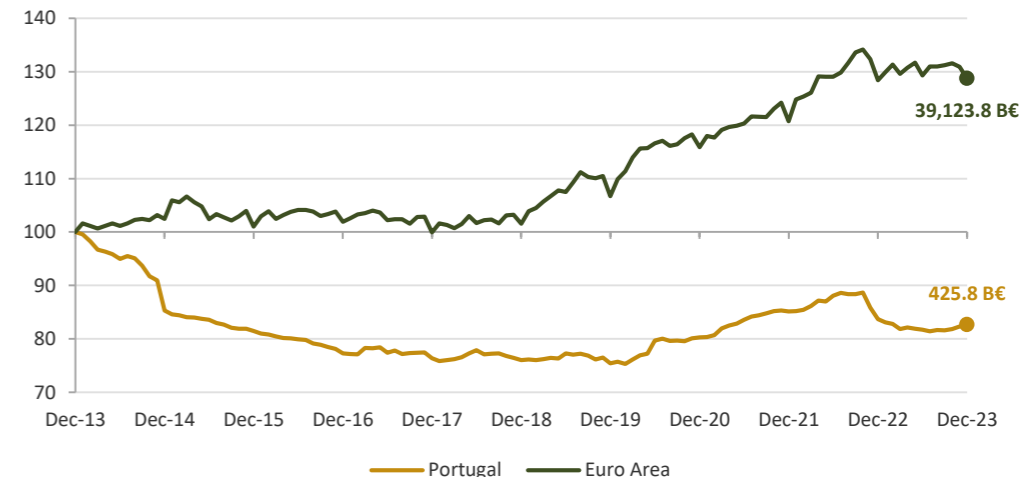
II. FINANCIAL POSITION

In 2023, the Portuguese banking sector's total assets remained practicably stable (-0.1%) compared to the previous year, as the increase in debt securities (+8.8%) was offset by the reduction in cash/liquidity (-7.2%) – with a 4.7% reduction in deposits at central banks –, loans to credit institutions (-8.0%), as well as loans to customers, which fell by 1.5 billion euros (-0.6%).

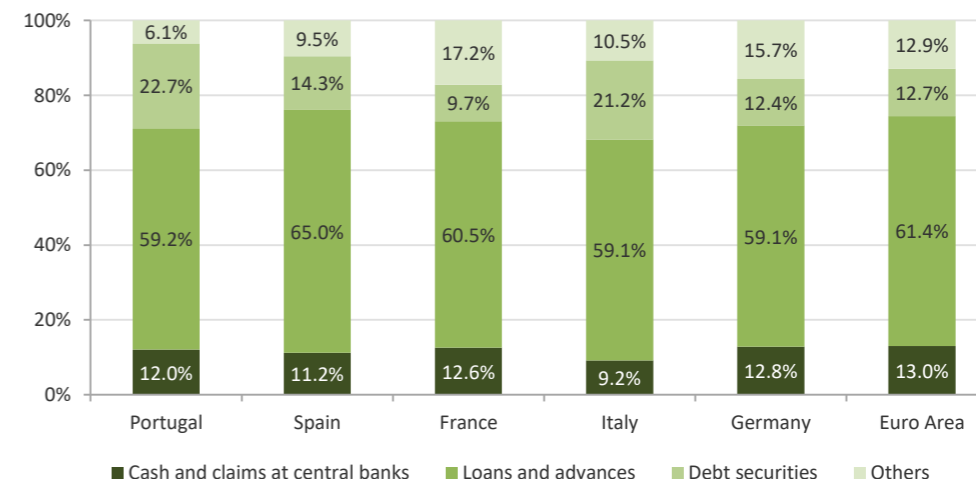
Total assets breakdown (EUR billion)



Total assets evolution - domestic activity (Dec-13 = 100)



Total assets breakdown: Portugal vs. Euro Area (Dec-23)



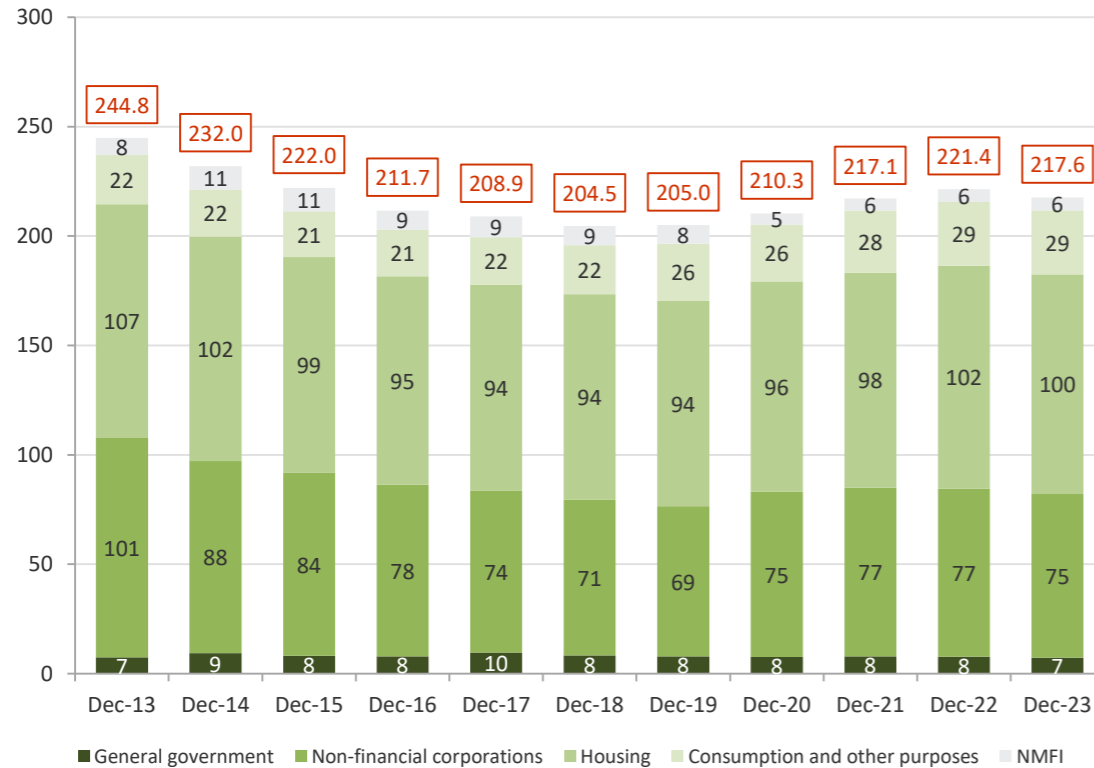
Source: Banco de Portugal (consolidated data) and ECB – MFI Balance Sheet Items (Monetary and Financial Statistics).

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

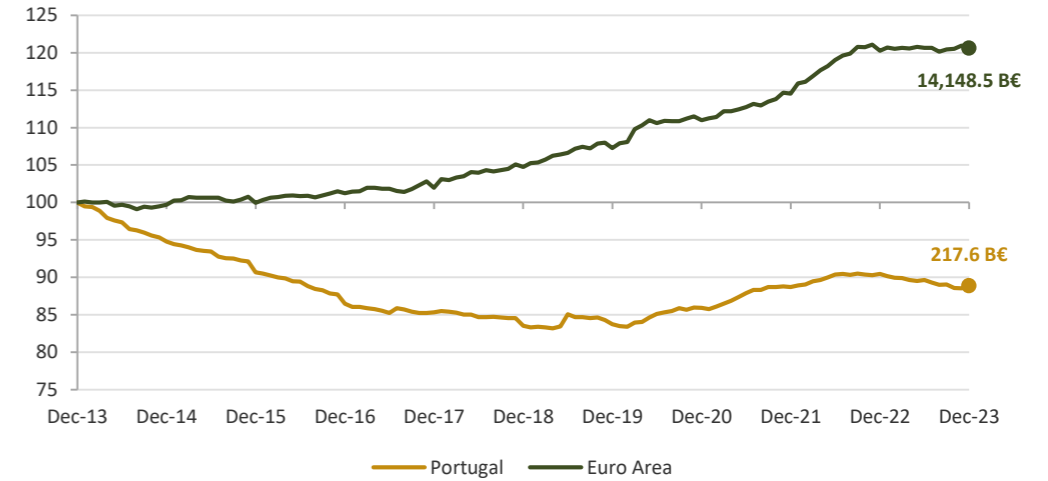
II. LENDING

The evolution of the stock of loans to households reflected the moderate growth in loans for consumption and the negative annual rate of change in loans for house purchase. The reduction in demand is explained by the general level of interest rates and the decline in consumer confidence. Loans to non-financial corporations (NFCs) recorded a negative annual rate of change. The general level of interest rates, lower financing needs for investment and the increase in financing through internal capital generation all contributed to the reduction in demand for credit.

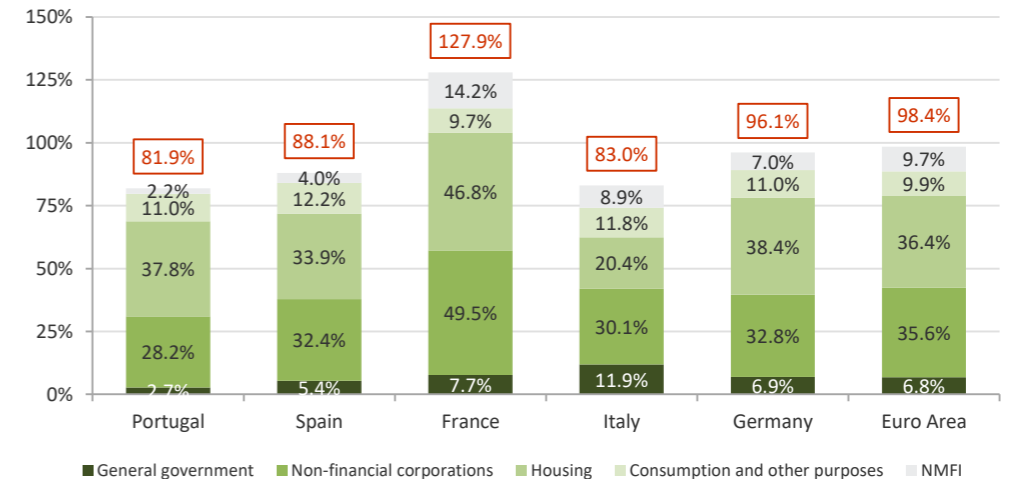
Loans to customers by institutional sector (EUR billion)



Loans to customers evolution (Dec-13 = 100)



Loans to customers by institutional sector as a % of GDP (Dec-23)

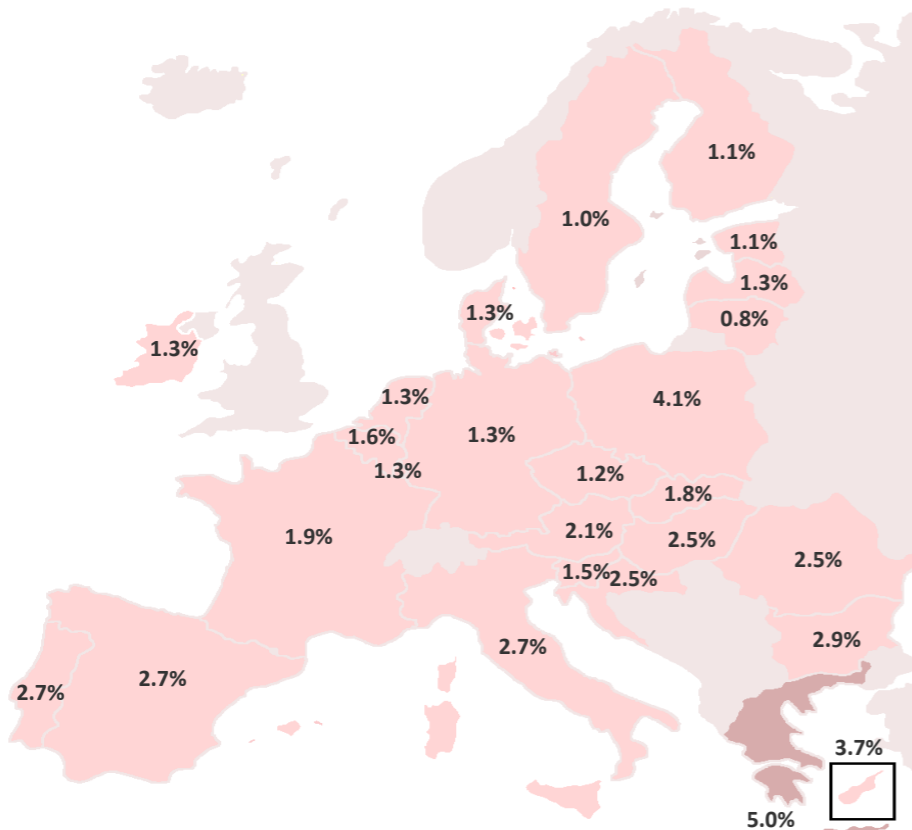


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) e Eurostat. Loans and advances to customers in the domestic activity; counterpart: residents in the Euro Area. NMFI = Non-Monetary Financial Institutions, which include Other Financial Intermediaries, Financial Auxiliaries, Insurance Corporations and Pension Funds.

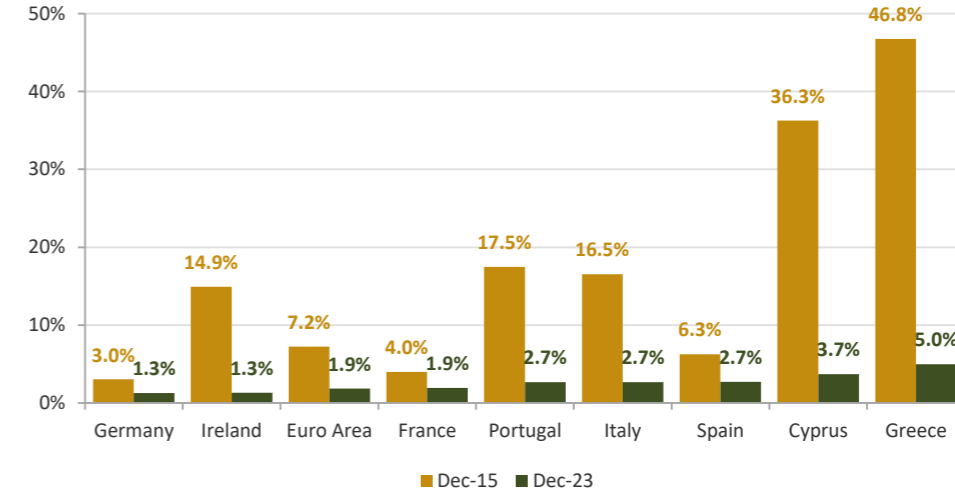
II. LENDING

In 2023, the NPL ratio fell 0.3 pp year-on-year to 2.7%. This evolution was due to the decrease in the amount of NPLs (-12.9% compared to December 2022), which more than offset the decrease in loans to NFCs and deposits in central banks. The impairment coverage ratio rose 0.9 pp to 56.3% and continued to compare favorably with the Euro Area average, which fell to 43.0% (-1.9 pp).

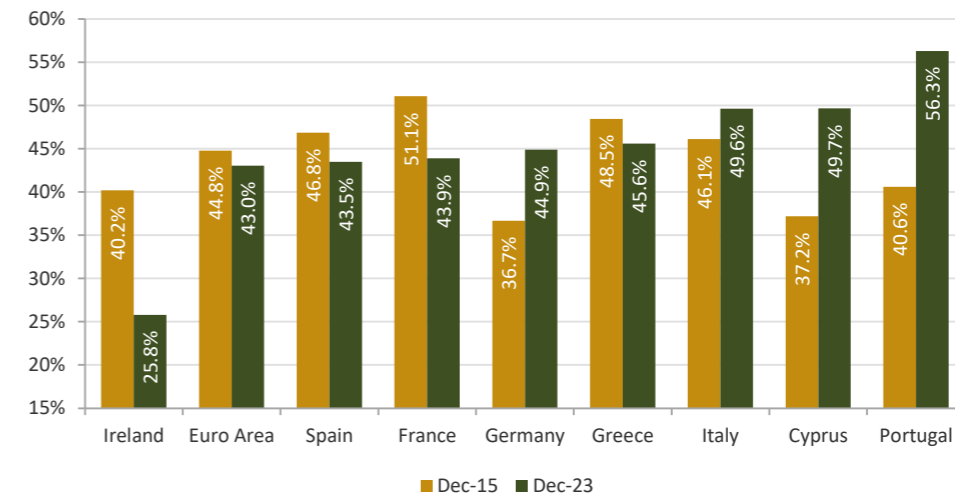
NPL ratio



NPL ratio evolution



Impairment coverage ratio



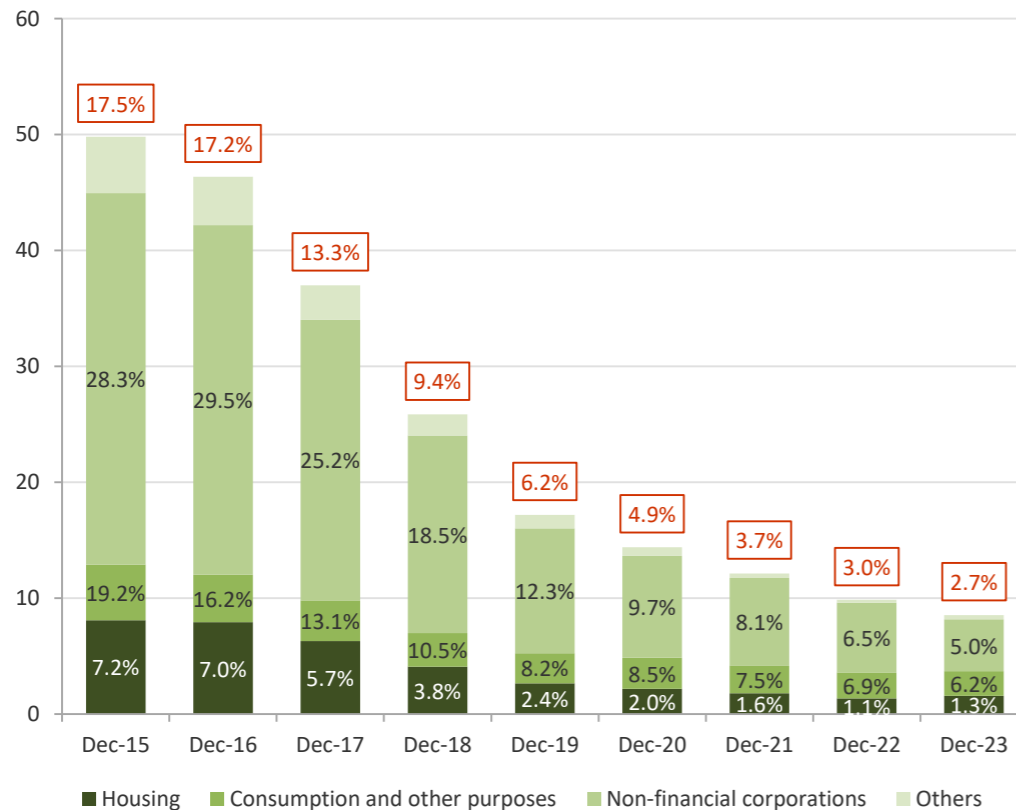
Source: ECB – Consolidated Banking Data. The impairment coverage ratio refers to non-performing loans and debt securities.

II. LENDING

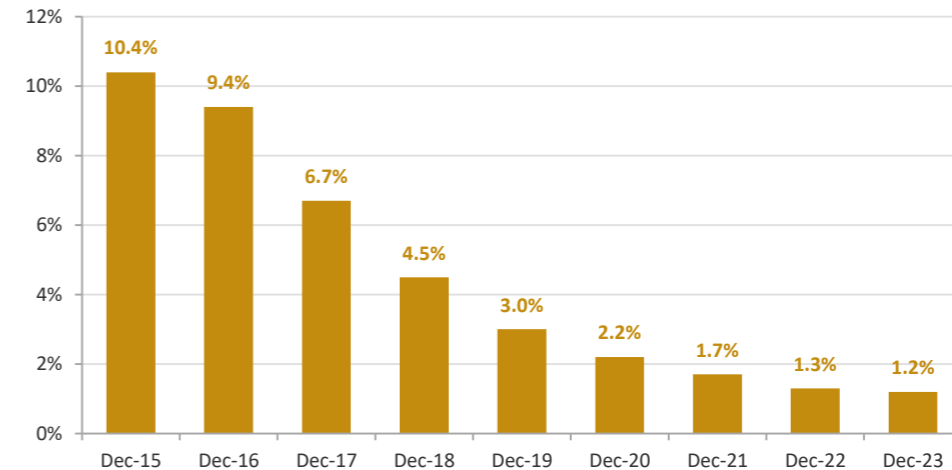
Although loans for house purchase continue to have very low ratios (1.3%), they were the only segment to show a slight increase in the NPL ratio due to the increase in the unlikely to pay component or less than 90 days overdue. This evolution reflects the rise in benchmark interest rates in this period and the predominance of variable interest rate loans (80% of the stock in December 2023). However, the resilience of the labour market, the recovery of real household income, the reduced share of borrowers with lower income levels, and the specific measures taken by the banks and the government have made it possible to mitigate the level of defaults. In the NFC segment, the NPL ratio fell again.

The ratio of loans in Stage 2 rose slightly due to an increase in transitions from Stage 1 to Stage 2 in loans to households.

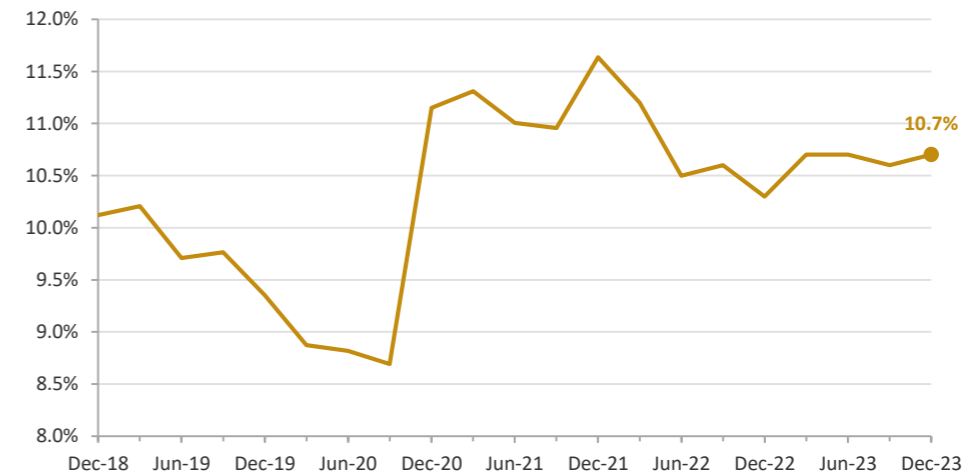
NPL amount and ratio in Portugal (EUR billion)



NPL ratio net of impairments in Portugal



Stage 2 loans ratio in Portugal

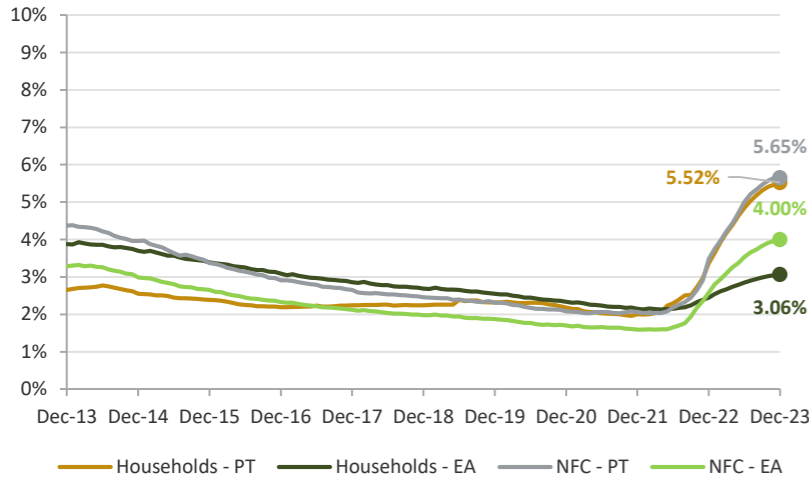


Source: Banco de Portugal (consolidated data).

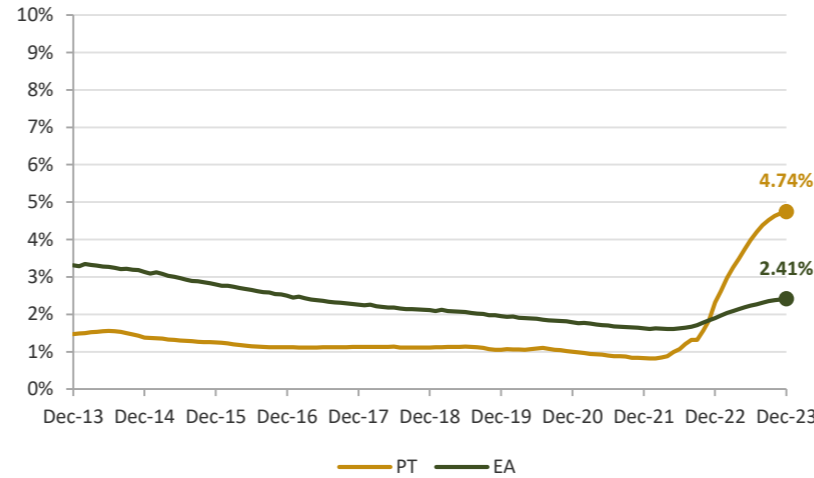
II. LENDING | LOAN CONDITIONS | INTEREST RATES

In December 2023, the average interest rate on the stock of loans to NFCs reached around 5.65%. The interest rate on loans for house purchase in Portugal became higher than the Euro Area average from the end of 2022, which had not happened for ten years. This reversal was due to the significant rise in benchmark interest rates and the greater share of variable rates in loans for house purchase in Portugal.

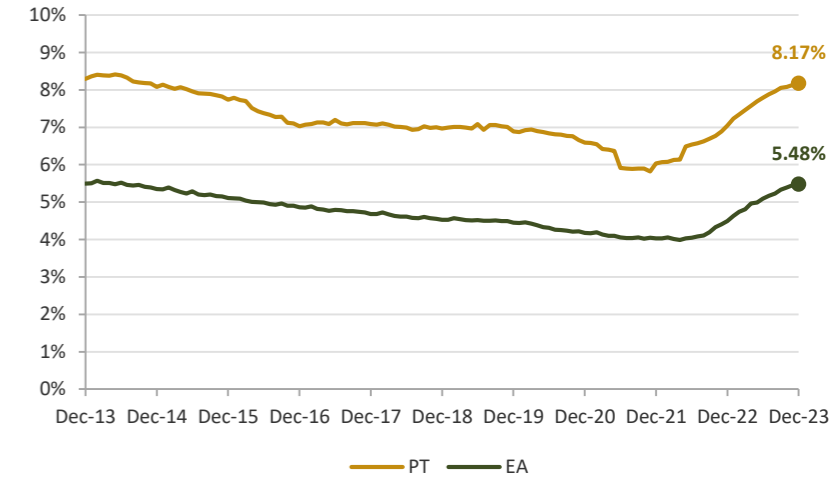
Total - Stock



Housing - Stock



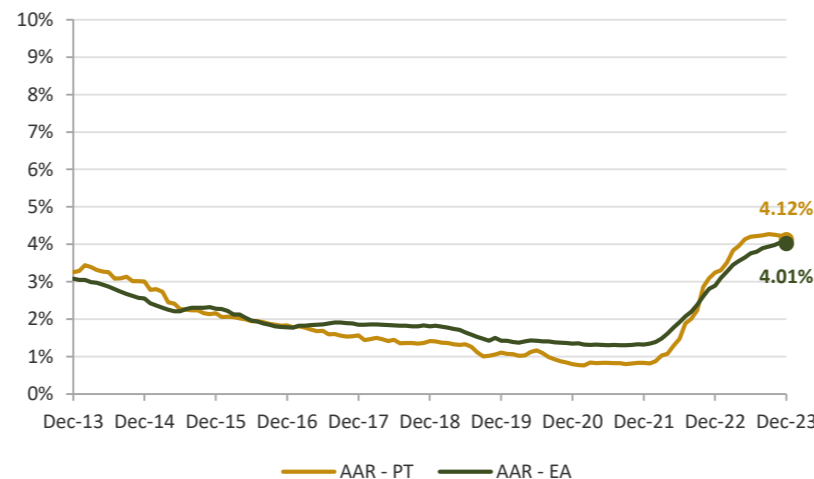
Consumption - Stock



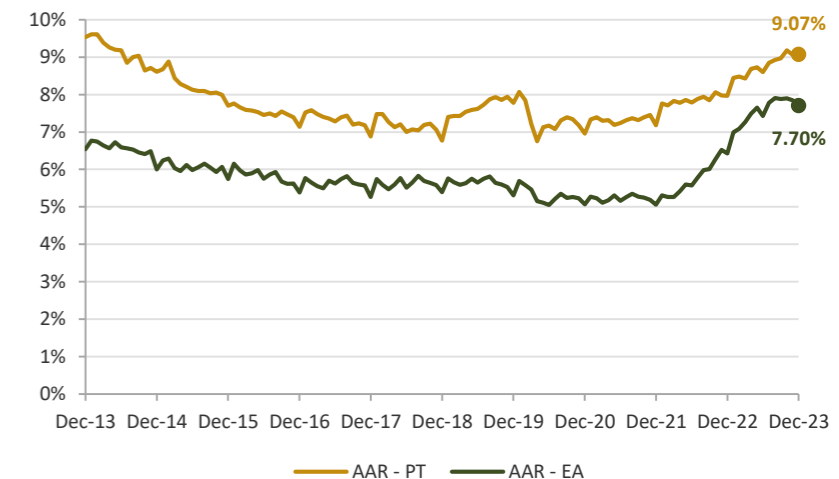
New business - NFCs



New business - Housing



New business - Consumption

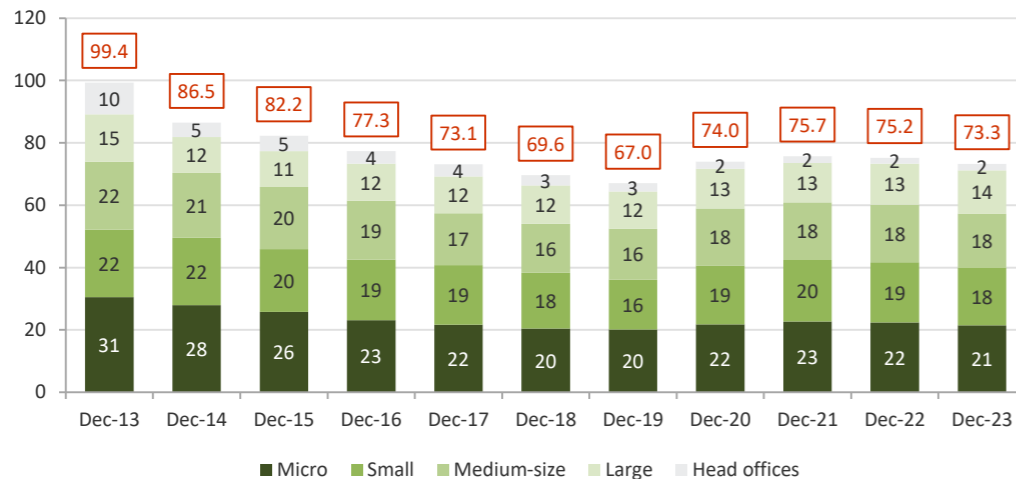


Source: ECB – MFI Interest Rate Statistics.

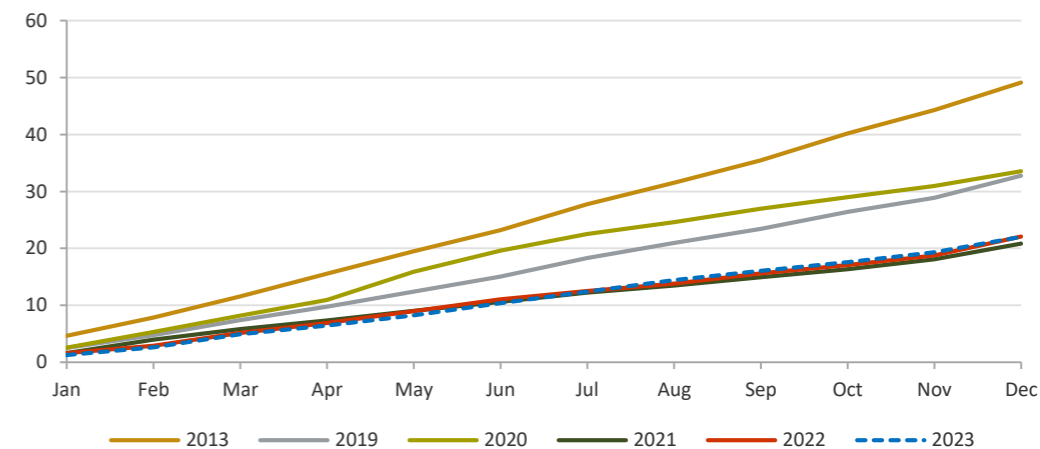
II. LENDING | NON-FINANCIAL CORPORATIONS

The annual rate of change in the stock of loans to NFCs remained in negative territory during the year as a result of a reduction in the amount of new contracts, an increase in credit renegotiations, and an increase in repayments. By dimension, the micro-enterprise segment was the only one that continued to grow, albeit at a slower rate (3.8%) than in the previous year. The share of loans granted to lower-risk companies continued to increase and represented 50% of the stock in 2023.

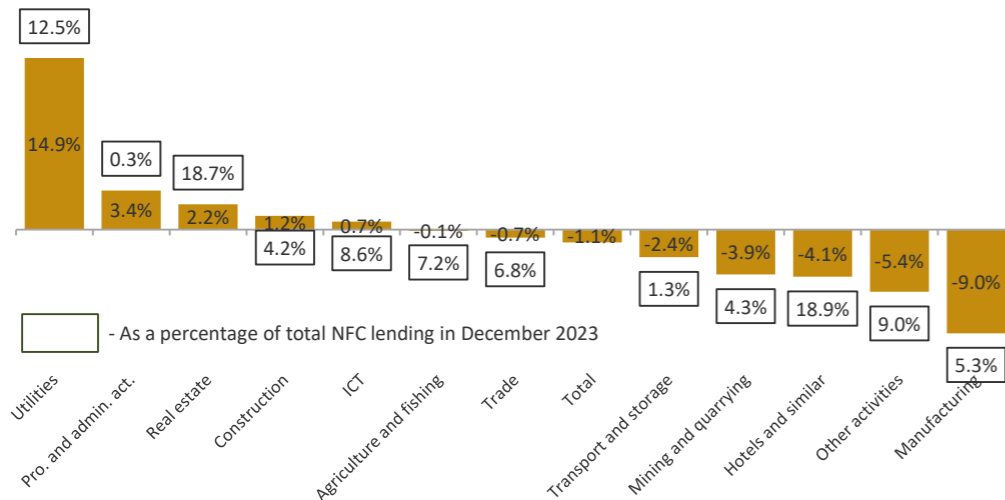
Stock of loans to NFCs (EUR billion)



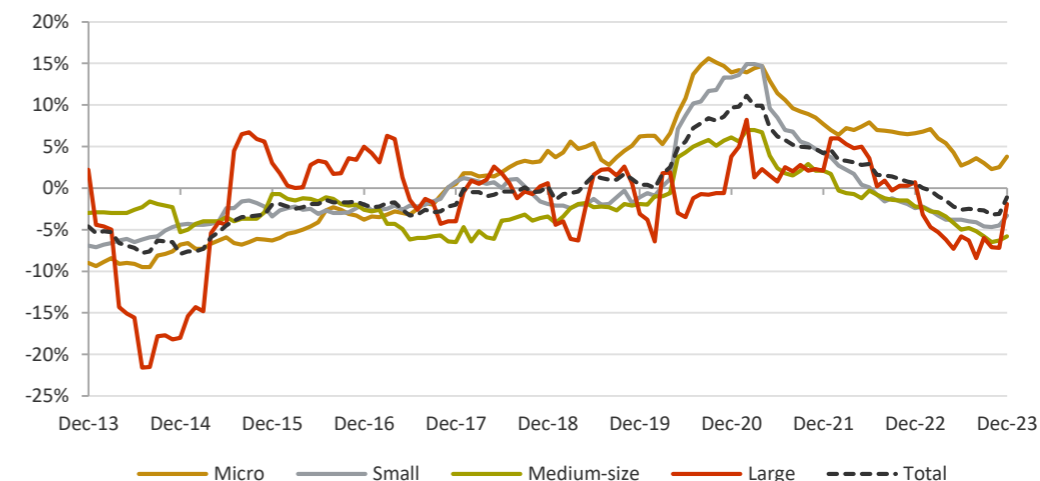
New business lending to NFCs (cumulated amounts, EUR billion)



ARC of loans to NFCs by economic sector (Dec-23)



ARC of loans to NFCs by dimension class

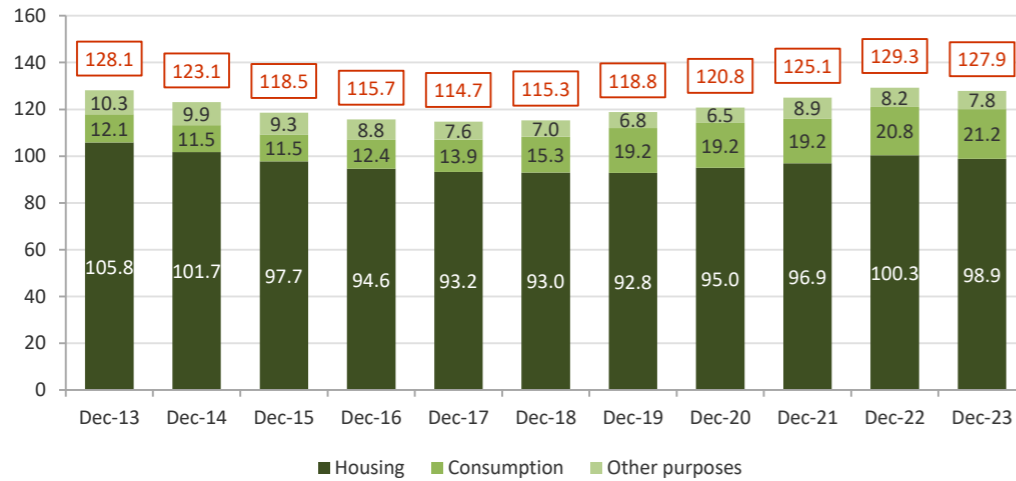


Source: Banco de Portugal (Monetary and Financial Statistics). Loans to NFCs in the domestic activity; counterpart: residents in Portugal. ARC = Annual rate of change. New business loans include new loans, loan transfers between banks and renegotiations without default.

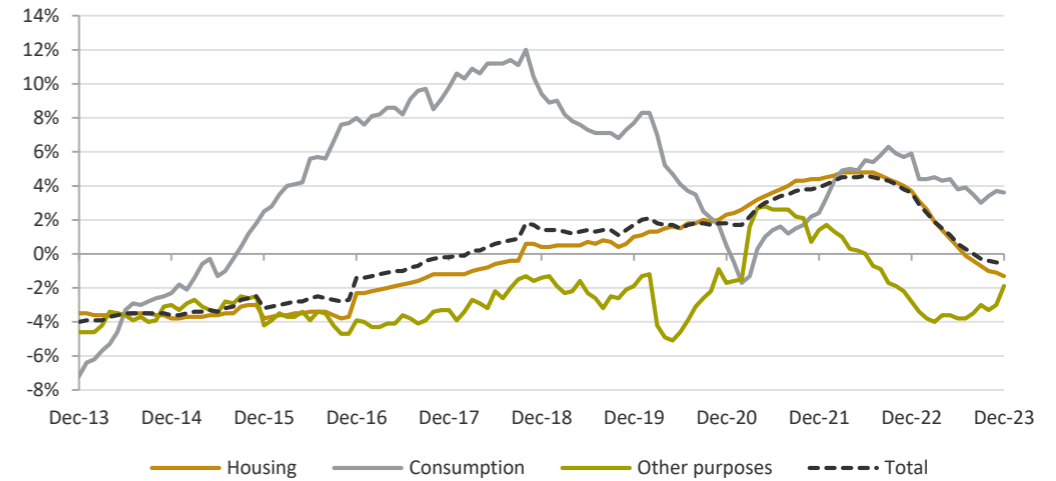
II. LENDING | HOUSEHOLDS

The evolution of the stock of loans to households reflected the negative annual rate of change in loans for house purchase and the moderate growth in loans for consumption. In 2023, new loans for house purchase fell by 11.8% (excluding renegotiations). Renegotiations reached 8.840 billion euros, corresponding to around 9% of the stock. On the other hand, early repayments increased by 69% compared to the previous year and accounted for 11% of the housing loan stock. New loans for consumption fell by 2%.

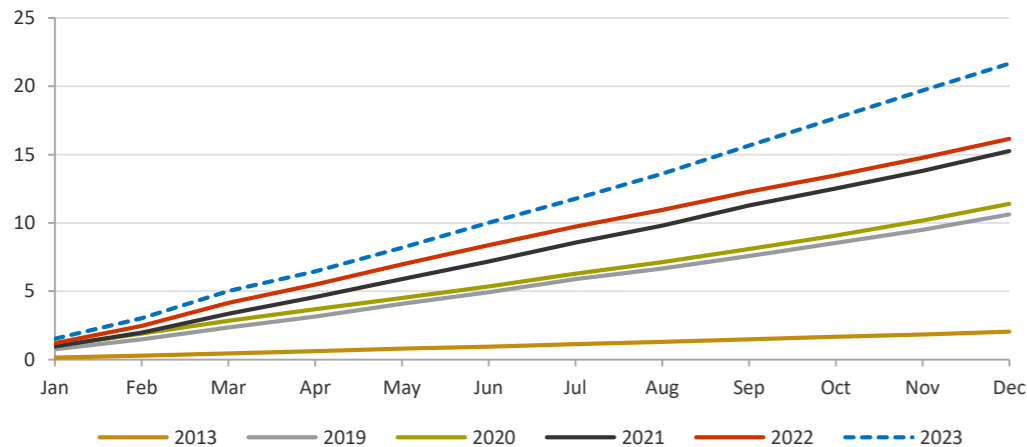
Stock of loans to Households (EUR billion)



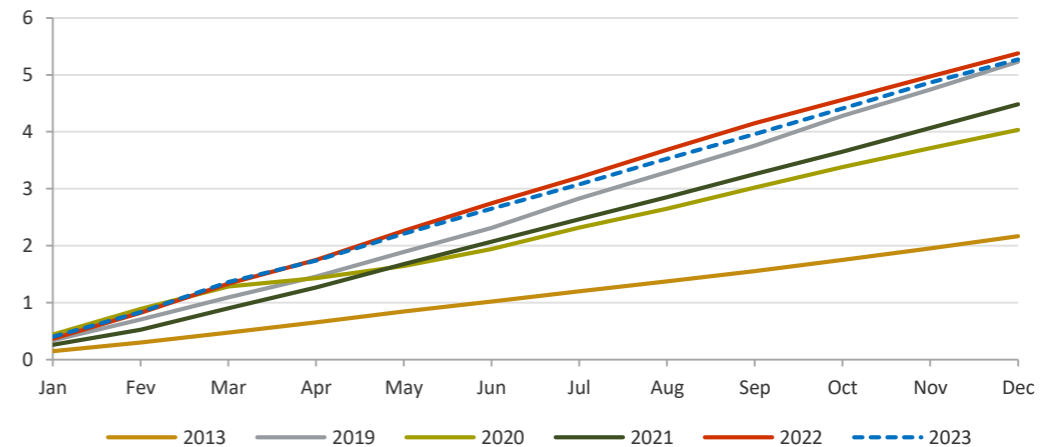
ARC of loans to Households



New business loans to Households - Housing (cumulated amounts, EUR billion)



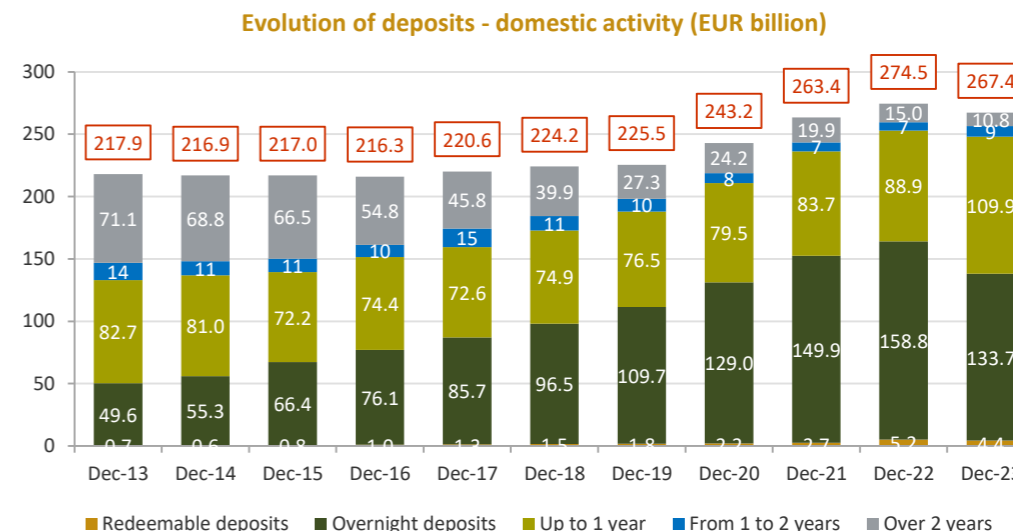
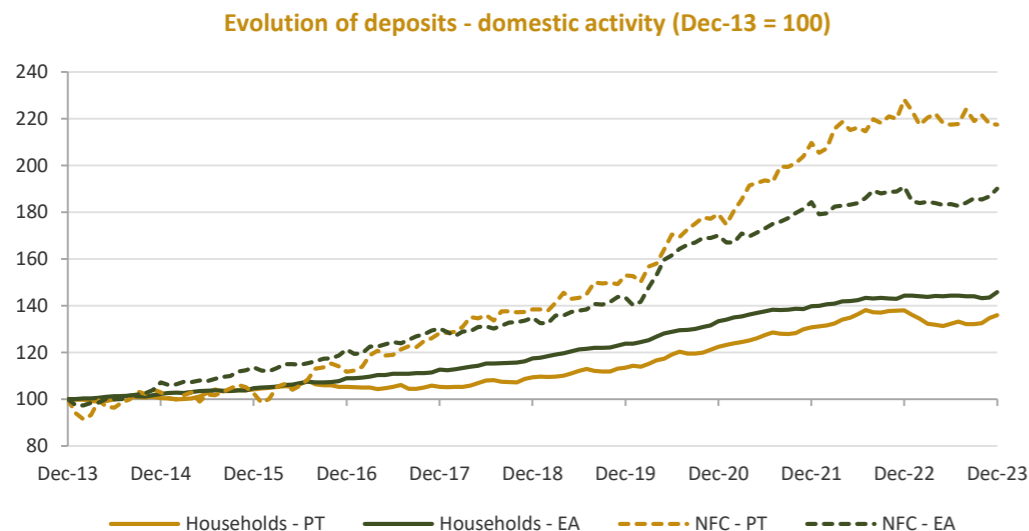
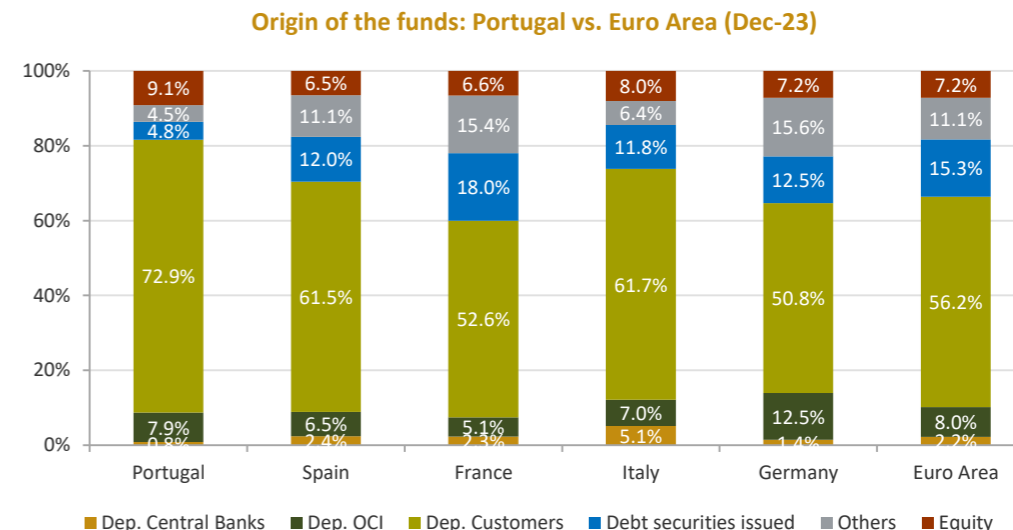
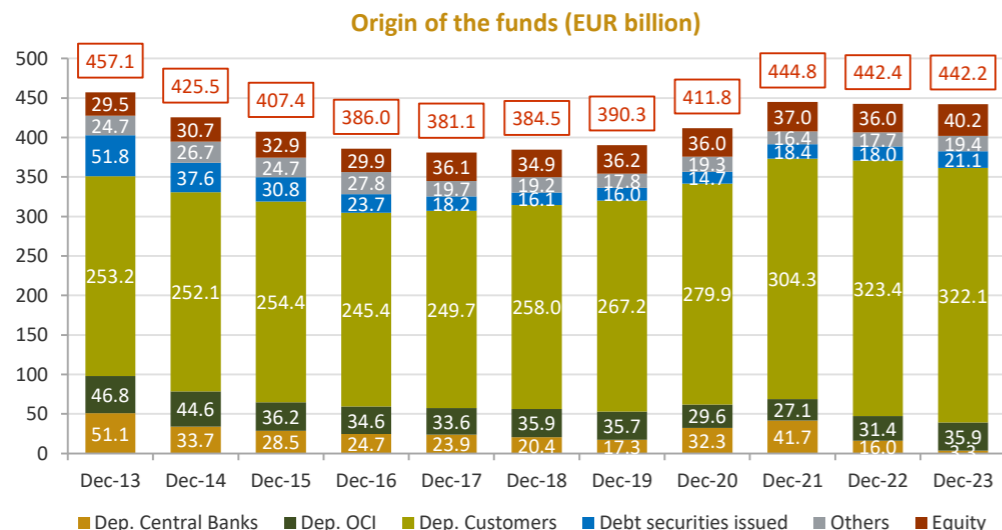
New business loans to Households - Consumption (cumulated amounts, EUR billion)



Source: Banco de Portugal (Monetary and Financial Statistics). Loans to Households in the domestic activity; counterpart: residents in Portugal. ARC = Annual rate of change. New business loans include new loans, loan transfers between banks and renegotiations without default.

III. ORIGIN OF THE FUNDS AND LIQUIDITY

Customer deposits remained broadly stable in 2023 compared to the previous year (-0.4%), and there was an increase in the share of term deposits, from around 40% in 2022 to 48% in 2023, in a context of sharply rising interest rates.

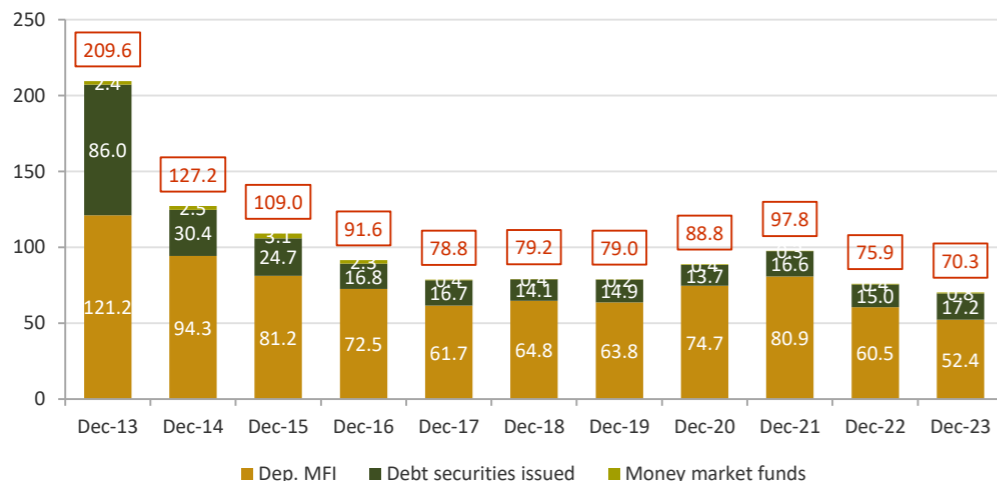


Source: Banco de Portugal (consolidated data and Monetary and Financial Statistics) and ECB – Consolidated Banking Data (consolidated data reported in FINREP format) and MFI Balance Sheet Items (Monetary and Financial Statistics). OCI = Other Credit Institutions.

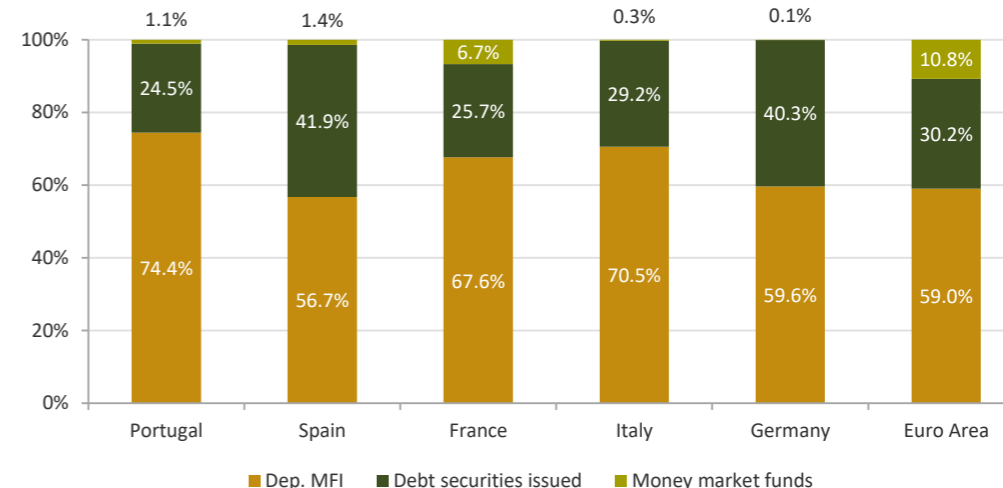
III. ORIGIN OF THE FUNDS AND LIQUIDITY

Recourse to market funding sources continued to be insignificant in the banking sector's financing structure. In 2023, there was again a significant reduction in funding from the Eurosystem due to the early repayment of a significant part of the TLTRO III loans.

Origin of wholesale funds (EUR billion)



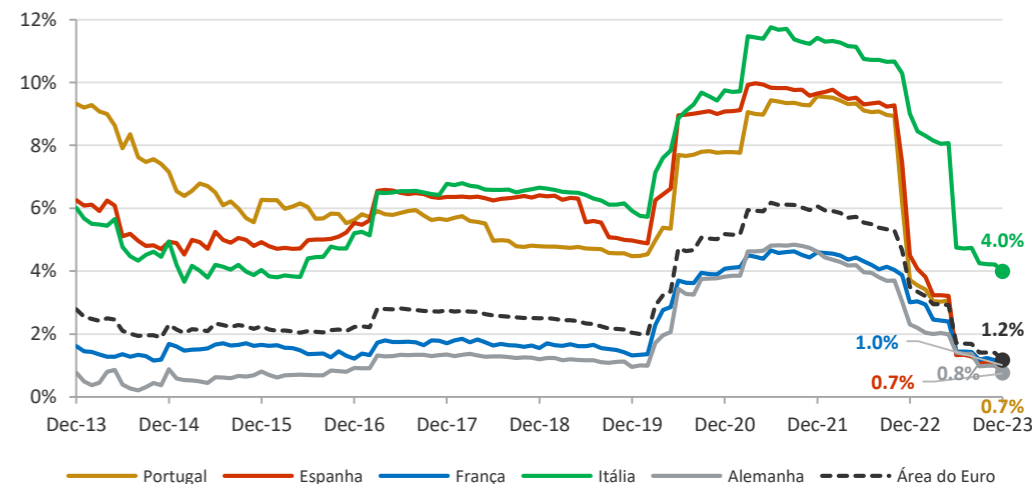
Origin of wholesale funds: Portugal vs. Euro Area (Dec-23)



Borrowing from the ECB (EUR billion)



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

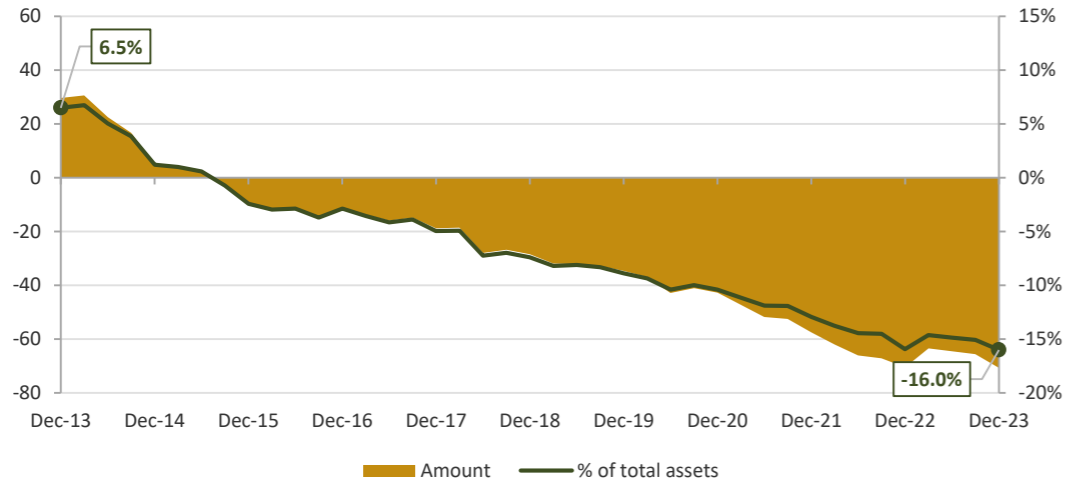


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics). Origin of wholesale funds from domestic activity. Monetary and Financial Institutions (MFI) include Central Banks and Other Monetary and Financial Institutions (OMFI).

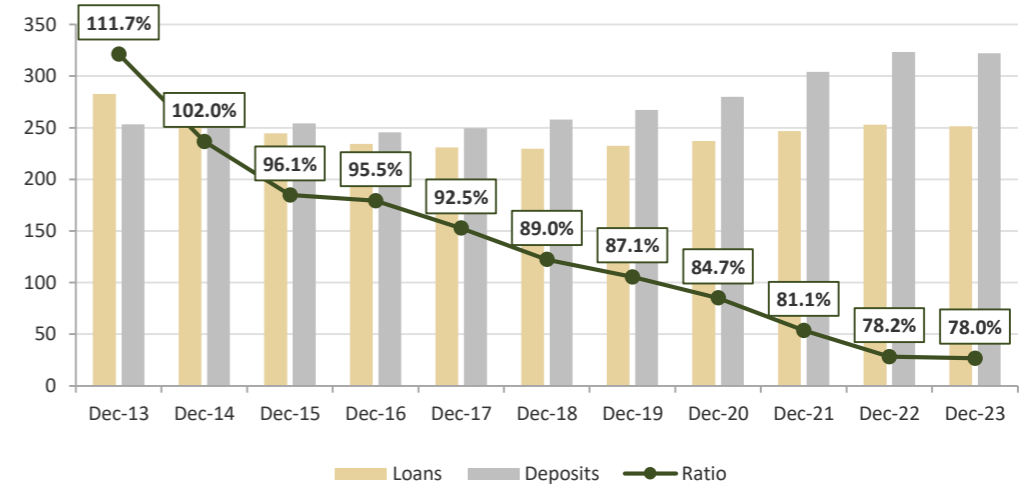
III. ORIGIN OF THE FUNDS AND LIQUIDITY

The Portuguese banking sector maintained high levels of liquidity. The loan-to-deposit ratio remained practically stable compared to the previous year (78%) while the liquidity coverage ratio increased due to the rise in the liquidity reserve, remaining at a high level and considerably above the minimum regulatory requirement.

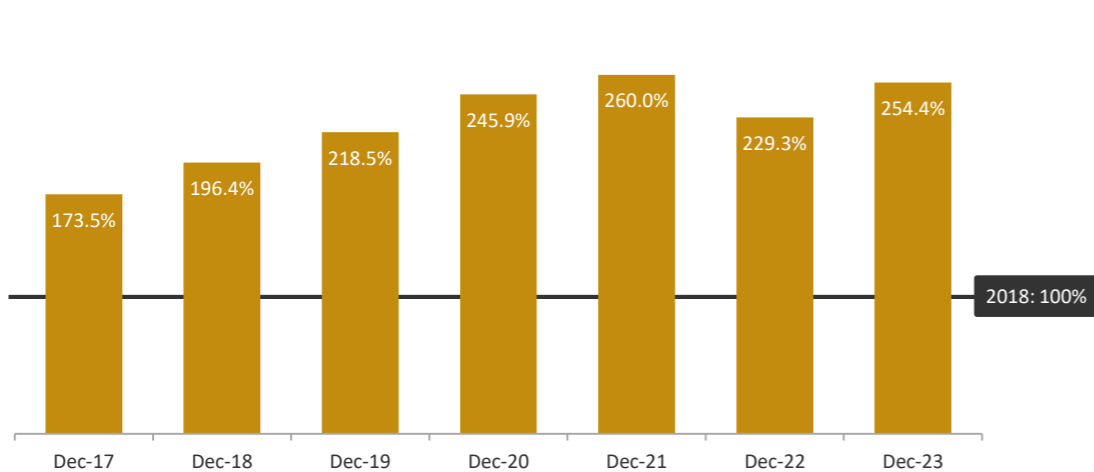
Funding gap (EUR billion and % of total assets)



Loan-to-deposit ratio (EUR billion)



Liquidity Coverage Ratio



Cash and claims at Central Banks (% of total assets)

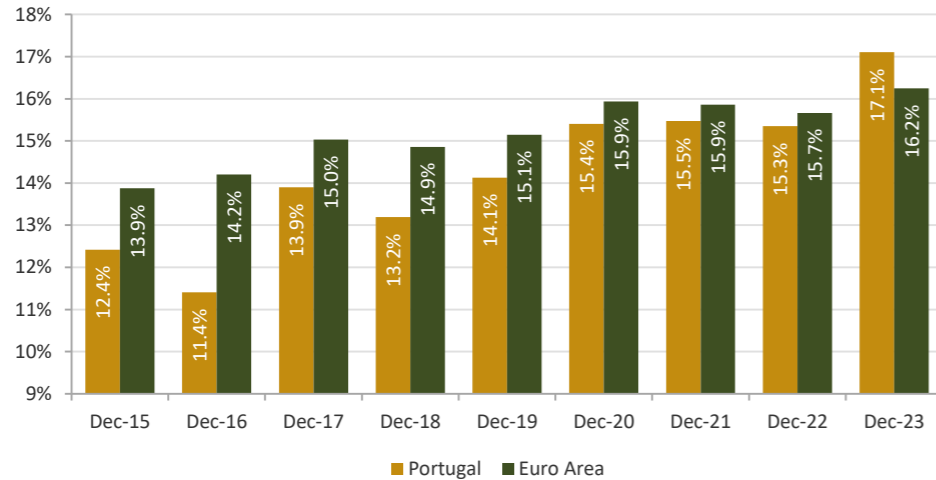


Source: Banco de Portugal (consolidated data).

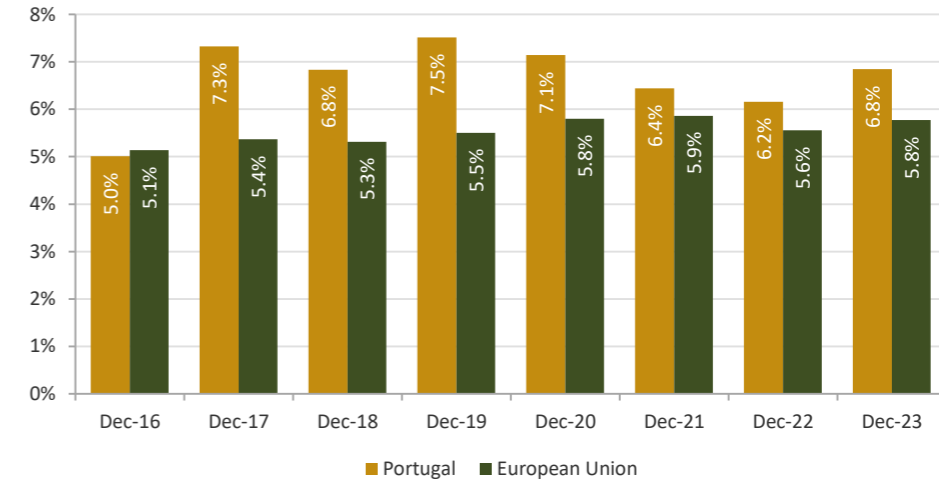
IV. SOLVENCY

The solvency of the Portuguese banking sector strengthened again in 2023, with the Common Equity Tier 1 (CET1) ratio reaching 17.1% and surpassing the Euro Area average. The evolution of this ratio reflects the increase in profitability and other comprehensive income. In turn, the leverage ratio rose to 6.8%, remaining considerably higher than the EU average and the regulatory reference minimum (3%).

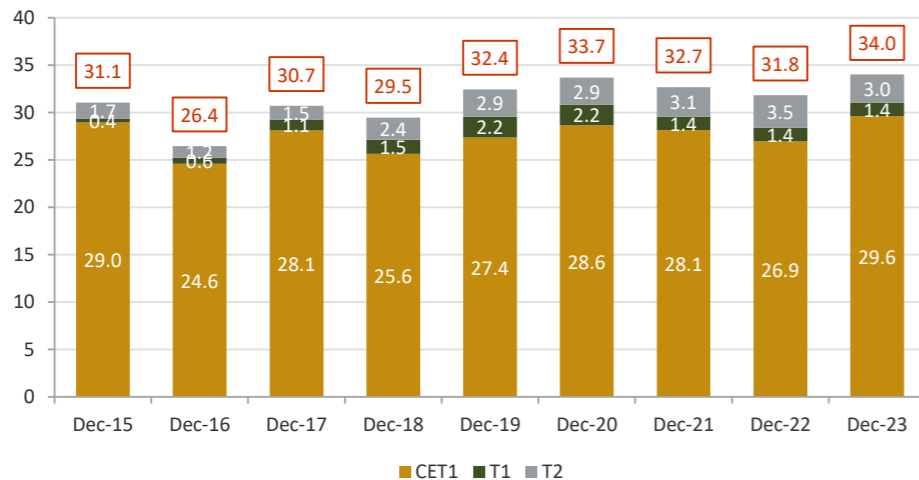
Common Equity Tier 1 ratio



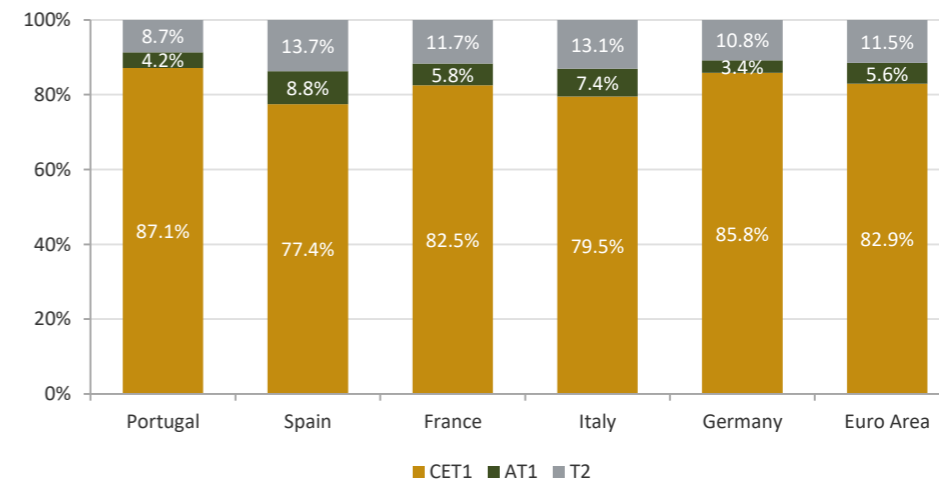
Leverage ratio



Evolution of the structure of own funds (EUR billion)



Structure of own funds: Portugal vs. Euro Area (Dec-23)

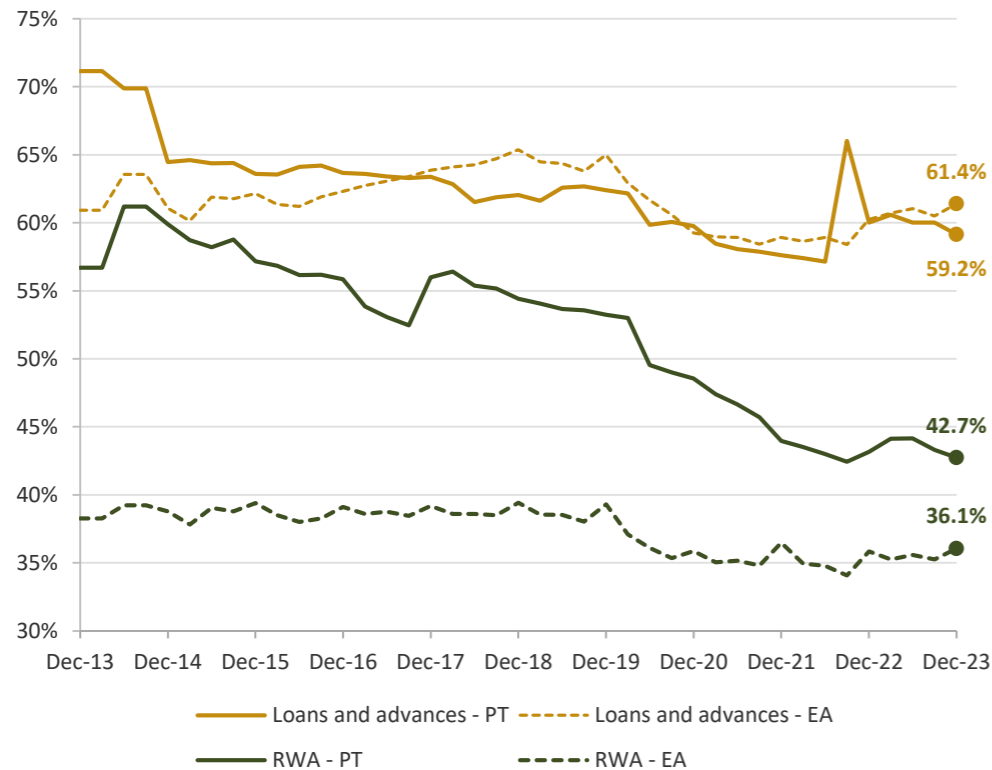


Source: ECB – Consolidated Banking Data (consolidated data) and EBA – Risk Dashboard (leverage ratio – fully phased-in definition of Tier 1). In December 2023, the EBA sample included 164 European banks, covering more than 80% of the EU/EEA banking sector (sample for Portugal: BCP, CGD, LSF Nani Investments e Santander Totta).

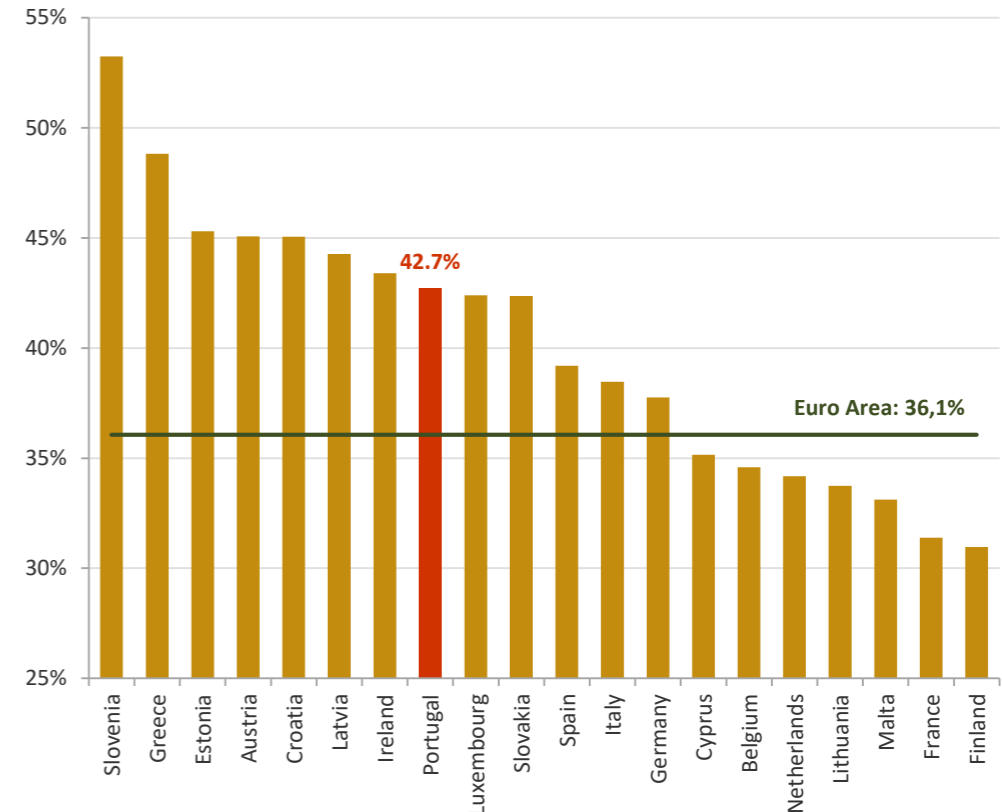
IV. SOLVENCY

The ratio of risk-weighted assets as a percentage of assets fell by 0.4 pp due to a reduction in exposure to credit risk and market risk, partially offset by an increase in exposure to operational risk. This ratio continues to compare unfavorably with the Euro Area. It should be noted, on the one hand, that the main component of RWA is credit risk, with exposure to companies and retail operations assuming the greatest weight in this component, and, on the other hand, there is less use by Portuguese banks of internal models for calculating capital requirements and a history still heavily influenced by high levels of defaults and losses, which implies a higher capital requirement than most banks in the Euro Area.

Evolution of loans and advances and RWA as a % of total assets: Portugal vs. Euro Area



RWA as a % of total assets by country (Dec-23)

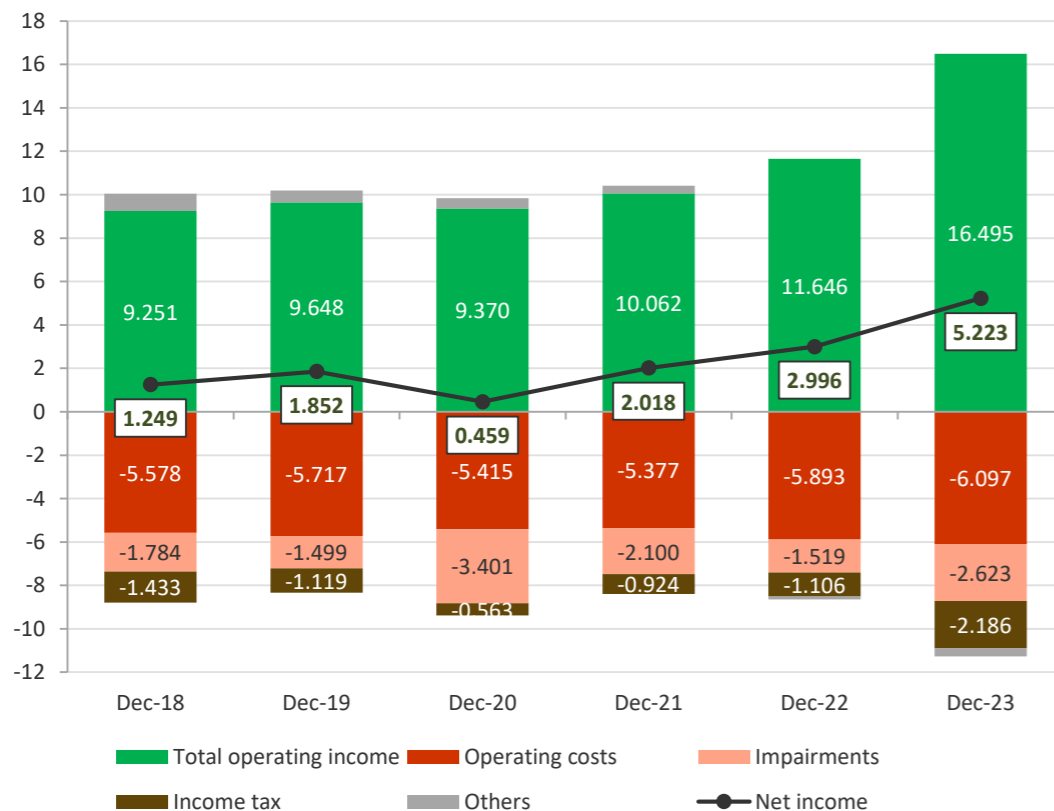


Source: ECB – Consolidated Banking Data.

V. PROFITABILITY

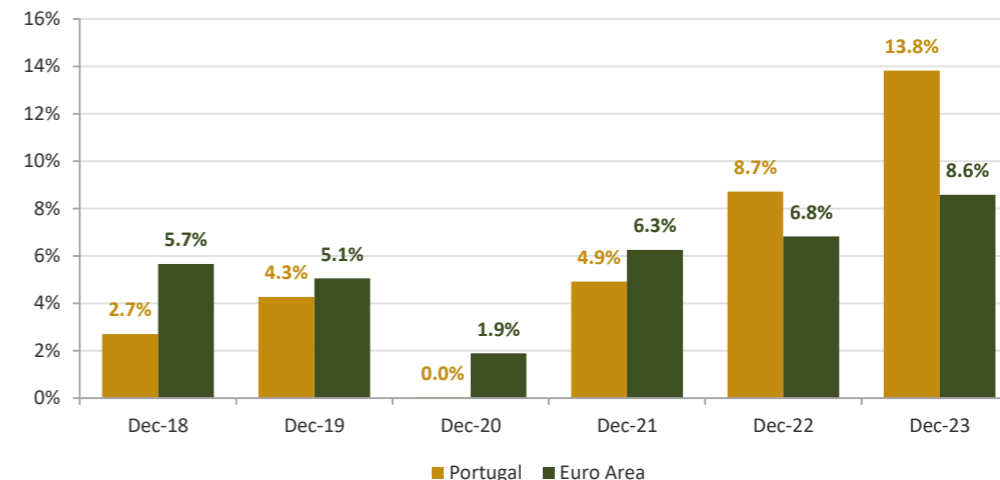
In 2023, there was again a significant improvement in the banking sector's profitability, mainly due to the increase in total operating income, which more than offset the increase in provisions and the flow of credit impairments and the increase, albeit to a lesser extent, in operating costs. This improvement in profitability benefited above all from the rise in interest rates.

Net interest income breakdown (EUR billion)

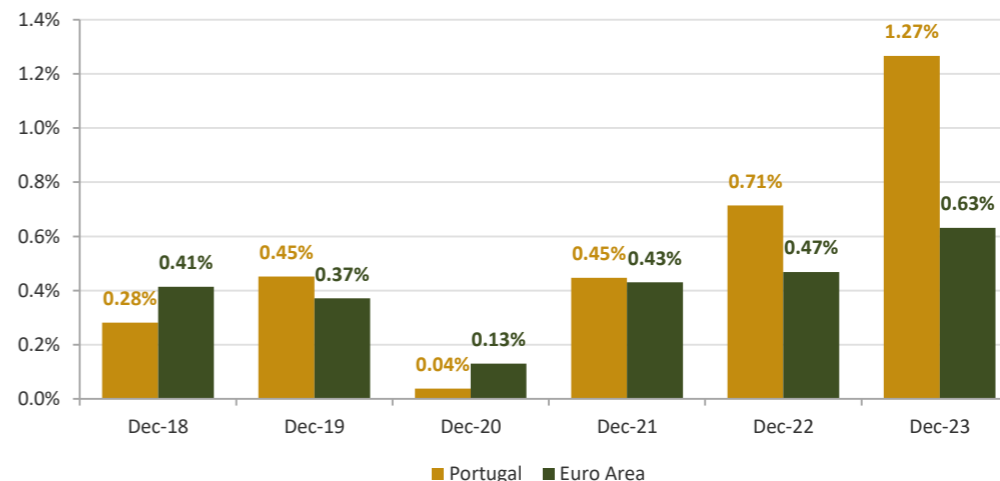


Source: Banco de Portugal (consolidated data).

Return on Equity (ROE)



Return on Assets (ROA)

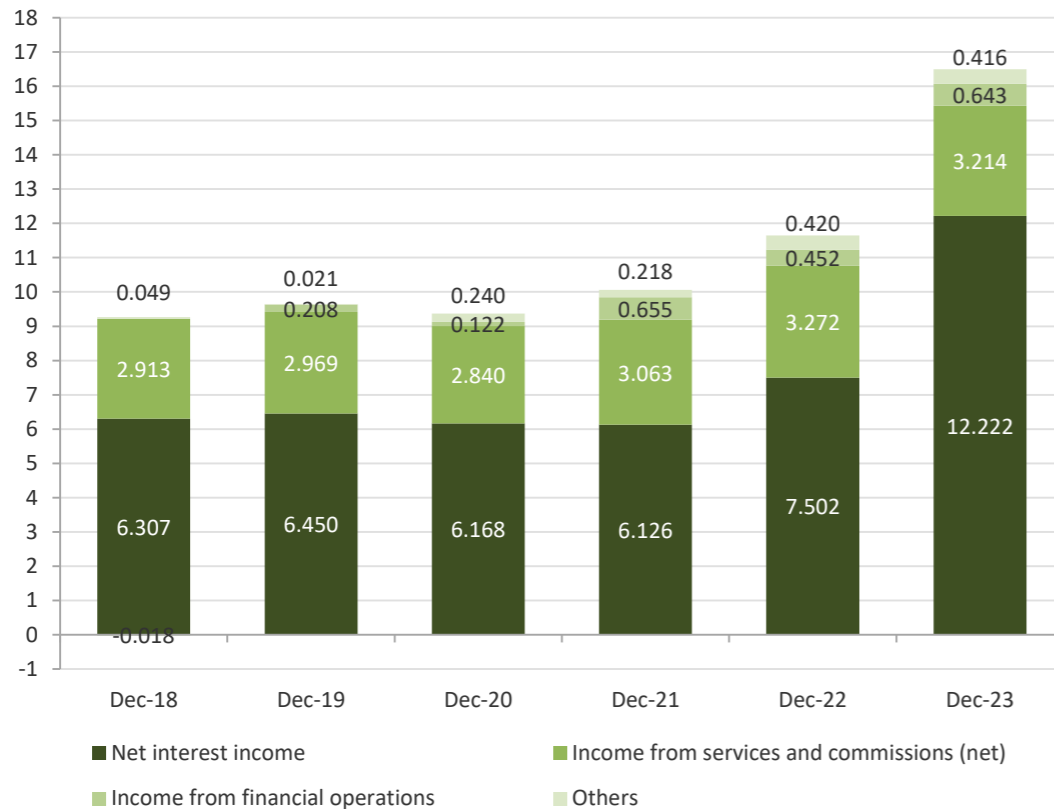


Source: ECB – Consolidated Banking Data. Calculated based on net interest income after tax and minority interests and on end-of-period equity and total assets. Return on equity excludes branches of foreign banks.

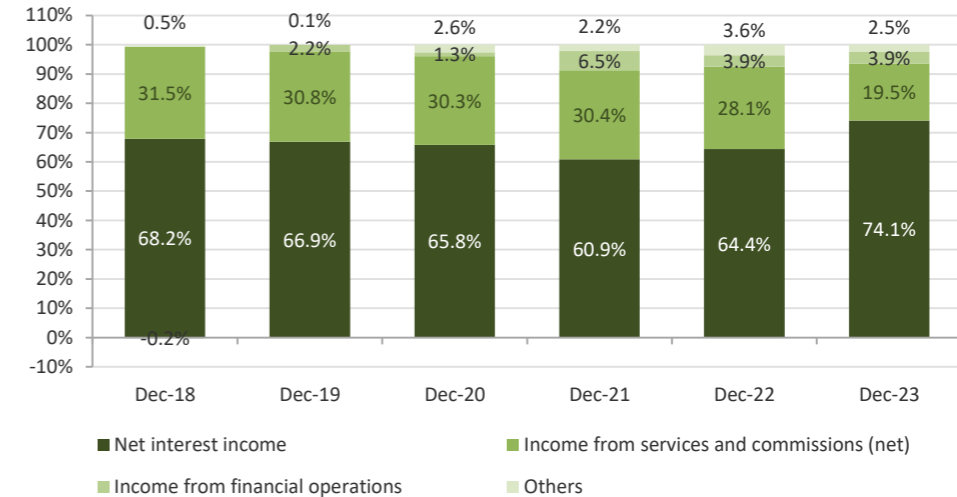
V. PROFITABILITY

The improvement in total operating income is explained mainly by the substantial increase in net interest income, which resulted from the significant rise in interbank market interest rates and a different pass-through to loans and deposits since the interest rates of the latter are not indexed to Euribor rates.

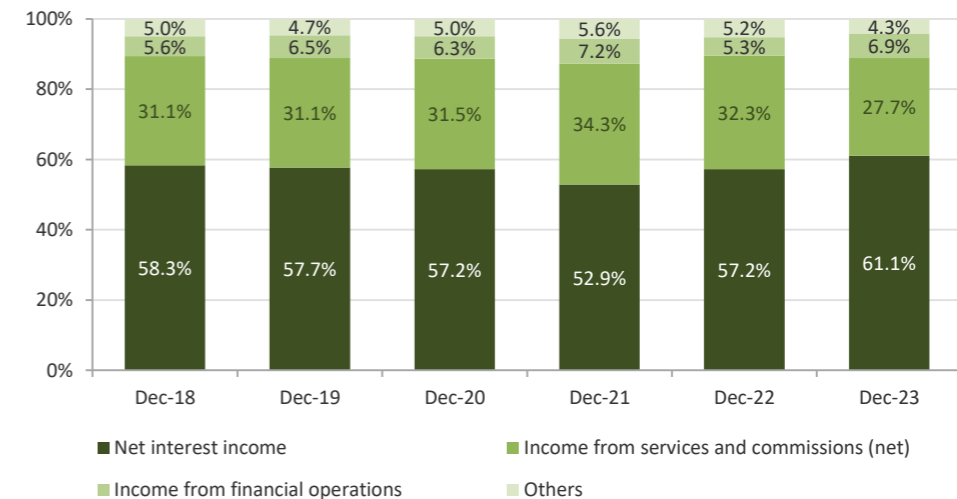
Total operating income breakdown (EUR billion)



Total operating income breakdown: Portugal



Total operating income breakdown: Euro Area

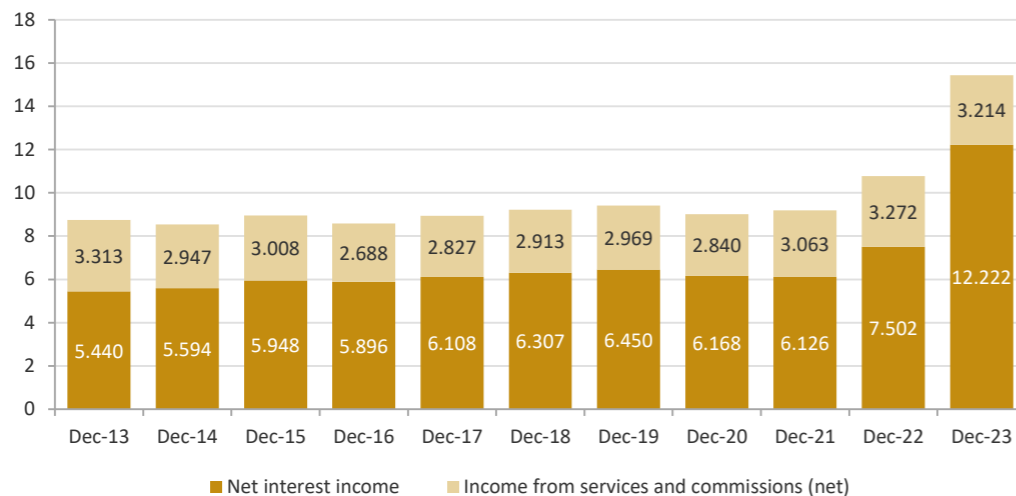


Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

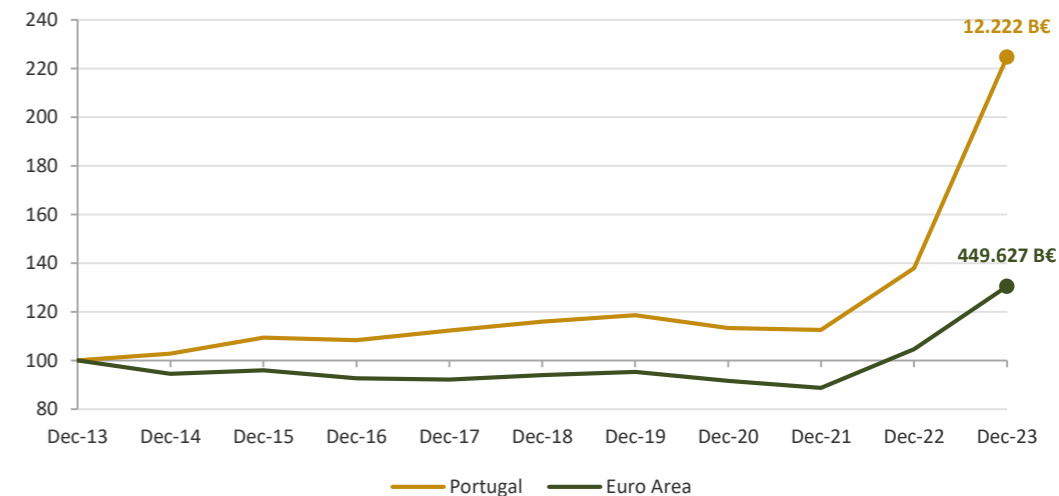
V. PROFITABILITY

The increase in net interest income reflected essentially the effect of the higher interest rates more on the asset side than the liability side, while commissions fell slightly compared to 2022.

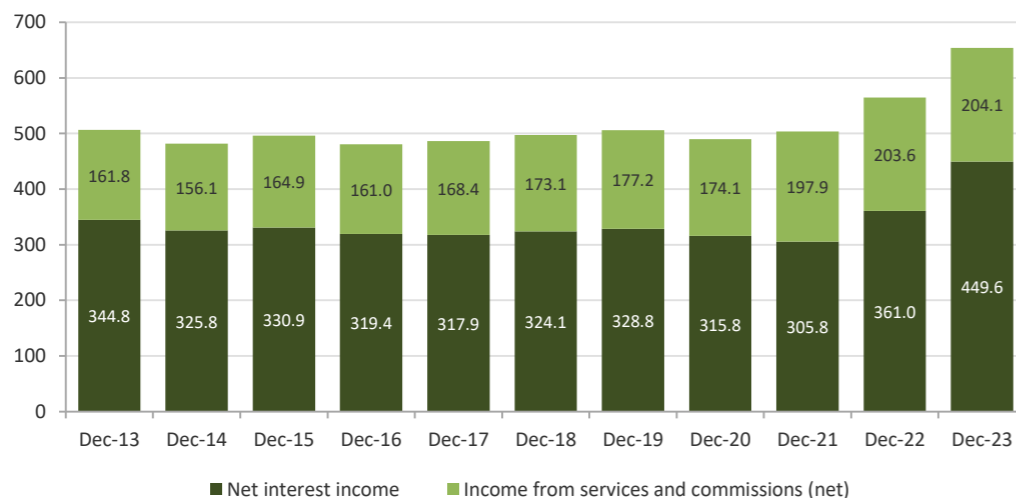
Net interest income and Commissions (EUR billion) – Portugal



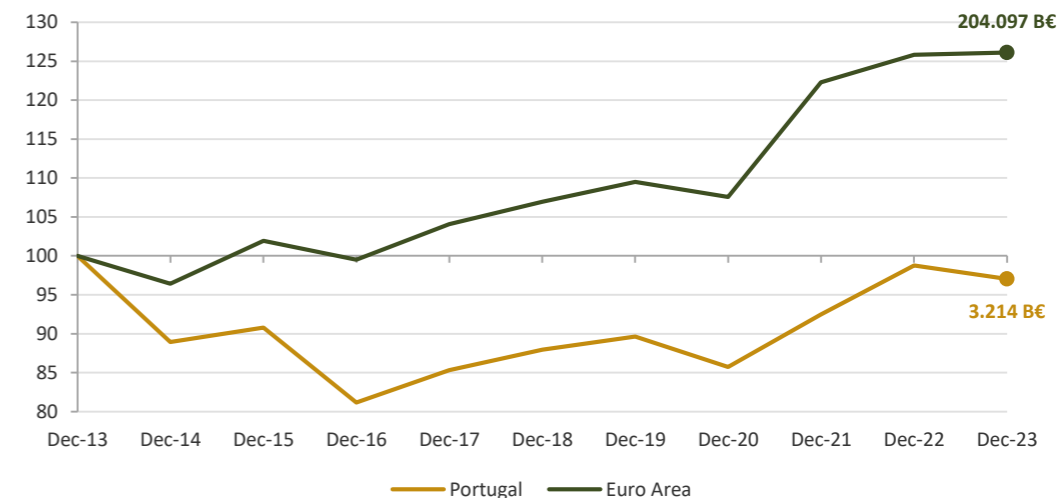
Net interest income (Dec-13 = 100)



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



Income from services and commissions (Dec-13 = 100)

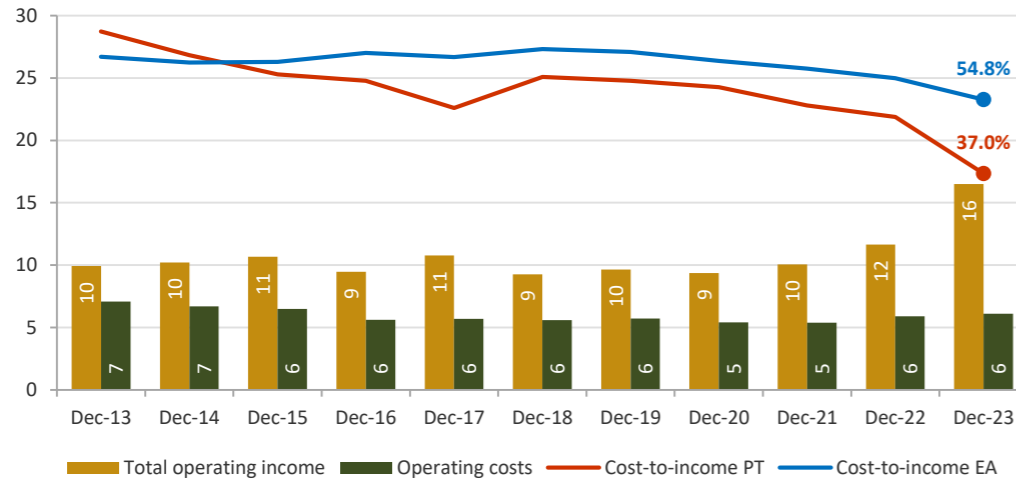


Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

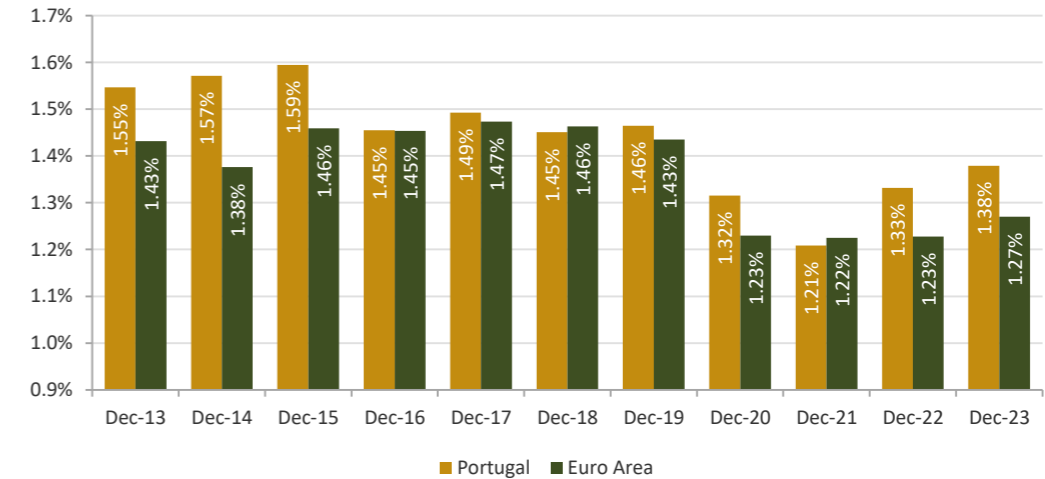
V. PROFITABILITY

In 2023, there was an improvement in the sector's efficiency, with the cost-to-income ratio falling by 13.6 pp to 37.0% due to the rise in total operating income far exceeding that of operating costs. In turn, the cost of credit risk increased slightly due to the reinforcement of credit impairments in a context where there is an expectation of greater materialization of credit risk.

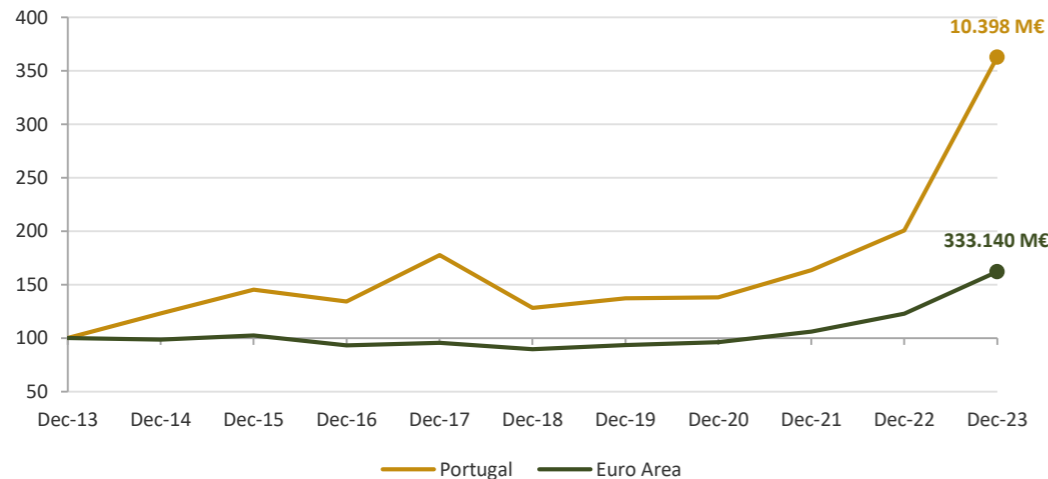
Cost-to-income breakdown (EUR billion) – Portugal



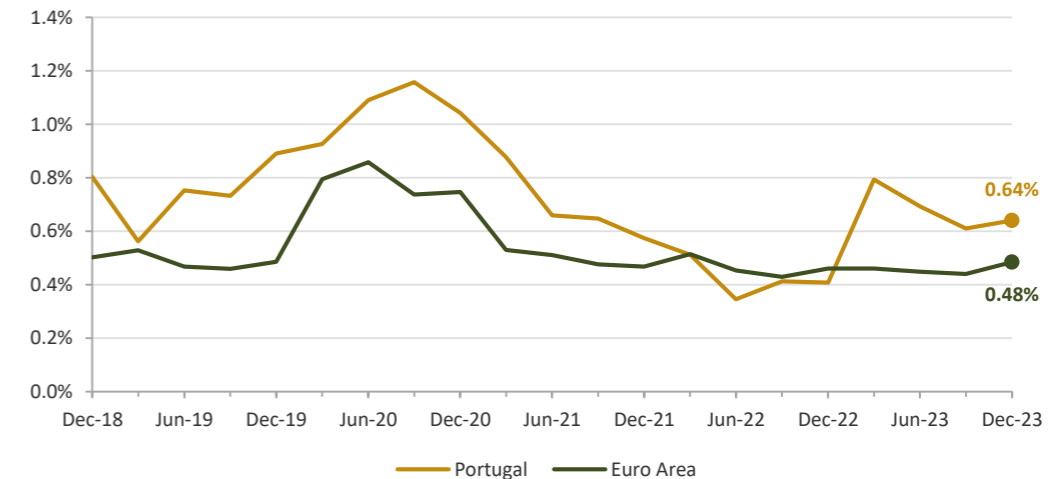
Operating costs as a % of total assets



Net operating income (Dec-13 = 100)



Cost of credit risk

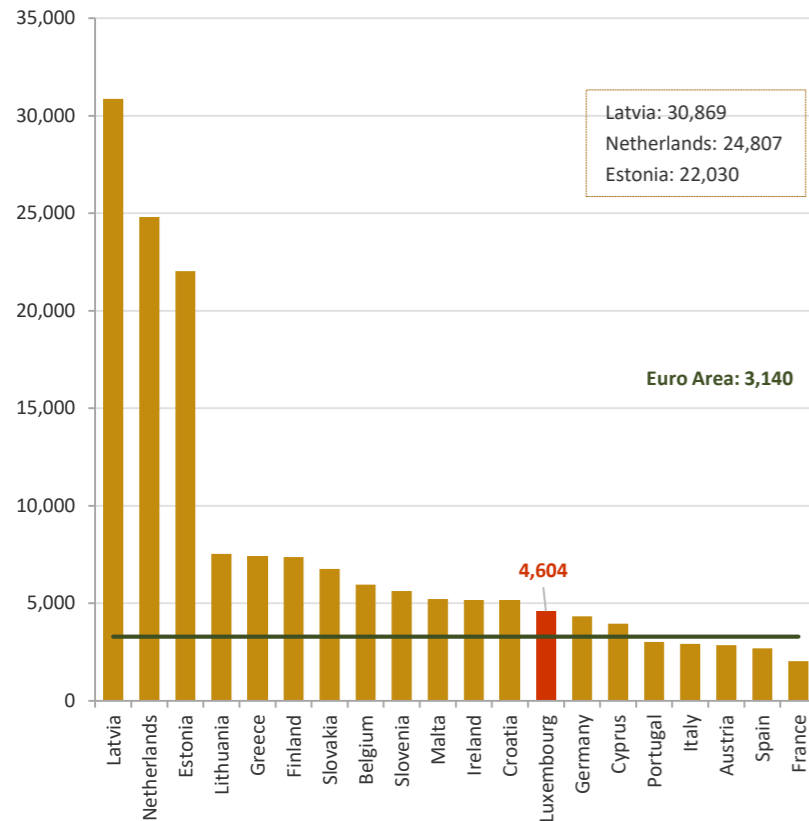


Source: Banco de Portugal (consolidated data), ECB – Consolidated Banking Data (Euro Area) and EBA – Risk Dashboard (cost of credit risk). In December 2023, the EBA sample included 164 European banks, covering more than 80% of the EU/EEA banking sector (sample for Portugal: BCP, CGD, LSF Nani Investments e Santander). The methodology to calculate the cost of credit risk of EBA is different from that of Banco de Portugal. Both can be found in the following reports: Sistema Bancário Português: Desenvolvimentos recentes (Banco de Portugal) and Risk Dashboard (EBA).

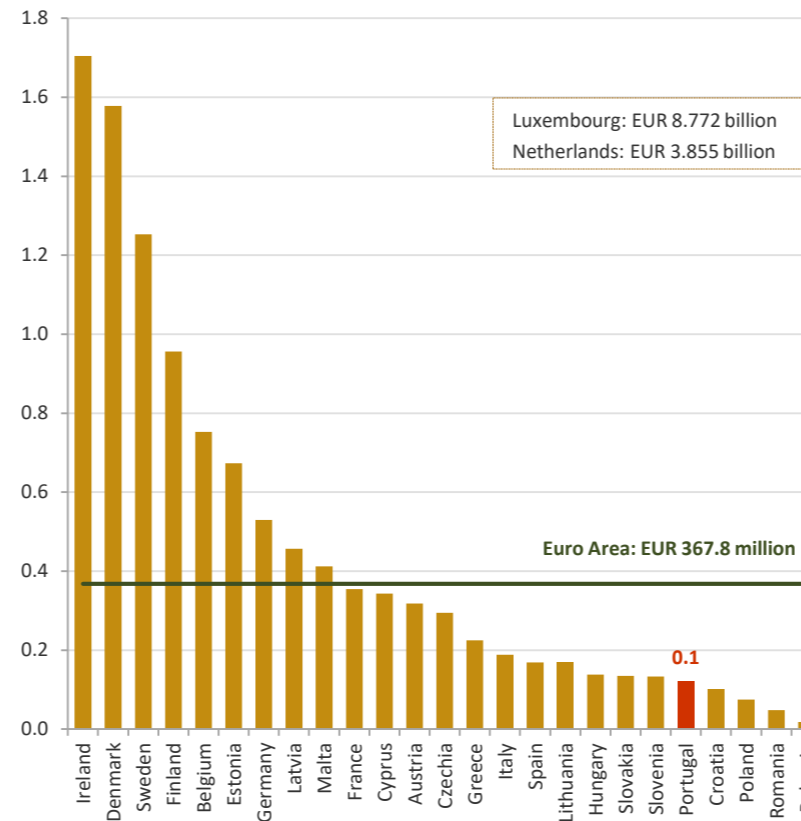
VI. PRODUCTIVITY

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 concerning assets generated per branch and assets generated per employee remains significantly below the European average.

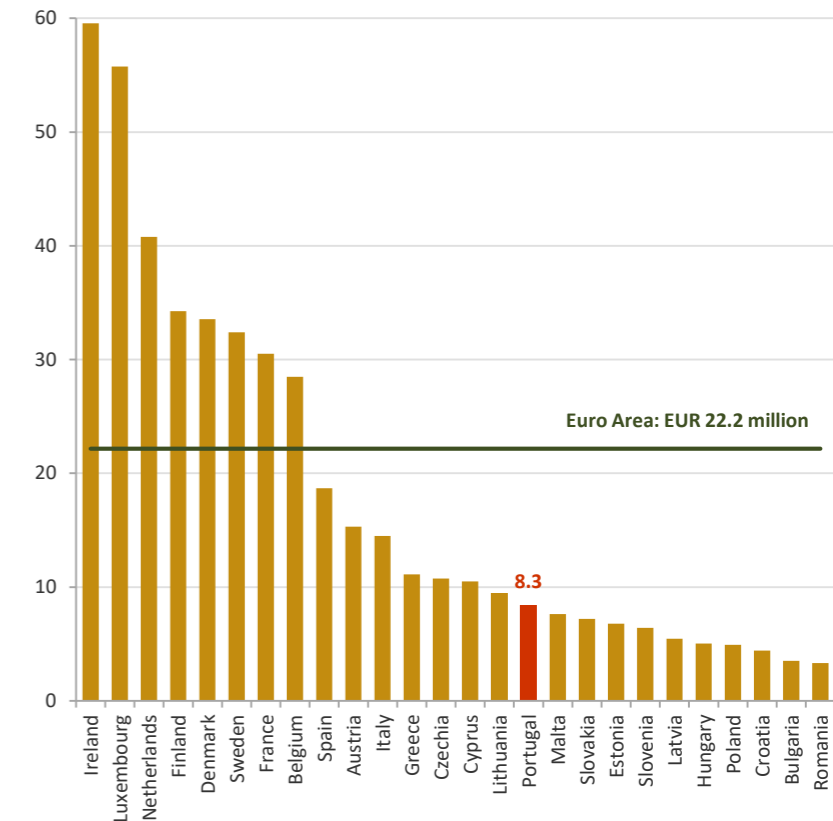
Residents per branch (Dec-23)



Total assets per branch (EUR billion, Dec-23)



Total assets per employee (EUR million, Dec-23)



Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Banking Structural Financial Indicators, INE – Statistics Portugal and Eurostat. 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, the Agosto; Instrução n.º 25/2014, de 15 de dezembro, e Sistema Bancário Português: desenvolvimentos recentes – 4.º trimestre de 2016.
- The document was published with updated information as of 27 June 2024.

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