PORTUGUESE BANKING SECTOR OVERVIEW

DECEMBER 2024

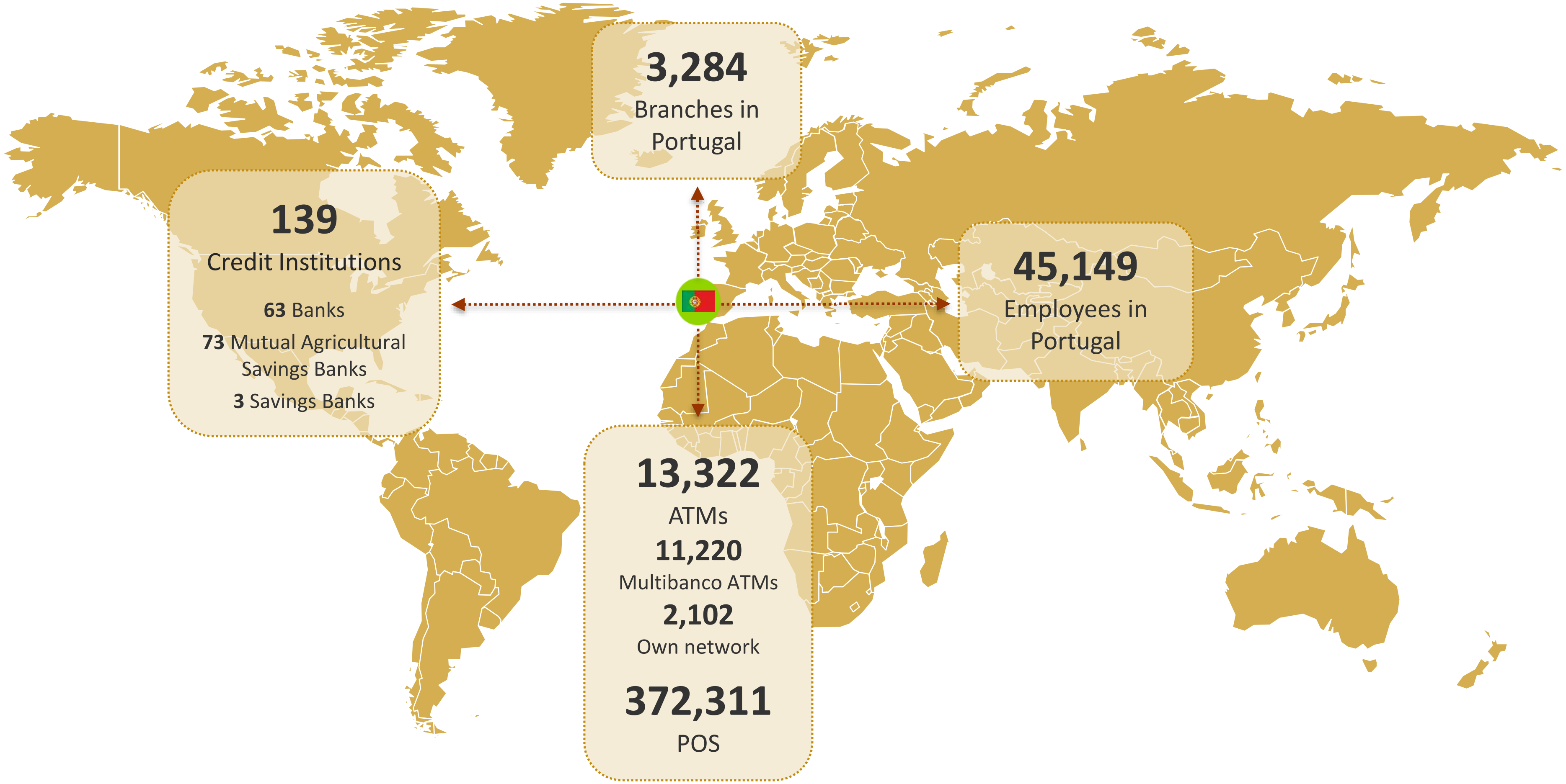
ASSOCIAÇÃO PORTUGUESA DE BANCOS

AUGUST 2025

INDEX

- **In 2024, the Portuguese banking sector once again registered an improvement in profitability**, primarily driven by a reduction in provisions and impairments, which more than offset the increase in operating costs. Net interest income also recorded a modest increase, despite the decline in interest rates.
- **The total assets of the Portuguese banking sector grew by 5.9%**, mainly reflecting the growth of the debt securities portfolio - mostly consisting of government debt securities — and the increase in loans to customers, as well as the reduction in cash and claims on central banks.
- **On the liabilities side, customer deposits rose by 7.4%**, following a 0.4% decline in 2023, thereby increasing their share in the sector's funding structure to 73.9% (+1 pp). **Borrowing from the Eurosystem continued to decrease**, as banks repaid their TLTRO III operations, reaching an almost negligible level by the end of 2024.
- **The recourse to market funding sources remained limited in the Portuguese banking sector's funding structure. Solvency indicators further strengthened in 2024**, reaching historically high levels and widening the differential relative to the Euro Area average. Total capital and Common Equity Tier 1 (CET1) ratios stood at 20.5% and 18.0%, respectively. The leverage ratio increased to 7.3%, remaining significantly above both the European Union average and the regulatory minimum benchmark of 3%.
- **The accumulation of profits in recent years has substantially reinforced banks' internal capital generation capacity, enabling them to establish robust capital buffers and support the sector's resilience in the face of potential adverse shocks. Nonetheless, sustaining profitability above the cost of capital remains essential to safeguarding financial soundness, attracting investment, and ensuring the effective financing of the economy.**
- **The banking sector continues to confront increasingly complex challenges of an economic, climate-related, regulatory, and competitive nature**, requiring comprehensive strategic response. Notable among these challenges are **the ongoing digital transformation of financial services, the transition towards a more sustainable economy, the incorporation of these considerations into risk management practices, and the reinforcement of operational resilience in the face of increasingly sophisticated cyberattacks and payment system fraud.**

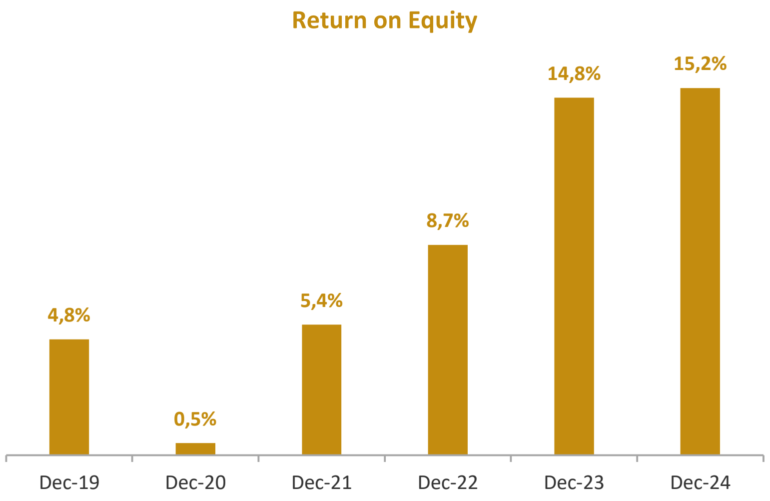
I. RECENT EVOLUTION AND MAIN INDICATORS

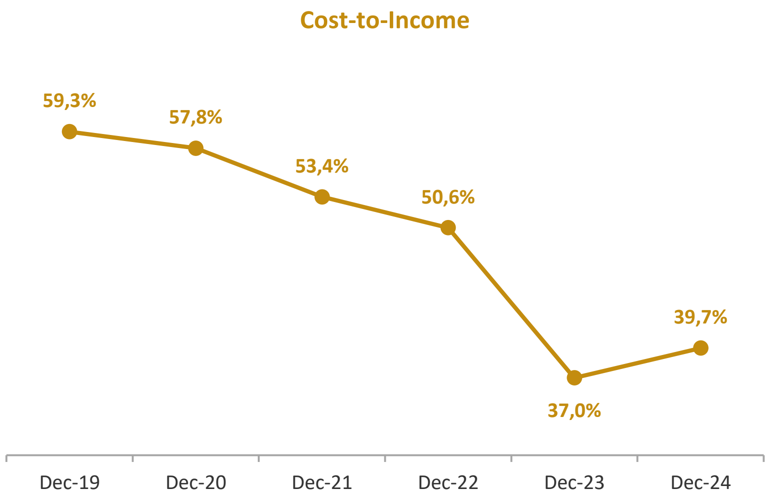


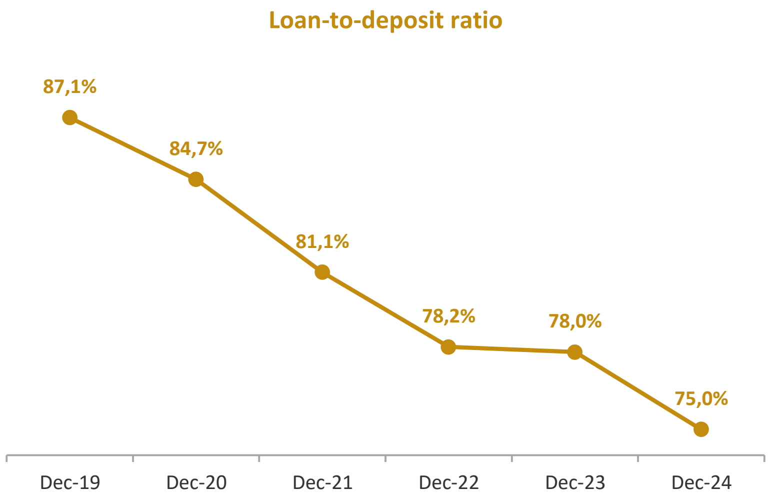
Source: APB's Associates (branches, employees and payment systems) and Banco de Portugal (credit institutions).

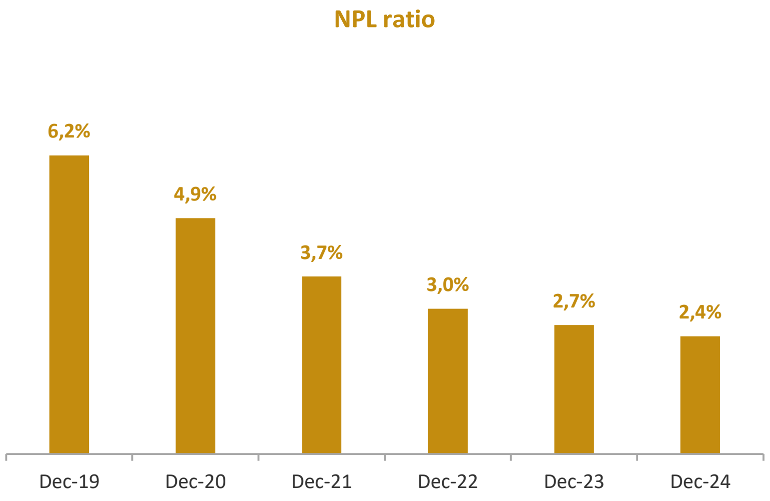
I. RECENT EVOLUTION AND MAIN INDICATORS

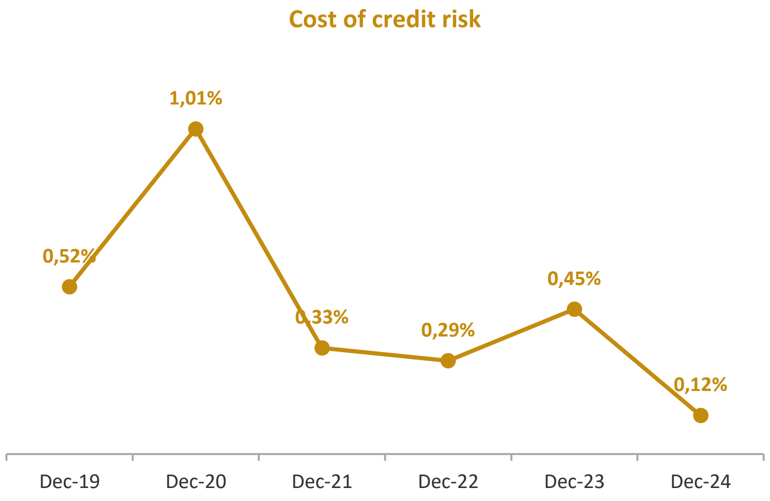
Over the years, the Portuguese banking sector has undergone a profound process of transformation, significantly improving profitability and reaching historically high levels of solvency, while maintaining robust liquidity. In this way, the sector has strengthened its resilience and capacity, responding effectively to the financing needs of the economy.

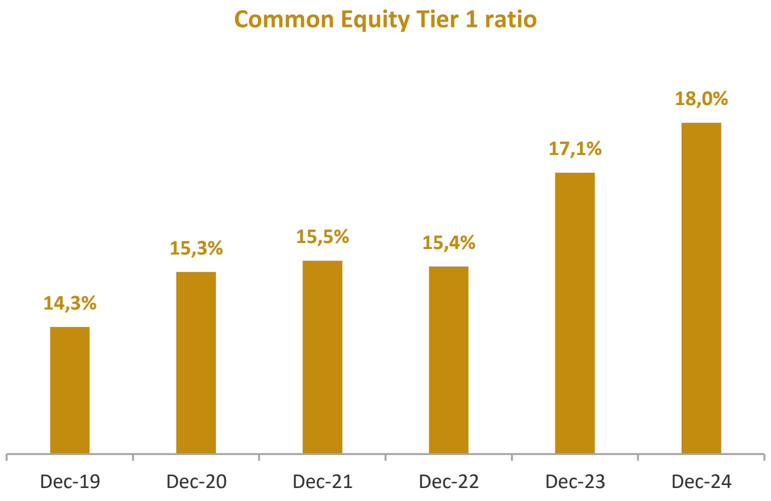










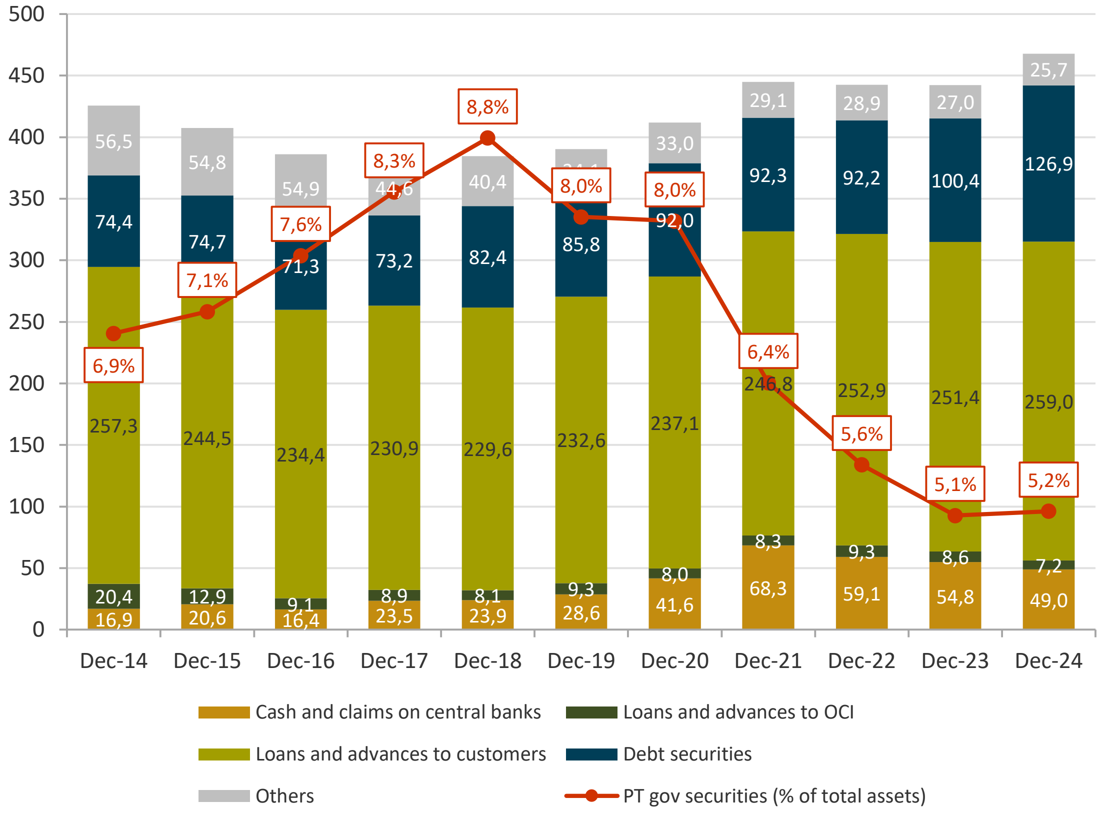


Source: Banco de Portugal (consolidated data). Return on Equity is calculated based on net income after tax and before minority interest and average equity.

II. FINANCIAL POSITION

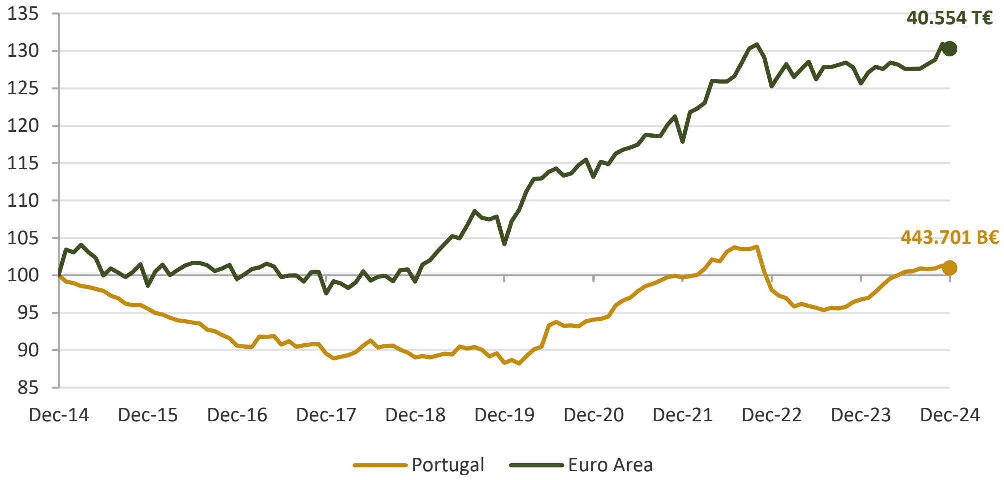
In 2024, the total assets of the Portuguese banking sector recorded an annual increase of 5.9%, mainly driven by the expansion of the debt securities portfolio (+26.5%, or +€26.6 billion) – largely composed of government bonds, whose share in total assets rose to 19% – and by the growth in loans to customers (+3.1%, or +€7.8 billion). These increases were partially offset by the decline in cash and claims on central banks, which fell by 11.5% (-€5.9 billion).

Total assets breakdown (EUR billion)

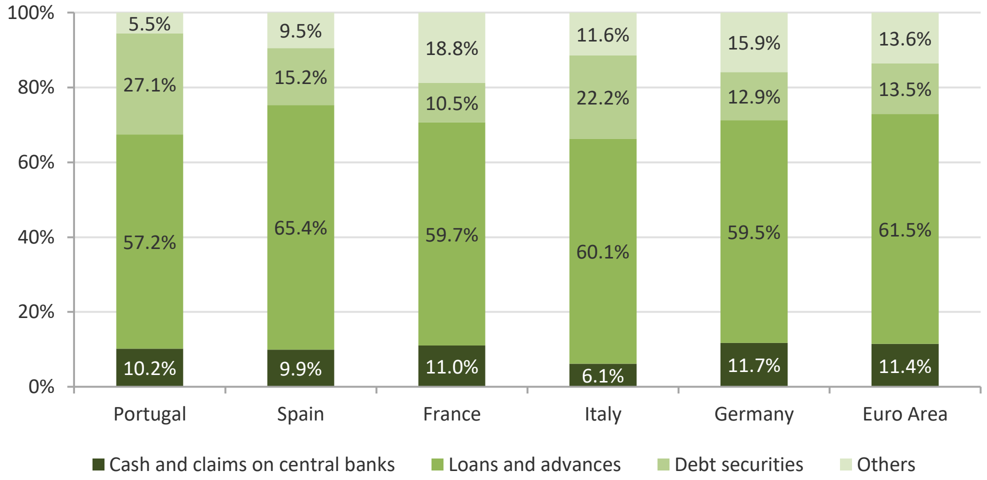


Source: Banco de Portugal (consolidated data) and ECB – MFI Balance Sheet Items (Monetary and Financial Statistics).

Total assets evolution - domestic activity (Dec-14 = 100)



Total assets breakdown: Portugal vs. Euro Area (Dec-24)

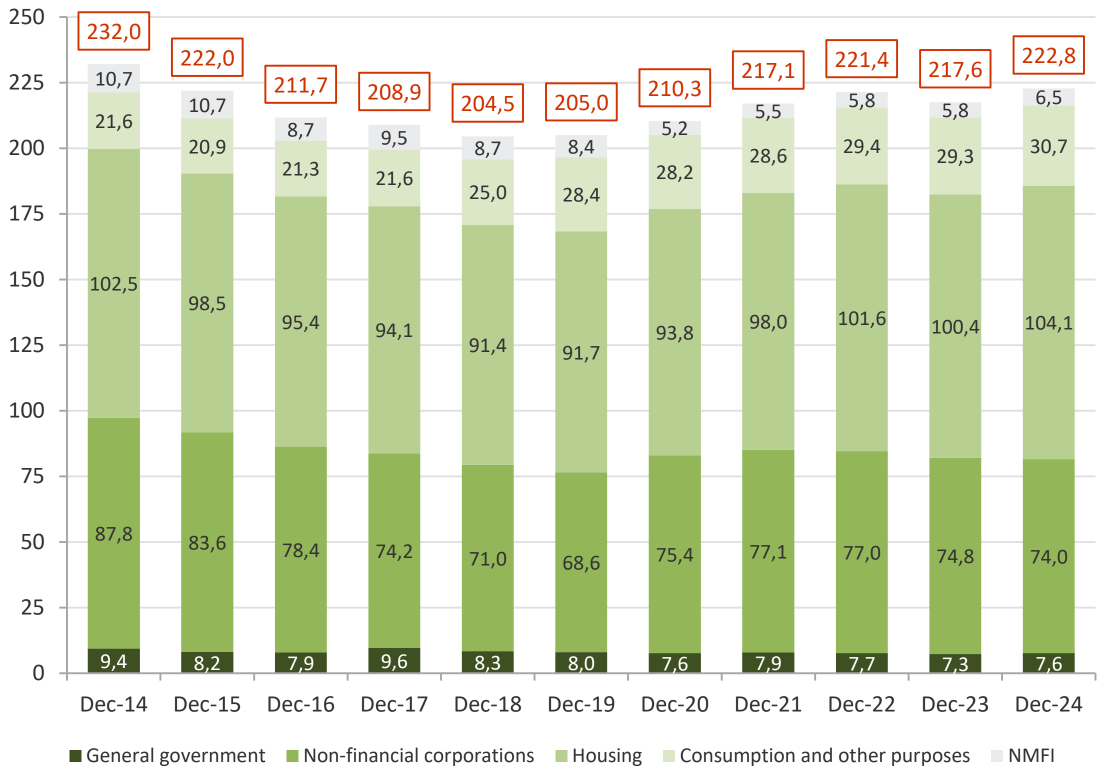


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Consolidated Banking Data and Eurostat.

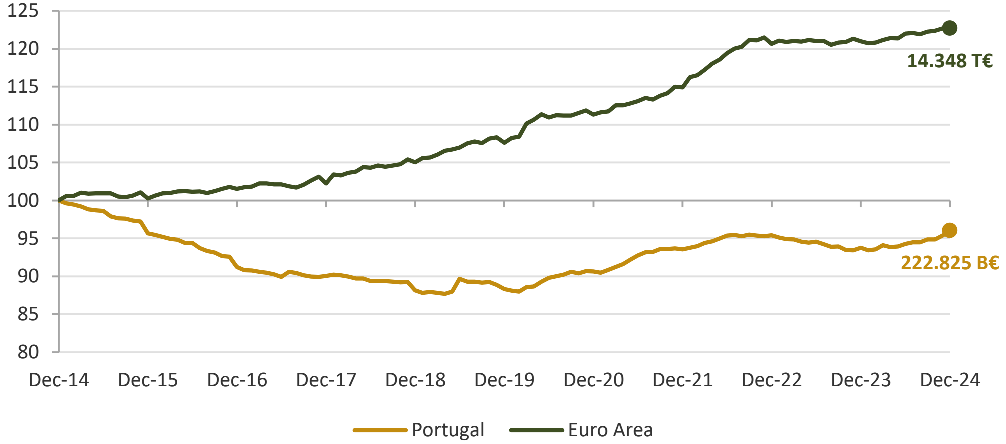
II. LENDING

In December 2024, the stock of loans to customers in domestic activity rose by €5.2 billion, driven mainly by the growth in loans to households (+4.2%), while the increase in loans to non-financial corporations was more moderate (+0.5%). Within the household segment, the expansion was supported by housing and consumer loans.

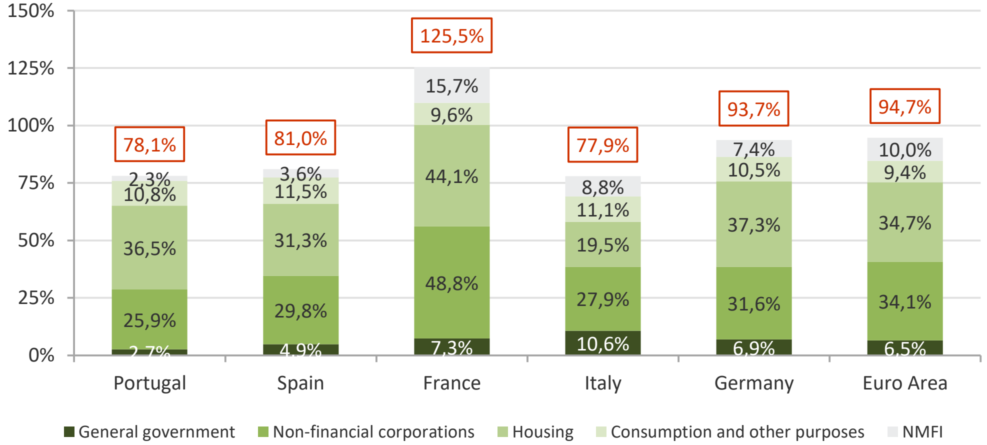
Loans to customers by institutional sector - domestic activity (EUR billion)



Loans to customers evolution - domestic activity (Dec-14 = 100)



Loans to customers by institutional sector as a % of GDP - domestic activity (Dec-24)

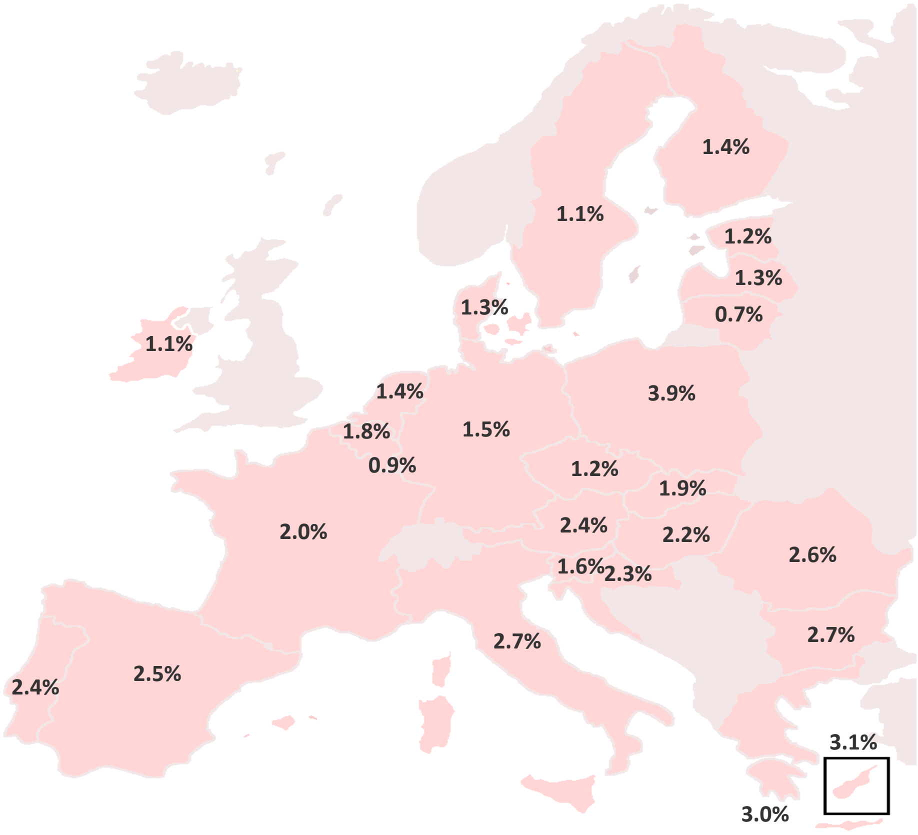


Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Eurostat. Loans and advances to customers in the domestic activity (gross figures); counterpart: residents in the Euro Area. NMFI = Non-Monetary Financial Institutions, which include Other Financial Intermediaries, Financial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

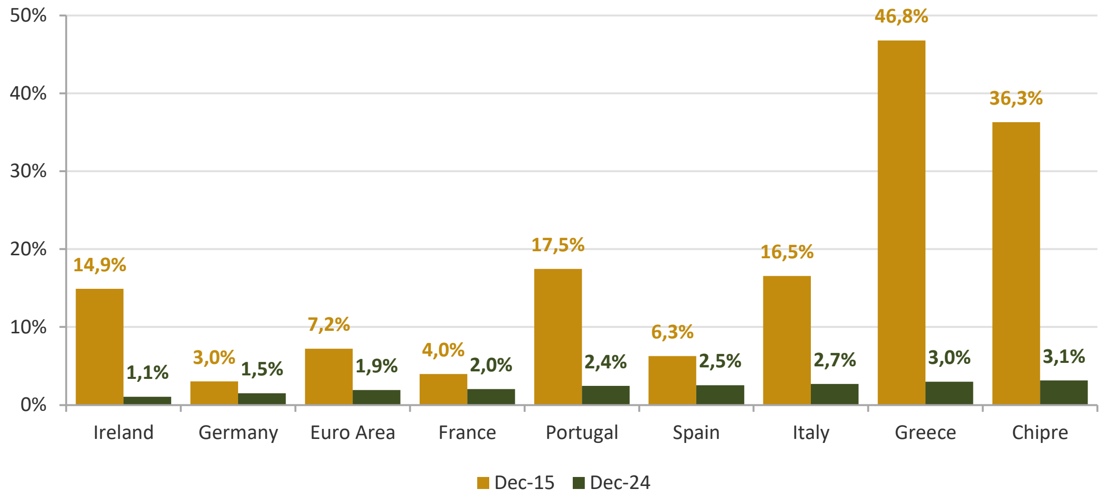
The NPL ratio declined slightly to 2.4% in December 2024 (-0.2 pp year-on-year), continuing to converge towards the Euro Area average, which remained at 1.9%. This development reflects the reduction in the stock of NPLs that were either not past due or more than 90 days past due.

The NPL impairment coverage ratio stabilised at 55.4%, having increased in the non-financial corporations segment and decreased in the household segment, with a reduction in housing and an increase in consumer and other loans.

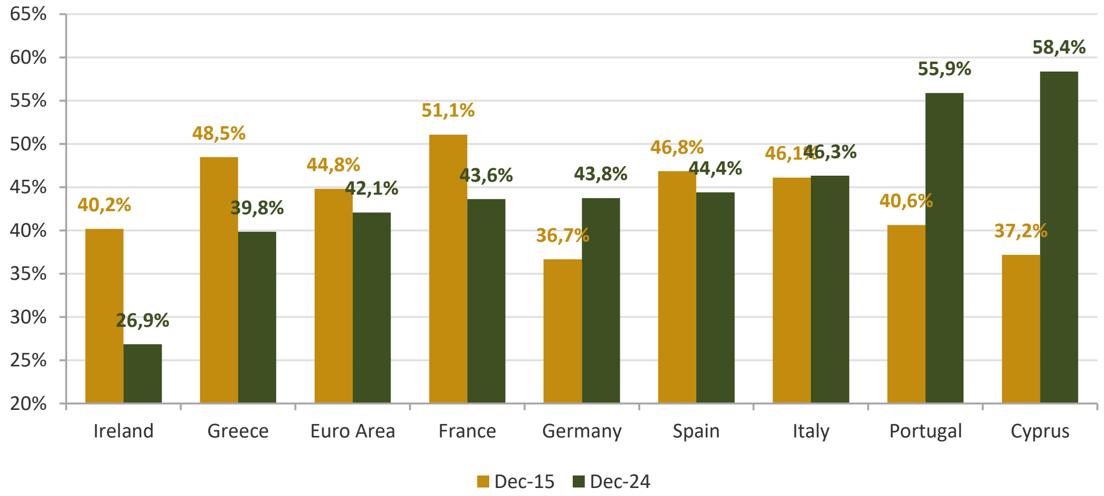
NPL ratio



NPL ratio evolution



Impairment coverage ratio



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

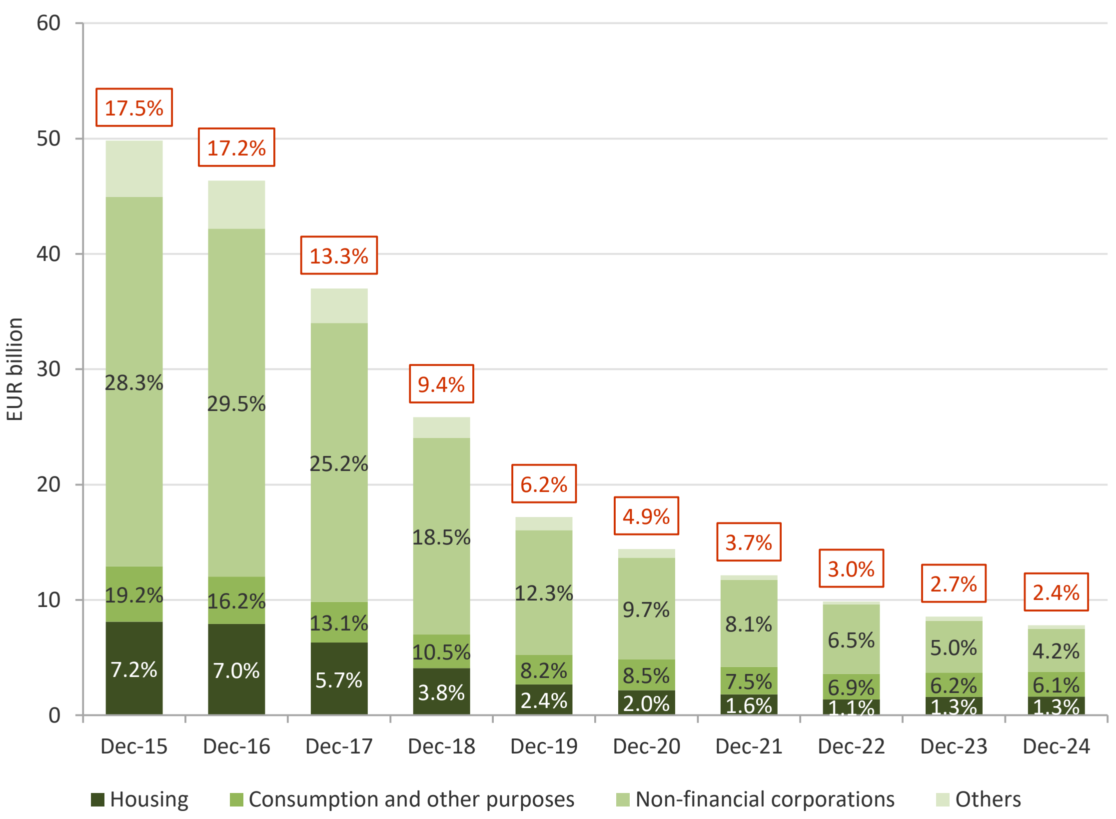
II. LENDING

In the non-financial corporations segments, the NPL ratio declined to 4.2% (-0.8 pp), benefiting from write-offs and NPL sales, with the reduction being broad-based across the industries with the largest share in banks' credit portfolios. In the housing loans, the ratio remained stable at 1.3%, while in consumer and other loans it decreased slightly, to 6.1%.

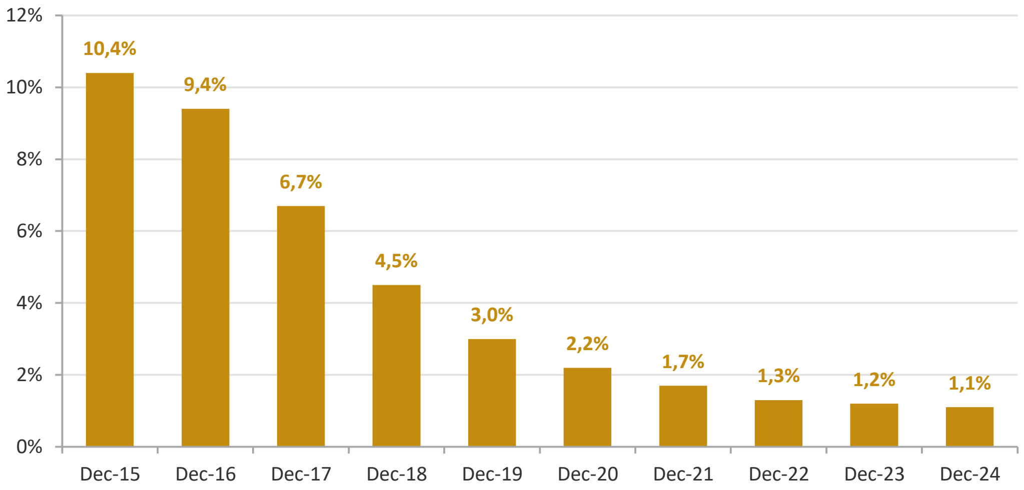
The NPL ratio net of impairments fell marginally to 1.1%, a level close to the Euro Area median (1.0%).

The share of loans in Stage 2 decreased by 0.9 pp, to 9.8%, supported by the favorable macroeconomic environment and the decline in interest rates.

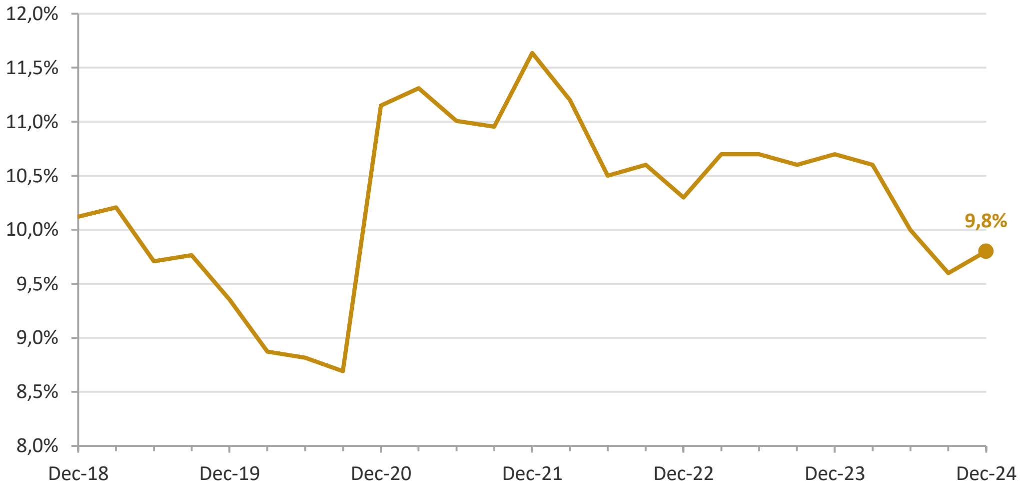
NPL amount and ratio in Portugal



NPL ratio net of impairments in Portugal



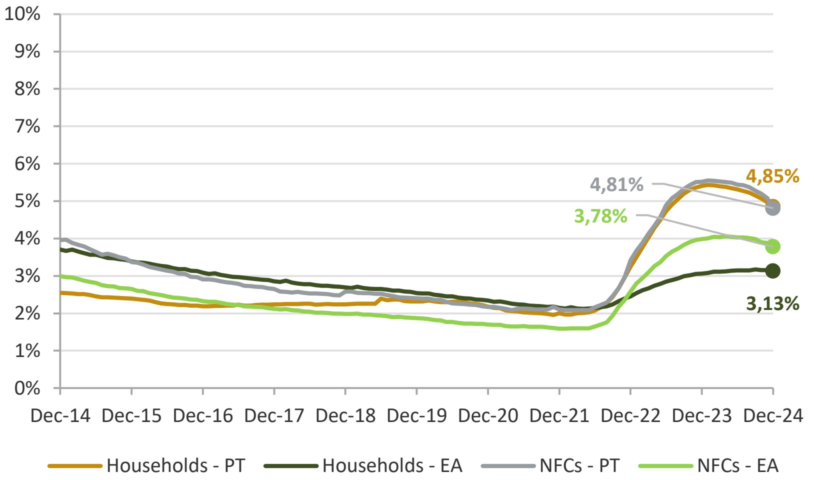
Stage 2 loans ratio in Portugal



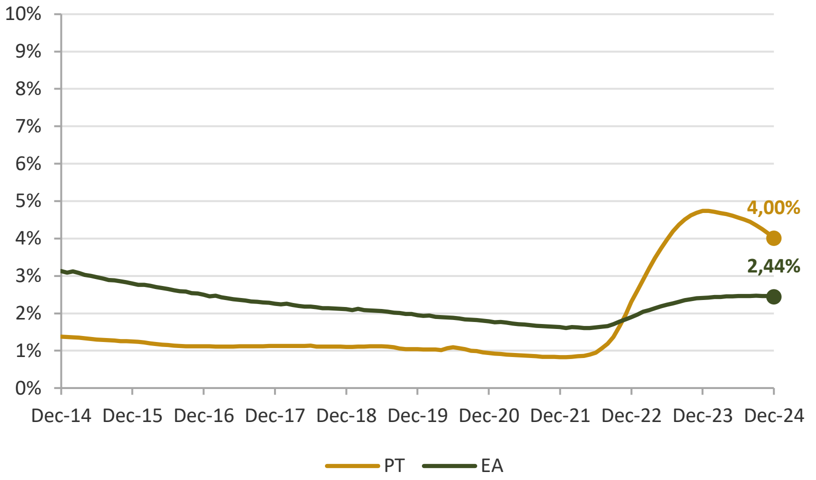
Source: Banco de Portugal (consolidated data).

In December 2024, the interest rate on new housing loans declined by around 1 pp year-on-year, to 3.21%, standing slightly below the Euro Area average (3.35%). Meanwhile, the average interest rate on new loans to NFCs decreased to 4.30% (-1.36 pp), approaching the Euro Area average (4.24%). This development mainly reflects the decline in Euribor rates and a slight reduction in spreads.

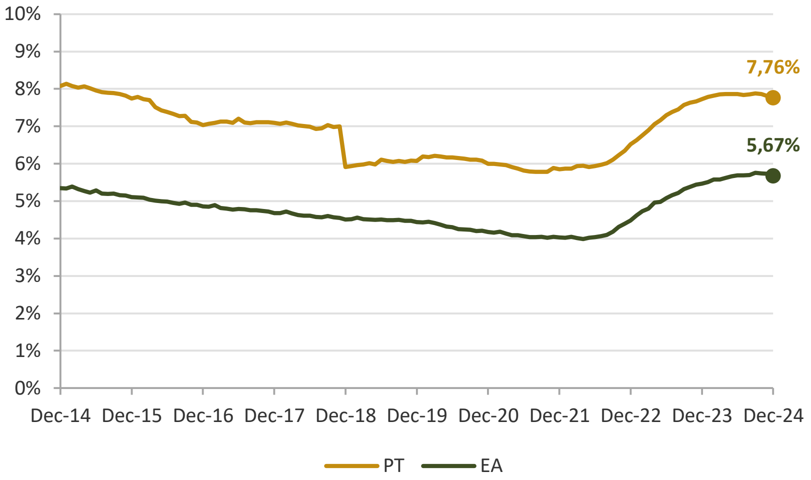
Total - Stock



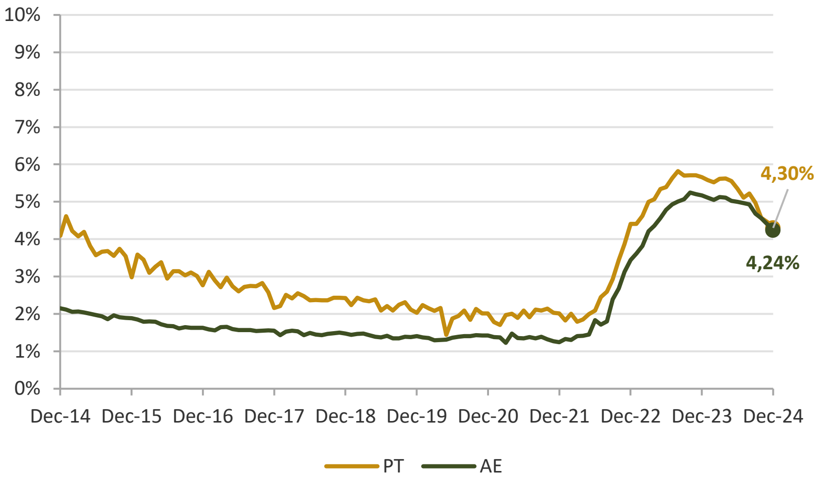
Housing - Stock



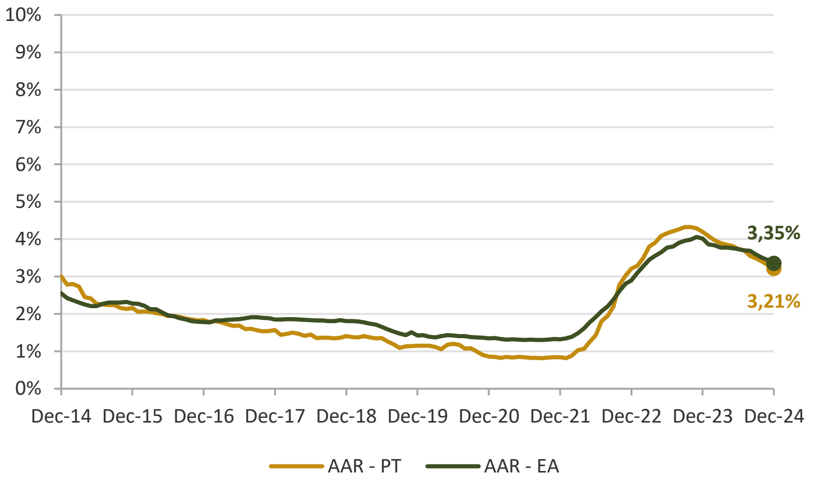
Consumption and other purposes - Stock



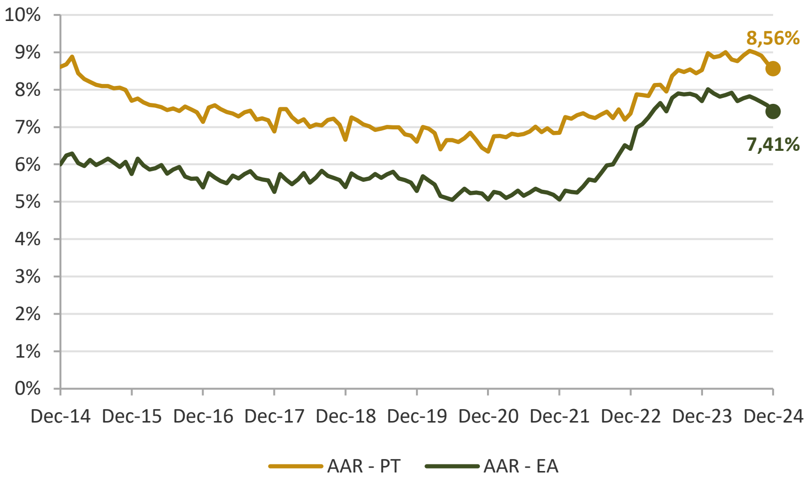
New business - NFCs



New business - Housing



New business - Consumption

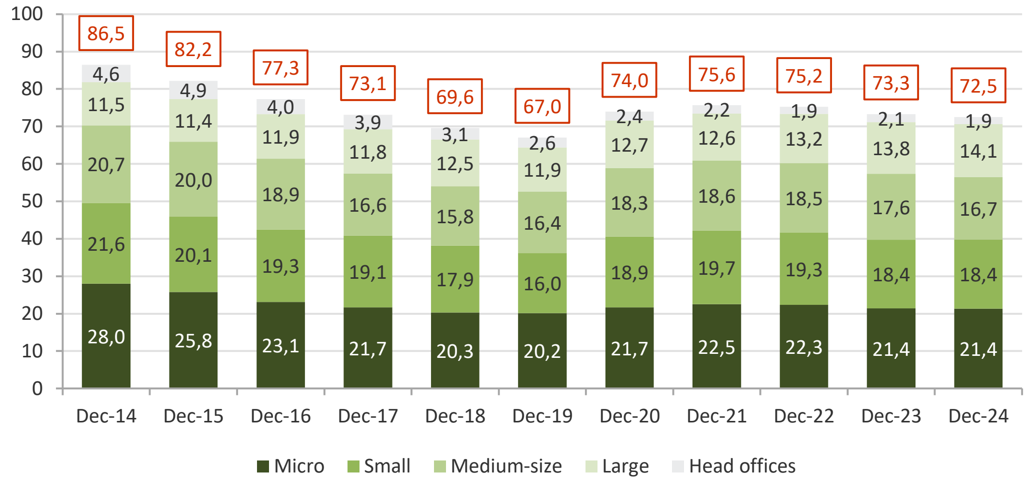


Source: ECB – MFI Interest Rate Statistics.

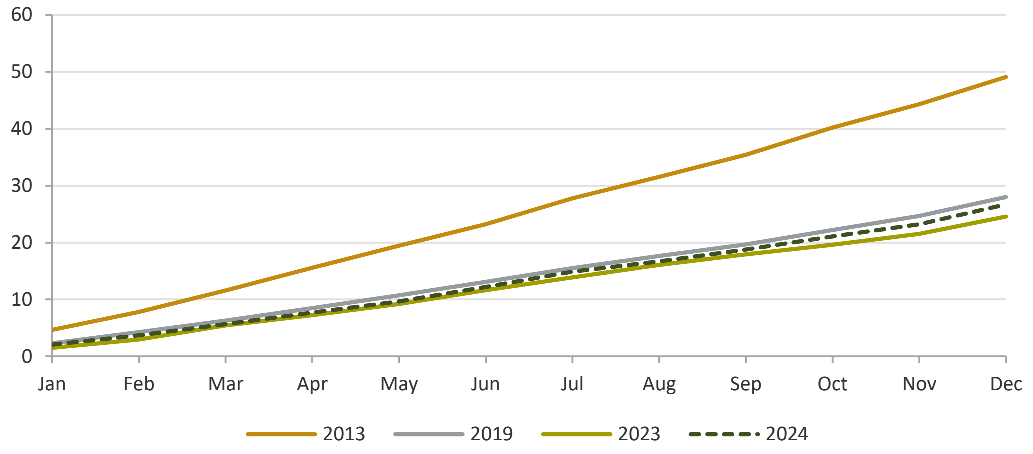
II. LENDING | NON-FINANCIAL CORPORATIONS

The annual rate of change of the stock of loans to NFCs returned to positive territory in 2024 (+0.5%). By firm size, loans to small and medium-sized enterprises continued to decline, albeit at a slower pace, loans to microenterprises accelerated (+7.2%), and loans to large corporations recorded a slight recovery (+0.3%). By sector of activity, notable positive developments were observed in real estate activities (+7.0%), professional and administrative activities (+5.7%), and construction (+3.3%), while negative trends were recorded in transportation and storage (-6.7%), manufacturing (-4.4%), and trade (-1.0%). The hotels and similar accommodation sector reversed a long period of negative performance and grew by 0.9%.

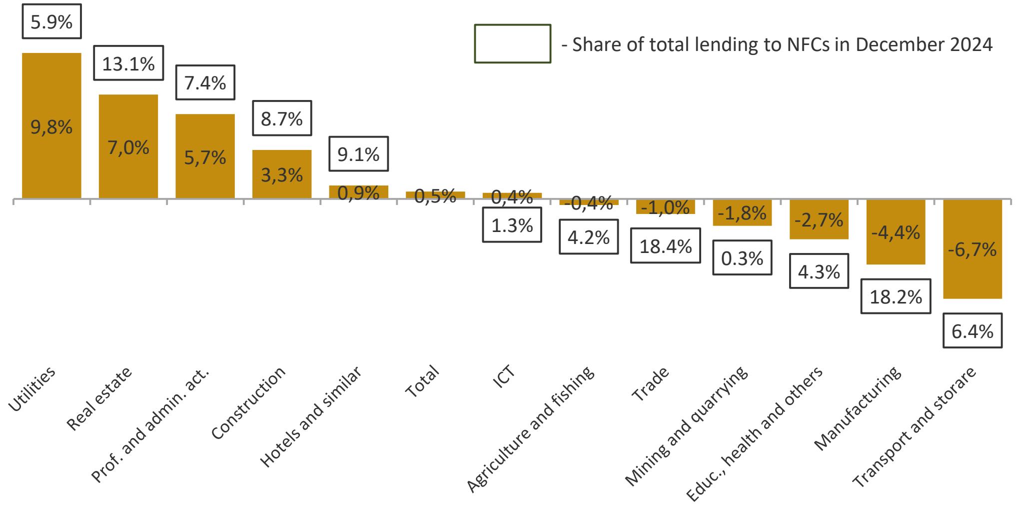
Stock of loans to NFCs, by firm size (EUR billion)



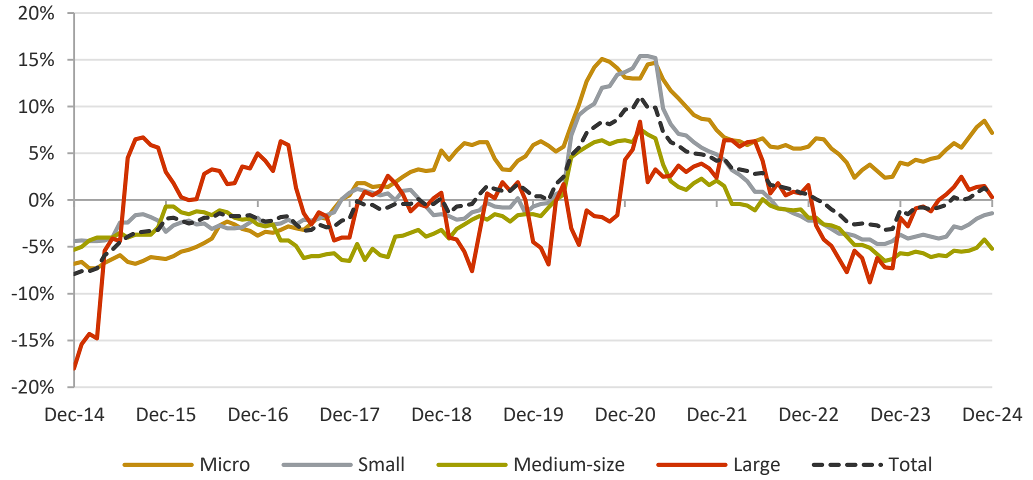
New business lending to NFCs (cumulated amounts, EUR billion)



ARC of loans to NFCs, by economic sector (Dec-24)



ARC of loans to NFCs, by firm size

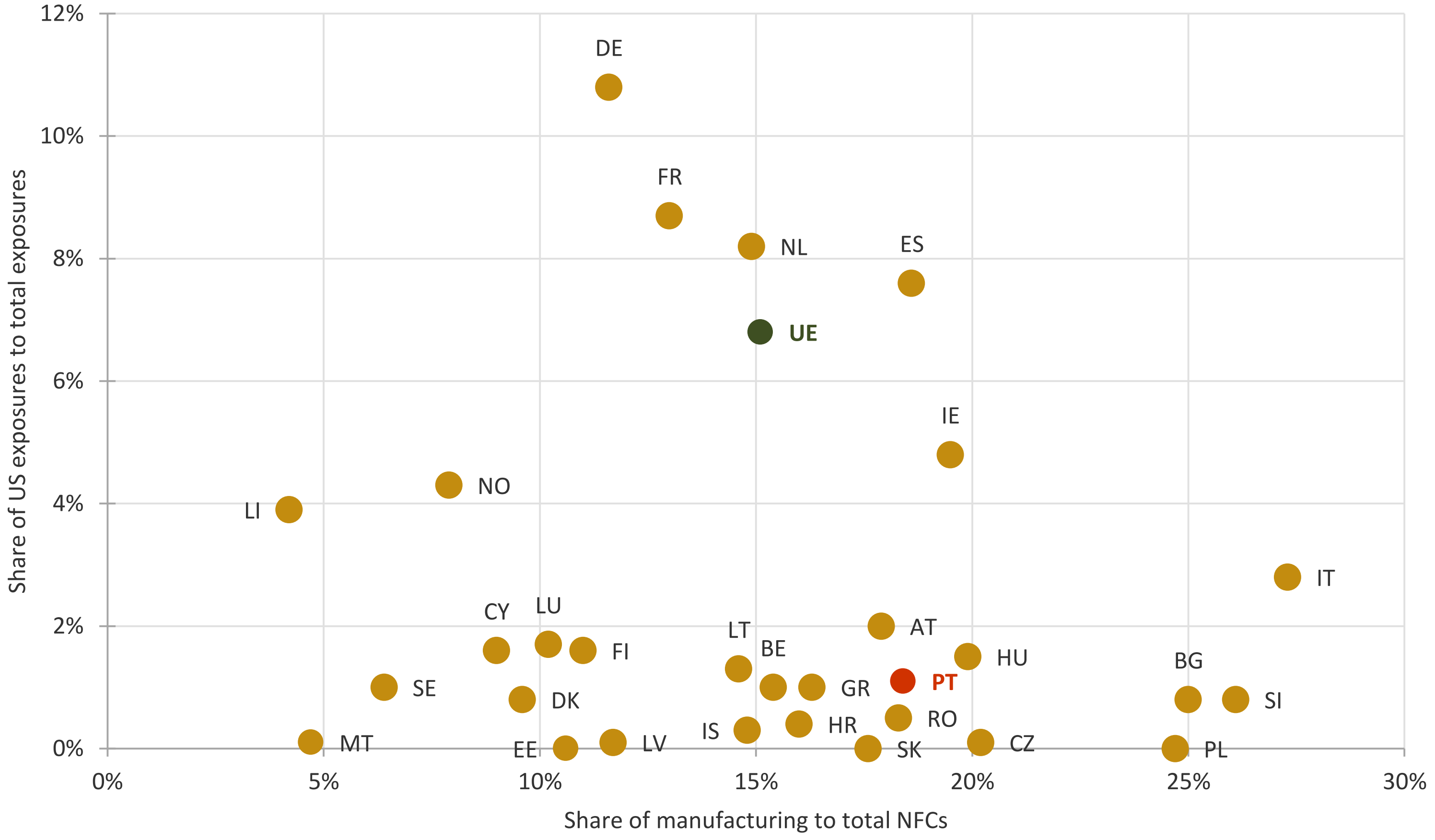


Source: Banco de Portugal (Monetary and Financial Statistics). Loans to NFCs in the domestic activity; counterpart: residents in Portugal. ARC = Annual rate of change. New business loans include both pure new loans and renegotiations without default. Pure new loans include new credits, credit consolidations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

The imposition of tariffs on European Union exports could have a significant adverse impact on the Portuguese economy. However, the impact is expected to remain limited at the sector level, mainly affecting the more export-oriented sectors, such as manufacturing and, to a lesser extent, trade. Nevertheless, within the manufacturing sector, the concentration of sales in the US market is limited, and corporate balance sheets have continued to show a robust financial position.

- European banks' exposures total around EUR 1 trillion.
    - Approximately 35% of these loans are directed to sectors corresponding to the largest export categories to the United States.
- The EU banking sector's exposures to US counterparties, including sovereign debt, accounted for 6.8% of total exposures.
- In December 2024, according to the EBA sample, 18.4% of Portuguese banks' loans to non-financial corporations were allocated to the manufacturing sector, while exposures to U.S. counterparties represented 1.1% of total exposures.

Banking sector's exposure to the US and to the manufacturing sector, by country (Dec-24)



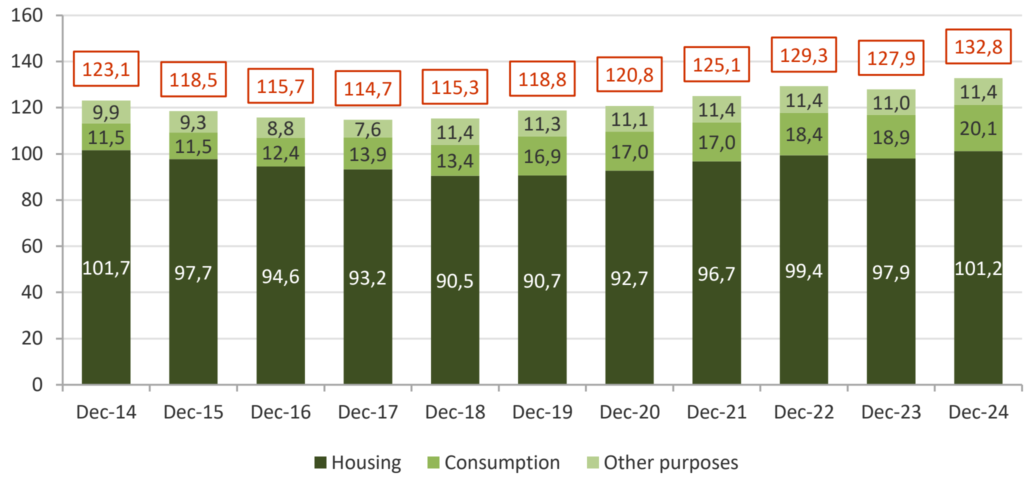
- In 2023, Portuguese exports to the United States accounted for 2.7% of sales in the manufacturing sector and 0.4% of sales in the trade sector.
- Only 22% of manufacturing firms exporting to the United States derived more than 10% of their sales from that market.
- Manufacturing companies, as well as those more exposed to the US market, displayed higher profitability and financial autonomy indicators compared with other firms.

Source: Banco de Portugal and EBA (chart). The EBA sample represented in the chart includes 129 European banks at the highest level of consolidation, among which are four Portuguese banks: BCP, CGD, LSF Nani Investments and Santander Totta.

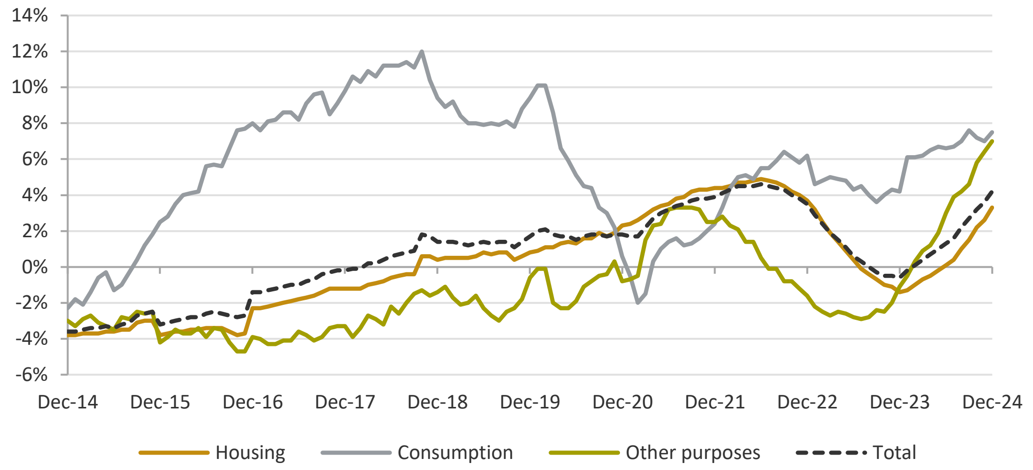
II. LENDING | HOUSEHOLDS

In 2024, the annual rate of change of the stock of loans to households stood at 4.2% (-0.6% in 2023) that was mainly driven by the acceleration in loans for house purchase (+3.5%), which accounted for 77.1% of the stock of household lending, while consumer loans grew 7.5%. Credit transfers between institutions, which had been rising since October 2022, began to decline from March 2024 onwards and represented 21.2% of the annual flow of new mortgage loans in 2024 (26.1% in 2023). Excluding these operations, the annual flow of pure new loans for house purchase increased by 34.3%, totaling €17.6 billion. Meanwhile, early repayments fell by 19.6% YoY, but remained high (8.9% of the stock of housing loans).

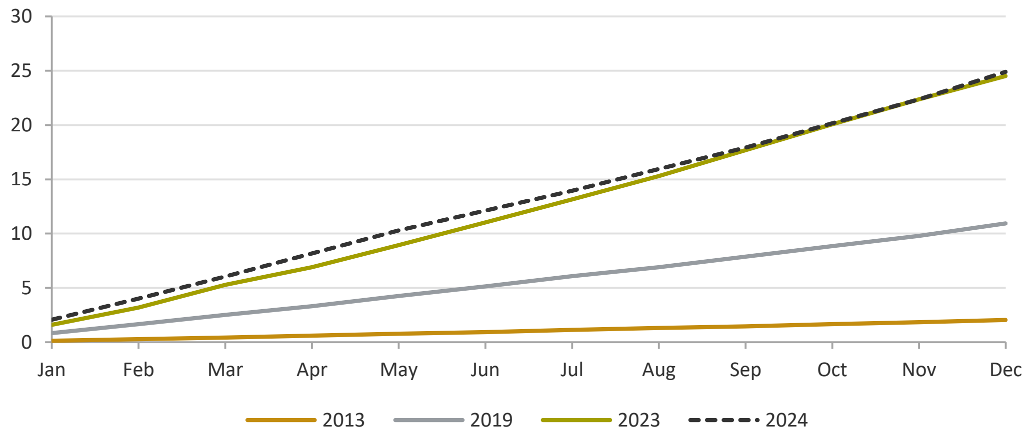
Stock of loans to Households (EUR billion)



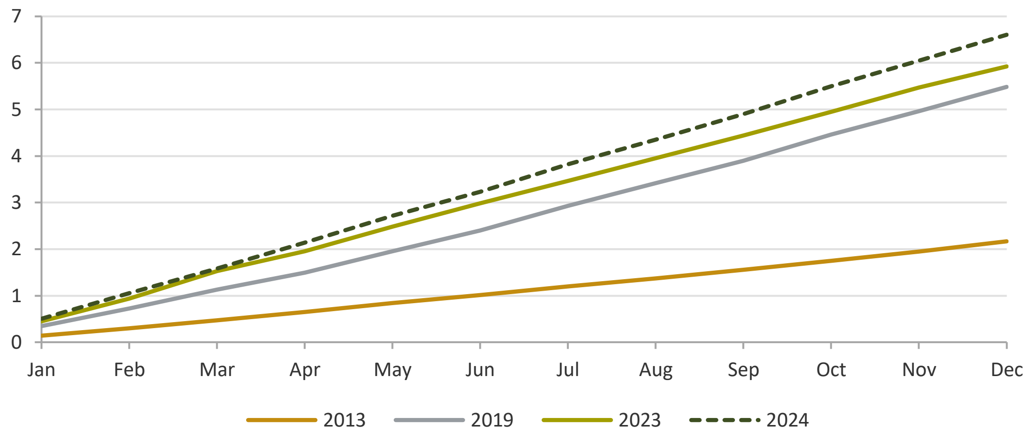
ARC of loans to Households



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



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

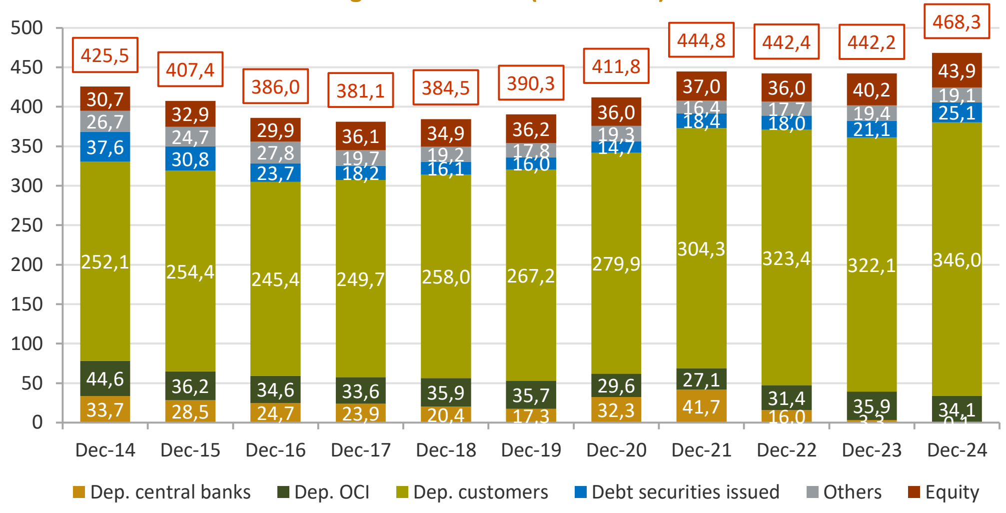


Source: Banco de Portugal (Monetary and Financial Statistics). Loans to Households in the domestic activity; counterpart: residents in Portugal. ARC = Annual rate of change. New business loans include both pure new loans and renegotiations without default. Pure new loans include new credits, credit consolidations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

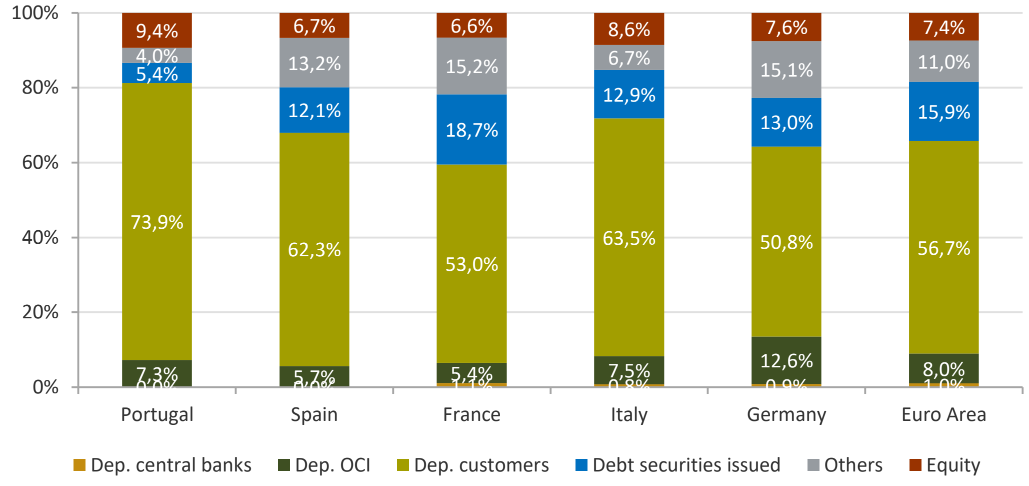
III. ORIGIN OF THE FUNDS AND LIQUIDITY

In 2024, customer deposits rose 7.4%, after having declined by 0.4% in 2023, and their share in the sector's funding structure reached 73.9% (+1 pp). This growth was driven by the increase in term deposits, particularly in the household segment, in a context of rising average remuneration offered on these products.

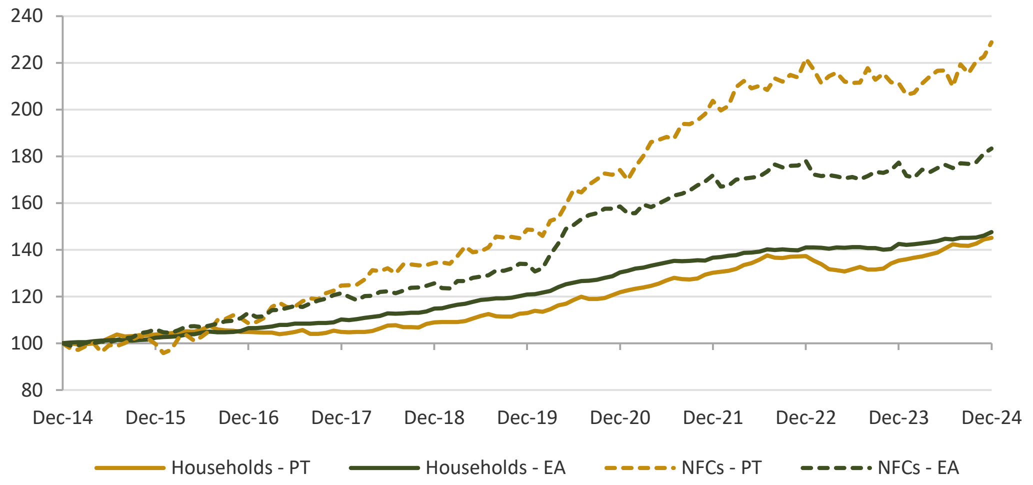
Origin of the funds (EUR billion)



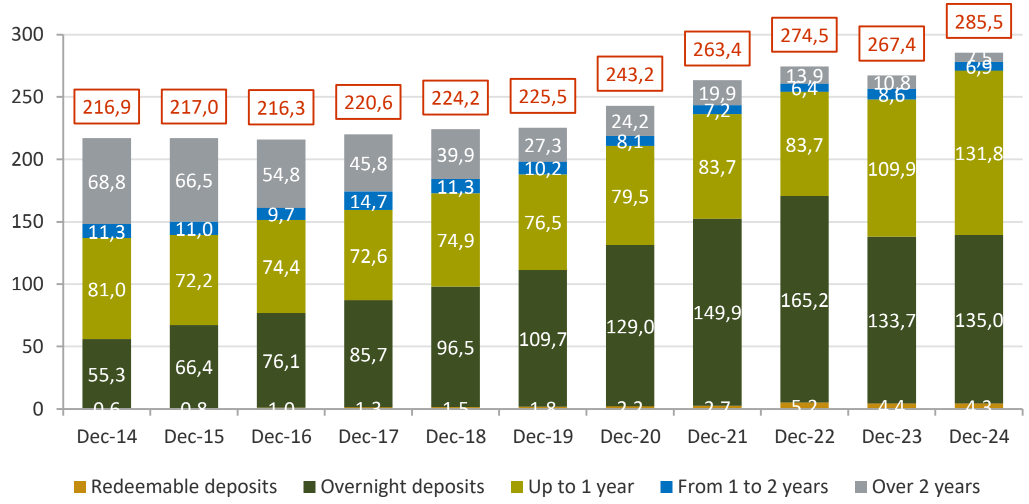
Origin of the funds: Portugal vs. Euro Area (Dec-24)



Evolution of deposits - domestic activity (Dec-14 = 100)



Evolution of deposits - domestic activity (EUR billion)

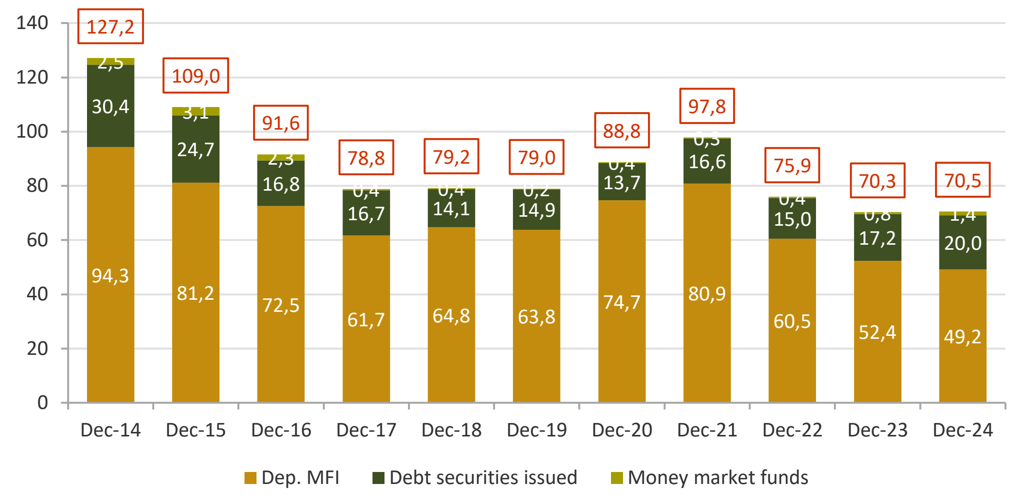


Source: Banco de Portugal (consolidated data and Monetary and Financial Statistics) and ECB – Consolidated Banking Data (consolidated data reported in FINREP format) and MFI Balance Sheet Items (Monetary and Financial Statistics). OCI = Other Credit Institutions.

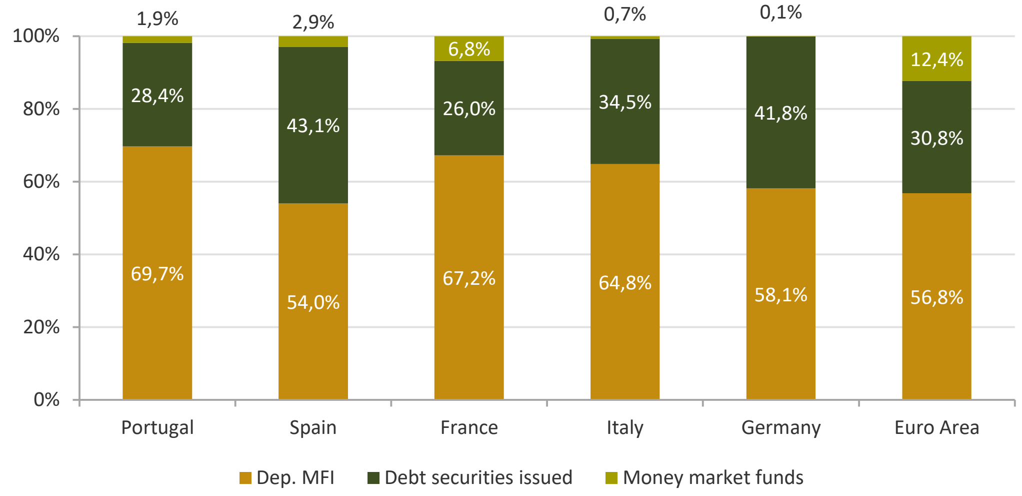
III. ORIGIN OF THE FUNDS AND LIQUIDITY

Recourse to market funding sources remained limited within the banking sector's funding structure. Since early 2022, borrowing from the Eurosystem funding has been declining as banks repaid TLTRO III operations, reaching a practically negligible level by the end of 2024. The encumbered assets ratio fell to historically low levels.

Origin of wholesale funds (EUR billion)

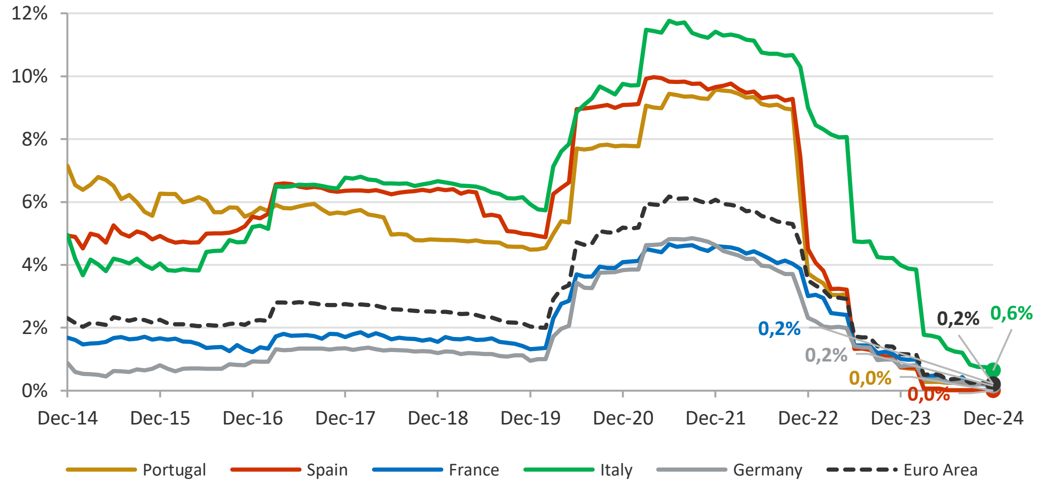


Origin of wholesale funds: Portugal vs. Euro Area (Dec-24)



Borrowing from the ECB (EUR billion)

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



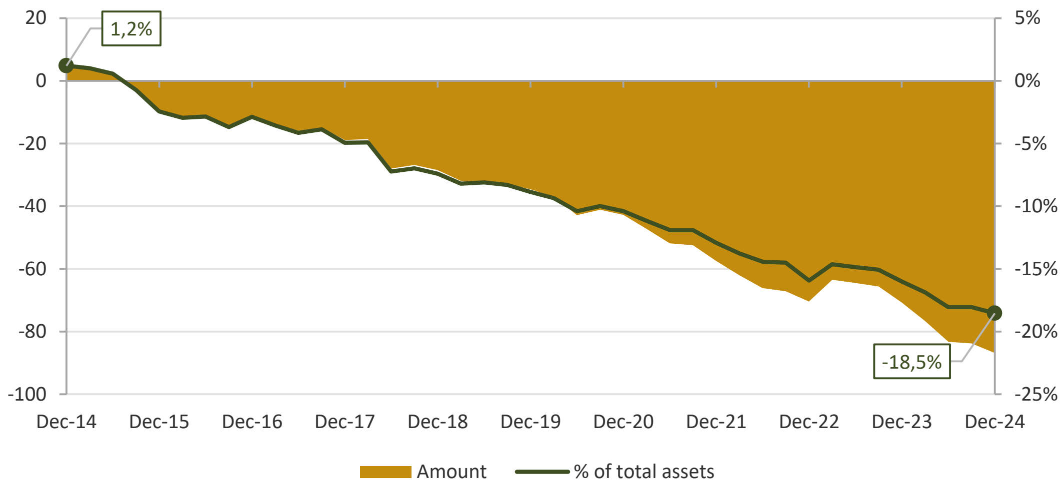
Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics). Origin of wholesale funds from domestic activity. Monetary and Financial Institutions (MFI) include Central Banks and Other Monetary and Financial Institutions (OMFI).

III. ORIGIN OF THE FUNDS AND LIQUIDITY

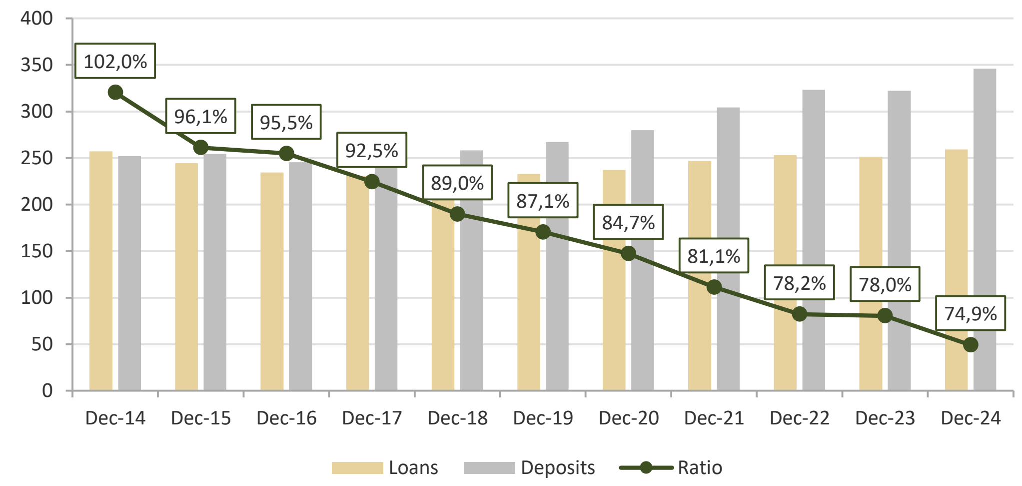
In 2024, the Portuguese banking system maintained high levels of liquidity. The loan-to-deposit ratio declined further, to 74.9%, reflecting the increase in customer deposits, which outpaced loan growth. The liquidity coverage ratio rose again, to 271.9%, supported by the increase in high-quality liquid assets, within the context of a reallocation that favored exposures to general government over exposures to central banks.

The issuance of instruments eligible for compliance with MREL exceeded €4 billion.

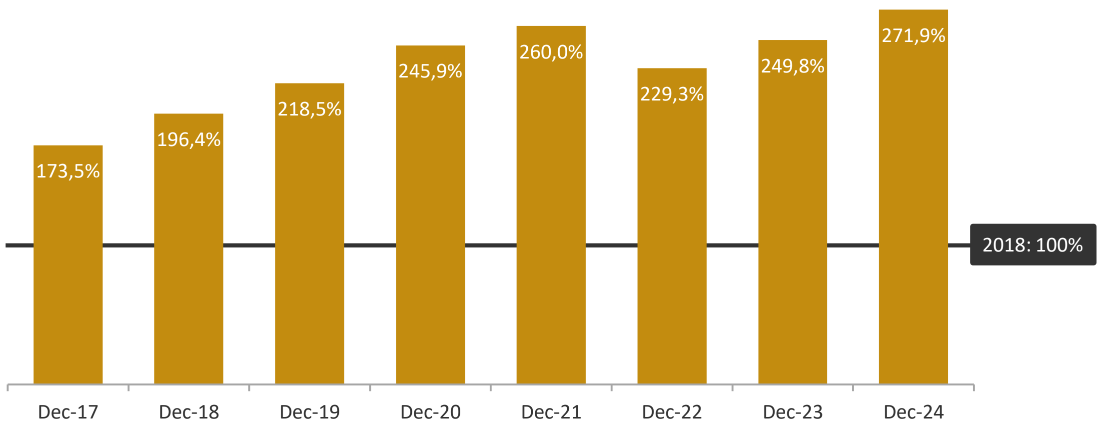
Funding gap (EUR billion and % of total assets)



Loan-to-deposit ratio (EUR billion)



Liquidity Coverage Ratio



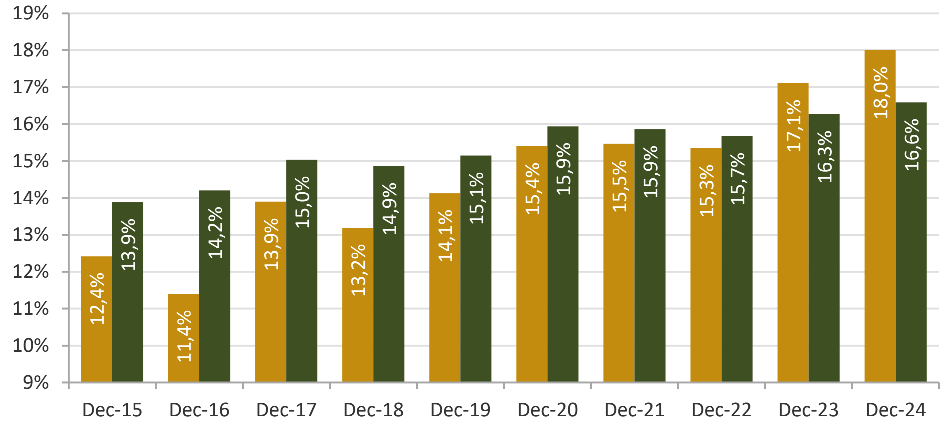
Cash and claims on central banks (% of total assets)

Source: Banco de Portugal (consolidated data).

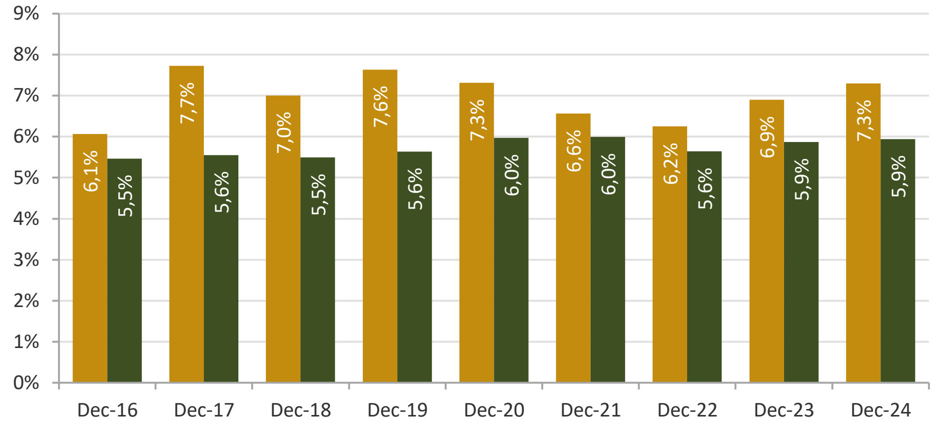
The solvency of the Portuguese banking sector strengthened further in 2024, reaching historically high levels and widening its differential relative to the Euro Area average. The total capital ratio and the Common Equity Tier 1 (CET1) ratio stood at 20.5% and 18.0%, respectively (vs. 20.1% and 16.8% for the Euro Area average), supported by the increase in CET1 capital, which was only partially offset by the growth in risk-weighted assets. The leverage ratio rose to 7.3%, remaining significantly above both the EU average and the regulatory minimum benchmark (3%).

According to Banco de Portugal, the impact of the implementation of the Basel III reforms is expected to be contained in Portugal, both in absolute terms and relative to the EU.

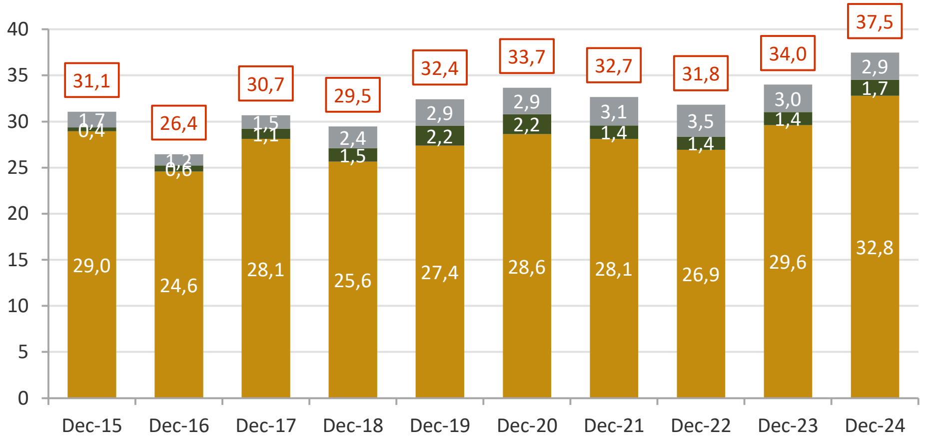
Common Equity Tier 1 ratio



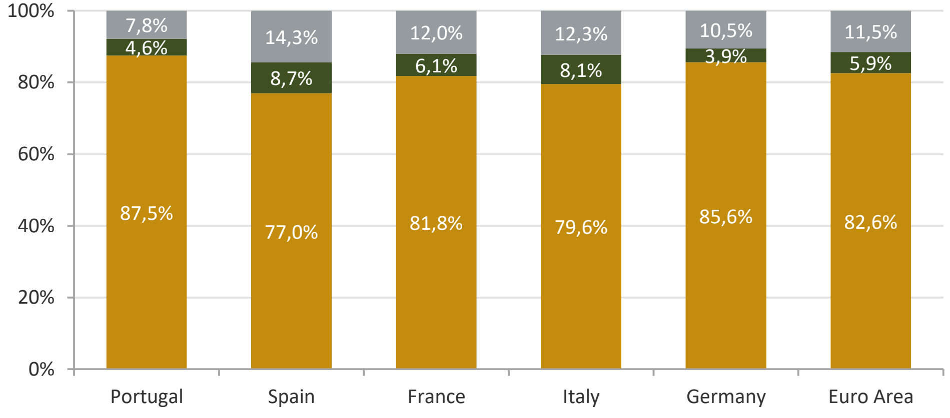
Leverage ratio



Evolution of the structure of own funds (EUR billion)



Structure of own funds: Portugal vs. Euro Area (Dec-24)



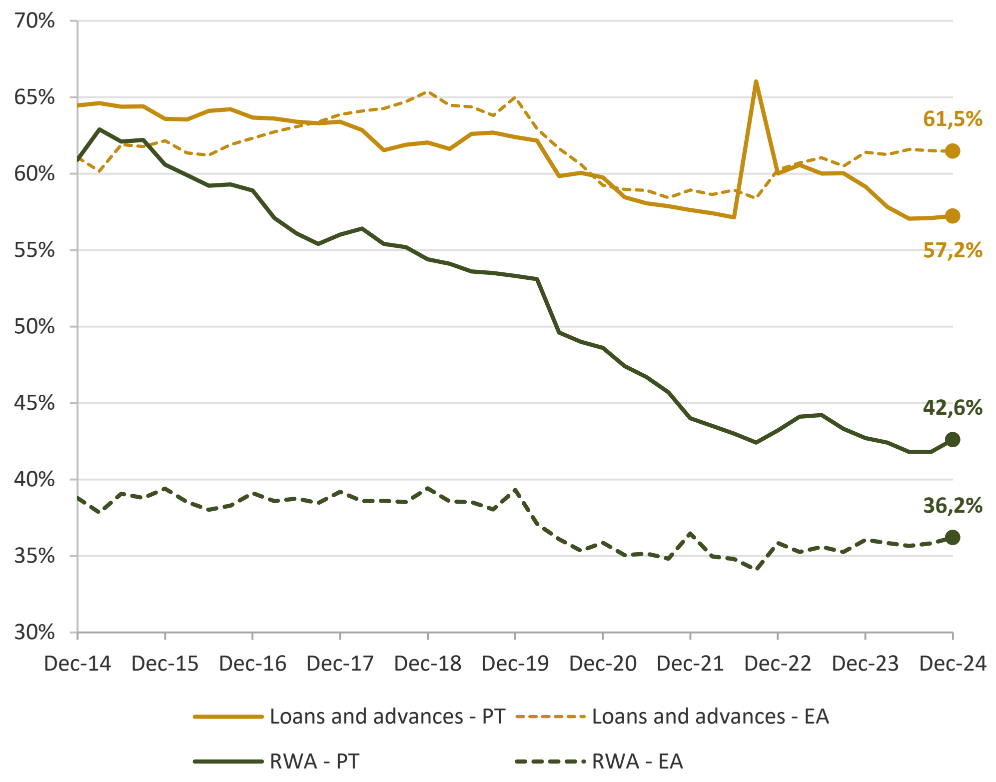
Source: ECB – Consolidated Banking Data (consolidated data) and EBA – Risk Dashboard (leverage ratio – transitional definition of Tier 1). In December 2024, the EBA sample included 162 European banks, covering more than 80% of the EU/EEA banking sector (sample for Portugal: BCP, CGD, LSF Nani Investments e Santander Totta).

IV. SOLVENCY

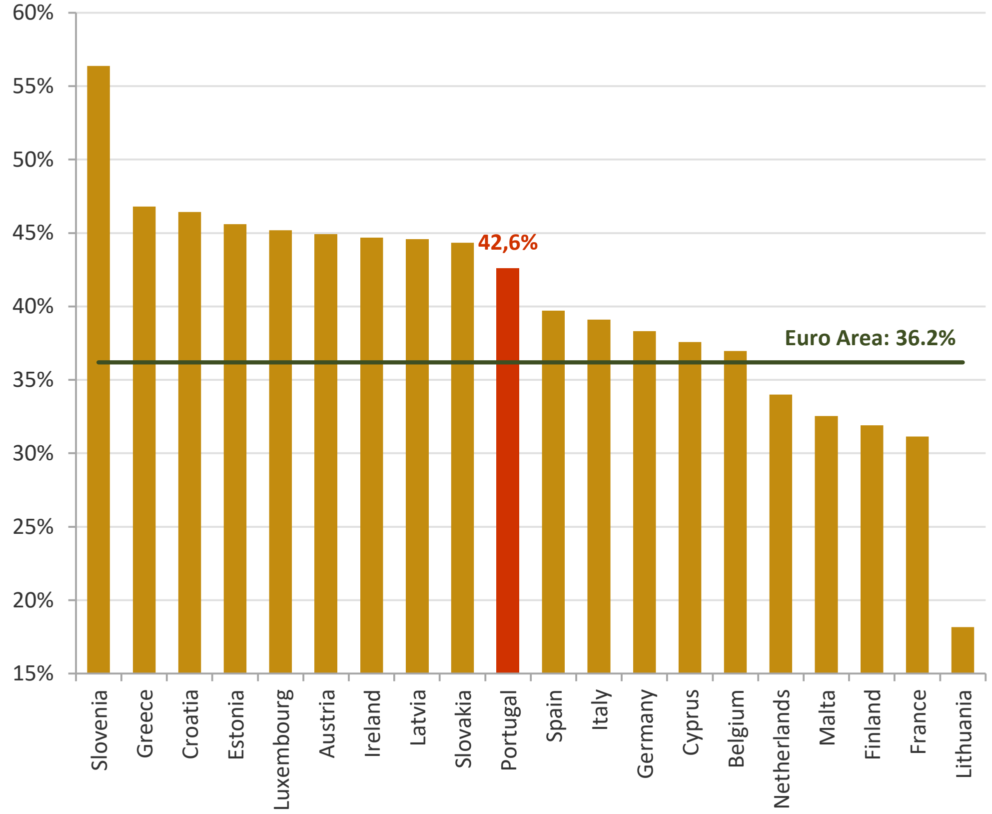
In December 2024, the ratio of risk-weighted assets (RWA) to total assets declined by 0.1 pp year-on-year, to 42.6%, despite the rise in the amount of risk-weighted exposures. The increase in RWA exposures reflected the expansion of the debt securities portfolio (with a zero risk weight), which was partially offset by the reduction in cash and claims on central banks and by the growth in positions associated with credit risk – mainly in corporates – and with operational risk.

This ratio still compares unfavorably with the Euro Area average (36.2%), partly due to the lower use of internal models for prudential assessment by Portuguese banks.

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-24)



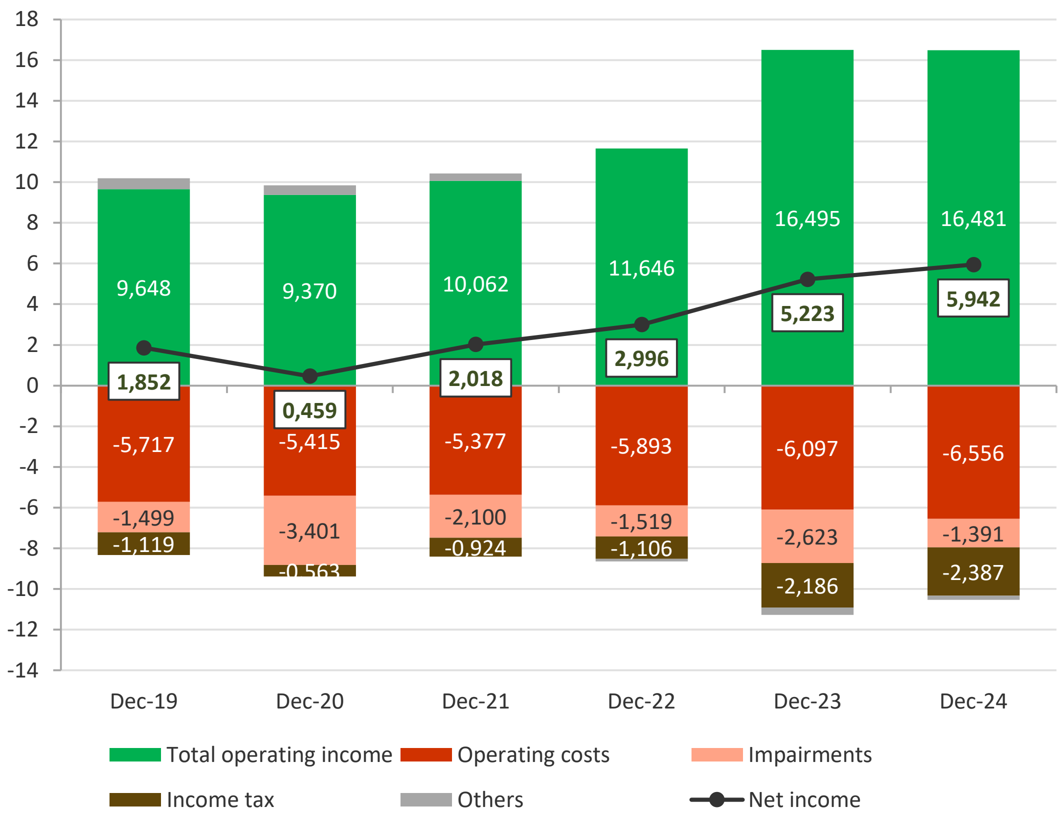
Source: Banco de Portugal (RWA - PT) and ECB – Consolidated Banking Data.

V. PROFITABILITY

In 2024, the Portuguese banking sector once again registered an improvement in profitability, primarily driven by a reduction in provisions and impairments, which more than offset the increase in operating costs.

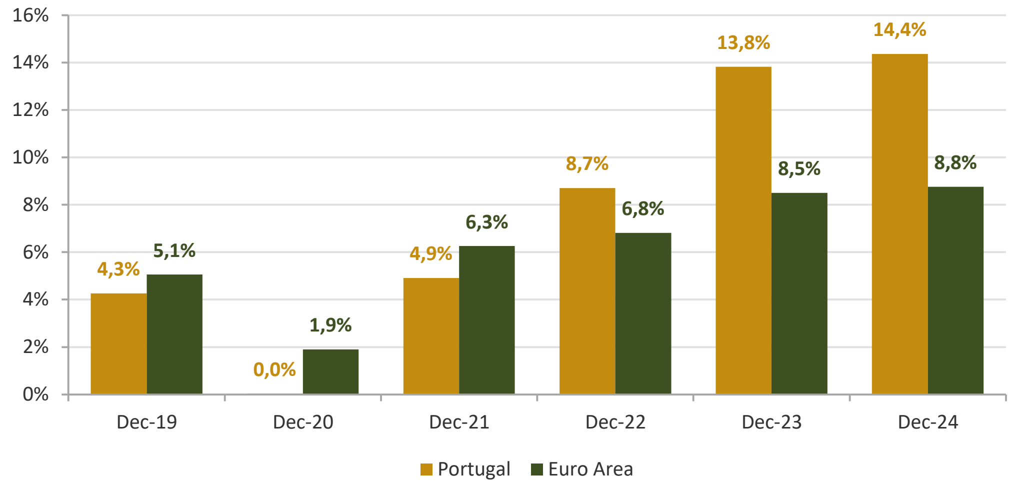
For the second consecutive year, Portuguese banks posted record results. In 2024, the sector's aggregate net profit exceeded €5 billion, representing a 14% increase compared with 2023 and nearly doubling the results achieved in 2022.

Net interest income breakdown (EUR billion)

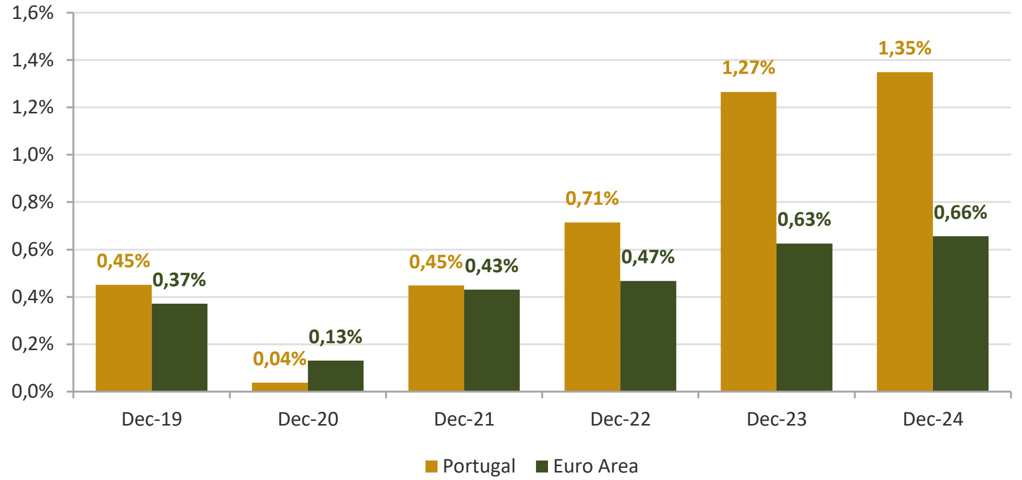


Source: Banco de Portugal (consolidated data).

Return on Equity (ROE)



Return on Assets (ROA)

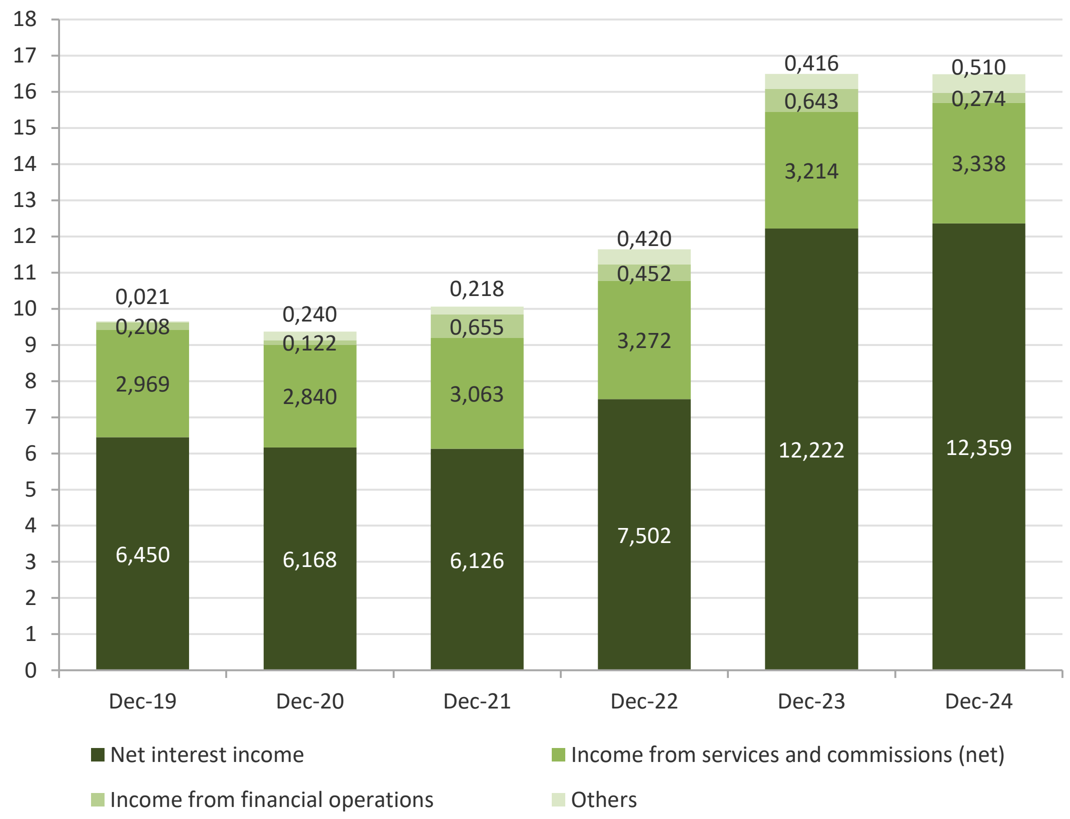


Source: BCE – Consolidated Banking Data. Calculated based on net interest income after tax and minority interests and on end-of-period equity and total assets. Return on equity excludes branches of foreign banks.

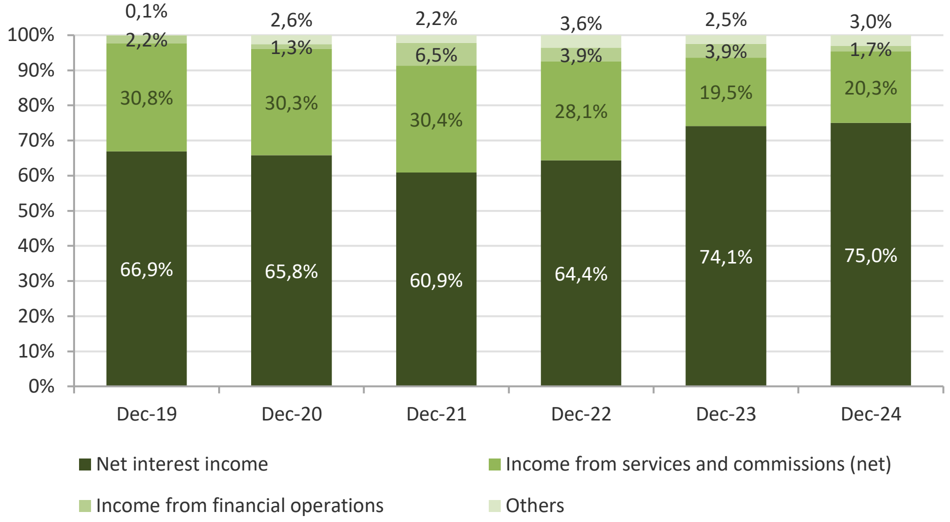
V. PROFITABILITY

The marginal decline in total operating income was mainly explained by the reduction in income from financial operations, which slightly outweighed the growth in the other components, particularly net interest income and income from services and commissions. The performance of income from financial operations was largely driven by a base effect, stemming from the recognition by one institution of gains from the sale of a subsidiary in the first half of 2023.

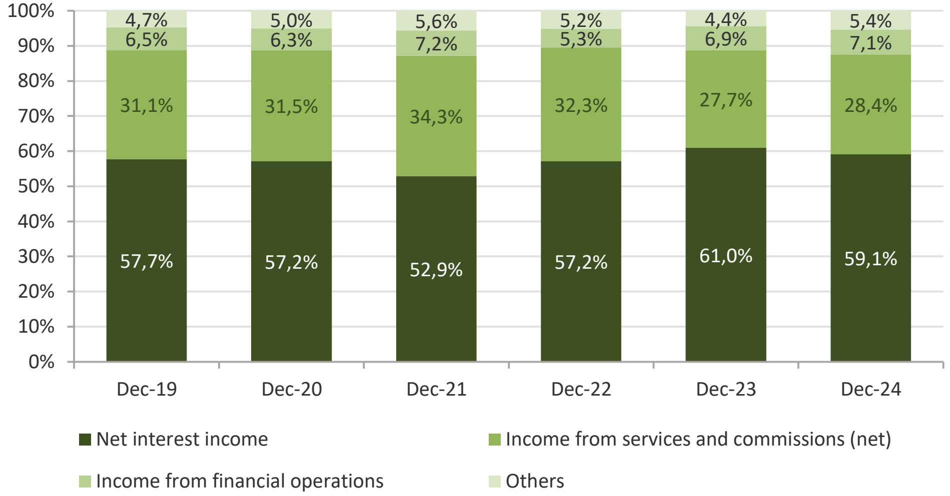
Total operating income breakdown (EUR billion)



Total operating income breakdown: Portugal



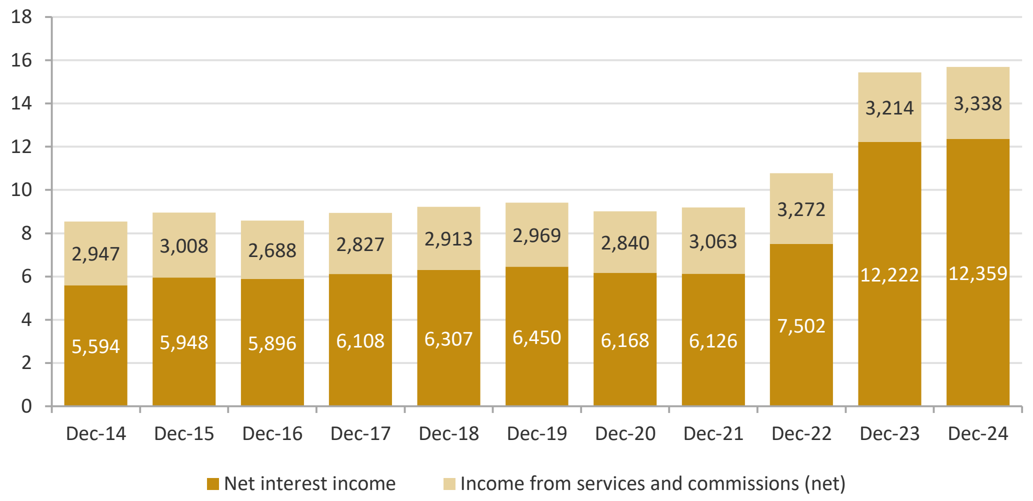
Total operating income breakdown: Euro Area



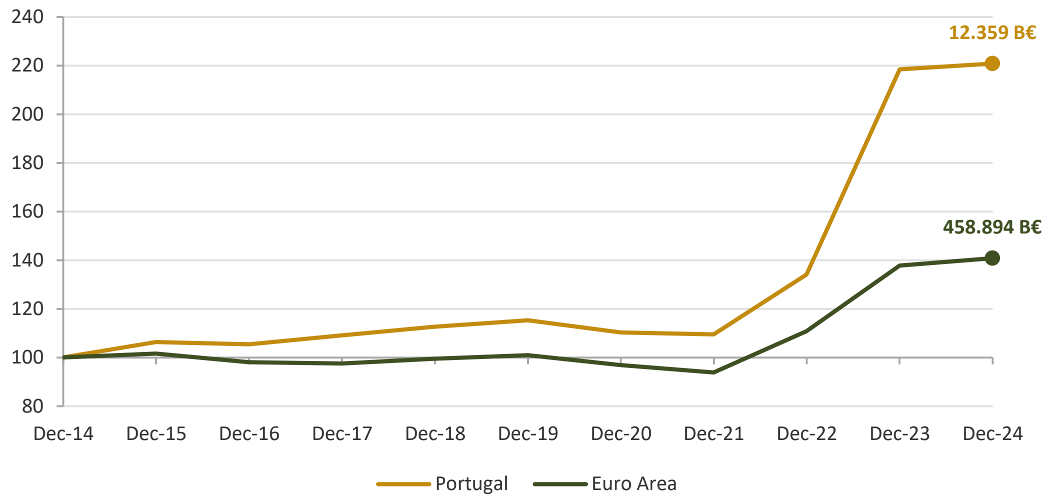
Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

The decline in interest rates weighed on net interest income, which nonetheless posted a slight increase. On the positive side, interest received from debt securities – mainly government bonds – rose, as did the spread between interest received and paid on transactions with central banks. On the negative side, in household business, the rise in interest paid on deposits outpaced the increase in interest received from loans.

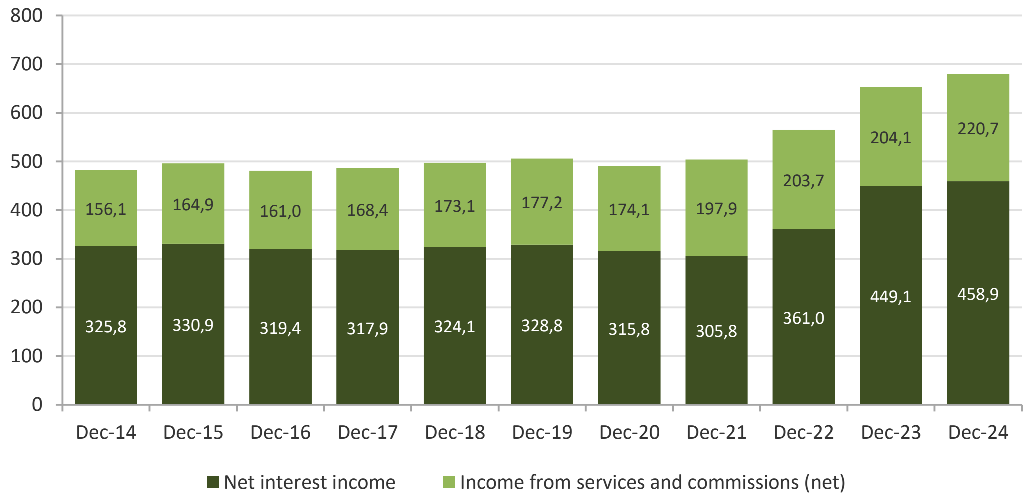
Net interest income and Commissions (EUR billion) – Portugal



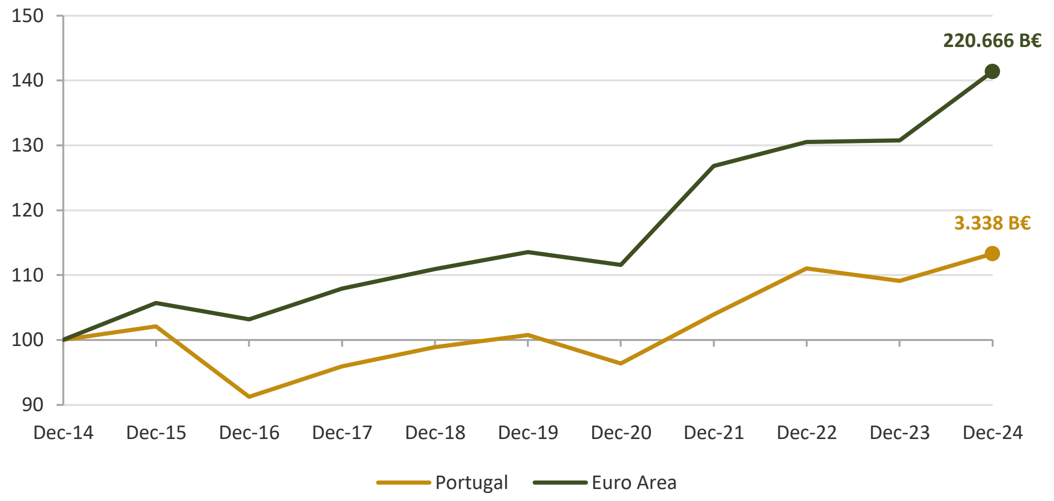
Net interest income (Dec-14 = 100)



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



Income from services and commissions (net) (Dec-14 = 100)



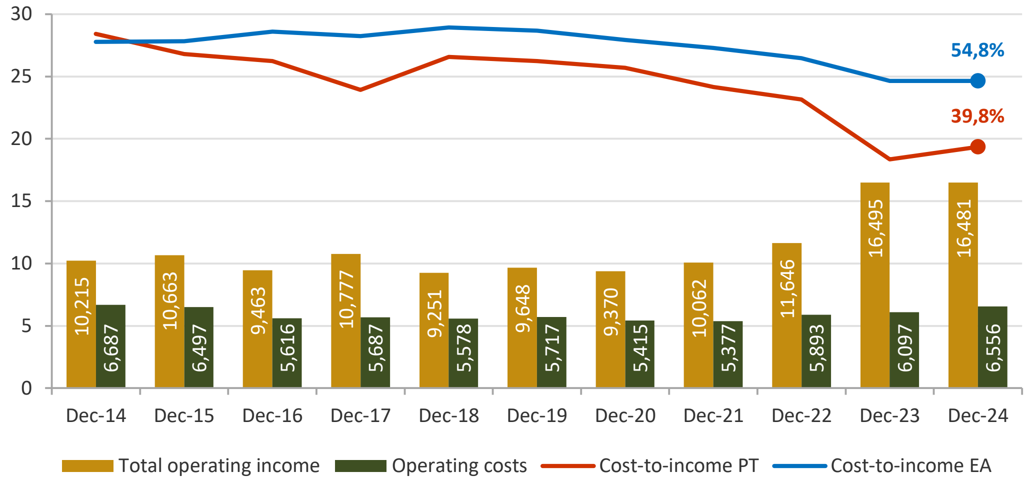
Source: Banco de Portugal (consolidated data) and ECB – Consolidated Banking Data (Euro Area).

V. PROFITABILITY

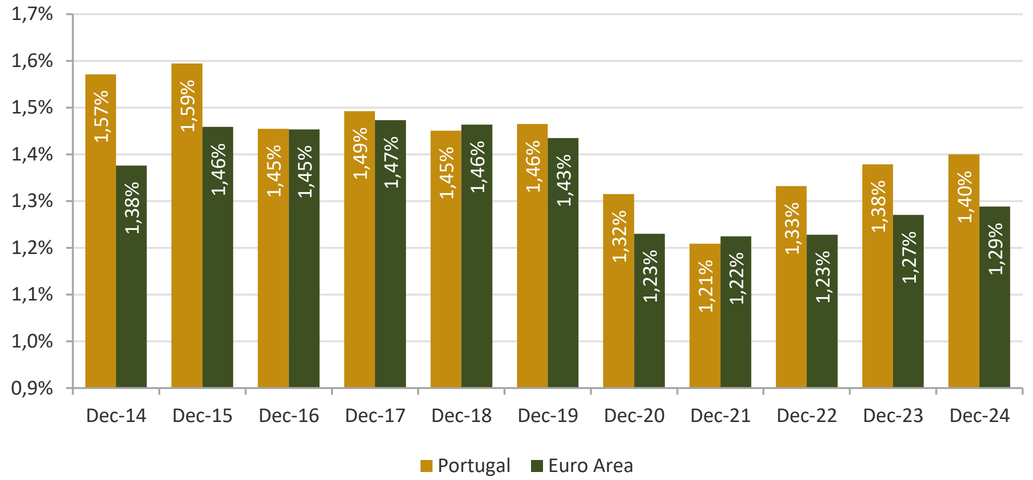
In 2024, the cost-to-income ratio increased slightly but remained below the Euro Area average. This change reflected the rise in operating costs, mainly staff expenses and, to a lesser extent, information technology expenses, together with a marginal decline in total operating income.

The cost of risk decreased, mainly reflecting the reduction in the flow of credit impairments.

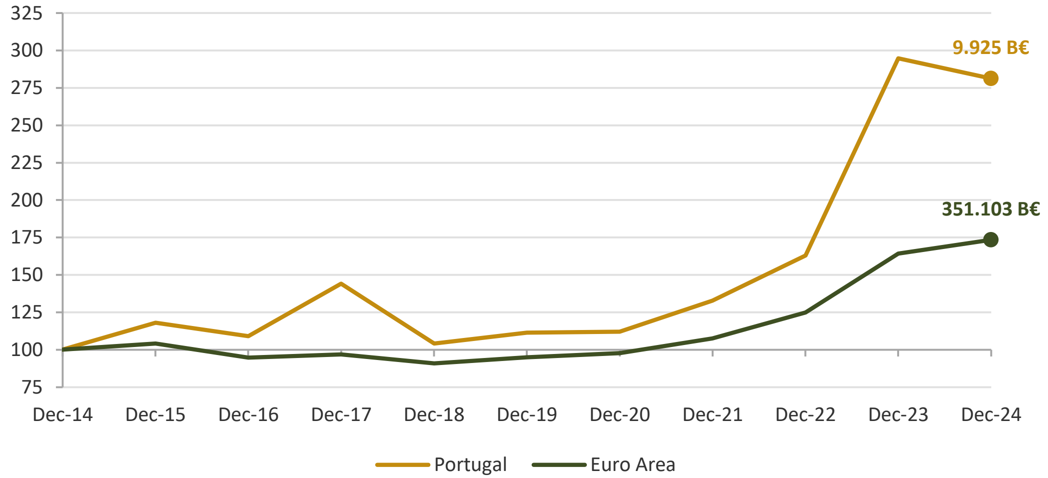
Cost-to-income breakdown (EUR billion) – Portugal



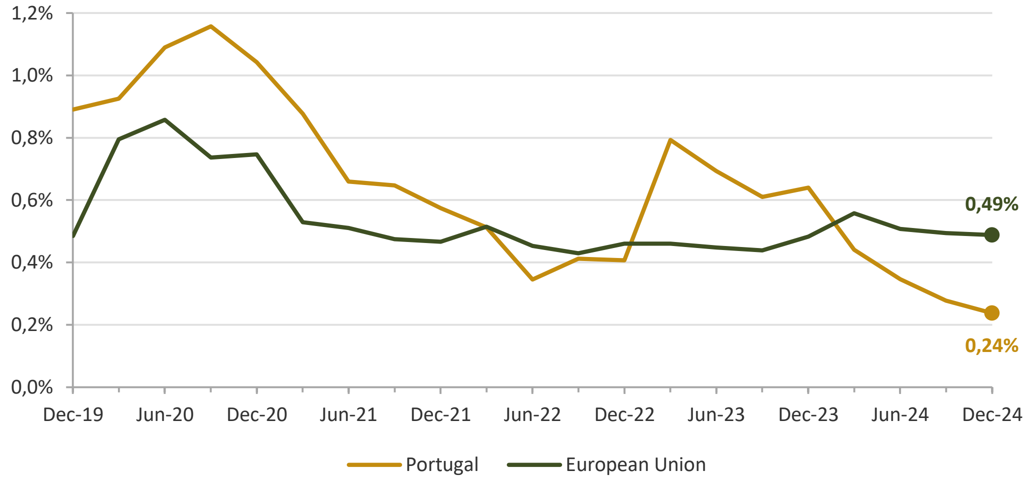
Operating costs as a % of total assets



Net operating income (Dec-14 = 100)



Cost of credit risk

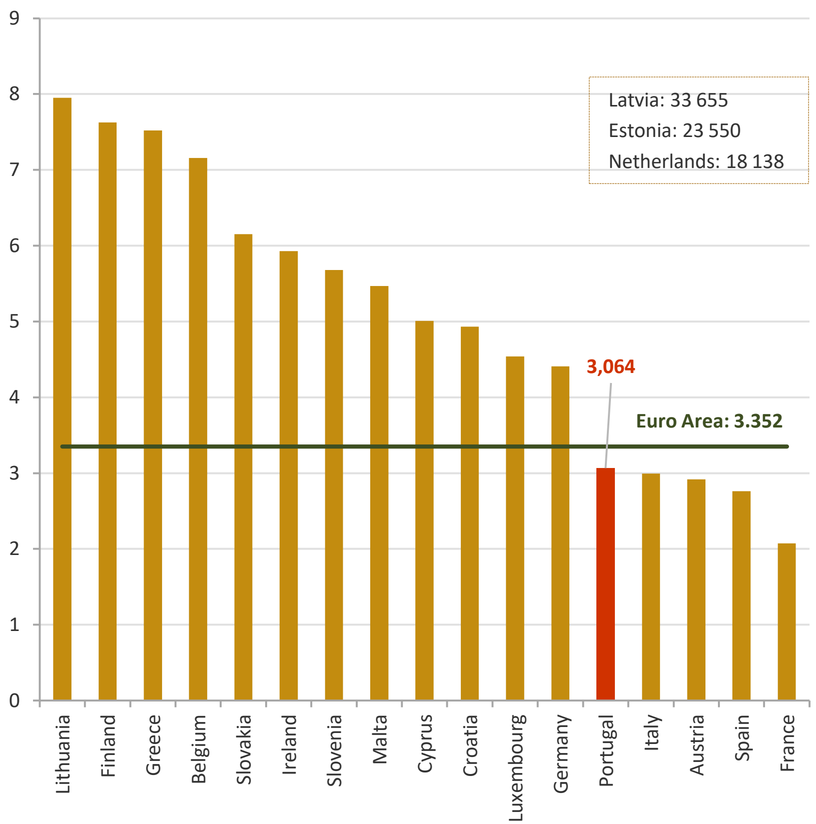


Source: Banco de Portugal (consolidated data), ECB – Consolidated Banking Data (Euro Area) and EBA – Risk Dashboard (cost of credit risk). In December 2024, the EBA sample included 162 European banks, covering more than 80% of the EU/EEA banking sector (sample for Portugal: BCP, CGD, LSF Nani Investments 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).

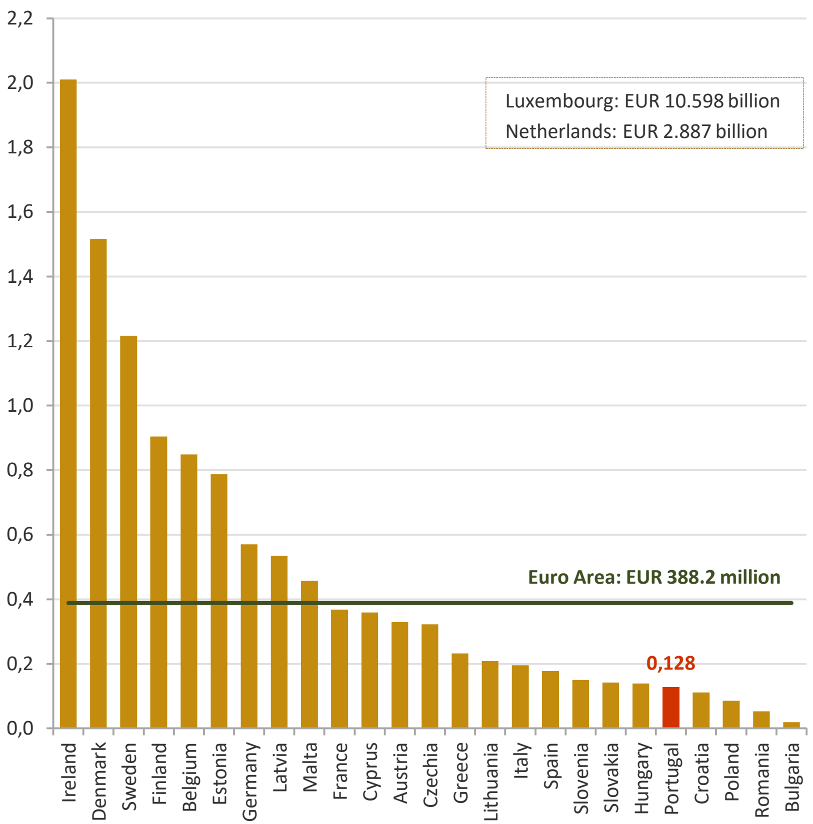
VI. PRODUCTIVITY

As a result of the restructuring processes undertaken, the sector recorded a number of inhabitants per branch close to the Euro Area average. However, productivity – both in terms of assets generated per branch and assets per employee – remains significantly below the Euro Area average.

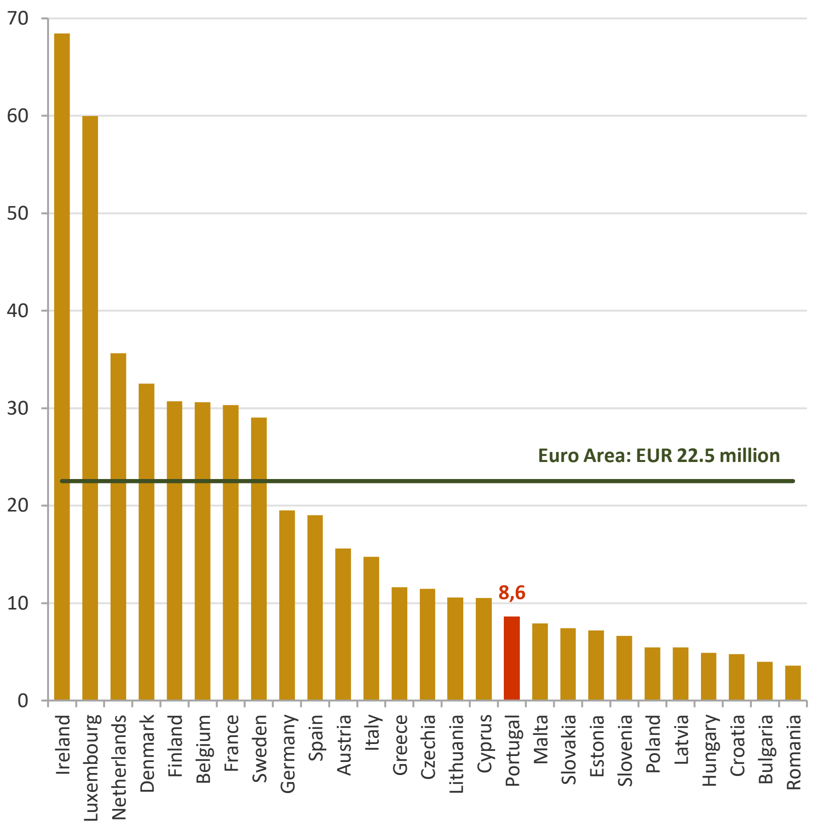
Residents per branch (Dec-24)



Total assets per branch (EUR billion, Dec-24)



Total assets per employee (EUR million, Dec-24)



Source: ECB – MFI Balance Sheet Items (Monetary and Financial Statistics) and Banking Structural Financial Indicators, INE – Statistics Portugal and Eurostat. Domestic activity data.

VII. METHODOLOGY

- 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 4 July 2025.

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DECEMBER 2024

ASSOCIAÇÃO PORTUGUESA DE BANCOS

AUGUST 2025