IMF Country Report No. 26/204

PORTUGAL

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 2026

TECHNICAL NOTE ON REGULATION AND SUPERVISION OF LESS SIGNIFICANT INSTITUTIONS

This Technical Note on Regulation and Supervision of Less Significant Institutions for the Portugal Financial Sector Assessment Program was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on July 8, 2026.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

PORTUGAL

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 8, 2026

TECHNICAL NOTE

REGULATION AND SUPERVISION OF LESS SIGNIFICANT INSTITUTIONS

Prepared By
Monetary and Capital Markets Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Portugal. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

CONTENTS

Glossary

AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
ASF	Insurance supervisor (*Autoridade de Supervisão de Seguros e Fundos de Pensões*)
BCP	Basel Core Principles for Effective Banking Supervision
BdP	Bank of Portugal (*Banco de Portugal*)
BRRD	Bank Recovery and Resolution Directive (EU)
CMVM	Securities supervisor (*Comissão do Mercado de Valores Mobiliários*)
CRD	Capital Requirements Directive (EU)
CRR	Capital Requirements Regulation (EU)
DAS	Legal Enforcement Department (*Departamento de Ação Sancionatória*)
DORA	Digital Operational Resilience Act (EU)
DSP	Banking Prudential Supervision Department (*Departamento de Supervisão Prudencial*)
EA	Euro Area
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
FSAP	Financial Sector Assessment Program (IMF)
ICT	Information and Communication Technology
IRRBB	Interest Rate Risk in the Banking Book
LSI	Less Significant Institution
MCM	Monetary and Capital Markets Department (IMF)
MEL	Minimum Engagement Level
MiCAR	Markets in Crypto-Assets Regulation (EU)
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NCA	National Competent Authority
NPE	Non-Performing Exposure
OND	Options and Discretions
PT	Portugal
RGICSF	Banking law (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*)
RPT	Related-Party Transaction
SI	Significant Institution
SSM	Single Supervisory Mechanism
SREP	Supervisory Review and Evaluation Process

EXECUTIVE SUMMARY

Banco de Portugal (BdP)'s framework for supervising Less Significant Institutions (LSI) is robust and aligned with Single Supervisory Mechanism (SSM) methodologies; its continuous effectiveness will depend on BdP's ability to sustain supervisory capacity. Alongside SSM membership, BdP has strengthened supervision through structured SREP assessments, broader and improved on-site inspections, digital tools for consistency and traceability, and stronger oversight of core risks. A commitment to ongoing improvement and collaboration, increasingly evident over the past decade, has driven these advancements, supported by a collegial approach to decision-making, established delegations, transparent internal communication, and integrity. Portugal illustrates how SSM methodologies have strengthened national supervisory practices. At the same time, structural pressures are emerging as BdP's mandates expand under DORA, MiCAR, and the forthcoming AI Act: high turnover is straining BdP's ability to retain and attract mid-career supervisors and risk specialists, particularly in ICT risk, the main short-term threat to supervisory effectiveness.

Building on BdP's robust supervisory framework, a small number of cross-cutting themes should be considered to further enhance the effectiveness of LSI supervision. Supervisory tools and processes are well developed, and the supervisory cycle is executed with discipline. The next maturity step is to demonstrate prioritization and responsiveness across LSIs by consolidating data on findings, severities, follow-up, and escalation so that supervisory judgment is more clearly evidenced beyond individual cases. Clarifying how judgments are formed and applied across institutions would strengthen traceability and proportionality; this does not require new tools but clearer articulation and monitoring of existing ones, including the internal supervisory risk tolerance. Preventive discipline can be reinforced by formalizing key practices in credit-risk oversight as NPE ratios decline, introducing prudential limits and standardized reporting for related-party exposures, using accounting powers more assertively to ensure timely correction of misclassification, and applying sanctioning procedures in a more proportionate manner. Continued strengthening of cooperation arrangements and periodic testing of supervisory and early-intervention processes would improve operational preparedness under stress. Supervisory governance is structured and transparent, yet the exclusive role of the executive branch in appointing BdP board members poses a perceived-independence risk.

Looking ahead, the supervisory agenda should focus on securing supervisory capacity and on strengthening the processes that support consistent prioritization, escalation, and follow-up across LSIs. A multi-year staffing and retention strategy is key to preserving supervisory judgment and to building the ICT, data, and AI expertise demanded by new mandates. Consolidating existing thresholds and triggers into an operational supervisory risk-tolerance articulation, supported by system-wide monitoring of findings, measures, and escalation across LSIs, would provide a clearer basis for prioritization and resource allocation. Advancing the planned enhancements to preventive discipline and operational readiness, and reinforcing safeguards for BdP's perceived independence, would help ensure that supervisory expectations are applied consistently under stress. These priorities structure the main recommendations, presented in Table 1 in order of importance.

Table 1. Portugal: Main Recommendations			
	Recommendations	**Priority**	**Timeframe**
1)	Develop a multi-year staffing and retention strategy to preserve supervisory judgment, retain mid-career supervisors, and secure ICT, data, and AI specialist capacity as supervisory demands increase (¶16-17, BdP).	H	I
2)	Amend the legal framework to provide BdP greater discretion in applying a proportionate enforcement response, that combines corrective measures and sanctioning procedures (¶46, MoF).	H	MT
3)	Mitigate perceived-independence risks by considering shared-approval elements in the appointment of BdP board members (MoF), alongside maintaining strong internal governance safeguards (BdP) (¶15, MoF, BdP).	H	MT
4)	Introduce prudential limits for all related-party exposures and require standardized, periodic reporting to reinforce preventive discipline and system-wide oversight (¶34, MoF, BdP).	H	MT
5)	Use BdP's accounting authority more assertively to require timely correction of misclassification or under-provisioning so that asset quality deterioration is recognized promptly in financial statements (¶11, BdP).	H	I
6)	Building on BdP's advanced Findings and Measures framework, formalize systematic cross-LSI monitoring to ensure supervisory actions are severity-aligned, timely, and progressively escalated (¶28, ¶43, BdP).	H	MT
7)	Formalize proportional, risk-based credit-file sampling criteria specifying coverage, stratification, and escalation thresholds to ensure consistent and well-targeted on-site credit-risk reviews (¶32, BdP).	M	ST
8)	Conduct a full simulation of the Crisis-Management Manual to test escalation paths, supervisory–resolution coordination, and timelines for early-intervention readiness (¶44, BdP).	M	ST
9)	Work toward developing an internal supervisory risk tolerance by consolidating existing thresholds and escalation triggers and linking them to supervisory prioritization, proportionality, and resource allocation (¶25, BdP).	M	MT
10)	Ensure that BRRD-based supervisory-to-resolution notification triggers are formalized under binding instruments, including early-warning, information-sharing, and record-keeping obligations between functions (¶21, BdP).	M	ST
11)	Finalize and operationalize updated MoUs with CMVM and ASF (¶19, BdP, ASF, CMVM).	L	I

Notes:
Recommendations: (¶) identifies the paragraph(s) where each recommendation is discussed in greater detail. The parentheses additionally specify the authority or authorities responsible for implementation at the indicative Timeframe.
Priority: H (High), M (Medium), and L (Low); **Timeframe:** I: Immediate (less than one year); ST: Short Term (1-2 years); MT: Medium Term (3–5 years).

INTRODUCTION

1. **This technical note is part of Portugal's 2026 FSAP and provides a focused review of BdP's supervision of LSIs in the context of the SSM.**[1] The previous FSAP for Portugal was conducted in 2006, when BdP was assessed against the Basel Core Principles (BCP). Since then, the creation of the SSM and the transformation of the EU regulatory framework have changed national supervisory practices so fundamentally that the 2006 BCP assessment has limited relevance today. Following this introduction, which sets out the scope and approach and provides an overview of the Portuguese banking sector, the note reviews the institutional arrangements for the BdP as the Portuguese National Competent Authority (NCA) in the context of the SSM, the supervisory approach followed for LSI supervision, BdP supervision of core prudential areas, and concludes with the review of the escalation and early remedial-action framework.

A. Scope and Approach

1. **This technical note discusses BdP direct supervision of less significant institutions (LSIs).** It focuses on national supervisory practices specific to Portugal, including BdP's host responsibilities over EU/EAA branches, which are under the remit of NCA. The supervision of significant institutions (SIs), conducted by the ECB, is explicitly excluded from the scope to maintain consistency with the EA FSAP and to avoid duplication. The note draws on the findings of the July 2025 EA Basel Core Principles (BCP) assessment to the ECB, but it neither modifies nor extends its findings and recommendations. The BCP Standard serves as the conceptual framework against which the review of this note was conducted, but this note should not be construed as a BCP assessment. References throughout the note to the EU legal framework and to SSM methodologies are intended to describe the institutional and legal context in which BdP's supervision of LSIs is exercised and do not constitute an assessment of compliance with EU or SSM requirements.

2. **The note follows a common approach that ensures consistency and coordination across FSAPs in euro-area member countries**. It is based on targeted questionnaires submitted to BdP and the ECB in its LSI-oversight role to promote convergence and consistency across NCAs and within the SSM, as well as a comprehensive self-assessment of the BCP conducted by BdP on its direct supervision of LSIs, which complements the BCP self-assessment conducted by the ECB in 2024. The review included the analysis of relevant legislation, regulations, internal supervisory methodologies, and statistical data. The mission also reviewed confidential supervisory documentation and held extensive meetings with BdP officials and relevant stakeholders during the in-person mission to Lisbon, Portugal, from October 27 to November 14, 2025. Additional scoping and preparatory meetings were held remotely with BdP, ECB, and market participants.

3. **The findings reflect the state of supervision and regulatory practices as of the cut-off date of December 2025;** developments after this date are not considered.

[1] This Technical Note was prepared by Antonio Pancorbo (IMF, MCM).

4. The mission thanks the staff of Banco de Portugal for their cooperation, openness throughout the work, access to supervisory material, and warm hospitality. The mission also thanks ECB Banking Supervision for its responses to the questionnaires and the market participants who generously shared their time and views.

B. Overview of the Banking Sector

5. Portugal's banking system is dominated by a small number of significant institutions (SIs), while less significant institutions (LSIs) form a smaller but diverse segment in terms of type, business model, and ownership. As of December 2025, nine SIs (two domestically headquartered, four subsidiaries of Spanish groups, two subsidiaries of French groups, and one SI subject to an ongoing sale process as of the cut-off date) held 78 percent of total banking assets. The 22 LSIs held about €71 billion, or 14 percent of sector assets, a share broadly in line with the euro-area (EA) average. The LSI segment is headed by two Other Systemically Important Institutions designated for macroprudential purposes (*Caixa Económica Montepio Geral* and *Caixa Central Crédito Agrícola*), which are classified as LSIs under the SSM, followed by investment banks, local deposit-taking institutions, and small niche banks, all with negligible cross-border activity. EU branches operating under single-passport rules accounted for an additional 8 percent of assets. A number of purely digital banks have also entered Portugal, mainly via EU single-passporting. There are no financial conglomerates among Portugal's LSIs, and only a small number of other financial intermediaries engage in limited credit activity. Appendix I provides the detailed breakdown.

6. Portugal has no third-country branches as past experience has shown that neither the EU nor national frameworks ensure branch-level liquidity protection. Under Articles 54 and 57 of the RGICSF (banking law, *Regime Geral das Instituições de Crédito e Sociedades Financeiras*), third-country banks may establish branches in Portugal, and branch assets may be used to satisfy parent-institution debts once domestic obligations are fulfilled. Based on its past supervisory experience, however, BdP considers that this regime does not prevent liquidity from being upstreamed to the third-country parent bank, leaving the branch unable to meet liquidity obligations in Portugal. CRD VI introduces minimum harmonization for third-country branches, but in the BdP's view, it does not resolve the underlying liquidity-ring-fencing gap. On this basis, BdP promotes subsidiary structures for non-EU banks operating in Portugal.

7. Portuguese LSIs, although representing a modest share of total banking assets, carry elevated supervisory risk as weaknesses or failures can cause substantial reputational impact for the supervisor. Structural constraints persist in the LSI segment: higher cost-to-income ratios compared to Portuguese SIs, limited scale, and restricted investment capacity continue to weigh on efficiency and resilience, and NPE ratios, while declining, remain above SSM averages. Governance shortcomings are a challenge in some smaller institutions, and ICT and operational risks are elevated due to legacy infrastructures, making compliance with the Digital Operational Resilience Act (DORA) particularly demanding. LSIs' operational characteristics and risk profile require sustained supervisory attention to ensure sound risk management, operational resilience, and continuity of services in the market segments they serve.

INSTITUTIONAL ARRANGEMENTS

A. Mandate and Powers

8. **BdP's supervisory mandate is clearly defined in national law and the SSM framework, and its responsibilities are expanding under recent EU legislation.** Article 17 of the BdP Statute establishes BdP's responsibility for supervising credit institutions and financial companies and sets its role within the SSM. Within this framework, BdP directly supervises LSIs, prepares draft proposals regarding common procedures and submits them to the ECB. New EU legislation will add responsibilities in cyber-resilience, critical-entity oversight, crypto-asset supervision, and new prudential powers relating to material holdings, restructurings, asset transfer, and periodic penalties.[2] The allocation of responsibilities across BdP, the ECB, CMVM, and ASF is clearly established in legislation, but it is not presented in a single public source; responsibilities are dispersed across laws, regulations, and institutional disclosures. Publishing a consolidated overview would improve transparency and accessibility for external stakeholders.

9. **The legal framework grants BdP broad and operationally effective supervisory powers for LSIs.** Article 17 of the BdP Statute and the RGICSF provide authority to issue binding regulations through notices and instructions, require corrective measures, order special audits, impose early-intervention measures (Article 116 (2), Articles 116-C and 139–141), and apply sanctions (Article 213). BdP has full information-access rights and can direct institutions to remedy supervisory deficiencies. In licensing procedures, BdP retains authority to refuse authorization under national law; additionally, the ECB is also fully empowered to refuse authorization if its assessment goes against the positive authorization proposal submitted by the BdP. National rule-making powers remain critical in non-fully harmonized areas, including related-party transactions, major acquisitions, country and transfer risk, and concentration risk. For LSIs, BdP applies these rules directly; for SIs, enforcement may require BdP action under ECB direction, consistent with the SSM framework. To maintain proportionality for LSIs and ensure that BdP secondary regulation remains consistent with international supervisory standards, particularly where EU standards provides limited or optional guidance, BdP should continue to periodically review and update its secondary regulations in these areas, without prejudice to any amendments to primary legislation that might be needed. In this sense, BdP has recently completed the identification and withdrawal of obsolete

[2] Following DORA (Regulation (EU) 2022/2554) BdP has been designated as national point of contact in the EU systemic cyber-incident coordination framework and participates in the oversight of critical ICT third-party providers. The transposition of CER (Directive (EU) 2022/2557) and NIS2 (Directive (EU) 2022/2555) assign BdP sectoral responsibilities in identifying critical financial entities and supervising essential financial-sector services. With MiCAR (Regulation (EU) 2023/1114) implementation, BdP will be designated as competent authority for certain crypto-asset issuers and service providers in Portugal. The transposition of CRD VI will introduce new powers for BdP, including the assessment of material holdings, mergers, asset transfers, and the application of periodic penalty payments.

notices, instructions, and circular letters and has initiated a systematic review of the remaining instruments; although still ongoing, this work is expected to strengthen the clarity and legal consistency of the secondary rules through which supervisory powers are applied.

10. BdP's accounting authority under RGICSF Article 115, supported by remedial powers under Article 116, offers an important supervisory tool that should be used more assertively to ensure that findings of misclassification or under-provisioning are promptly corrected and fully reflected in institutions' financial statements. On-site inspections have identified cases of exposure misclassification, delayed transfers to non-performing status, and provisioning shortfalls. BdP requires institutions to address these deficiencies, typically through action plans that are approved and subject to supervisory follow-up; however, corrective accounting adjustments have not always been implemented when deficiencies persisted, and supervisory findings have not always been reflected in reported data in a timely manner. While findings of misclassification or under-provisioning are considered for prudential purposes and subject to corresponding supervisory measures, prudential measures can address supervisory implications of these deficiencies, but they do not substitute for appropriate direct accounting recognition under IFRS. More systematic use of BdP's accounting authority to ensure that the accounting impact of supervisory findings is fully implemented would reinforce existing supervisory practice.

11. BdP's statutory position as both prudential supervisor and accounting authority for supervised institutions places it in a strong position to calibrate proportional yet fully IFRS-9–compliant implementation approaches. Article 115 of the RGICSF empowers BdP to issue accounting rules and interpretative guidance for supervised entities, a competence already exercised through Circular CC/2018/00000062, which defines BdP expectations for IFRS 9 credit-loss measurement. BdP has also issued expectations regarding prudential coverage for NPE not covered by the CRR backstop (Circular CC/2024/00000049). Building on this, BdP could assess the possibility to extend the existing prudential methodologies for NPE to an accounting perspective and develop standardized proportional methodologies also for performing loans—ensuring consistency with ECB and EBA guidance and maintaining expected-loss estimation compliant with IFRS9, conceptually sound and free of prudential bias.

12. Portugal maintains a complete and transparent inventory of options and discretions (ONDs) under the CRR and CRD for LSIs, broadly aligned with the ECB's harmonized approach. In Portugal, CRR-level ONDs are implemented via BdP Notice 10/2017, while CRD-level ONDs are embedded in the RGICSF. For LSIs, BdP publishes its ONDs on its website[3] and maintains an internal mapping against ECB Guideline (EU) 2017/697 (as amended) and Recommendation (EU) 2017/10 (as amended by 2022/13). ONDs have limited impact for LSIs: waivers and proportionality options are available but not used, and capital-related discretions follow the ECB's approach. The

[3] Please refer to "Supervisory Disclosures - Annex II (Options and Discretions)."

main drivers of convergence in LSI supervision are in the RGICSF and BdP regulations—particularly in governance and intervention powers—which provide supervisory leverage and, in some cases, enhance the implementation of the EU guidelines.

B. Independence and Governance

13. Banco de Portugal's supervisory independence is clearly established in national law and reinforced by the EU supervisory framework. The supervisory function is institutionally and operationally separate from other central-bank activities; decisions are taken by a collegiate Board; directors have fixed terms with dismissal only on defined grounds; and incompatibility rules apply to prevent conflicts of interest. Budgetary autonomy is comprehensive: BdP is self-financed, exempt from the State Budget Law, and its annual budget is transmitted to the Ministry of Finance (MoF) for information only, with no ex-ante approval. Under the profit-distribution regime, 20 percent of net profit is retained by BdP for legal requirements and 80 percent is transferred to the State. Staff and Board members benefit from legal protection for acts performed in good faith in the exercise of supervisory duties. The SSM framework further requires national authorities to act independently when carrying out supervisory responsibilities (Article 19(1), SSM Regulation), providing an additional safeguard for autonomous LSI supervision.

14. Banco de Portugal's governance framework contains multiple safeguards that support supervisory independence; however, there is a risk that its independence could be perceived as limited, since board members are appointed by the executive only. The BdP Statute establishes institutional, functional, and financial independence and assigns supervisory and sanctioning powers to a collegiate Board operating under formal delegations and sub-delegations, with all delegated acts recorded and all delegations and sub-delegations published in the *Boletim Oficial* to ensure traceability, supporting transparency and accountability. Internal safeguards include incompatibility and conflict-of-interest rules, and the use of technical committees supports supervisory consistency without decision-making authority. Since 2020, all board members have been appointed by the Council of Ministers on the proposal of the Minister of Finance, following a non-binding parliamentary hearing (Article 27, BdP Statute, as amended by Law No. 73/2020). Before 2020, the Governor formally proposed the appointment of other Board members, with appointments made by the Council of Ministers. While no instances of external interference in supervisory decisions were reported to the mission, an appointment process dominated by the Executive may in itself give rise to a perceived-independence risk, irrespective of legal safeguards or observed practice. This could be mitigated by appointment procedures drawing on the pre-2020 legal framework, or other appointment safeguards compatible with the constitutional framework, while maintaining strong internal governance safeguards—collective decision-making, incompatibility, traceability, and conflict-of-interest rules. In comparative practice, some jurisdictions complement appointment safeguards with open and competitive recruitment processes to enhance transparency of senior appointments, while others provide for a system of binding staggered terms that favors institutional independence.

C. Resources and Capacity

15. BdP's current supervisory resources allow it to deliver its annual LSI program and meet ECB resource expectations, but medium-term sustainability depends on developments in staffing and specialist capacity. The Banking Prudential Supervision Department (DSP), which carries out BdP's prudential supervision of LSIs (see Appendix II), operates with an institutional headcount of about 240 staff and an annual Supervisory Examination Program that allocates all available staff time across institutions and priorities. The matrix management model supports coordination across vertical and horizontal units and allows mid-year reallocation of resources to preserve minimum supervisory engagement levels when departures or unforeseen tasks arise. Resource adequacy is judged primarily through completion of planned supervisory tasks and legal deadlines. This assessment is complemented by a biennial medium-term strategic review by senior management. However, planning remains annual, and there is no forward-looking workforce strategy linking staff numbers or skills to the expected expansion of responsibilities under new mandates. As a result, completion of the annual plan remains the main test of adequacy, rather than whether resources were adequate for the underlying risks and workload.

16. BdP's main structural vulnerability lies in the erosion of mid-career supervisory capacity at a time when specialist skills are increasingly required for expanding mandates. Supervisors need several years to internalize processes and to develop mature supervisory judgment. DSP reports annual turnover of roughly 10–14 percent between 2022 and 2024, representing about one-third of all BdP departures. Staff with five to ten years' experience—who manage complex supervisory assessments and bring valuable expertise—are leaving, and these positions are often difficult to replace. DSP attributes these departures to private-sector remuneration differentials and active post-pandemic recruitment by banks; CRD VI transposition on stricter cooling-off requirements could further limit post-employment mobility, with possible implications for the attractiveness of supervisory careers. These pressures coincide with new responsibilities under DORA, MiCAR, and the AI Act, for which DSP indicates the need to reinforce ICT, data, and AI-related skills. A study by the People and Organisational Strategy Department has identified remuneration gaps, and a retention strategy reflecting these findings is expected to be considered by the BdP Board. Given sustained turnover in mid-career staff and specialist demands, a structured multi-year staffing and retention strategy is essential to safeguard supervisory judgment, ensure continuity, and secure the technical capacity required for future BdP supervisory responsibilities.

D. Institutional Cooperation

17. Cooperation between BdP and the ECB is established across both LSI supervision, where BdP is the direct supervisor, and SI processes, where BdP contributes preparatory assessments and provides national inputs for ECB decisions. BdP applies the revised LSI Notification Guidance and maintains regular engagement with the ECB country desk through scheduled exchanges and senior-level interactions. It participates in horizontal SSM work, including ICT-risk, digital-platform and credit-risk initiatives, and co-chairs, for example, Joint Team on Cyber

Resilience of the SSM Network on ICT Risk, Joint Team on ICT Change Risk of the SSM Network on ICT Risk and the 2025 workstream on findings and measures. In common procedures (licensing and qualifying holding procedures) and license withdrawals involving LSIs, BdP provides detailed assessments of the applicable criteria to the ECB, which is the competent authority to decide these matters regardless of the classification of the credit institution. Crisis-management coordination follows the 2023 Joint Supervisory Standard, which assigns BdP defined roles, although it has not yet been tested domestically.

18. Cooperation between BdP, the securities supervisor (CMVM), and the insurance supervisor (ASF) is well established and conducted through a mix of formal arrangements and regular working-level exchanges. The longstanding bilateral memoranda of understanding with CMVM and ASF are currently being updated to incorporate recent regulatory developments and to include detailed operational schedules on prudential topics, statistics, auditors, and ICT resilience. Coordination is also supported by the *Conselho Nacional de Supervisores Financeiros*, which provides a structured forum for periodic information exchange and the preparation of joint positions on cross-sector issues. Informal channels between the authorities are active and often used to resolve issues quickly. Finalizing and implementing the updated Memorandum of Understanding (MoU) will place this cooperation on a clearer and more durable footing by formalizing expectations, improving traceability, and ensuring full compliance with Article 137-B (1) of the RGICSF, which requires written coordination arrangements between competent authorities.

19. BdP's cooperation with home supervisors is structured and follows the legal framework for EU/EEA branches, supported by internal procedures, bilateral MoU, and participation in supervisory colleges where applicable. Information-sharing covers branch-level reporting under Notices 1/2019 and 2/2016, CRD/CRR-mandated exchanges, and ad-hoc incident notifications. In addition to relationships with EU counterparts, BdP has engaged bilaterally with third-country home supervisors when relevant, including the Banco Nacional de Angola in cases involving Angolan-owned LSIs. These arrangements provide workable channels for information exchange, although they have not yet been tested through a significant branch or cross-border stress event.

20. Cooperation between BdP's supervisory and resolution functions is governed by internal procedures and the Crisis-Management Manual, which structure information-sharing, escalation, and coordination in line with the BRRD and the SSM framework. These arrangements operate effectively in practice and in the 2019 case involving the dissolution and entry into liquidation of a small LSI, supervisory escalation, resolution notification, and licence withdrawal were handled in a timely and appropriately ordered manner, including notification to the Resolution Department, consultation with the Single Resolution Board, and coordination with the ECB on licence withdrawal. However, the notification duties set out in BRRD Articles 27(2) and 81(2) have not been incorporated into RGICSF or a legally binding BdP instrument; they are currently implemented on an administrative basis. While this reflects BdP's institutional structure, which hosts both the resolution and prudential departments, the absence of a legal or regulatory anchor limits legal certainty and auditability. Formalising these BRRD-based notification triggers and record-keeping duties—through secondary regulation or a binding internal rule with clear legal effect—would align BdP's framework with BRRD requirements without altering current operational practice.

21. Within BdP, prudential and AML/CFT supervision are carried out by separate departments—DSP and the Legal Enforcement Department (DAS), respectively—that cooperate through a 2021 protocol that establishes systematic information sharing. The protocol covers authorizations, qualifying holdings, suitability assessments, ongoing supervision, and sanctions. AML/CFT risk classifications, inspection findings, and sanctions issued by DAS on AML/CFT are routinely transmitted to prudential supervisors and taken into account in authorizations and fit-and-proper assessments, on-site inspections, and the SREP, in line with the updated SSM LSI methodology. Prudential information is also shared with DAS on an ongoing basis.

SUPERVISORY APPROACH

A. Supervisory Intensity and Planning

22. BdP applies a structured and proportionate model of supervisory intensity for LSIs, anchored in the Minimum Engagement Level (MEL) and the ECB classification system, providing a consistent foundation for risk-focused prioritization across LSIs. The MEL defines the minimum set of supervisory activities for each LSI tier—High-Impact, High-Risk, Small and Non-Complex Institutions, and others—including the expected frequency of SREP reviews, prudential meetings, and Financial Prudential Profile Summary updates. The MEL is reviewed annually through a lessons-learned process and adjusted marginally when justified by regulatory developments or supervisory experience. It is approved by DSP senior management and the Board Member responsible for supervision. Execution is supported by integrated SupTech tools for data validation, early-warning indicators, planning and process management, and document control, with new analytical automation under development. The framework allows mid-year adjustments to respond to emerging risks, as demonstrated during the Russia–Ukraine shock and the 2023 liquidity stress episodes. This structure provides a proportionate and transparent baseline for supervisory intensity, which is adjusted as needed through the regular risk-based supervisory process.

23. BdP's supervisory planning framework is structured and aligned with SSM expectations, integrating system-wide risk prioritization and MEL requirements into a coherent annual cycle that guides LSI supervision. The annual planning process begins with risk analysis and supervisory priorities, which incorporate SSM horizontal vulnerabilities, LSI classification, and BdP's own risk assessments. MEL requirements are translated into institution-specific Supervisory Examination Plans (SEPs), which are consolidated, validated by DSP management, and approved by the Board. Planning and execution are monitored through the process management tools and dashboards that track activity progress, deadlines, and completion status. The framework allows for timely adjustments when risk conditions change, maintaining a proportionate and risk-sensitive approach to LSI supervision without constraining the institution-specific judgement required in practice.

24. BdP could further strengthen its well-structured risk-based supervision of LSIs by consolidating existing risk-tolerance parameters into a concise, internal Supervisory Risk-Tolerance Statement (RTS). The intention would not be to introduce a new framework, but to bring together, in a single operational reference, the tolerance thresholds already embedded across the MEL policy, supervisory planning, resource-allocation choices and escalation procedures. The RTS would remain strictly internal and practice-based, identifying a small set of zero-tolerance outcomes (such as breaches of prudential requirements, severe governance breakdowns or critical deficiencies) and consolidating the quantitative and qualitative triggers that currently guide supervisory intensity and escalation. By making these elements explicit, the RTS would support more transparent prioritization, foster internal consistency in decision-making and resource allocation, and provide a clearer reference point for supervisory teams. A phased introduction, with periodic review, would allow refinement over time and ensure alignment with supervisory experience and SSM expectations without constraining case-specific judgement.

25. As DSP continues strengthening supervisory planning and execution, extending the scope of its internal monitoring tools would further reinforce discipline and predictability in the supervisory cycle. In 2024, DSP introduced a first set of key performance indicators (KPIs) to monitor inspection-reporting timeliness, supervisory-measure issuance, and implementation progress, areas where more systematic oversight was an immediate priority. These indicators have supported more structured managerial follow-up. A next step could be to ensure that efficiency indicators progressively cover the full supervisory cycle; for example, the completion of planned reviews within the expected timeframe and adherence to documentation standards in internal procedures. Complementing these process-focused KPIs with a small number of indicators that capture whether supervisory action has its intended prudential effect, such as improvements in an institution's risk assessment, recurrence of deficiencies after closure, or the time taken for higher-risk LSIs to return to a more stable risk profile, would allow DSP to assess whether supervisory interventions are resolving underlying issues and whether supervisory intensity is aligned with risk. Taken together, these extensions would support more disciplined supervisory planning and give DSP management a clearer view of how supervisory work progresses across LSI teams, while complementing the supervisory effectiveness monitoring discussed in paragraphs 28 and 44.

B. SREP Implementation and Off-site Supervision

26. BdP's SREP and off-site framework for LSIs is methodologically robust, data-driven, and aligned with the SSM LSI SREP methodology, supported by strong analytical tools and multi-layer review designed to promote consistency in supervisory judgments. Off-site supervision combines continuous monitoring through the Early Warning System with quarterly or semi-annual Financial Prudential Profile Summary, which consolidates prudential data and supervisory assessments. Off-site teams also conduct targeted thematic reviews and benchmarking to identify emerging vulnerabilities. Supervisory follow-up is managed through the structured Findings and Measures process, which records deficiencies, assigns severity levels, sets corrective measures with remediation deadlines, and tracks closure. These inputs are integrated in process management tools, enabling supervisors and management to track each institution's risk profile, supervisory measures, and follow-up actions. Outputs from this process feed directly into the annual SREP assessment. Pillar 2 Requirements are calibrated holistically within the LSI SREP framework, consistent with SSM practice. DSP applies a structured horizontal review of SREP assessments, including annual benchmarking that in 2024 produced 164 points of attention requiring refinement before final decisions. Final decisions are reviewed by the SREP Committee and adopted by the full BdP Board, providing strong governance over methodology application and consistency across LSIs.

27. BdP's SREP and off-site processes are well developed and supported by solid analytical tools, including an advanced Findings and Measures framework aligned with SSM good practices. The next practical managerial enhancement is the systematic internal reporting on how supervisory actions ensure severity-aligned, timely, and graduated measures at a cross-LSI level. BdP's supervisory process generates a wide range of analytical input, drawing on supervisory assessments, early-warning indicators, horizontal analyses, and on-site findings as discussed before, and supervisory actions are defined and documented through the Findings and Measures database. These tools give supervisors a solid basis for case-specific judgment and timely action. The available documentation, however, organizes this information mainly at the level of individual institutions and does not present all relevant aggregated indicators. As a result, there is no system-wide view of how the severity of deficiencies influences the timing or type of supervisory response, or how often issues recur. Nor are there consolidated indicators on the consistency of follow-up across institutions. This does not indicate weaknesses in case-level supervision, but rather the absence of a routine consolidated view across LSIs, which would enable DSP management to detect slow-moving cases, uneven supervisory responses, or recurrent issues that may not be visible through institution-by-institution monitoring alone. Using existing data from management tools and the Findings and Measures database to produce a concise internal overview would strengthen management oversight of supervisory follow-up and help ensure that responses remain timely and proportionate to the severity of identified risks, while fully respecting the need for supervisory judgment and institution-specific decisions. Such consolidated analytical information would also support broader efforts to enhance supervisory consistency, proportionality, and the articulation of an internal risk tolerance.

C. On-site Inspections

28. Banco de Portugal's on-site inspection framework for LSIs is well established and aligned with SSM practice. The internal manual defines a complete supervisory cycle—planning, execution, reporting and follow-up—with inspection teams independent from the ongoing supervisory teams, standardized templates, and a structured quality-assurance process. Technical work applies the SSM On-site Inspection Manual, with proportional scoping for LSIs, ensuring methodological consistency across risk areas. Annual planning is risk-based and internally traceable: supervisory teams submit inspection requests, the on-site division validates them, and a quantitative ranking algorithm—combining LSI impact category, RAS outcomes, risk-specific scores, last inspection year, and supervisory priorities—generates execution lists approved by DSP management and the BdP Board. Evidence confirms thematic and campaign work across credit, governance, ICT, operational and liquidity risks, complementing entity-specific inspections and supporting cross-institution benchmarking. BdP also employs special audits under Art. 116(2) of RGICSF, with terms of reference defined and monitored by the supervisor, providing an additional mechanism to examine targeted risk areas, such as data-quality governance. BdP inspectors also participate in on-site missions for SI under the SSM, which contributes to maintaining methodological consistency and strengthens the technical expertise applied to LSI inspections.

SUPERVISION OF CORE PRUDENTIAL AREAS

A. Credit Risk and Asset Quality

29. BdP's supervisory framework for credit risk in LSIs is firmly grounded in the EU prudential and accounting framework, integrating CRD/CRR, IFRS, and the SSM LSI-SREP methodology, complemented by national requirements. BdP follows the EBA SREP Guidelines and the SSM LSI SREP Methodology for the ongoing supervision of credit risk, complemented by Notice 3/2020 on governance, Instruction 5/2013 on auditor impairment reviews, Circular CC/2018/00000062 on IFRS 9 implementation, and Circular CC/2024/00000049 on NPE coverage expectations to LSIs. Horizontal teams support supervisory actions, via periodic and ad-hoc analyses, as well as dashboards based on aggregate and granular prudential and statistical data. Credit risk supervision is supported by the Central Credit Register, run by BdP and which provides comprehensive data for credit analysis. Model-validation activities within BdP focus on SIs, since no LSI uses internal ratings-based approaches or other internal credit-risk models. The supervisory focus on NPE has yielded significant results: since 2016, LSI NPE ratios have declined from about 18.5 percent (€6 billion) to 3.4 percent (€1 billion as of June 2025). Remaining high-NPE LSIs are non-systemic and subject to NPE-reduction plans monitored by supervisory teams.

30. Credit-file reviews play a central role in BdP's assessment of credit-risk management, combining direct on-site verification, horizontal analytical support, and structured use of external-auditor impairment work. BdP inspectors obtain complete loan and collateral datasets and apply the SSM on-site methodology to reassess classifications, staging, collateral valuations, and recovery assumptions. Eight inspections in mid- to small-sized LSIs over the past two years covered on average 35 percent of credit exposures, with 86 percent of obligors initially classified as performing, confirming that BdP's work goes beyond problem-loan testing. These reviews have identified concrete deviations—such as misclassification, insufficient individual-impairment analysis, and provisioning shortfalls—demonstrating that on-site work provides BdP with institution-specific evidence on the effectiveness of underwriting, monitoring, and valuation practices. Horizontal teams complement this by benchmarking practices and results across LSIs, supporting supervisors' judgments and the consistency of follow-up. External-auditor impairment reviews under Instruction 5/2013 provide the main recurring test of IFRS 9 models and quantitative assumptions; BdP analyses these reports, challenges conclusions, and may require reclassifications, additional provisions, or own-funds measures under Articles 115 and 116-C. On-site work therefore supplies the supervisory verification of credit-risk processes that cannot be obtained from auditor testing alone.

31. Formalizing a proportional, risk-based sampling framework would strengthen the consistency, traceability, and supervisory value of BdP's on-site credit-file reviews by structuring practices already in place. Current sampling is risk-based and aligned with SSM guidance but remains case-specific, without defined expectations for baseline coverage, stratification, or criteria for expanding testing when exceptions arise. A documented sampling framework would provide structure and predictability to practices already used by BdP, specifying baseline coverage, stratification, and criteria for expanding testing when exceptions arise. Codification would promote more predictable and well-structured verification, supporting consistent planning across inspection while fully preserving supervisory judgment. It would also reinforce BdP's ability to assess, and where needed challenge, the sampling criteria used in the external-auditor impairment reviews required under Instruction 5/2013. Finally, codification protects the continuity and depth of supervisory testing, including in periods of stress, resource constraints, or shifting priorities, helping BdP maintain a proportionate and independent empirical basis for supervisory judgments and SREP assessment of credit risk.

B. Related Parties Transactions

32. Portugal has established a well-structured framework for supervising related-party transactions (RPT), combining sound governance requirements with active supervisory follow-up. EU law lacks a dedicated, harmonized RPT regime. In Portugal, BdP has developed an effective regulatory and supervisory framework, built on the internal governance and internal control regulations set in Notice 3/2020 and complemented by Instruction 18/2020 and the provisions of the RGICSF, supported by clear escalation and enforcement mechanisms when deficiencies are detected. It sets out detailed obligations for the identification, approval, and monitoring of RPTs and defines related parties consistently with the Basel Core Principles, ensuring broad coverage. All RPTs must be conducted at arm's length and approved by at least two-thirds of the management body, after prior opinions from risk, compliance, and the supervisory body. Supervisory follow-up is active: off-site reviews of self-assessments reports on organizational culture, internal governance and internal control systems and policies under Instruction 18/2020, and regular analysis of the minutes of the board meetings are complemented by thematic and on-site work when deficiencies arise. The framework has proven operationally effective, as evidenced by documented supervisory interventions, sanctions, and case-specific remedial actions.

33. Despite the framework's strong governance design and case-based supervisory effectiveness, some elements that underpin preventive prudential discipline remain incomplete. Quantitative limits under Article 109 of the RGICSF (10 percent per qualifying shareholder and 30 percent in total) apply to qualifying shareholders and to companies they control or that belong to the same group. Other related parties are not subject to dedicated prudential limits and fall under governance and approval procedures; the general CRR large-exposures regime applies but does not constitute a related-party limit. BdP may set additional limits case-by-case under Article 116(1)(c). While BdP's approach is defensible as proportionate supervision, it is less effective in ensuring ex-ante discipline and reducing reliance on case-by-case judgment. This warrants setting limits that cover all exposures to RPTs or requiring such exposures to be collateralized or deducted from capital. In addition, LSIs report RPT data via FINREP (IAS 24 accounting scope), which is narrower than the related-party perimeter. Exposures are monitored mainly through review of board minutes and related governance documentation. This approach gives supervisors detailed insight into individual decisions and avoids creating unnecessary reporting burdens, but it does not provide regular information on the total amount of related-party exposures as defined in Notice 3/2020. As a result, supervisors do not have a regular, standardized view of the overall volume and concentration of all related-party exposures at each institution or across LSIs. Instruction 18/2020 strengthens internal-control reporting but does not create periodic quantitative RPT reporting; adding an RPT-specific template would give supervisors consistent, aggregate data needed to assess the scale and significance of related-party risks across institutions. Finally, periodic horizontal reviews or thematic campaigns on RPTs would validate the framework’s preventive dimension, strengthen consistency across LSIs, and generate the aggregate evidence base needed for system-wide analytics.

C. Other Core Financial Risk

34. **BdP applies a comprehensive and SSM-aligned framework for LSI liquidity and funding risk, supported by strong analytical tools; its implementation would benefit from greater operational testing of preparedness.** The framework incorporates EU standards on Liquidity Coverage Ratio and Net Stable Funding Ratio and is implemented through national instruments—Instructions 2/2019 (Internal Liquidity Adequacy Assessment Process), 18/2015 (funding plans), and Notice 2/2024 (recovery indicators)—supported by supervisory tools such as the Warning Indicators System, the Liquidity and Deposits dashboard, and the Financial Prudential Profile Summary. Supervisory teams conduct ongoing monitoring and horizontal work, notably liquidity sensitivity analyses using maturity-ladder data, the 2023 post-SVB assessment of deposit behavior and liquidity resilience. BdP has relied on qualitative measures and enhanced reporting to address identified weaknesses, and quantitative liquidity requirements have not been considered necessary for LSIs beyond those set out in the CRR. While contingency funding plans and high-quality liquid assets positions are reviewed, systematic contingency funding plan dry-runs and liquidity-buffer usability tests have not yet been part of supervisory practice. Introducing periodic contingency funding plans and high-quality liquid assets usability exercises would reinforce supervisory practice and help ensure that liquidity vulnerabilities lead to timely and proportionate measures across LSIs.

35. **BdP’s LSI supervision of operational risk prioritizes cyber risk, concentrated outsourcing, digital fraud, and emerging AI gaps, and addresses these vulnerabilities through a structured ICT, cybersecurity, and operational-resilience framework aligned with SSM methodologies.** BdP’s supervisory approach is implemented through a proportional, risk-based framework grounded in CRD/CRR, the RGICSF, and BdP regulations for ICT and cyber risk, incident reporting, outsourcing, business continuity, data quality, and digitalization, complemented by EBA guidance and early steps toward DORA implementation. Supervisory tools combine annual SREP assessments—where ICT risk feeds a dedicated sub-score within the

operational-resilience block—with off-site monitoring, incident and loss-data reporting, horizontal analyses, targeted on-site inspections, cyber-resilience stress testing, and system-access testing conducted since 2021. These assessments contribute materially to capital requirements, with operational-risk charges typically representing 10–15 percent of total own-funds needs for LSIs. Supervisory follow-up is largely based on recommendations and institution-defined action plans, with escalation to binding measures where remediation is delayed; BdP has indicated that the full DORA framework will provide a stronger legal basis for corrective action. BdP's documentation provides clear case-level traceability, but does not provide a consolidated view on how ICT-related findings and severities translate into supervisory measures across LSIs. Establishing internal monitoring of these linkages would strengthen proportionality, support consistent escalation, and enhance management oversight of supervisory effectiveness across LSIs.

36. BdP's supervision of interest rate risk in the banking book (IRRBB) for LSIs is well-established, grounded in the EU prudential framework, and supported by long-standing reporting, structured monitoring, and targeted supervisory interventions. LSIs have reported the set of six economic-value-of-equity shock scenarios and two net-interest-income shock scenarios defined in the Basel Committee's and EBA's IRRBB standards since 2018. In 2024, LSIs migrated from national templates to the standardized EU reporting framework for IRRBB. Supervisory assessment combines early-warning indicators, dashboards, biannual horizontal analyses, and on-site inspections, resulting in concrete corrective measures. No LSI breached the Supervisory Outlier Test thresholds as of June 2025. Remaining priorities are to complete the system-wide review of behavioral assumptions, especially non-maturity-deposit modelling—and the related data-quality checks under the new reporting regime.

37. Concentration risk in LSIs is supervised in accordance with the EU prudential framework (CRR/CRD and EBA standards) as applied within the SSM. EU provisions are complemented in national law through the RGICSF and BdP's secondary regulations, particularly Notice 3/2020 on risk management and Notice 7/2023 on reporting on credit risk concentration. Dashboards and Financial Prudential Profile Summary assessments are used to track breaches of large-exposure limits and trigger supervisory responses. Large exposure limits are rarely breached, and when they are, the breaches are addressed promptly. BdP's supervisory approach relies mainly on off-site monitoring supported by extensive data reporting and internal analytical tools. Single-name, sectoral, and geographical concentration is regularly assessed under the SREP in line with the SSM LSI SREP methodology. BdP has implemented internal processes based on granular data to assess banks' classification of connected clients, currently relying on manual processes, with a prospective transition towards the use of the Central Credit Register data and future automation through SupTech and AI tools. Broader forms of concentration risk are integrated into ongoing supervisory analysis through dashboards and peer benchmarking. However, the assessment of these broader concentration risks remains largely judgment-based, and BdP has not defined a risk tolerance for broader forms of concentration risk that could provide internal guidance for sectoral, geographic, and sovereign concentration, thereby strengthening benchmarking and ensuring consistent supervisory challenge. BdP gives particular attention to sovereign exposures, where the BdP encourages diversification and requires LSIs to set internal limits even though domestic sovereign carries a zero-risk weight. This approach reflects a sound prudential stance that recognizes sovereign concentration as an economic risk rather than a purely regulatory one.

38. Market-risk exposure is immaterial for most LSIs, with only five outside the CRR small-trading-book derogation and only one expected to fall under future Fundamental Review of the Trading Book—Alternative Standardized Approach requirements. BdP applies the harmonized EU prudential framework to all LSIs, none of which uses internal models for market-risk capital. Supervisory assessment follows the SSM LSI SREP Methodology and internal guidance, supported by early-warning indicators, dashboards, and review of key risk indicators. Supervisory engagement is intrusive, drawing on minutes, internal-audit work, and bank-specific data requests, with on-site inspections and deep dives prioritized for LSIs with material trading-book exposures. Remaining vulnerabilities concern independent price verification and fair-value classification at smaller LSIs; periodic benchmarking of valuation-control practices would further confirm the sector's low market risk profile.

D. Corporate Governance and Authorizations

39. The Portuguese framework for banks' corporate governance, internal control and risk-management systems is comprehensive, grounded in national legislation aligned with CRD requirements and BdP regulations. Corporate governance is a supervisory priority for the BdP. RGICSF sets governance obligations for credit institutions and is complemented by Notice 3/2020, which details the responsibilities of the management and supervisory bodies and the organization, independence and reporting lines of the internal-control functions. Instruction 18/2020 establishes the reporting requirements in respect thereof applicable to all credit institutions, including LSIs. Supervisory assessments use various structured inputs, including annual self-assessments from boards and control functions (with deficiency classifications F1–F4 and remediation plans), meeting minutes from management and supervisory boards, meetings with management and supervisory boards' members and the heads of internal control functions, and internal regulations. Horizontal analyses and on-site inspections complement ongoing monitoring. Supervisors apply the LSI SREP methodology using constrained judgment. Follow-up of deficiencies is tracked, including self-identified deficiencies, which can support a better SREP score of internal governance. Supervisory teams integrate all inputs into the internal governance SREP assessment, where overall supervisory judgment is synthesized in a set of conclusions supporting the internal SREP governance score. BdP should continue to ensure that the intensity of documentation and process review does not reduce attention to the qualitative assessment of governance and control effectiveness.

40. Fit and proper assessments follow a detailed and harmonized process applied to both SIs and LSIs, consistent with SSM methodology. The BdP conducts the national assessment for SIs and submits draft proposals to the ECB, while deciding directly for LSIs. Internal procedures define each step: completeness verification, desk-based checks of professional, financial and reputational information, structured internal consultations across legal, AML/CFT and supervisory units, and, when required, interviews conducted using standard guides with written minutes validated by the candidate. A 90-day legal decision period applies to the competent authority once the file is complete. The process is comprehensive and support consistent application of the suitability framework. Timeliness is monitored through BdP's newly introduced KPI on fit and proper (suitability) processes, which measures average time from submission to decision for suitability assessments.

41. Authorizations and qualifying holding assessments follow a comprehensive and structured process in which BdP acts as the national entry point and main assessor, while the ECB retains final decision-making under the SSM. Internal manuals define each phase—from pre-notification meetings to completeness checks, internal consultations across legal, AML/CFT, technology-risk and supervisory units, and transmission of the draft proposal to the ECB. The process includes early and continuous interaction with the ECB to align views and identify concerns at an early stage. Processing times vary significantly in the pre-completeness stage, where no legal deadlines apply and multiple information requests are frequent. Between 2021 and 2025, BdP handled four licensing and thirty-three qualifying holding cases for both SIs and LSIs, most concluded or withdrawn following these exchanges. The framework is fully aligned with CRD/CRR, EBA guidelines, and ECB procedural expectations.

ESCALATION AND EARLY REMEDIAL ACTION

A. Early Warning and Escalation Ladder

42. BdP relies on a comprehensive set of analytical tools to identify emerging risks in LSIs and determine when supervisory follow-up is required. Quantitative risk indicators generated through supervisory early-warning systems, the Financial Prudential Profile Summary quarterly analysis, horizontal reviews, day-to-day off-site monitoring, on-site inspections, external auditors' findings, and LSIs' self-identified deficiencies feed the supervisory workflow described in the Procedures for Issue and Follow-Up of Supervisory Measures (2024). Supervisory teams determine whether an alert becomes a formal finding and its severity (F1–F4) and determines the type of measure, in a framework aligned with the SSM findings-and-measures methodology. Horizontal consistency checks are performed by divisions. These inputs feed the Findings and Measures database, which constitutes the entry point for supervisory follow-up. At individual-case level, the workflow is operational, traceable, and aligned with SSM practice; however, there is no formalized, routine systematic monitoring or reporting on how findings and respective severities translate into supervisory measures at a cross-LSI management level. While the supervisory workflow is operational and supported by established tools, a next-step maturity enhancement would be to use the existing Findings and Measures database to systematically monitor and report on how the severity of deficiencies influences the type of supervisory response and on the consistency of follow-up across institutions to support senior management oversight and system-wide consistency.

43. BdP's escalation framework is structured around the five supervisory attention levels defined in the 2022 Crisis-Management Manual, which is based on previous crisis-management experience although has not yet been tested in its current form. The Manual sets out the sequence from heightened monitoring (levels 1–2) to the assessment of early-intervention measures (level 3) and crisis-management activation (level 4). Although adapted to the national framework, it builds on the SSM crisis-management approach and incorporates the early-intervention triggers and processes set out in EBA Guidelines. It also defines the documentation, approval steps, and quantitative and qualitative indicators that guide the classification of LSIs across the supervisory attention levels. In practice, escalation activity has remained concentrated in the lower levels: LSIs have been allocated only to levels 0 and 1 in recent years, and no LSI has reached the early-intervention stage since the Manual was issued. While the Manual reflects previous crisis-management experience, a simulation or dry-run exercise would provide practical validation of decision paths, notification timeliness, and inter-departmental coordination—especially given the absence of recent stress events among LSIs. Testing would not alter the framework but would demonstrate readiness, identify procedural bottlenecks, and generate evidence that the escalation and notification mechanisms function as intended under time pressure.

B. Early Corrective Measures and Sanctioning

44. BdP has a comprehensive set of early remedial actions anchored in the RGICSF, complemented by CRD/BRRD transposition, and operationalized through detailed internal procedures. The RGICSF (notably Articles 116-C and 141–145-B) provides a wide range of supervisory tools, and the 2024 Procedures for Emission and Follow-Up of Supervisory Measures sets out in detail the full cycle from finding validation to measure issuance, prior hearing, Board decision, follow-up, and closure or aggravation. The system is operational: BdP reports regular use of corrective measures for LSIs, and all actions are recorded in the Findings and Measures database, which supports structured monitoring of implementation. In recent practice, BdP reports that one LSI has been subject to early-intervention measures under the BRRD/RGICSF framework in the past five years. The documented workflow provides clear traceability and an auditable trail from issuance to closure. The documentation does not indicate whether BdP reviews, even on a limited sample, the timeliness or closure quality of corrective measures, or the consistency of supervisory responses to similar deficiencies across LSIs. Given the limited number of cases, a simple record of how remedial actions progress in practice—using existing records—would complement the strong procedural framework and support consistent escalation where relevant, in line with the monitoring enhancement already noted above.

45. BdP exercises its enforcement powers within a strong legal and procedural framework that has historically produced a high volume of prudential sanctioning proceedings and very few judicial reversals, evidencing solid legal capacity and discipline. Until the introduction of Article 209-A RGICSF in December 2022, the strict legality principle required that all identified facts or situations potentially constituting breaches be referred to DAS for assessment, including when corrective measures are applied. The case examples provided for

LSIs show that situations giving rise to corrective measures are referred in parallel to DAS for assessment of potential administrative sanctioning proceedings, even where institutions submit and implement action plans within agreed timelines. Article 209-A now allows BdP, under a narrow set of cumulative conditions, to refrain from initiating sanctioning proceedings for minor infringements that have been promptly remedied, and a 2024 internal procedure seeks to operationalize this discretion by defining criteria for non-initiation and identifying a list of infractions that must always be communicated to DAS. Resorting exclusively to remediation through supervisory measures (i.e., without initiating a sanctioning proceeding) is only possible if all the legal criteria set out in Article 209-A are met. The interaction between corrective tools and sanctioning powers is determined by Article 209-A and further specified by an internal procedure that operationalizes the limited discretion not to initiate sanctioning proceedings. That procedure also identifies cases that should always be referred to DAS, even where the legal criteria for not initiating a sanctioning proceeding are met. While Article 209-A represents a welcome rationalization of the enforcement framework by allowing corrective action to substitute for sanctioning in narrowly defined cases, the scope for proportionate enforcement responses that combine corrective measures and sanctioning procedures remains limited, indicating the need for further legal refinement to broaden supervisory discretion.

Appendix I. Structure and Composition of the Portugal Banking Sector

Table 1. Portugal: Banking Sector as of December 2025

	Total Assets		
Credit Institutions	**€ Billion**	**Percentage**	**Group, *Jurisdiction***
Significant Institutions (SIs)	**383,38**	**77,7**	
BANCO COMERCIAL PORTUGUÊS (Millennium bcp)	109,36	22,2	BCP Group, *Portugal*
CAIXA GERAL DE DEPÓSITOS	108,57	22,0	State-owned, *Portugal*
BANCO SANTANDER TOTTA	58,71	11,9	Santander, *Spain*
NOVO BANCO *(sale ongoing as of December 2025)*	46,49	9,4	LSF Nani Inv., *Luxembourg*
BANCO BPI	42,84	8,7	CaixaBank, *Spain*
ABANCA PORTUGAL	11,52	2,3	Abanca, *Spain*
BANCO CREDIBOM	4,63	0,9	Crédit Agricole, *France*
BBVA IFIC	0,78	0,2	BBVA, *Spain*
BANCO PRIMUS	0,49	0,1	Groupe BPCE, *France*
Less Significant Institutions (LSIs)	**70,98**	**14,4**	
High Impact (HI) LSIs	***53,46***	***10,8***	
CAIXA CENTRAL CRÉDITO AGRÍCOLA	28,60	5,8	Grupo Créd. Agríc., *Portugal*
BANCO MONTEPIO	19,86	4,0	Grupo CEMG, *Portugal*
BANCO CTT	5,00	1,0	Grupo Banco CTT, *Portugal*
Rest of LSIs	***17,52***	***3,6***	
HAITONG BANK, Portugal	3,43	0,7	Guotai Haitong Sec., *China*
BANCO DE INVESTIMENTO GLOBAL	2,89	0,6	Grupo BiG, *Portugal*
BANCO FINANTIA	2,74	0,6	Grupo Finantia, *Portugal*
ALVES RIBEIRO	1,03	0,2	Grupo A. Ribeiro, *Portugal*
CAIXA CRÉDITO AGRÍCOLA MUTUO DE LEIRIA	0,97	0,2	Independent, *Portugal*
BANCO BAI EUROPA	0,87	0,2	BAI, *Angola*
ATLÂNTICO EUROPA	0,78	0,2	Atlântico Europa, *Portugal*
CAIXA CRÉDITO AGRÍCOLA M. DE TORRES VEDRAS	0,76	0,2	Independent, *Portugal*
ITAÚ BBA EUROPE	0,72	0,1	Itaú Unibanco, *Brazil*
BISON BANK	0,66	0,1	Bison Capital, *China*
BANCO L.J. CARREGOSA	0,57	0,1	Banco L.J Carregosa, *Portugal*
CAIXA ECONÓMICA MISERICORDIA DE ANGRA	0,56	0,1	Independent, *Portugal*
UNICRE	0,53	0,1	Independent, *Portugal*
CAIXA CRÉDITO AGRÍCOLA MUTUO DE MAFRA	0,41	0,1	Independent, *Portugal*
BNI EUROPA	0,30	0,1	BNI, *Angola*
BANCO PORTUGUÊS DE GESTÃO	0,14	0,0	Independent, *Portugal*
CAIXA CRÉDITO AGRÍCOLA M. DE BOMBARRAL	0,09	0,0	Independent, *Portugal*
CAIXA CRÉDITO AGRÍCOLA M. DA CHAMUSCA	0,06	0,0	Independent, *Portugal*
SOFID	0,02	0,0	Independent, *Portugal*
Total Credit Institutions	**454,37**	**92,1**	
EU Branches (36)	**39,19**	**7,9**	
TOTAL BANKING SECTOR	**493,55**	**100,0**	

Source: Banco de Portugal.

Appendix II. Structure of Banco de Portugal's Banking Prudential Supervision Department (DSP)

1. DSP carries out Banco de Portugal's prudential supervision of credit institutions and financial companies, under the RGICSF and within the SSM. DSP supervises less significant institutions (LSIs) under national responsibility and contributes to the joint supervision of significant institutions (SIs) under the ECB's lead. DSP also participates in SSM and EBA working groups and maintains BdP's interfaces required for the application of common methodologies and supervisory standards.

2. Governance and integration within the BdP. DSP reports to the Board Member responsible for prudential supervision (Rui Miguel Correia Pinto). As of the cut-off date, the DSP is headed by a Director (Luís Costa Ferreira) and four Deputy Directors. Decisions on matters of institutional impact remain with the Board. DSP coordinates with several BdP departments that hold complementary supervisory responsibilities:

- Legal Enforcement: Supports with authorizations and withdrawals, qualifying holdings, fit-and-proper, and sanctioning, and suspension of voting rights.
- Information Systems and Technology: Supports with supervisory information systems, data quality processes, and digital tools.
- Resolution: Exchanges prudential data for resolution planning and measures.
- Legal Services: Advises on regulatory interpretation and supervisory measures.
- Financial Stability: Provides macro-financial analysis and macroprudential policy input.
- Banking Conduct Supervision: Coordinates on conduct-related issues.

3. Organizational structure. DSP is organized around institution-focused supervision and horizontal specialist divisions in a structure that supports DSP's coordination with ECB Supervision. Three divisions form the operational backbone of institution-level work: AS1 Division participates in the SSM Joint Supervisory Teams for SIs, and AS2 and AS3 Divisions are responsible for the direct, day-to-day prudential supervision of LSIs and ongoing supervisory dialogue. Four horizontal specialist divisions support their work along with an international cooperation unit for SSM liaison and international cooperation:

- AIM—Inspections and Model Validation: On-site inspections, targeted reviews, and model validation for SIs and LSIs.
- ARP—Prudential Risks: Horizontal expertise on main risks, including business model, ESG, capital, crisis management, credit, liquidity, market, operational, ICT/cyber, and governance.

- AAC—Authorizations and Legal Consulting: Licensing, qualifying holdings, fit-and-proper assessments, and legal advisory.

- AIP—Innovation and Supervisory Planning: Supervisory planning, methodologies, quality assurance, technologies, and training.

4. DSP applies a matrix-management model in which the Director and Deputy Directors each oversee both institution-focused and horizontal divisions to promote effective integration. DSP's headcount as of December 2025 totals 240 FTEs.