Activity Report

Portuguese Banking Association

No. 50
2014 | Annual

Lisbon | October 2015

Acknowledgements

Associação Portuguesa de Bancos (APB - Portuguese Banking Association) would like to thank all its members for their contribution to the preparation of this Annual Activity Report.

We also thank Banco de Portugal for providing the information required for this report and the analysis of the representativity of the APB Members in the Portuguese banking system and for providing clarifications whenever necessary.

Associação Portuguesa de Bancos is also grateful to SIBS – Forward Payment Solutions for drawing up part of the chapter on bank coverage indicators.

Finally a word of thanks goes to Instituto de Formação Bancária (IFB - Banking Training Institute) for its cooperation in the analysis of the training given to Members' human resources.

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Acronyms

ABS	Asset-backed Securities
ACOFL	Average Cost on Financial Liabilities
AGR	Average Annual Growth Rate
APB	Associação Portuguesa de Bancos
AROFA	Average Return on Financial Assets
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BdP	Banco de Portugal
CDSs	Credit Default Swaps
CEBS	Committee of European Banking Supervisors
CGTP	General Confederation of the Portuguese Workers
CIRC	Corporate Income Tax Code
CIRE	Code on Insolvency and Recovery of Companies
CIRS	Personal Income Tax Code
CIS	Stamp Duty Code
CMVM	Comissão do Mercado de Valores Mobiliários (*Portuguese Securities Market Commission*)
CPC	Civil Procedure Code
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSDs	Central Securities Depositories
CSMA	Customer Services and Market Activities
CT1	Core Tier 1
DGCI	Directorate-General for Taxation
D-SIBs	Domestic Systemically Important Banks
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECCL	Enhanced Conditions Credit Line
EFAP	Economic and Financial Adjustment Programme
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
EMU	Economic and Monetary Union

EP	European Parliament
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro
FA	Financial Assets
FGD	Fundo de Garantia de Depósitos (*Deposit Guarantee Fund*)
FI	Financial Institution
FIN	Ficha de Informação Normalizada (*Standardised Information Sheet*)
FL	Financial Liabilities
FRA	Forward Rate Agreement
FSB	Financial Stability Board
GDP	Gross Domestic Product
GOR	Gross Operating Results
G-SIBs	Global Systemically Important Banks
G-SIFIs	Global Systemically Important Financial Institutions
GTL	General Taxation Law
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IEFP	Institute of Employment and Vocational Training
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IMI	Municipal Property Tax
INE	Statistics Portugal
IOSCO	International Organization of Securities Commission
IRC	Corporate Income Tax
IRS	Personal Income Tax
ISE	Interest and Similar Expenses
ISI	Interest and Similar Income
JF	Joint Forum
KII	Key Investor Information
LTRO	Long-Term Refinancing Operations
MiFID	Markets in Financial Instruments Directive

MRO	Main Refinancing Operations
NGCSM	Net Gains from Customer Services and Market Activities
NGFC	Net Gains from Fees and Commissions
NGFO	Net Gains from Financial Operations
NIBT	Net Income Before Tax
NIFSO	Net Income from Financial Securities Operations
NII	Net Interest Income
NIIMMO	Net Income from Interbank Money Market Operations
NIOC	Net Income from Operations with Customers
OC	Operating Costs
OF	Own Funds
OI	Operating Income
OIP	On-Site Inspections Programme
OMT	Outright Monetary Transactions
OR	Other Results
OTC	Over-the-counter
PALOPs	Portuguese-speaking African Countries
PBS	Portuguese Banking System
PERSI	Extrajudicial Default Regularisation Procedure
PI	Provisions and Impairments
POS	Point of Sale
PRIPs	Packaged Retail Investment Products
RGICSF	Legal Framework on Credit Institutions and Financial Companies
ROA	Return on Assets
ROE	Return on Equity
ROFA	Return on Financial Assets
PARI	Default Risk Action Plan
PD	Probability of Default
SAMS	Serviço de Assistência Médico-Social (*Medical and Social Assistance Service*)
S&P	Standard & Poor's
SIC	Standing Interpretations Committee
SIFI	Systemically Important Financial Institution
SIP	Special Inspections Programme
SIREVE	Extrajudicial Company Recovery System
SMP	Securities Markets Programme
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism

TA	Total Assets
TBs	Treasury Bills
TFEU	Treaty on the Functioning of the European Union
TLTRO	Targeted Long-Term Refinancing Operations
TSCG	Treaty on Stability, Coordination and Governance
UCITs	Undertakings for Collective Investment in Transferable Securities
USA	United States of America
USD	United States Dollar
VAT	Value-Added Tax

I. Foreword

The Annual Activity Report of the Portuguese Banking Association (APB) analyses the aggregate activity of its member institutions.

The analysis covers activity (at representative offices and subsidiaries) undertaken in Portugal and abroad by the financial institutions (banks, savings banks and mutual agricultural savings banks) belonging to the APB This aggregate is obtained by adding up each institution's separate financial statements and other management indicators. Exceptions are the aggregate information used to assess international business activity of Members with a significant presence abroad and the solvency analysis, as they refer to consolidated data.

The analysis focuses on member institutions' performance in 2014, though always viewed in the context of the last three years. Please note that, based on the information and details provided by the Members, more detailed analyses may be limited to a smaller sample or period of analysis.

The sample includes 27 financial institutions of the 28[1] in the group of 20 APB Members on 31 December 2014 (see Chart 1 p. 3). This sample was redefined whenever necessary for the comparability of some results. These situations are clearly pointed out in the report or footnotes.

The most important events affecting the member institutions in 2014 were as follows:

- In August, NCG Banco, S.A. changed its trademark from Novagalicia Banco to ABANCA. Its Portuguese branch office therefore now uses the ABANCA brand, though its name remains unchanged (NCG Banco, S.A. – Sucursal em Portugal).
- In October, In October 2014, following the resolution of Banco Espírito Santo, S.A. (BES), the APB's General Assembly decided that this financial institution no longer qualified to be a member of the association. It also consolidated the business of another three: Banco Espírito Santo de Investimento, S.A., Banco Best, S.A. and Banco Espírito Santo dos Açores, S.A.
- Pursuant to the resolution of BES by Banco de Portugal in July 2014, there was a separation of the problematic assets of Banco Espírito Santo, S.A., which remained with it and whose losses were borne by its shareholders and creditors in compliance with EU law, and the remaining assets and liabilities which were transferred to a transition bank, Novo Banco, S.A. Novo Banco was capitalised by the Portuguese Resolution Fund, which guaranteed all existing agreements with BES customers and employees and preserved deposits and unsubordinated obligations.
- Although Banco Espírito Santo, S.A. maintained its banking licence, Banco de Portugal saw fit to impose corrective measures on it such as forbidding it to grant loans or receive deposits. The General Assembly of APB therefore decided that BES had been deprived of the primary, essential function of any bank and this was a necessary condition under the APB's statutes for it to be a Member. Novo Banco, S.A. was only admitted as an APB Member on 1 January 2015.

As a result of these events and the resulting split in BES's financial statements due to its resolution, the separate information for 2014 on BES and the three financial institutions in its

[1] NCG Banco, S.A. - Sucursal em Portugal, was not included in the sample due to unavailability of information of the date of writing this report.

universe has been excluded. The only exception was the data on human resources and capacity indicators as at 31 December 2014, which were taken into account but reported under the Novo Banco Group, in order to prevent a considerable distortion in the description of the Portuguese banking sector in terms of employment and geographical location. For the purpose of comparison, the information on the group was also excluded from years prior to 2014 or not, depending on whether it was financial or non-financial.

Chapter II of this report describes the macroeconomic background and Chapter III details the legal and regulatory framework that influenced Members' activity during the year. Chapter IV characterises the member institutions, including changes in their numbers in recent years, and analyses their representativity in the Portuguese banking system. Chapter V analyses their human resources and Chapter VI the degree of banking coverage. Chapter VII analyses the member institutions' performance in a detailed study of the main items on their balance sheets and income statements. This chapter also includes a solvency analysis. Chapter VIII provides the main efficiency indicators, while Chapter IX addresses the consolidated international activity of Members with a significant presence abroad.

Chart 1: Index of the APB Members and of the financial institutions that belonged to them as of 31 December 2014

Financial institutions – Domestic

Members	Financial Institutions	Acronyms
Banco BIC Português, S.A.	Banco BIC Português, S.A.	Banco BIC
Banco BPI, S.A.	Banco BPI, S.A.	Banco BPI
	Banco Português de Investimento, S.A.	BPI
Banco Carregosa, S.A.	Banco Carregosa, S.A.	CARREGOSA
Banco Comercial Português, S.A.	Banco Comercial Português, S.A.	Millennium bcp
	Banco ActivoBank, S.A.	Activobank
	Banco de Investimento Imobiliário, S.A.	BII
Banco de Investimento Global, S.A.	Banco de Investimento Global, S.A.	BIG
Banco Finantia, S.A.	Banco Finantia, S.A.	Finantia
Banco Invest, S.A.	Banco Invest, S.A.	Invest
Banif - Banco Internacional do Funchal, S.A.	Banif - Banco Internacional do Funchal, S.A.	Banif
	Banif - Banco de Investimento, S.A.	Banif Inv
	Banco Banif Mais, S.A.	Banif Mais
Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL	Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL	CCCAM
Caixa Económica Montepio Geral	Caixa Económica Montepio Geral	Montepio
	Montepio Investimento, S.A.	Montepio Investimento
Caixa Geral de Depósitos, S.A.	Caixa Geral de Depósitos, S.A.	CGD
	Caixa - Banco de Investimento, S.A.	CBI

Financial Institutions – Subsidiaries

Members	Financial Institutions	Acronyms
Banco Bilbao Vizcaya Argentaria (Portugal), S.A.	Banco Bilbao Vizcaya Argentaria (Portugal), S.A.	BBVA
Banco Popular Portugal, S.A.	Banco Popular Portugal, S.A.	Popular
Banco Santander Consumer Portugal, S.A.	Banco Santander Consumer Portugal, S.A.	Sant Consumer
Banco Santander Totta, S.A.	Banco Santander Totta, S.A.	Santander Totta

Financial Institutions – Branch officies

Members	Financial Institutions	Acronyms
Banco do Brasil AG - Sucursal em Portugal	Banco do Brasil AG - Sucursal em Portugal	BB
Barclays Bank PLC, Sucursal em Portugal	Barclays Bank PLC, Sucursal em Portugal	Barclays
BNP Paribas	BNP Paribas	BNP
	BNP Paribas Securities Services, S.A. - Sucursal em Portugal	BNP SS
Deutsche Bank AG, Sucursal em Portugal	Deutsche Bank AG, Sucursal em Portugal	Deutsche Bank
NCG Banco, S.A., Sucursal em Portugal	NCG Banco, S.A., Sucursal em Portugal	ABANCA

Source: APB.

II. Macroeconomic background

II.1. Global macroeconomic background

According to the International Monetary Fund (IMF), the global economy grew 3.4% in 2014, which was very similar to the previous year. In contrast to the moderate growth in the emerging bloc (4.6%, or 0.4 p.p. lower than in 2013 and the lowest figure since 2009) the developed economies performed favourably, accelerating 0.4 p.p. to 1.8%.

As in previous years, both the IMF and other key international institutions scaled back their growth estimates during the year due to the disappointing dynamics in some of the main world economies in the first quarter of 2014.

Among the developed countries, the United States and United Kingdom experienced accelerated growth in their gross domestic product (GDP), fostered mainly by domestic demand. In the United States, after a contraction in GDP in the first quarter of the year, explainable in part by severe weather conditions, its vitality in the following quarters resulted in acceleration of 0.2 p.p. in GDP growth, which reached 2.4% over the year. The British economy accelerated 1.1 p.p. to 2.8%, its fastest growth rate since 2006.

On the other hand, the Japanese economy slowed down considerably (-1.7 p.p. to a contraction of 0.1% over the year). It was in technical recession in the third quarter of 2014 as a result of a rise in VAT from 5% to 8% in April.

One of the main positive highlights of the year was the 0.9% expansion in GDP in the euro area, for the first time since 2011. Almost all the Member States showed positive growth rates, with the peripheral economies returning to growth (with the exception of Italy), especially Ireland, Spain and Portugal, in a year of less intense fiscal consolidation than in the recent past.

The decision by the European Central Bank (ECB) to lower its reference rates to new minimums together with the introduction of a negative rate on surplus deposits at the bank, announcement of a series of TLTROs and the introduction of an asset buying programme (asset backed securities and covered bonds) acted as an important stimulus to the euro area economy between June and December and also made monetary and financial conditions less restrictive.

In spite of the uncertainty caused by a deterioration in geopolitical relations between Russia and Ukraine, plus the state of Greece's public finances, the ECB's introduction more accommodating monetary policy and the understanding reached on banking union resulted in a low perception of risk in the euro area. This led to a progressive reduction in financial fragmentation and consequent decrease in the heterogeneity of funding terms in the Member States and the region's different economic agents.

After a 3.8% contraction in 2013, the stock of bank loans granted grew by 0.2% in 2014, thereby reversing the negative trend of the previous two years. This was due in part to the positive performance of loans in the core euro area economies, in spite of a fall in the peripheral countries.

Global inflation was one of investors' main concerns, particularly in the second half of 2014. The appreciation of the US dollar (due to the different in monetary policy between the US Federal Reserve and a number of other central banks, especially the ECB), the slowdown in the Chinese economy and greater energy autonomy in the United States led to considerable correction in the international prices of a variety of commodities, especially oil.

This framework, plus low use of production resources and moderate global growth, led to fears of deflation, which resulted in the introduction of monetary stimuli (such as cuts in key rates) by a number of central banks. The threat was particularly prominent in the euro area, where the average annual inflation rate was 0.4% (1.3% in 2013).

On the other hand, support provided by central banks and an improvement in economic fundamentals, particularly in the developed economies, allowed the financial markets to perform favourably, which resulted in the appreciation of almost all classes of assets in 2014.

Among the risk classes, the global stock market appreciated for the third year running and the share markets in United States and Europe recorded gains of 11.4% and 4.4%, respectively. The Portuguese stock market went against the European trend and ended the year with a 27% loss, after rising for two years running. It was particularly affected by the case of Banco Espírito Santo (BES) and uncertainty as to Portugal Telecom.

The performance of the stock markets in the emerging economies differed, with the aggregate index showing of loss of 4.6% in the year, in spite of considerable appreciations in the stock markets in China and India (53% and 30%, respectively).

Among the higher risk classes, the corporate bond market also showed a good performance during the year, which was fostered by narrowing spreads and the interest rate component (contraction of no-risk interest rate).

There were general falls in yields in the countries with better credit ratings, such as Germany, and in the peripheral countries in the European sovereign bond market. This was in line with the downward trend in inflation, somewhat anaemic growth in the region's economy and a lower perception of risk, which resulted in a drop in risk premiums in the countries that suffered the most pressure during the sovereign debt crisis.

This situation, particularly in terms of inflationary trends (with medium-term inflation rates in the capital markets lower than the ECB's 2% target), led to a considerable downward trend in sovereign debt interest rates, which ended 2014 at historical lows in many countries, including those on the periphery. The downward trend in yields also led to an unprecedented situation of negative returns (particularly on shorter maturities) in countries with better credit ratings, such as Switzerland, Germany and the Netherlands.

This allowed underlying assets to appreciate with resulting positive effects on financial institutions' balance sheets and profits, due to the exposure of their security portfolios to these assets.

The ECB's more hands-on attitude, in terms of conventional monetary policy (reducing reference rates) and unconventional moves (introducing security purchase programmes or refinancing operations at commercial banks in the euro area), also resulted in a sharp downward trend in interest rates in the interbank market. There was a clear contraction in the reference rate in the overnight money market (EONIA), and it was actually negative at times in the fourth quarter of

2014. Euribor rates also fell considerably for different maturities, and reached negative rates in the shorter ones.

II.2. Portugal

In the year marking the end of the Economic and Financial Adjustment Programme (EFAP) agreed upon with the European Commission, ECB and IMF, the Portuguese economy showed its first positive year-on-year growth (0.9%) in four years, though GDP was still 6.5% below that in 2010. The good performance was due to the positive dynamics of domestic demand items, in which gross fixed capital formation (GFCF) grew for the first time in six years and domestic consumption kept up with the recovery in consumer confidence.

Portuguese exports continued to perform favourably and reached 40.9% of GDP (40% in 2013), their highest ever. This reflected the reorientation of exports to tradable goods, in spite of the equally positive growth in service exports since the 2008-2009 crisis. Contrary to 2013, the contribution of foreign trade to GDP was negative due to considerable growth in imports.

In 2014, the economy preserved its financing ability after a long period in which it was structurally a debtor. In the fourth quarter of 2014, its position as a creditor reached 1.9% of GDP, which was lower than the 2.5% achieved in 2013, as a result of the deterioration in the situation of households and non-financial firms.

Households' financing capacity slowed down by 1.8 p.p. to 2.5% of GDP. This resulted from a contraction in the savings rate from 8.7% to 6.9% of gross disposable income, which was its lowest since the fourth quarter of 2008. Non-financial firms' financing capacity fell 0.3 p.p. to 0.6% of GDP.

On the other hand, the financing capacity of the remaining institutional sectors increased in 2014, with special focus on financial firms, whose capacity grew 1.2 p.p. to 3.3% of GDP.

The joint current and capital balances remained positive for the third year running and reached 2.1% of GDP (as opposed to 3.1% in 2013), which improved the country's international investment position. This was due in part to a surplus in the balance of services, which fell slightly from 6.5% of GDP in 2013 to 6.3% in 2014, thus more moderate for the first time since 2010.

The fiscal aspect constituted a stimulus to the Portuguese economy for the first time in four years, with its cyclically adjusted balance reaching -1.9% of potential GDP, according to the European Commission. This represented a fiscal boost of 0.5 p.p. against 2013. Also according to the EC, Portugal's deficit was 4.5% of GDP in 2014, as opposed to 4.8% in 2013, while its public debt ratio rose for the seventh year running to 130.2% of GDP at the end of 2014.

Where the labour market was concerned, according to Statistics Portugal (INE), the unemployment rate was 13.6% in December 2014, ending the year 2.3 p.p. lower than in 2013. According to Instituto de Emprego and Formação Profissional (IEFP) (Institute of Employment and Professional Training), there were 598,600 unemployed at the end of 2014, 106,700 fewer, year on year.

The trend towards a contraction in loans and advances to the economy by the financial sector continued in 2014, and there was a 13.5% decrease in the non-financial segment (against 5.7% in 2013), and 3.5% in loans and advances to private customers (against 4.4% fall in 2013).

Factors like the strict capital requirements imposed on the banking sector, the high level of borrowing by the resident non-financial sector, demand for loans and advances for investment influenced by still modest economic growth and some uncertainty continued to affect the banks' deleveraging process and a reduction in loans and advances.

At the same time, the fall in interest rates on sovereign debt in 2014, reflecting the ECB's accommodating monetary policy and high demand for return by international investors, had positive impacts on the appreciation of assets and, therefore on financial institutions' securities portfolios.

The rate of return on Portuguese 10-year sovereign debt bonds fell 344 b.p. in 2014, which was the third year running of falling yields, ending at an all-time low of 2.69%. This represented a contraction in the risk premium of Portuguese debt to 215 b. p, close to the minimum in the pre-sovereign debt crisis.

Meanwhile, in spite of the decrease in saving by households and moderate funding capacity of non-financial firms, there was an increase in customer deposits on the balance sheets of the institutions in the banking sector. According to Banco de Portugal[2], deposits represented around 60% of the sector's liabilities at the end of 2014, as opposed to 43.4% in 2010. Of the deposits attracted by the banks in 2014, private customers' deposits grew 0.4% and non-financial forms' grew 2.9%.

The ECB's measures and developments in banking union had and will continue to have different effects on the banking sector.

On the one hand, they will reduce financial fragmentation and improve liquidity and access to the financial markets. On the other hand, they are contributing to the recovery of confidence indicators, which was reflected in economic activity in 2014 and expectations of positive developments in the banking sector's fundamentals in 2015. One of the ways will be a reduction in non-performing loans, an increase in demand for loans and advances and appreciation of assets and collaterals.

The ECB's expansionist measures place additional pressure of the sector's levels of return. The downward trend in market interest rates will continue to condition the banking system's net interest income. Furthermore, the prevalence of very low and even negative interest rates in some segments of the market poses a risk to financial stability.

[2] Banco de Portugal, "Relatório de Estabilidade Financeira" ("*Financial Stability Report*"), May 2015

III. Legal and regulatory framework

In spite of the reduction in EU legislation and regulations that began in 2013, there can be no doubt that 2014 was a year of profound reform, such as approval of the European scheme for recovery and resolution of financial institutions and the new Single Resolution Mechanism.

In Portugal, there were a number of amendments to legislation on taxation and naturally the partial early transposition of the Directive on the Recovery and Resolution of Credit Institutions needed to handle the resolution of Banco Espírito Santo and the transposition of the new European framework on access to the activity of credit institutions, which was approved in 2013.

The main laws and regulations in 2014 are shown below and in the annexes as follows: (1) Portuguese laws connected to or with an impact on banking that came into force in 2014 (Annex A), (2) public consultations, draft legislation and laws published at international level (Annex B) and (3) the main amendments to international accounting standards (Annex C).

III.1. Laws and regulations in Portugal[3]

2014 witnessed a number of reforms to tax laws and the transposition of EU Directives on the financial sector.

Profound changes were made to the Personal Income Tax Code (CIRS) and the Corporate Income Tax Code (CIRC). Law 82-D/2014 of 31 December reformed green taxation, i.e. taxation based on environmental factors, which not only altered the above codes but also meant changes in VAT legislation, Municipal Property Tax (IMI) and Municipal Tax on Property Sales (IMT).

Financial institutions were affected by many amendments in legislation that resulted from transpositions of EU Directives and Portuguese legislation or regulations.

The measures to reinforce credit institutions' financial solidity, commonly known as the capitalisation scheme, were altered once again to bring them into line with European Commission Notice 2013/C216/01 of 30 July, which set out new principles on state aid in the form of assistance to banks.

Banco de Portugal drafted regulations adjusting mechanisms and procedures needed for effective compliance with financial institutions' obligation to prevent money laundering and funding of terrorism and the information that they have to report to its every year.

The most profound reform in Portuguese legislation, however, was certainly the transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26 June, which regulates access to the activity of credit institutions and the prudential supervision of credit institutions and investment companies.

On the other hand, in view of the crisis at Banco Espírito Santo, Portuguese Decree-Law 114-A/2014 of 1 August and Decree-Law 114-B/2014 of 4 August, partially transposed the rules set out in Directive 2014/59/EU of the European Parliament and of the Council of 15 May, which laid out the framework for the recovery and resolution of credit institutions and investment companies.

[3] Annex A contains a chronological list of laws and regulations that were published and came into force in 2014.

Finally, at the end of last year, Banco de Portugal issued a regulation aligning the calculation of contributions to the Portuguese Deposit Guarantee Fund and Resolution Fund.

III.2. International initiatives regulating the financial sector

Since the financial crisis broke out in 2008, followed by the sovereign debt crisis in 2010, there have been profound changes in legislation and regulations for the European financial sector.

An important step towards banking union was taken in 2014 when the Single Supervisory Mechanism (SSM), an integrated system of prudential supervision in the euro area and the so-called first pillar of banking union, came into effect on 4 November. The SSM was introduced by Regulation (EU) 1024/2013 of the Council of 15 October. It comprises the European Central Bank and the national supervisory authorities of the euro countries. Its main goals are to ensure the security and soundness of banking systems, increase financial integration and financial stability and guarantee coherent supervision within its sphere of influence. The SSM's Framework Regulation, which sets out the form of cooperation between the ECB and national authorities, came into force on 15 May 2014.

There were also important developments in European legislation in 2014. Directive 2014/59/EU of the European Parliament and of the Council of 15 May established the framework for the recovery and resolution of credit institutions. Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July laid down uniform rules and a procedure for the resolution of credit institutions in the euro area, within the framework of a Single Resolution Mechanism (SRM), the second pillar of banking union, and a Single Resolution Fund (SRF). The main goal of this legislative package is to guarantee a single mechanism for the resolution of credit institutions without affecting the systemic stability or financial situation of the country in question, while also creating a bail-in to minimise the impact on the exchequer of resolution of a credit institution.

The third pillar of banking union will consist of the creation of a single deposit guarantee scheme. Although there is not yet a date for its implementation, an important step was taken in 2014 towards the harmonisation of national rules on deposit guarantees at European level. A review of the existing regulatory framework culminated in the publication of Directive 2014/49/EU of the European Parliament and of the Council of 16 April.

Where prudential rules were concerned, the CRR/CRD IV (Capital Requirements Regulation/ Capital Requirements Directive) package came into effect in 2014. It transposed into the European regulatory framework the prudential measures announced by the Basel Committee on Banking Supervision (BCBS) in December 2010, also known as Basel III. These measures are designed to increase the banking sector's resilience by stepping up the quality and consistency of regulatory capital and introducing new liquidity, leverage, remuneration and governance measurements and requirements, among others.

At macroprudential level, progress was made towards a common framework for the whole union, and the European Systemic Risk Board (ESRB), which coordinates EU macroprudential policy, issued recommendations for macroprudential authorities to implement the policy.

In spite of important advances towards strengthening the European banking sector's resilience, the European institutions still feel that it is necessary to take further measures, such as separation between the risks of banks' trading activities and their traditional functions of accepting deposits and granting loans and advances. On 29 January 2014 the European Commission submitted a proposal for a regulation on structural measures to improve EU credit institutions' resistance. These measures were based on the Liikanen Report from the High-Level Expert Group chaired by the Governor of the Bank of Finland, Erkki Liikanen (IP/12/1048) and apply to larger, more complex banks. They forbid trading of financial instruments and commodities on their own account, give supervisors the power to require the transfer of other high-risk trading activities to legally separate trading companies within the group and lay down rules on economic, legal, operational and governance relations between the separate trading company and the rest of the bank group.

There were a considerable number of regulatory measures regarding capital markets in 2014. The initiatives included those on the new framework for the financial instrument market, lending operations and reporting of securities, the creation of a new credit securitisation segment and a revision of capital requirements for these instruments.

There were also provisions regarding market abuse, structured deposits, settlement of securities, collective security investment bodies, packages of retail investment products and insurance-based investment products and cross-selling practices.

Regarding funding of the economy, on 26 November 2014, the European Commission announced a 315 billion euro investment plan, known as the Juncker Plan, set up to place the European Union back on the road to growth and the creation of employment.

Concerning the protection of consumers of bank products and services, in recent years the European Union has introduced legislation to reduce the asymmetry of information between credit institutions and their customers, contribute to the public's financial inclusion and create the right conditions for banks to operate in a true internal financial services market. Two important Directives on the subject were published in 2014, Directive 2014/17/EU of the European Parliament and of the Council of 4 February on credit agreements for consumers relating to residential immovable property (commonly known as the Mortgage Credit Directive) and Directive 2014/92/EU of the European Parliament and of the Council of 23 July on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (otherwise known as the Payment Accounts Directive).

Finally, regarding the goal of developing the internal market, preparations continued on a payment legislation package based on a review of the Payment Services Directive (PSD), which will be replaced by PSD 2, and a proposal for a regulation on exchange fees on card payment operations.

For more detailed information about international initiatives on regulation of the financial sector see Annex B.

III.3. Amendments to international accounting standards [4]

The international financial reporting standards which came into force on 1 January 2014, their amendments and public consultations by the IASB are detailed in Annex C.

The standards regulating methods of consolidating accounts were simplified in 2014. New standards came into effect, such as IFRS 10 – "Consolidated Financial Statements" and IFRS 11 – "Joint Arrangements". IAS 31 – "Interests in Joint Ventures", IAS 27 – "Separate Financial Statements" and IAS 28 – "Investments in Associates and Joint Ventures" were fully or partially revoked.

[4] The international accounting rules comprise the International Accounting Standards (IAS) laid down by the International Accounting Standards Committee (IASC) and the International Financial Reporting Standards (IFRS) defined by the International Accounting Standards Board (IASB), which took over from the IASC in 2001. The IAS and IFRS systems currently operate simultaneously, though it is agreed that the IFRS take precedence in the event of a conflict. The rules also include interpretations by the International Financial Reporting Interpretations Committee (IFRIC), which replaced the Standing Interpretations Committee (SIC) at the same time as the IASB took over from the IASC.

IV. Analysis of APB Member institutions

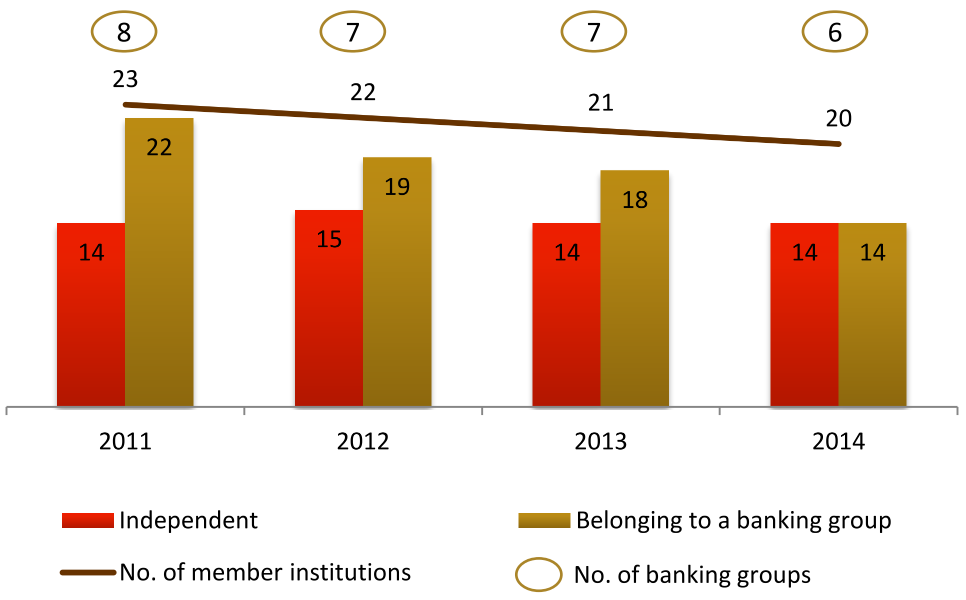
IV.1. Number of institutions

On 31 December 2014 the Portuguese Banking Association represented 20 Members, which comprised 28 financial institutions (see Graph 1).

The reduction in the number of Members from 2013 was due to Banco Espírito Santo, S.A. forfeiting its rights as a Member. The reduction in the number of member institutions was the result of the exit of this and three other financial institutions belonging to the BES Group, as mentioned in the Foreword.

With the exception of the BES Group, the remaining groups were the same as last year (Banif, BCP, BNP Paribas, BPI, CGD and Montepio).

Graph 1: Number of independent institutions and institutions belonging to banking groups, among the APB Members as at 31 December (2011 – 2014)



Source: APB.

Prior to 2014, the closure of subsidiaries of foreign banks operating in Portugal and resignation as Members by some institutions were the main reasons for decreases in membership, only offset by the admission of a new Member (Banco Carregosa) in April 2013 (see Graph 1).

The changes in the membership of APB between 2011 and 2014 are detailed in Chart 2, p. 14.

Chart 2: Changes in the number of member institutions (2011 – 2014)

Year	Acquisitions	Integrations / Mergers	New Entry	Exit	Change in the No. of Financial Institut.		Total
					B.Group[a)]	Indep.[b)]	
2011	• Caixa Económica Montepio Geral [d)] acquires 100% of Finibanco Holding, SGPS, S.A's share capital from Montepio Geral – Associação Mutualista[e)]. Finibanco, S.A. [d)] now belongs to Caixa Económica Montepio Geral. [f)]	-	-	-	-	-	37[c)]
	-	• Merger between Caixanova [d)] and Caja de Ahorros de Galicia, Branch office [d) g)].	-	-	-	-2 +1[h)]	36
2012	• Banco BIC Português, S.A. [d)] acquires 100% of BPN – Banco Português de Negócios, S.A.'s [d)] share capital.	• Merger by integration of Banco BIC Português, S.A.[d)] into Banco Português de Negócios, S.A. [d)]. and change of the company's name to Banco BIC Português, S.A.[d)]. Banco Efisa, S.A.[d)] becomes an independent institution.	-	-	-2	+1	35
	-	-	-	BNP WM	-1[i)]	-	34
2013	-	-	-	ITAÚ	-	-1	33
	-	-	CARREGOSA	-	+1	-	34
	-	-	-	EFISA	-	-1	33
	-	-	-	FORTIS	-1[j)]	-	32

Chart 2: Changes in the number of member institutions (2011 – 2014) (cont.)

Year	Acquisitions	Integrations / Mergers	New Entry	Exit	Change in the No. of Financial Institut.		Total
					B.Group[a)]	Indep.[b)]	
2014	-	-	-	BES[k)]	-1	-	31
	-	-	-	BESI[k)]	-1	-	30
	-	-	-	BAC[k)]	-1	-	29
	-	-	-	BEST[k)]	-1	-	28[l)]

Source: FIs, APB.

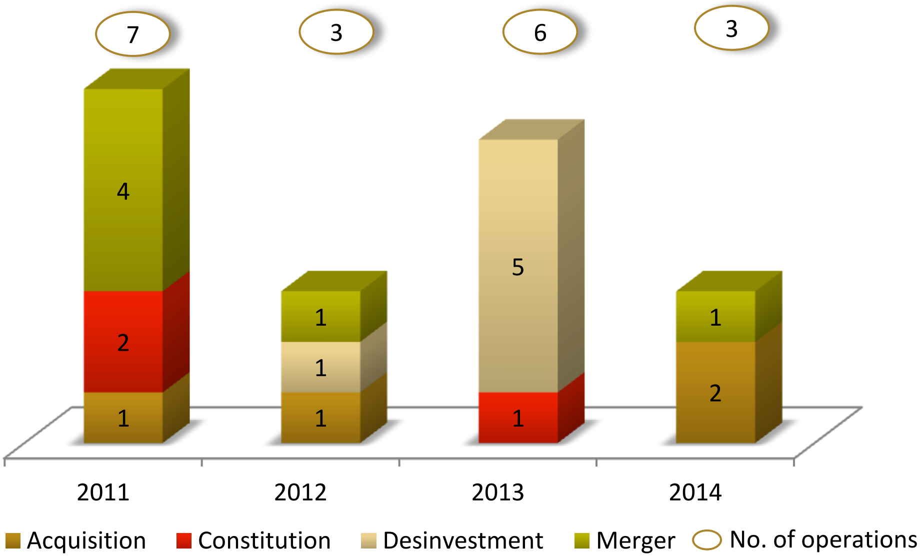
a) B.Group. – Financial institutions in banking group.
b) Indep. – Independent financial institution.
c) As at 31 December 2010, 40 financial institutions constituted the group of APB members.
d) Member institution.
e) Non-member institution.
f) This operation did not impact the total number of financial institutions, with both institutions being integrated in Caixa Económica Montepio Geral Group.
g) See Activity Report nº 47 of December 2011 - Chapter I – Foreword, p. 1, for more details on this operation.
h) Two independent institutions ceased to exist. Instead, only NCG Banco, S.A., Branch office in Portugal continues to exist as an independent institution.
i) BNP Paribas Wealth Management, S.A. – Branch office in Portugal ceased its activity as at 14 December 2012.
j) Fortis Bank, S.A. – Branch office in Portugal ceased its activity as at December 2013.
k) Financial institutions integrated in Espírito Santo Group, which ceased its membership with APB in October 2014.
l) For a complete list of the 28 financial institutions integrated in APB Member Group as at 31 December 2014, consult Chart 1, p. 3.

IV.2. Internal reorganisation operations and international expansion

Between 2011 and 2014, the member institutions undertook 19 operations[5] that, regardless of their main purpose (internal reorganisation or international expansion), can be classified as acquisitions, constitutions, mergers or disinvestments.

The years with the most operations were 2011 and 2013. 2011 saw mostly mergers and some constitutions and 2013 mainly disinvestment operations (see Graph 2).

Graph 2: Number of restructuring and expansion operations by nature – acquisition, formation, disinvestment and merger (2011 – 2014)



Source: FIs, APB.

In 2014, internal reorganisation outnumbered international expansion operations and accounted for 63.2% of all operations. The reduction in the profitability of the sector acted as a catalyst for the achievement of synergies, involving simplification of organisation charts and rationalisation of structures and costs, in order to improve efficiency (see Table 1, p. 17).

This concern is illustrated in Table 2, p. 17, which shows that, while acquisitions and mergers were aimed exclusively at similar business areas, disinvestments were mostly made (66.7%) in areas outside the financial institution's core business.

[5] The restructuring operations described in the chapter were performed by the 27 institutions in the sample on other financial institutions, in accordance with the following restrictions. Acquisitions only include operations that resulted in a percentage of 20% of capital held after the operation and disinvestments are only operations in which the member institution held 20% or more prior to the operation. No restrictions were placed on operations included in the analysis in all other situations.

Table 1: Nature of restructuring and expansion operations by objective (2011 – 2014)

	2011	2012	2013	2014	Total	
					Nº	%
Internal Reorganisation						
Acquisition	1	1	-	-	2	-
Constitution	-	-	1	-	1	-
Merger	4	1	-	1	6	-
Disinvestment	-	-	3	-	3	-
Total	5	2	4	1	12	*63.2%*
International Expansion						
Acquisition	-	-	-	2	2	-
Constitution	2	-	-	-	2	-
Disinvestment	-	1	2	-	3	-
Total	2	1	2	2	7	*36.8%*
Total	7	3	6	3	19	*100.0%*

Source: FIs, APB.

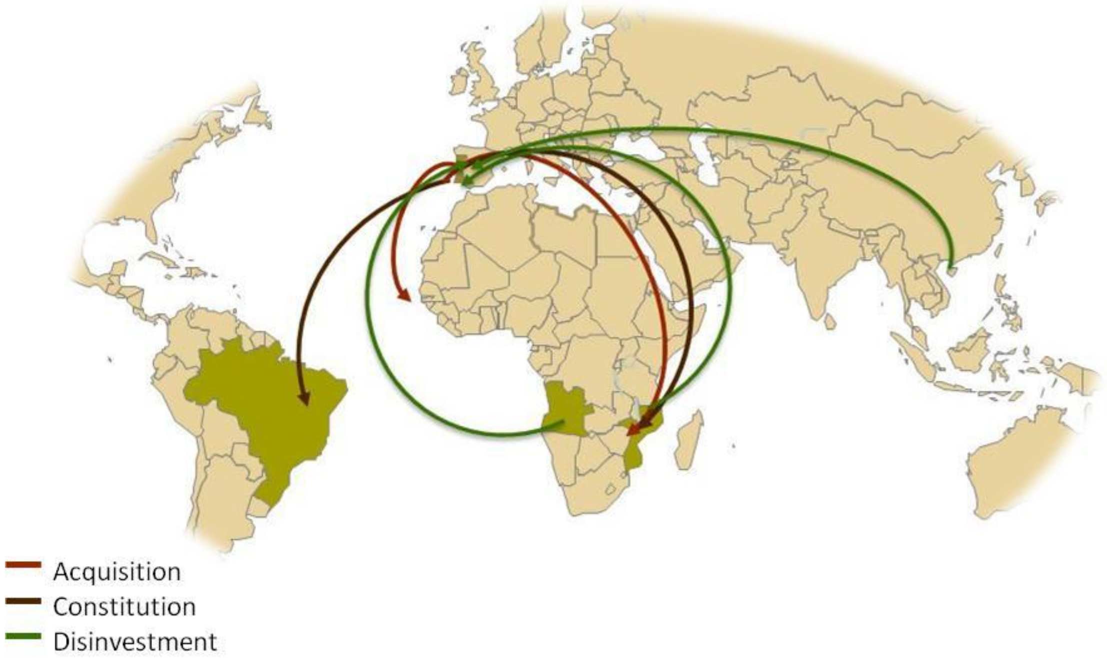
Table 2: Percentage of operations in member institutions' identical business areas (2011 – 2014)

	Number of Operations	% of Operations in Member Institution´s identical business areas
Internal Reorganization		
Acquisition	2	*100.0%*
Constitution	1	-
Merger	6	*100.0%*
Disinvestment	3	*33.3%*
International Expansion		
Acquisition	2	*100.0%*
Constitution	2	*100.0%*
Disinvestment	3	*100.0%*
Total	19	-

Source: FIs, APB.

Where international expansion was concerned, only 57.1% of the seven operations carried out between 2011 and 2014 were acquisitions or constitutions. The others were disinvestments, particularly in 2013 (see Table 1, p. 17). Most of the international operations were located in Africa, while there was only one in Brazil and another in Macau (see Figure 1, p. 18).

Figure 1: International expansion by country and nature of operation (2011 – 2014)



Source: FIs, APB.

All together the 19 operations totalled 747 million euros[6] (see Table 3, p. 19). In 2011, one Member acquired a medium-size financial group for the amount of 341 million euros. Also in 2011, following an international expansion strategy, a bank was constituted in Angola, in which one Member had a holding to the amount of 183[7] million euros (see Table 1, p. 17 and Table 3, p. 19).

Two acquisitions by different Members occurred in Africa last year and totalled around 17 million euros. Although there was some disinvestment in Angola and Mozambique in 2013, last year new partnerships were revived with Portuguese-speaking countries.

Individually, the amount of each operation analysed was insignificant when compared to the total assets of the institution in question. All together, the average weight of these operations in the total corresponding assets was 0.2% (see Table 3, p. 19 and Graph 3, p. 19).

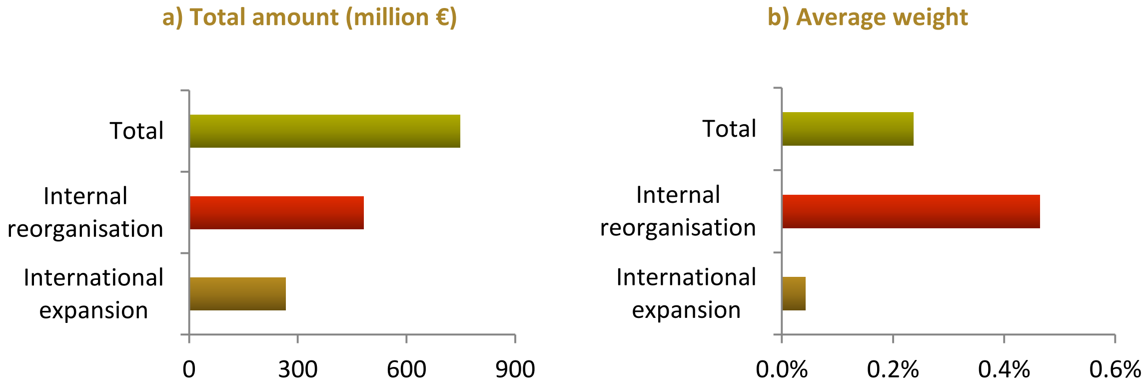
[6] This amount refers only to acquisitions, constitutions and disinvestments. Mergers were not included as they were internal restructuring operations and had no impact on value.
[7] The second constitution referred to in Table 1 on p. 21 was, in millions of euros, negligible.

Table 3: Total amount and average weight of restructuring and expansion operations in total assets (2011 – 2014)

	Total amount (million €)	Average Weight of Each Operation Typology in Total Assets
Internal Reorganization		
Acquisition[8]	381	*1.2%*
Constitution	46	*0.2%*
Merger	-	-
Disinvestment	54	*0.1%*
Total	481	*0.5%*
International Expansion		
Acquisition	17	*0.0%*
Constitution	183	*0.1%*
Disinvestment	66	*0.0%*
Total	266	*0.0%*
Total	747	*0.2%*

Source: FIs, APB.

Graph 3: Total amount and average weight of restructuring and expansion operations in total assets (2011 – 2014)



Source: FIs, APB.

[8] Includes two acquisitions amounting to 341 million and 40 million euros in 2011 and 2012, respectively.

IV.3. Representativity and characterisation of institutions

The Portuguese Banking Association continues to represent a large portion of the banking sector in Portugal.

On 31 December 2014, the 20 APB Members, measured in terms of the value of their consolidated banking assets, accounted for 82% of the total Portuguese banking system (PBS) (see Table 4). The exclusion of BES and non-inclusion of Novo Banco as a Member resulted in a 14.5 p.p. decrease in the APB's total representativity against 2013, reflected in the domestic institutions segment (18.1 p.p.).

Similarly to previous years, the 20 Members continued to account for only around 20% of the entities in the PBS at the time (see Table 4).

Table 4: Representativity of the APB member institutions in the Portuguese banking system by origin/type of legal structure as at 31 December (2013 – 2014)

	Portuguese Banking Association (APB)		Portuguese Banking System (PBS) [9]		APB as % of Total PBS	
	2013	2014	2013	2014	2013	2014
By No. of Entities [10]						
Domestic	12	11	69	59	*17.4%*	*18.6%*
Subsidiary	4	4	9	8	*44.4%*	*50.0%*
Branch office	5	5	29	31	*17.2%*	*16.1%*
Total	21	20	107	98	*19.6%*	*20.4%*
By Assets [11] **(million €)**						
Domestic	364,410	276,223	368,923	342,458	*98.8%*	*80.7%*
Subsidiary	56,523	54,877	59,060	57,433	*95.7%*	*95.5%*
Branch office	23,320	21,475	32,201	30,150	*72.4%*	*71.2%*
Total	444,253	352,575	460,184	430,041	*96.5%*	*82.0%*

Source: BdP.

This applies to all types of member institutions, regardless of their origin or legal structure. However, it is more marked in the case of domestic institutions, which on average represented only 18% of their counterparts in the PBS in the last two years, although they are responsible for 89.8% of consolidated assets in the segment. As with the domestic institutions, branch offices and subsidiaries of foreign banks operating in Portugal and belonging to the APB, enjoy significant representativity as a percentage of the consolidated assets of the PBS. On average in the last two years, the former accounted for 95.6% and the latter 71.8%, as opposed to representation in numerical terms of 47.2% and 16.7%, respectively (see Table 4, p. 20).

[9] In this table, the financial institutions belonging to a group have been accounted for as a single entity. The value of their assets corresponds to the consolidated value of the bank assets of the financial institutions belonging to them. The figures shown for the PBS were provided by Banco de Portugal.
[10] The entities are the APB's Members.
[11] The assets shown for the APB and PBS are defined in terms of the "Aggregate Balance Sheet of the Banking System – Consolidated Activity, excluding offshore institutions" from Banco de Portugal (BP*stat*).

This report is based on a sample of 27[12] financial institutions whose aggregate assets, on 31 December 2014, totalled 330.2 billion euros[13]. The majority of our Members continue to be of domestic origin (66.7% of the sample), of small size (59.3%) and with multi-specialised activity (63%) (see Table 5).

Table 5: Characterisation of member institutions as at 31 December 2014

	No. of Financial Institutions	As % of Total	Aggregate Assets (million €)	As % of Total
By Origin/Type of Legal Structure				
Domestic	18	*66.7%*	254,660	*77.1%*
Subsidiary	4	*14.8%*	54,946	*16.6%*
Branch office	5	*18.5%*	20,610	*6.3%*
By Size[14]				
Large	5	*18.5%*	250,693	*75.9%*
Medium-sized	6	*22.2%*	57,822	*17.5%*
Small	16	*59.3%*	21,701	*6.6%*
By Business Area[15]				
Multi-specialised	17	*63.0%*	321,087	*97.2%*
Specialised	10	*37.0%*	9,129	*2.8%*
Total	27	*100.0%*	330,216	*100.0%*

Source: FIs, APB.

In terms of aggregate assets, the domestic institutions also have the largest market share (77.1%), while branch offices carry little weight (only 6.3%) compared to their numbers in the sample (18.5%). The number of specialised financial institutions is negligible, while multi-specialised institutions account for almost all aggregate activity (97.2%) (see Table 5).

In terms of size, the distribution of the member institutions' aggregate assets is asymmetric (see Graph 4). Of the 27 institutions in the sample, only eight have above-average assets (12.23 billion euros), and smaller institutions still predominate. In fact 75% of the financial institutions in the sample have less than 4% of total aggregate assets (3rd quartile = 13.71 billion euros), and all together they represent no more than 15.4% of the total. Only seven financial institutions account for the remaining 84.6% (see Graph 4).

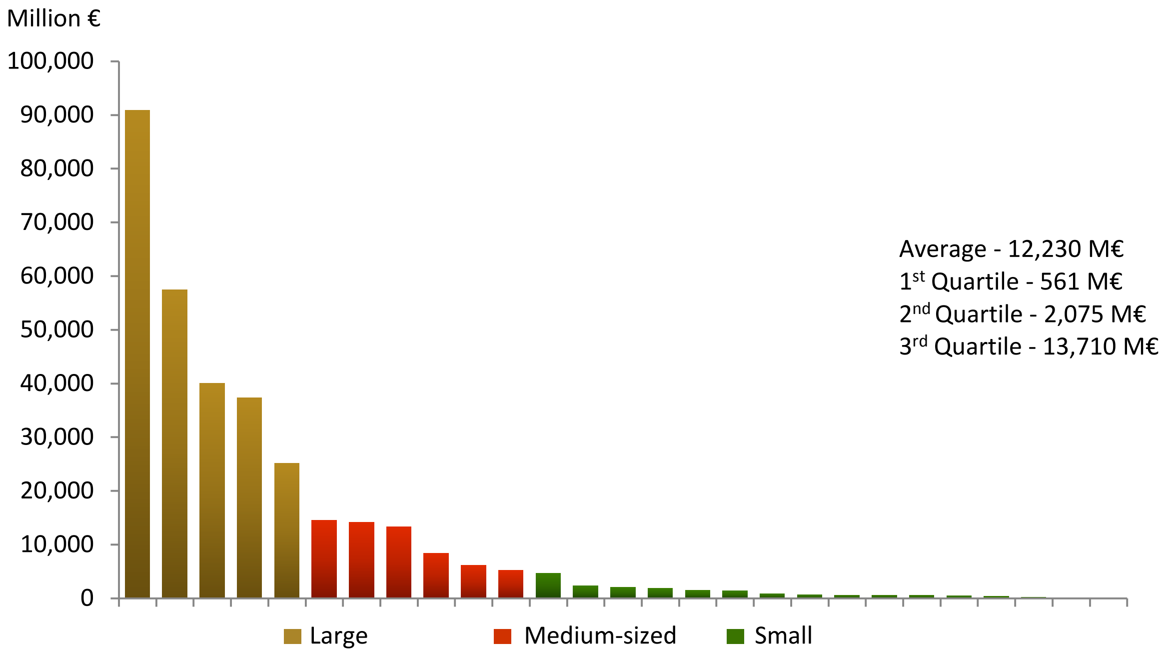
[12] See footnote 1, p. 1.

[13] The amount of aggregate assets is not comparable to the total assets shown for the APB in Table 4, p. 24 (see footnote 11), as aggregate assets are the sum of assets in the separate balance sheets of the member institutions.

[14] Financial institutions are classified as “large” if they represent 5% or more of aggregate assets, “medium size” if they represent between 1% and 5% and "small" if they represent 1% or less.

[15] Financial institutions' business is classified as "specialised” if they engage exclusively or mostly in the following activities: consumer credit, mortgages, car loans or investment banking. In all other cases, they are classified as multi-specialised.

Graph 4: Distribution of aggregate assets by size of member institutions as at 31 December 2014

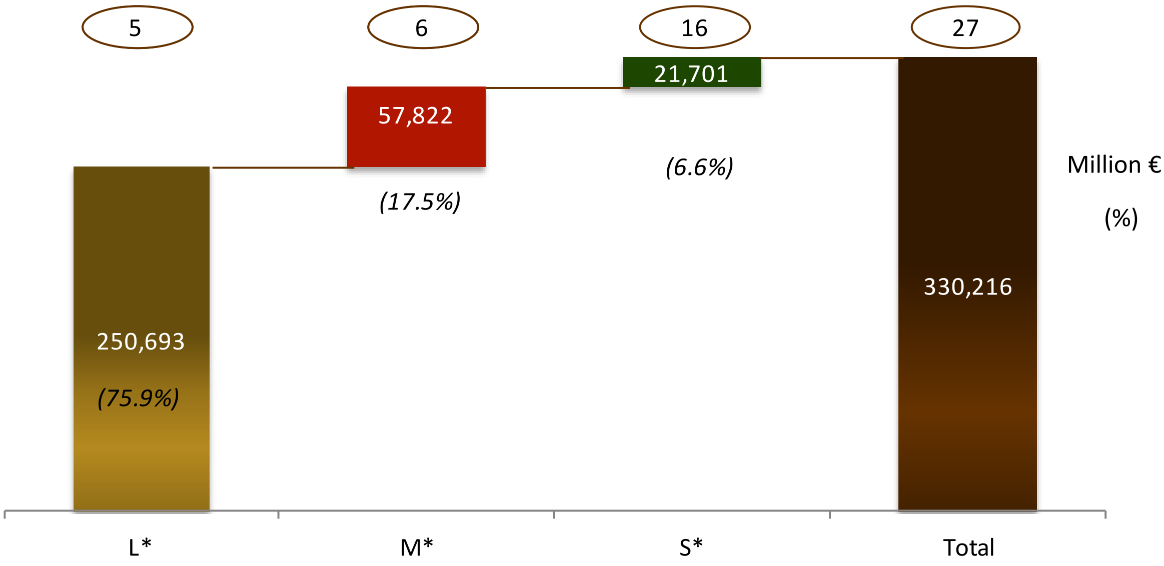


Source: FIs, APB.

If we combine the market share of the large and medium-size institutions (93.4%), we find that banking was concentrated in only 11 (i.e. 40.7% of the total sample) (see Table 5, p. 21). This seemingly high concentration is not corroborated by the Herfindahl Index.[16] According this index (1,462 in 2014), the Portuguese banking sector has a moderate degree of market concentration. If the sample for 2013 were redefined to be comparable to that of 2014, the index would be very similar, which would show some homogeneity of performance in the sector last year, reflecting a reduction in assets applying to all institutions (see Table 8, p. 27).

[16] This index is the result of adding the square of the market shares measured in terms of assets of the 27 financial institutions. As a rule a score of under 1,000 means low concentration, 1,000 to 1,800 moderate concentration and over 1,800 high concentration.

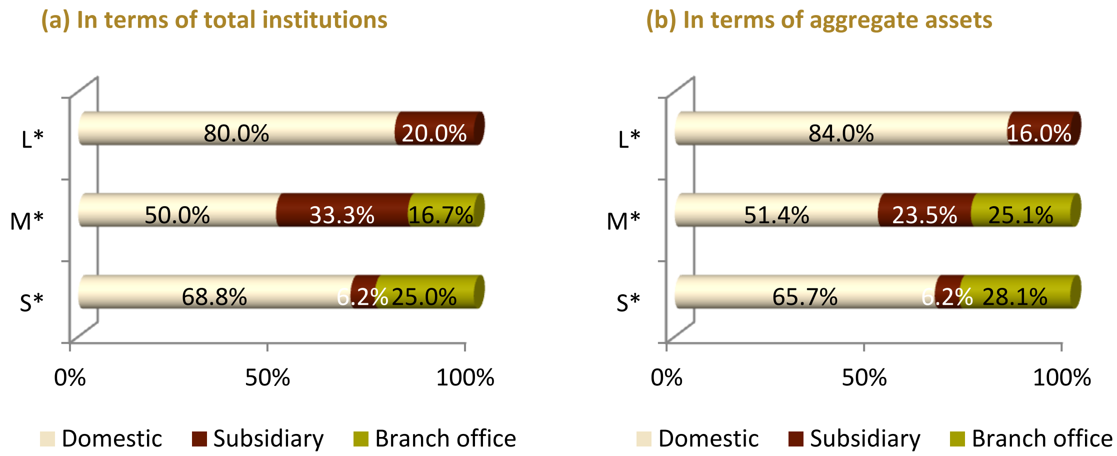
Graph 5: Concentration of aggregate assets by size of member institutions as at 31 December 2014



Source: FIs, APB.
Note: * L – Large; M – Medium-sized; S – Small.
No. of member institutions

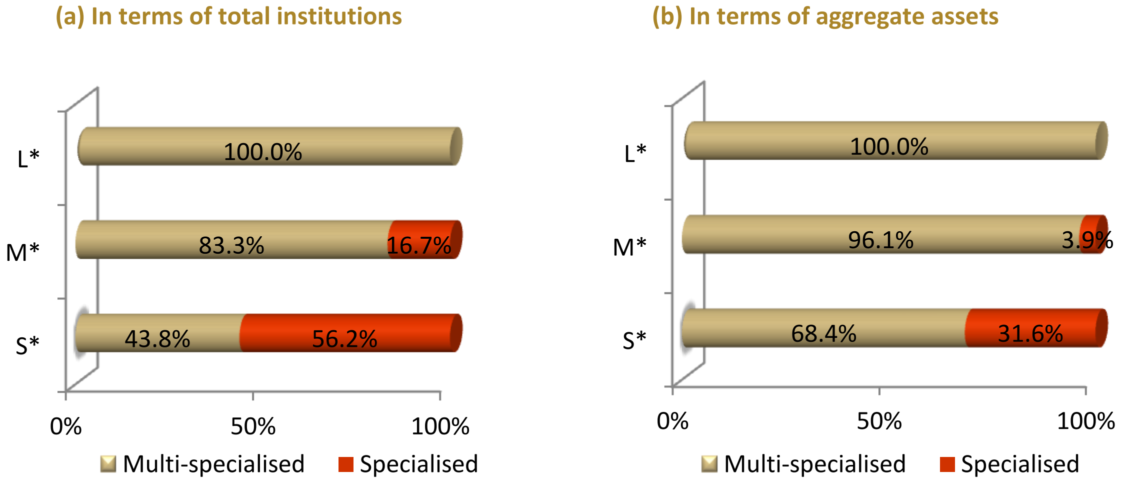
If we cross-reference size and origin/type of legal structure, we find that the Portuguese institutions, and particularly the domestic ones, predominate in terms of total institutions and aggregate assets, regardless of size. There are more branch offices than subsidiaries in the small segment using any of the classification criteria (see Graph 6).

Graph 6: Characterisation of member institutions by size and origin/type of legal structure as at 31 December 2014



Source: APB.
Note: * L – Large; M – Medium-sized; S – Small.

Graph 7: Characterisation of member institutions by size and business area as at 31 December 2014



Source: APB.
Note: * L – Large; M – Medium-sized; S – Small.

Where business model was concerned, the large and medium-size institutions were basically multi-specialised while the small ones were mostly specialised (56.2%). The small institutions have been losing market share in recent years however due to a reduction in investment banking in Portugal, which is more modestly represented in terms of aggregate assets (31.6%) (see Graph 7).

IV.4. Aggregate assets

2014 marked the end of the Economic and Financial Adjustment Programme for Portugal, which began in 2011. After a very slight improvement in the Portuguese economy in 2013, last year witnessed a recovery in economic growth, fostered mainly by an increase in domestic demand. Private spending and gross fixed capital formation showed signs of acceleration and the unemployment rate fell 2.3 p.p. against 2013.

These positive macroeconomic signs were adversely affected, however, by ongoing defaults and a high level of borrowing in the non-financial private sector and the continued deleveraging and adjustment of banks' balance sheets as a result of strict prudential requirements imposed on them by new regulations. As a result, banking suffered a new contraction as had been happening since 2011. As at 31 December 2014, the total aggregate assets of the member institutions[17] were 330 billion euros, almost 10% lower than in 2013 and 21.1% in accumulated terms since 2011 (see Table 6).

[17] The analysis of 2011-2014 includes 26 institutions out of the total of 27 institutions making up the sample in this Activity Report. Banco Carregosa was excluded as there was no historical information.

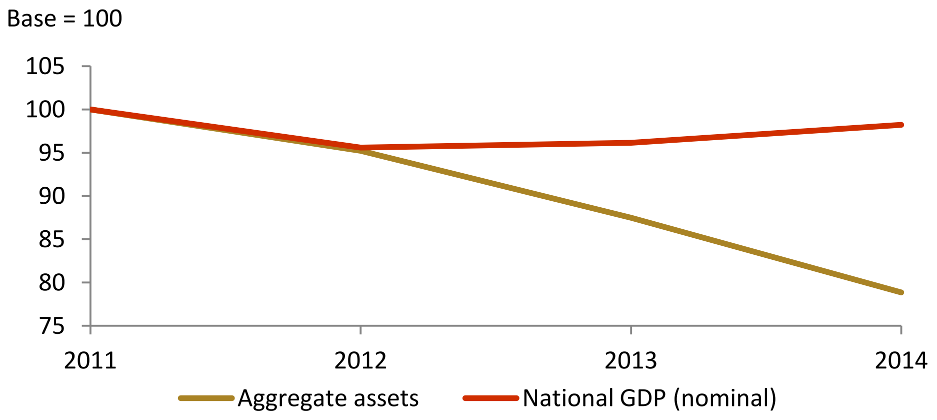
Table 6: Aggregate assets and national GDP (2011 – 2014)[18]

	2011	2012	2013	2014	Average
Aggregate Assets					
Total (million €)	418,443	398,395	366,148	330,018	-
Annual Growth Rate	-	*-4.8%*	*-8.1%*	*-9.9%*	*-7.6%*
National GDP (Nominal)					
Total (million €)	176,167	168,398	169,395	173,044	-
Annual Growth Rate	-	*-4.4%*	*0.6%*	*2.2%*	*-0.6%*
Aggregate Assets as % of GDP	*237.5%*	*236.6%*	*216.2%*	*190.7%*	*220.2%*

Source: FIs, APB, INE.

While the reduction in total aggregate assets was greater than in 2013, the Portuguese economy grew moderately at an annual rate of 2.2%. The diverging performance in these variables explains the loss of importance of the banking sector in the country's GDP (-25.5 p.p.) against 2013, continuing a trend that has lasted since 2011 (see Table 6 and Graph 8).

Graph 8: Aggregate assets and national GDP (2011 – 2014)[18]



Source: FIs, National Statistical Institute of Portugal (INE).

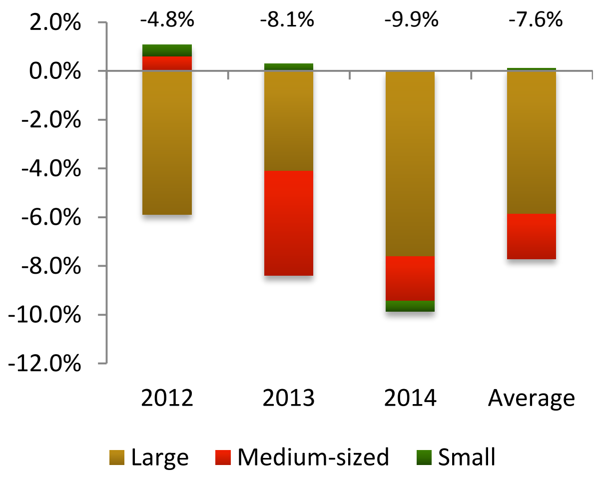
For the first time, the negative growth in assets in 2014 affected all the segments analyzed, both in terms of size and origin/ legal structure (see Graph 9 and Table 7, p. 26). The domestic and large institutions were those that contributed most to the contraction in banking business. Nonetheless, because the reduction in member institutions' aggregate assets was across the board in 2014, there were only slight variations in market shares of the different segments. There was some effort, mainly by subsidiaries, in terms of market position (see Table 8, p. 27).

[18] See Annex on p. 29 for aggregate assets compared to GDP (2011-2014), including financial institutions belonging to the Novo Banco Group.

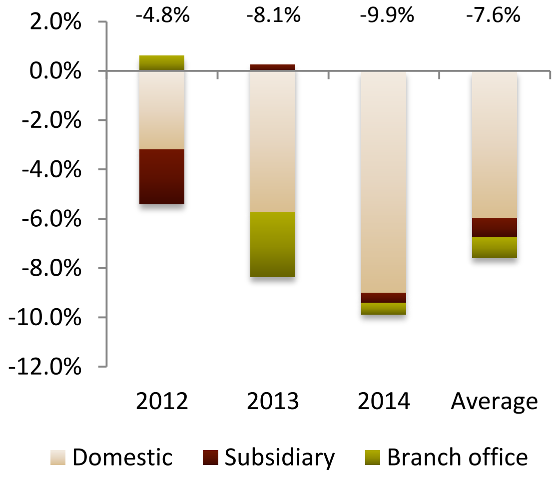
In average terms, in the last three years, only the small institutions made an albeit almost neutral contribution (0.1%) to member institutions' total aggregate assets. All the other segments felt more or less pressure from deleveraging on their balance sheets (see Graph 9 and Table 7).

Graph 9: Contribution from member institutions to growth in aggregate (2012 – 2014)

(a) By size



(b) By origin/type of legal structure



Source: FIs, APB.

Table 7: Contribution from member institutions to growth in aggregate assets by size and origin/type of legal structure (2012 – 2014)

	2012	2013	2014	Average
By Size				
Large	-5.9%	-4.1%	-7.6%	-5.9%
Medium-sized	0.6%	-4.3%	-1.8%	-1.8%
Small	0.5%	0.3%	-0.5%	0.1%
Total	-4.8%	-8.1%	-9.9%	-7.6%
By origin / Type of Legal Structure				
Domestic	-3.2%	-5.7%	-9,0%	-6,0%
Subsidiary	-2.2%	0.3%	-0.4%	-0.8%
Branch office	0.6%	-2.7%	-0.5%	-0.8%
Total	-4.8%	-8.1%	-9.9%	-7.6%

Source: FIs, APB.

Table 8: Aggregate assets by size and origin/type of legal structure as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
By Size					
Large					
Assets (million €)	319,502	294,893	278,529	250,693	-
Annual growth rate	-	*-7.7%*	*-5.5%*	*-10.0%*	*-7.7%*
Market Share	*76.3%*	*74.0%*	*76.1%*	*76.0%*	*75.6%*
Medium-sized					
Assets (million €)	79,053	81,571	64,525	57,822	-
Annual growth rate	-	*3.2%*	*-20.9%*	*-10.4%*	*-9.4%*
Market share	*18.9%*	*20.5%*	*17.6%*	*17.5%*	*18.6%*
Small					
Assets (million €)	19,888	21,930	23,094	21,503	-
Annual growth rate	-	*10.3%*	*5.3%*	*-6.9%*	*2.9%*
Market share	*4.8%*	*5.5%*	*6.3%*	*6.5%*	*5.8%*
By origin/type of Legal Structure					
Domestic					
Assets (million €)	323,580	310,192	287,408	254,461	-
Annual growth rate	-	*-4.1%*	*-7.3%*	*-11.5%*	*-7.6%*
Market share	*77.3%*	*77.9%*	*78.5%*	*77.1%*	*77.7%*
Subsidiary					
Assets (million €)	64,623	55,411	56,429	54,947	-
Annual growth rate	-	*-14.3%*	*1.8%*	*-2.6%*	*-5.0%*
Market share	*15.5%*	*13.9%*	*15.4%*	*16.6%*	*15.4%*
Branch office					
Assets (million €)	30,240	32,792	22,311	20,610	-
Annual growth rate	-	*8.4%*	*-32.0%*	*-7.6%*	*-10.4%*
Market share	*7.2%*	*8.2%*	*6.1%*	*6.3%*	*6.9%*
Total	418,443	398,395	366,148	330,018	-

Source: FIs, APB

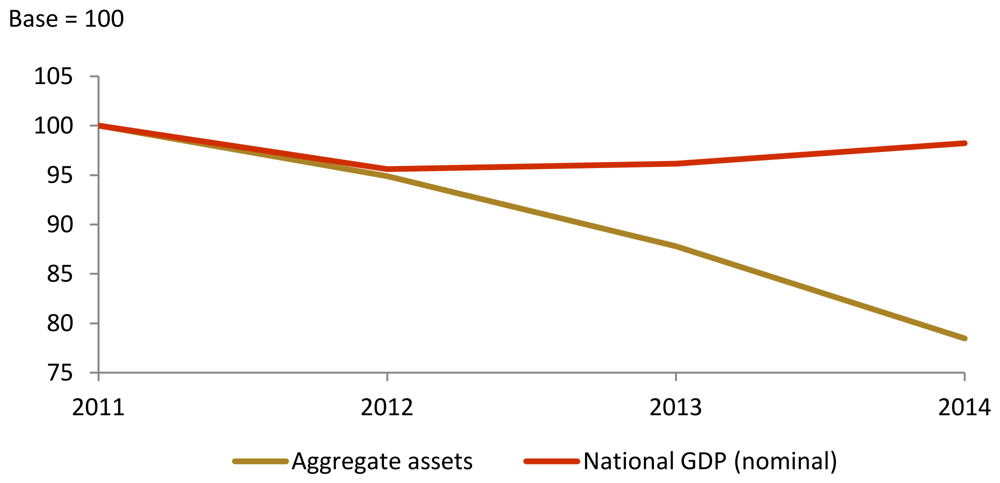
Annex

Aggregate assets and national GDP (2011 – 2014), including the Novo Banco Group

	2011	2012	2013	2014	Average
Aggregate Assets					
Total (million €)	496,849	471,425	436,207	389,820	-
Annual growth rate	-	*-5.1%*	*-7.5%*	*-10.6%*	*-7.7%*
National GDP (Nominal)					
Total (million €)	176,167	168,398	169,395	173,044	-
Annual growth rate	-	*-4.4%*	*0.6%*	*2.2%*	*-0.6%*
Aggregate Assets as % of GDP	*282.0%*	*279.9%*	*257.5%*	*225.3%*	*261.2%*

Source: FIs, APB, INE.

Aggregate assets and national GDP (2011 – 2014), including the Novo Banco Group



Sours: FIs, National Statistical Institute of Portugal (INE).

V. Human resources

V.1. Changes

For the purpose of this and the next chapter, the basic sample of this Activity Report has been extended to the four companies in the Novo Banco Group. Due to its representativity in the sector in terms of human resources and bank coverage, its exclusion would seriously distort the portrayal of the Portuguese banking sector in terms of employment and geographical coverage.

At the end of 2014, the workforce of the 30[19] financial institutions in question consisted of 52,609 employees, the vast majority of whom (96.4%) were allocated to domestic business. Between 2011 and 2014, the banking sector's workforces fell by an accumulated 10.4%, due exclusively to a reduction in the number of employees in domestic activity. Where international business activity is concerned, the number of employees increased during the period (4.9%), in spite of a fall in 2014 (5%) (see Table 9).

These changes fit in with the restructuring that began with the economic and financial crisis, due to its serious repercussions on the banking sector. The structural and circumstantial limitations made it vital to take measures to reduce costs in order to improve the sector's efficiency and profitability in a setting marked by a contraction in business, lower net interest income and rising doubtful debts (requiring recognition of provisions and impairments). Furthermore, some credit institutions needed to adjust their personnel structure to meet goals and requirements set out in their recapitalisation plans.

Table 9: Number of employees as of 31 December (2011 – 2014)

	2011		2012		2013		2014		Average
Global Number of Employees									
Total	58,718		56,433		54,941		52,609		-
Annual growth rate			*-3.9%*		*-2.6%*		*-4.2%*		*-3.6%*
In Domestic Activity									
Total	56,911	*96,9%*	54,568	*96,7%*	52,946	*96,4%*	50,714	*96,4%*	-
Annual growth rate			*-4.1%*		*-3.0%*		*-4.2%*		*-3.8%*
In International Activity									
Total	1,807	*3,1%*	1,865	*3,3%*	1,995	*3,6%*	1,895	*3,6%*	-
Annual growth rate			*3.2%*		*7.0%*		*-5.0%*		*1.7%*

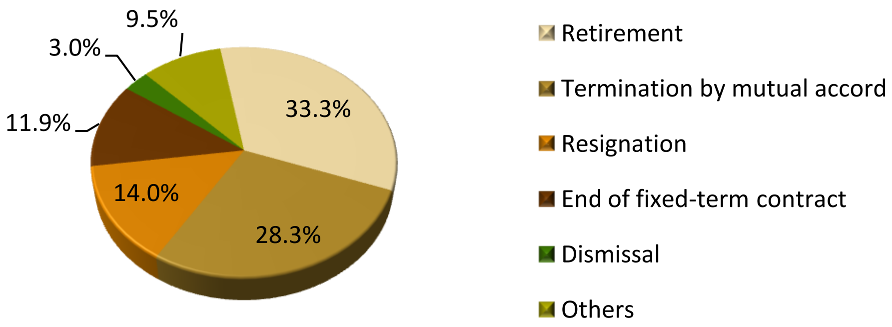
Source: FIs, APB.

The reduction (adjusted for intra-group transfers) in the number of employees engaged in domestic business in 2014 (2,063) was the result of the exit of 3,314 employees, offset by less than 40% new hirings. Retirement was the main reason for these employees leaving and accounted for over one-third of the total. More than 85% of these were early retirements. Terminations by mutual agreement were the second reason (around 30%). Voluntary terminations and departures, due to

[19] In the context of the temporal analysis of 2011-2014, the above-mentioned sample of 30 financial institutions does not include Banco Carregosa.

end of fixed term contracts, accounted for 25.9% of leavers, while dismissals represented only 3% (see Graph 10).

Graph 10: Reasons for employees´ leaving in 2014



Source: FIs, APB.

An analysis by size shows that, in 2014, only in the small financial institutions did employees increase in domestic business, to the tune of around 2.5% (see

Table 10, p. 31). However, given the small weight of this segment in the sample, its contribution to the growth in number of employees in the sector was minimal (only 0.2%).

This reflects an ongoing trend towards growth in this segment that began in 2013 and increased its representativity in the sample in terms of number of employees (see Graph 12a), p. 32). This increase has been mainly due to development of the personnel in one branch office, which has a highly specific business model compared to its counterparts in the segment.

The large and medium-size financial institutions reduced their workforce in domestic activity in 2014 (4.8% all together) and were decisive to the changes in total employees in the sector (see

Table 10 and Graph 11a), p. 31). As in previous years, the greatest variation in absolute terms was in the large segment, where the reduction in personnel was a significant 2.5 times higher than at the medium-size institutions.

The representativity of large member institutions in the total banking population working in domestic activity increased albeit modestly in the period and the medium-size institutions suffered most in this regard (see Graph 12a) p. 32).

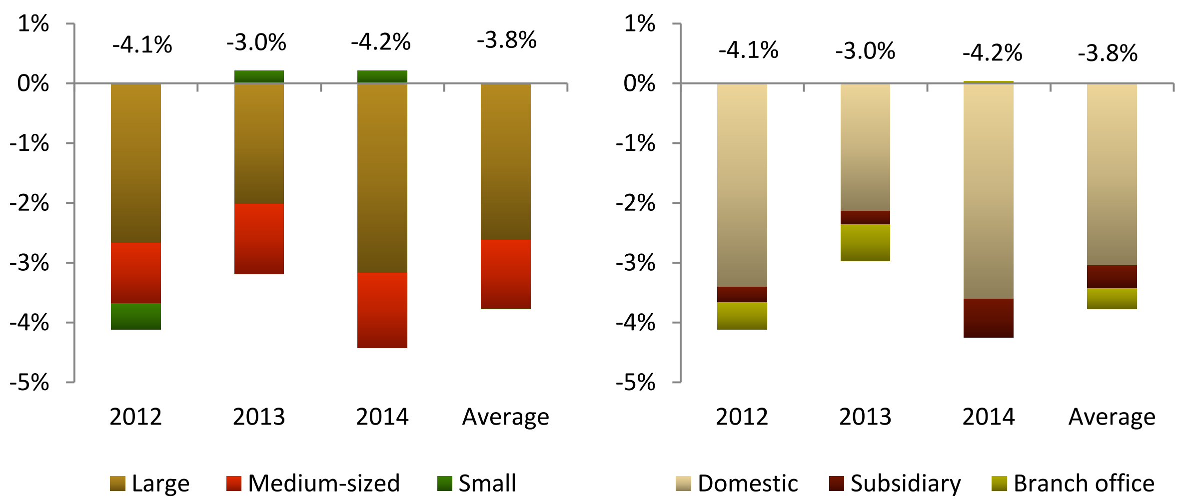
Table 10: Number of employees in domestic activity by size as of 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Large					
Total	41,414	39,894	38,793	37,113	-
Annual growth rate	-	*-3.7%*	*-2.8%*	*-4.3%*	*-3.6%*
Contribution to growth in the number of employees	-	*-2.7%*	*-2.0%*	*-3.2%*	*-2.6%*
Medium-sized					
Total	10,840	10,264	9,627	8,964	-
Annual growth rate	-	*-5.3%*	*-6.2%*	*-6.9%*	*-6.1%*
Contribution to growth in the number of employees	-	*-1.1%*	*-1.2%*	*-1.2%*	*-1.2%*
Small					
Total	4,657	4,410	4,526	4,637	-
Annual growth rate	-	*-5.3%*	*2.6%*	*2.5%*	*-0.1%*
Contribution to growth in the number of employees	-	*-0.3%*	*0.2%*	*0.2%*	*0.0%*

Source: FIs, APB.

Graph 11: Contribution from member institutions to growth in the number of employees in domestic activity by size and origin/type of legal structure (2011 – 2014)

a) By size **b) By origin/type of legal structure**



Source: FIs, APB.

An analysis of the member institutions on the basis of their origin/ legal structure shows that the domestic institutions and subsidiaries contributed most to the reduction in employees in domestic activity in 2014. Only the subsidiaries increased their workforce, by 0.6% in 2014, thereby recovering rather modestly from a sharp decrease (10.4%) in 2013 (see Table 11, p. 32).

The domestic institutions felt the reduction in workforce most and this was the segment that contributed most (3.6%) to the total fall (4.2%) in the banking population working in domestic activity in 2014. As a result, the weight of the domestic financial institutions' employees in the total sample fell 0.2 p.p., although they still have the largest number of employees in the sector (see Table 11 and Graph 12b)).

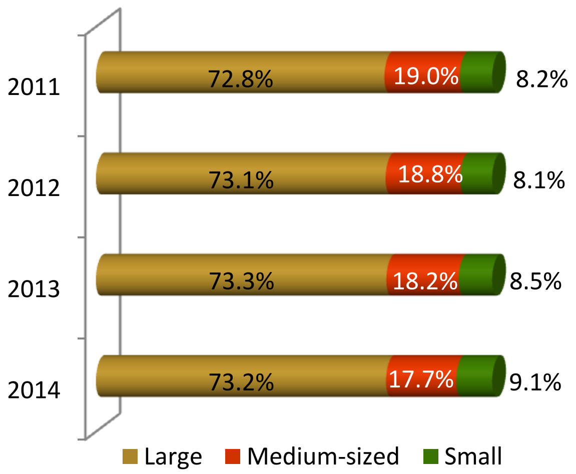
Table 11: Number of employees in domestic activity by size and origin/type of legal structure as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Domestic					
Total	45,473	43,535	42,370	40,461	-
Annual growth rate	-	*-4.3%*	*-2.7%*	*-4.5%*	*-3.8%*
Contribution to growth in the number of employees	-	*-3.4%*	*-2.1%*	*-3.6%*	*-3.1%*
Subsidiary					
Total	7,958	7,809	7,686	7,345	-
Annual growth rate	-	*-1.9%*	*-1.6%*	*-4.4%*	*-2.6%*
Contribution to growth in the number of employees	-	*-0.3%*	*-0.3%*	*-0.6%*	*-0.4%*
Branch office					
Total	3,480	3,224	2,890	2,908	-
Annual growth rate	-	*-7.4%*	*-10.4%*	*0.6%*	*-5.7%*
Contribution to growth in the number of employees	-	*-0.4%*	*-0.6%*	*0.0%*	*-0.3%*

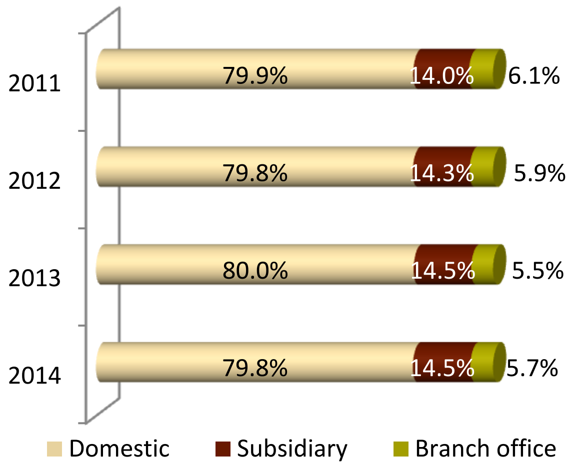
Source: FIs, APB.

Graph 12: Representativity of member institutions in terms of employees, in domestic activity, by size and origin/type of legal structure as at 31 December (2011 –2014)

a) By size



b) By origin/type of legal structure



Source: FIs, APB.

V.2. Characteristics

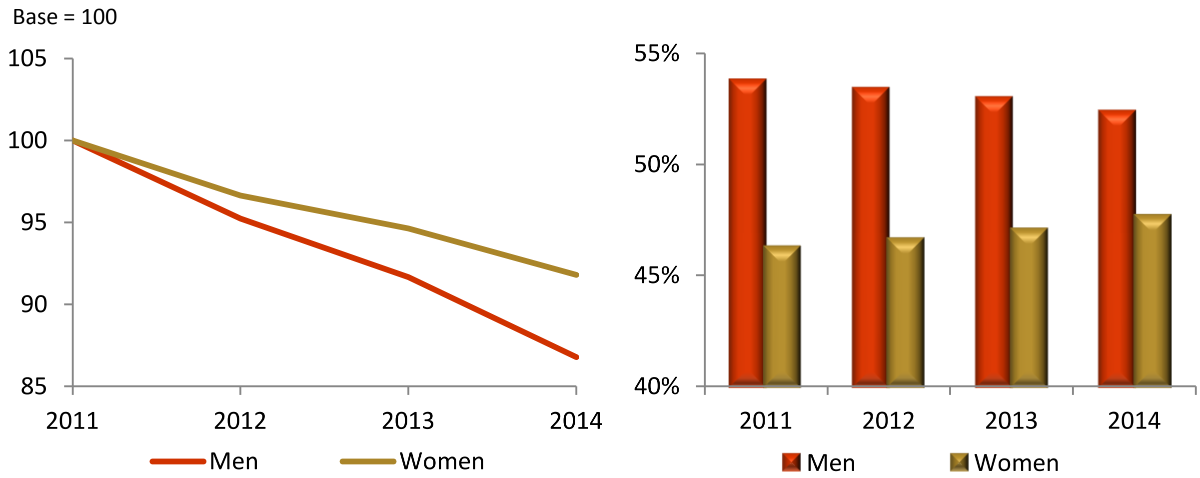
At the end of 2014, the banking population working in domestic activity at the member institutions consisted of more males (52.4%). The dominant age group was 30 to 45 (53.4%) and around half of the sample had worked in the sector for more than 15 years (49.8%). Where academic qualifications were concerned, the majority of the employees had degrees (55.8%). There was a prevalence of employees working in specialised jobs and commercial positions (63.5%). There were a negligible number of employees with fixed-term contracts while the majority had indefinite employment agreements (98%) (see Table 17, p. 40).

As in previous years, the downsizing of employees in 2014 was felt more among the male workforce (5.3% vs. 3%) (see Graph 13 and Table 18, p. 41). This kept up the trend towards more female employees in the sector. The number of male employees went down 13.2% as opposed to 8.2% in the female workforce.

This trend is common to all segments of member institutions, irrespective of their size, origin or legal structure. Branch offices were the only segment where majority of employees were female (see Table 17, p. 40).

Graph 13: Number of employees in domestic activity and their representativity by gender as at 31 December (2011 – 2014)

a) Absolute changes **b) Relative changes**



Source: FIs, APB.

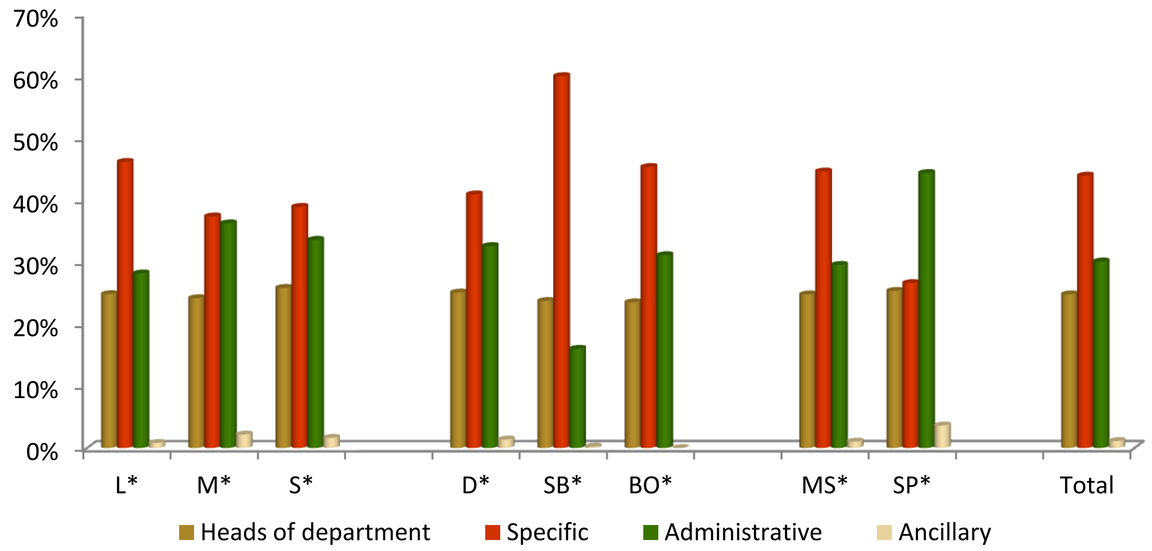
Regarding the jobs done in Portugal by employees of the member institutions[20], specialised jobs occupied the largest part of the workforce (almost 45%) in 2014 (see Table 17, p. 40). They are followed by administrative jobs, accounting for around 29%, and supervisory positions (25%). Auxiliary jobs account for only around 1% of employees.

[20] A Member with a specialised business model that is very different from its counterparts had to be removed from the sample, only for our analysis by job, in order to avoid distortion of its conclusions.

This distribution applies to almost all the segments, except small specialised institutions of foreign origin, where supervisory positions are occupied by more employees than administrative jobs. Specialised jobs predominate in all of them (see Graph 14 and Table 17, p. 40).

Graph 14: Characterization of the positions of the human resources in domestic activity by size and origin/type of legal structure and business area as at 31 December 2014

a) By size **b) By type of legal structure** **c) By business area**



Source: FIs, APB.

Note: * L – Large; M – Medium-sized; S – Small; D – Domestic; SB – Subsidiary; BO – Branch office; MS – Multi-specialised; SP – Specialised.

It is worth noting that the proportion of employees in specialised jobs at large institutions grew in the period in question in detriment to administrative jobs. This was due on the one hand to the reduction in the workforce that affected this segment in particular due to the need to achieve greater efficiency in the use of administrative resources, possibly by simplifying and/or automating processes. On the other hand, low interest rates left little margin for price competition, which may be offset by greater focus on customer relations and quality of service. Although to a lesser degree, this trend can also be found in domestic institutions. Medium-size institutions have shown unexpected development that goes against the general trend of reducing administrative personnel and stabilising or increasing employees in specialised jobs.

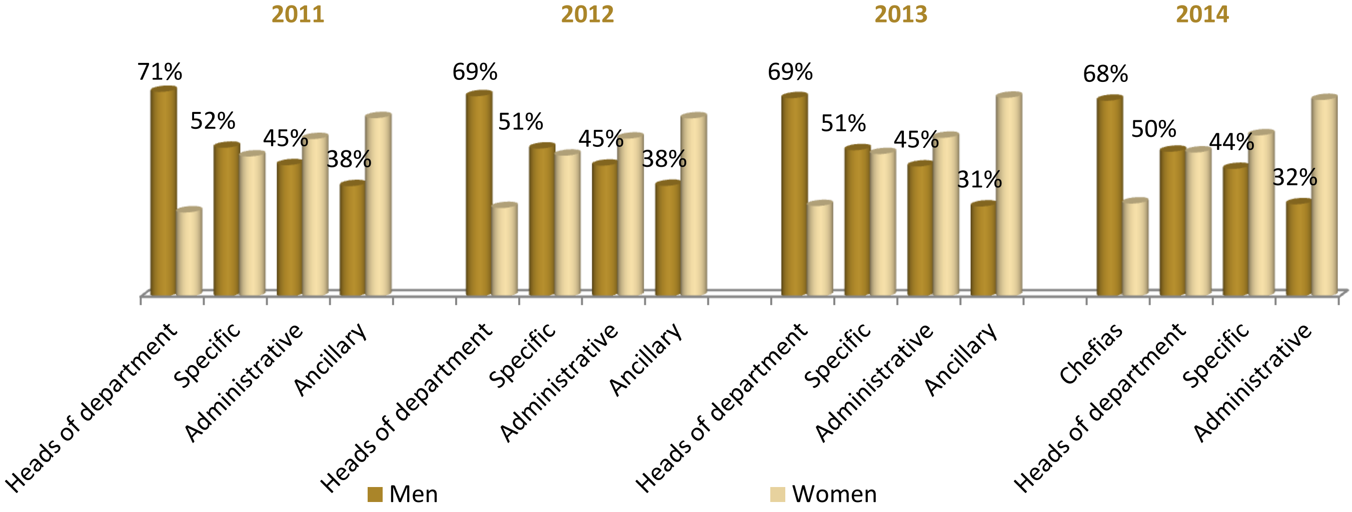
Finally, there is greater specialisation of human resources at foreign than domestic institutions (see Graph 14, p. 34). This may be related to their business model.

In an aggregate time-based analysis (2011-2014), the fall in absolute terms of the number of bank employees took place in all jobs except specialised positions, where the number of employees remained much the same or even increased, albeit modestly (0.9%). Auxiliary jobs were those that decreased the most (31.1%), followed by administrative employees (24.9%) (see Table 18, p. 41). As a result, the representativity of specialised jobs in the workforce increased (5.6 p.p.), in detriment to that of administrative personnel (-5.1 p.p.) (see Table 18, p. 41). Greater automation or outsourcing of some tasks of less value added to customers plus investment in technology and information systems has freed up human resources in auxiliary and administrative jobs, thereby contributing to the goal of containing costs and improving the sector's efficiency.

If we analyse the two previous variables (gender and position together, we find that, while in 2014 there was an overall balance between sexes in specialised functions, the majority of supervisory positions continued to be occupied by males (see Graph 15). Nonetheless, in spite of the predominance of male employees in positions requiring more responsibility, qualifications and experience, their percentage has been decreasing over time. This is due to a reduction in the number of men in these jobs and an increase in the number of women, particularly in specialised jobs.

On the other hand, most of the administrative and auxiliary jobs continued to be done by women. The numbers in admin rose and in auxiliary jobs fell last year, although only slightly in both cases (see Graph 15).

Graph 15: Human resources by gender and position as at 31 December (2011 – 2014)



Source: FIs, APB.

The above conclusions remain the same in most cases when we analyse the member institutions on the basis of their size, origin and legal structure. The medium and small institutions seem to be more conservative than the large ones with regard to placing female employees in supervisory or specialised jobs (see Table 12). There was no or only very modest growth in women in these positions in these segments in the period. The branch offices stand out in this period, because of a larger proportion of women in supervisory positions plus favourable growth. This also applies to domestic institutions, as female employees were in the majority in specialised jobs in 2014 (see Table 13, p. 37).

Table 12: Human resources by gender and position, by size of member institutions as at 31 December (2011 – 2014)[21]

	2011			2012			2013			2014		
	M*	W*	D* (pp)	M*	W*	D* (pp)	M*	W*	D* (pp)	M*	W*	D* (pp)
Large												
Heads of department	68.9%	31.1%	37.8	67.6%	32.4%	35.2	66.6%	33.4%	33.2	65.7%	34.3%	31.4
Specific	49.9%	50.1%	-0.2	49.1%	50.9%	-1.8	48.7%	51.3%	-2.6	48.1%	51.9%	-3.8
Administrative	44.9%	55.1%	-10.2	44.8%	55.2%	-10.4	44.4%	55.6%	-11.2	43.6%	56.4%	-12.8
Ancillary	46.5%	53.5%	-7.0	48.4%	51.6%	-3.2	39.7%	60.3%	-20.6	41.1%	58.9%	-17.8
Medium-sized												
Heads of department	78.8%	21.2%	57.6	78.0%	22.0%	56.0	77.8%	22.2%	55.6	77.5%	22.5%	55.0
Specific	55.1%	44.9%	10.2	56.0%	44.0%	12.0	58.5%	41.5%	17.0	58.8%	41.2%	17.6
Administrative	50.9%	49.1%	1.8	50.8%	49.2%	1.6	49.4%	50.6%	-1.2	48.5%	51.5%	-3.0
Ancillary	13.9%	86.1%	-72.2	12.6%	87.4%	-74.8	8.7%	91.3%	-82.6	9.7%	90.3%	-80.6
Small												
Heads of department	74.6%	25.4%	49.2	71.4%	28.6%	42.8	72.7%	27.3%	45.4	71.0%	29.0%	42.0
Specific	60.3%	39.7%	20.6	62.0%	38.0%	24.0	59.4%	40.6%	18.8	58.4%	41.6%	16.8
Administrative	41.1%	58.9%	-17.8	39.7%	60.3%	-20.6	37.9%	62.1%	-24.2	37.4%	62.6%	-25.2
Ancillary	60.8%	39.2%	21.6	51.4%	48.6%	2.8	50.6%	49.4%	1.2	52.6%	47.4%	5.2

Source: FIs, APB.

Note: *M – Men; W – Women; D – Difference.

[21] The sample has been adjusted to 28 institutions for the analysis of jobs and gender. One was excluded due to lack of information and the other for the reason given in footnote 20, p. 36.

Table 13: Human resources by gender and position by origin/type of legal structure of member institutions as at 31 December (2011 – 2014)

	2011			2012			2013			2014		
	M*	W*	D* (pp)	M*	W*	D* (pp)	M*	W*	D* (pp)	M*	W*	D* (pp)
Domestic												
Heads of department	70.3%	29.7%	40.6	69.0%	31.0%	38.0	68.1%	31.9%	36.2	67.1%	32.9%	34.2
Specific	51.5%	48.5%	3.0	50.8%	49.2%	1.6	50.1%	49.9%	0.2	49.5%	50.5%	-1.0
Administrative	45.6%	54.4%	-8.8	45.3%	54.7%	-9.4	45.1%	54.9%	-9.8	44.3%	55.7%	-11.4
Ancillary	37.4%	62.6%	-25.2	37.5%	62.5%	-25.0	29.9%	70.1%	-40.2	30.4%	69.6%	-39.2
Subsidiaries												
Heads of department	75.0%	25.0%	50.0	74.2%	25.8%	48.4	73.9%	26.1%	47.8	73.9%	26.1%	47.8
Specific	52.7%	47.3%	5.4	53.2%	46.8%	6.4	52.7%	47.3%	5.4	52.5%	47.5%	5.0
Administrative	45.1%	54.9%	-9.8	45.5%	54.5%	-9.0	45.6%	54.4%	-8.8	45.8%	54.2%	-8.4
Ancillary	73.7%	26.3%	47.4	73.7%	26.3%	47.4	73.7%	26.3%	47.4	82.4%	17.6%	64.8
Branch offices												
Heads of department	67.9%	32.1%	35.8	55.3%	44.7%	10.6	62.8%	37.2%	25.6	61.0%	39.0%	22.0
Specific	49.4%	50.6%	-1.2	54.5%	45.5%	9.0	51.9%	48.1%	3.8	50.4%	49.6%	0.8
Administrative	38.7%	61.3%	-22.6	45.6%	54.4%	-8.8	38.4%	61.6%	-23.2	35.2%	64.8%	-29.6
Ancillary	0.0%	100.0%	-100.0	0.0%	0.0%	0.0	0.0%	0.0%	0.0	0.0%	0.0%	0.0

Source: FIs, APB.

Note: *M – Men; W – Women; D – Difference.

If we analyse the area of activity in which the financial institutions' human resources work, we find that almost two-thirds (63.5%) were allocated to commercial positions at the end of 2014 (see Table 17, p. 40). These positions' relative weight decreased slightly between 2011 and 2014, though there was a slight increase in 2014 due to the downsizing of almost 4,500 commercial employees in the period (see Table 18, p. 41). This is consistent with a reduction in the number of bank branches as part of a network rationalisation policy dictated by the need to reduce costs and improve efficiency.

In terms of age, the member institutions' workforce was relatively young at the end of 2014 and the majority (53.4%) were aged between 30 and 45 (see Table 17, p. 40). There was, however, a considerable decrease (56.9%) in employees aged under 30 between 2011 and 2014 (see Table 18, p. 41) due to a reduction in recruitment. At the same time, the number of employees aged 45 or over rose 6.8%. Developments in 2014 were unable to counter this trend of progressive ageing of the banking population and the figures were very similar to previous years. As expected, the average age of the workforce increased from 44.3 years in 2011 to 46.1 in 2014). The trend affected all segments of members by size, origin and legal structure (see Table 14, p. 38).

Table 14: Average age of the employees in domestic activity by size and origin/type of legal structure as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Average age (years):					
Total	44.3	44.9	45.6	46.1	45.2
Change	-	*1.4%*	*1.6%*	*1.1%*	*1.4%*
By size:					
Large	45.4	45.9	46.5	47.0	46.2
Medium-sized	42.3	43.5	44.8	45.7	44.1
Small	39.0	39.4	39.7	40.3	39.6
By origin/type of legal structure:					
Domestic	45.0	45.5	46.2	46.6	45.8
Subsidiaries	43.9	44.9	45.8	46.5	45.3
Branch offices	36.0	36.7	37.6	38.2	37.1

Source: FIs, APB.

This rise in average age was also reflected in years of service, which went from 17.2 in 2011 to 20.2 in 2014 (see Table 15). This was due to a fall in the number of employees with fewer than six years of service (61.8%). The number of employees working for the same institution for six or more years increased 4.3% in the same period (see Table 18, p. 41). At the end of 2014 over 90% of the personnel at member institutions fell into this category. Around 50% had been working for the same bank for over 15 years (see Table 17, p. 40 and Table 18, p. 41).

Table 15: Average years of service of the employees in domestic activity by size and origin/type of legal structure as at 31 December (2011 – 2014)

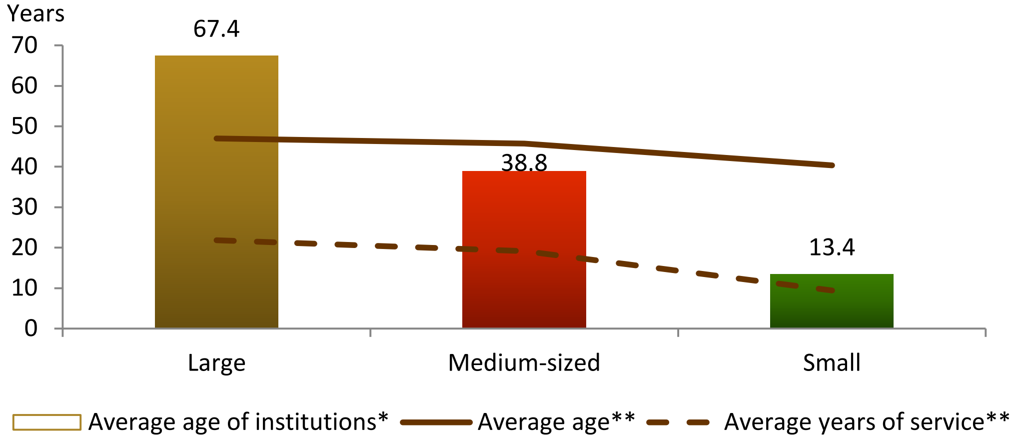
	2011	2012	2013	2014	Average
Average tenure (years):					
Total	17.2	18.4	19.3	20.2	18.8
Change		*7.0%*	*4.9%*	*4.7%*	*5.5%*
By size:					
Large	19.4	20.3	20.9	21.8	20.6
Medium-sized	12.4	15.5	17.5	19.2	16.2
Small	8.8	8.4	9.1	9.4	8.9
By origin/type of legal structure:					
Domestic	18.0	19.4	20.1	20.9	19.6
Subsidiaries	17.1	17.9	19.4	20.3	18.7
Branch offices	6.0	6.6	7.5	9.7	7.5

Source: FIs, APB.

The increases in average age and years of service in the period are certainly related to the high costs of letting older employees go and the need to keep employees with more experience and accumulated know-how, which must be considered when downsizing.

As in previous years, there was a positive relationship between the average age of institutions segmented by size and their employees' average age and years of services (see Graph 16). The large institutions have been operating in the domestic market for the longest (67.4 years on average). They also have the workforces with the highest average age (47 in 2014) and the longest years of service (21.8 in 2014) (see Table 14 and Table 15, p. 38).

Graph 16: Comparison between the average size of member institutions and the age and years of service of their employees by size of member institutions as at 31 December 2014



Source: FIs, BdP, APB.

Note: *Weighted average age of APB member institutions by number of employees assigned to domestic activity in each size category.

**Arithmetic mean calculated with interval grouped data.

In spite of the ageing banking population between 2011 and 2014, their qualifications have been improving. The percentage of employees with the 9th or 12th grade fell in the period and that of employees with degrees increased (see Table 18, p. 41). One of the reasons for this has certainly been the increase in specialised jobs (requiring higher qualifications) at member institutions. At the end of 2014, employees with degrees accounted for around 55.8% of the banking population (see Table 17, p. 40).

Finally, the member institutions' human resources were mostly full-time employees (94%). Flexitime was the second most chosen scheme and, along with part-time work, was more popular with female employees (see Table 16, p. 39).

Table 16: Human resources by gender and type of work arrangement in domestic activity as at 31 December 2014

	Men	Women	Total	%
Full-time	25,286	22,475	47,761	*94.0%*
Part-time	35	253	288	*0.6%*
Flexi-time	1,191	1,383	2,574	*5.1%*
Shifts	80	84	164	*0.3%*
Total	26,592	24,195	50,787	*100.0%*

Source: FIs.

Table 17: Characterisation of employees in domestic activity by size and origin/type of legal structure as at 31 December 2014[22]

	Total		Large		Medium-sized		Small		Domestic		Subsidiary		Branch office	
Number of employees														
Total	50,787		37,113		8,964		4,710		40,534		7,345		2,908	
By Gender														
Men	26,592	*52.4%*	18,982	*51.1%*	5,039	*56.2%*	2,571	*54.6%*	21,053	*51.9%*	4,155	*56.6%*	1,384	*47.6%*
Women	24,195	*47.6%*	18,131	*48.9%*	3,925	*43.8%*	2,139	*45.4%*	19,481	*48.1%*	3,190	*43.4%*	1,524	*52.4%*
By Age														
Up to 30 years	2,540	*5.0%*	1,504	*4.1%*	443	*4.9%*	593	*12.6%*	1,871	*4.6%*	293	*4.0%*	376	*12.9%*
30 to 44 years	27,134	*53.4%*	19,077	*51.4%*	5,025	*56.1%*	3,032	*64.4%*	21,242	*52.4%*	3,833	*52.2%*	2,059	*70.8%*
45 years or over	21,113	*41.6%*	16,532	*44.5%*	3,496	*39.0%*	1,085	*23.0%*	17,421	*43.0%*	3,219	*43.8%*	473	*16.3%*
By Years of Service														
Up to 1 year	794	*1.6%*	247	*0.7%*	109	*1.2%*	438	*9.3%*	501	*1.2%*	59	*0.8%*	234	*8.1%*
1 to 5 years	4,226	*8.3%*	1,817	*4.9%*	736	*8.2%*	1,673	*35.5%*	2,884	*7.1%*	379	*5.2%*	963	*33.1%*
6 to 10 years	10,148	*20.0%*	7,285	*19.6%*	1,787	*19.9%*	1,076	*22.8%*	8,206	*20.2%*	1,538	*20.9%*	404	*13.9%*
11 to 15 years	10,318	*20.3%*	6,980	*18.8%*	2,383	*26.6%*	955	*20.3%*	7,478	*18.5%*	1,795	*24.4%*	1,045	*35.9%*
Over 15 years	25,301	*49.8%*	20,784	*56.0%*	3,949	*44.1%*	568	*12.1%*	21,465	*53.0%*	3,574	*48.7%*	262	*9.0%*
By Type of Employment Contract														
Permanent	49,752	*98.0%*	36,637	*98.7%*	8,715	*97.2%*	4,400	*93.4%*	39,656	*97.8%*	7,232	*98.5%*	2,864	*98.5%*
Fixed term	1,035	*2.0%*	476	*1.3%*	249	*2.8%*	310	*6.6%*	878	*2.2%*	113	*1.5%*	44	*1.5%*
By Academic Qualifications														
9th grade	3,104	*6.1%*	2,411	*6.5%*	577	*6.4%*	116	*2.4%*	2,861	*7.1%*	233	*3.2%*	10	*0.3%*
12th grade	19,368	*38.1%*	14,131	*38.1%*	3,689	*41.2%*	1,548	*32.9%*	15,140	*37.3%*	3,507	*47.7%*	721	*24.8%*
Higher education	28,315	*55.8%*	20,571	*55.4%*	4,698	*52.4%*	3,046	*64.7%*	22,533	*55.6%*	3,605	*49.1%*	2,177	*74.9%*
By Position														
Heads of department	12,488	*25.0%*	9,215	*24.8%*	2,168	*24.2%*	1,105	*28.8%*	10,174	*25.1%*	1,743	*23.8%*	571	*28.0%*
Specific	22,246	*44.6%*	17,138	*46.2%*	3,350	*37.4%*	1,758	*45.7%*	16,598	*40.9%*	4,409	*60.0%*	1,239	*60.7%*
Administrative	14,607	*29.2%*	10,458	*28.2%*	3,251	*36.2%*	898	*23.4%*	13,200	*32.6%*	1,176	*16.0%*	231	*11.3%*
Ancillary	579	*1.2%*	302	*0.8%*	195	*2.2%*	82	*2.1%*	562	*1.4%*	17	*0.2%*	-	*0.0%*
By Activity														
Commercial	32,237	*63.5%*	24,455	*65.9%*	5,659	*63.1%*	2,123	*45.1%*	26,866	*66.3%*	4,469	*60.8%*	902	*31.0%*
Other	18,550	*36.5%*	12,658	*34.1%*	3,305	*36.9%*	2,587	*54.9%*	13,668	*33.7%*	2,876	*39.2%*	2,006	*69.0%*

Source: FIs, APB

[22] Data from the sample of 31 member financial institutions.

Table 18: Number of employees in domestic activity as at 31 December (2011 – 2014)[23]

	2011		2012		2013		2014	
Number of employees								
Total	56,911		54,568		52,946		50,714	
By Gender								
Men	30,592	*53.8%*	29,133	*53.4%*	28,042	*53.0%*	26,551	*52.4%*
Women	26,319	*46.2%*	25,435	*46.6%*	24,904	*47.0%*	24,163	*47.6%*
By Age								
Up to 30 years	5,875	*10.3%*	4,572	*8.4%*	3,400	*6.4%*	2,531	*5.0%*
30 to 44 years	31,292	*55.0%*	29,740	*54.5%*	28,416	*53.7%*	27,100	*53.4%*
45 years or over	19,744	*34.7%*	20,256	*37.1%*	21,130	*39.9%*	21,083	*41.6%*
By Years of Service								
Up to 1 year	1,107	*1.9%*	1,211	*2.2%*	683	*1.3%*	782	*1.5%*
1 to 5 years	11,950	*21.0%*	9,402	*17.2%*	6,238	*11.8%*	4,202	*8.3%*
6 to 10 years	9,003	*15.8%*	8,276	*15.2%*	11,302	*21.3%*	10,126	*20.0%*
11 to 15 years	12,383	*21.8%*	11,547	*21.2%*	9,792	*18.5%*	10,309	*20.3%*
Over 15 years	22,468	*39.5%*	24,132	*44.2%*	24,931	*47.1%*	25,295	*49.9%*
By Type of Employment Contract								
Permanent	55,281	*97.1%*	53,155	*97.4%*	51,807	*97.8%*	49,694	*98.0%*
Fixed term	1,630	*2.9%*	1,413	*2.6%*	1,139	*2.2%*	1,020	*2.0%*
By Academic Qualifications								
9th grade	4,570	*8.0%*	3,921	*7.2%*	3,734	*7.1%*	3,096	*6.1%*
12th grade	23,016	*40.5%*	21,863	*40.1%*	21,180	*40.0%*	19,356	*38.2%*
Higher education	29,325	*51.5%*	28,784	*52.7%*	28,032	*52.9%*	28,262	*55.7%*
By Position[24]								
Heads of department	14,149	*25.1%*	13,635	*25.2%*	12,997	*24.9%*	12,468	*25.0%*
Specific	22,017	*39.0%*	22,032	*40.8%*	22,939	*43.9%*	22,213	*44.6%*
Administrative	19,423	*34.4%*	17,528	*32.5%*	15,644	*30.0%*	14,593	*29.3%*
Ancillary	832	*1.5%*	796	*1.5%*	648	*1.2%*	573	*1.1%*
By Activity								
Commercial	37,200	*65.4%*	35,604	*65.2%*	33,629	*63.5%*	32,713	*64.5%*
Other	19,711	*34.6%*	18,964	*34.8%*	19,317	*36.5%*	18,001	*35.5%*

Source: FIs, APB.

[23] Data for 2014 does not match data in Table 17, p. 44, due to sample adjustments into a sample of 30 member financial institutions.
[24] The presence of an Associate with a specialized business model, but with very particular and distinct characteristics to in relation to their peers, lead to its removal from the sample of analysis by position, in order to avoid a significant distortion in the conclusions.

V.3. Training[25]

In 2014, training provided by the member institutions was not unaffected by growing work demands imposed by increasingly stringent regulation and supervision and the sector's cost-containing policy. Around 40,864 employees received training in 2014, 2.1% fewer than in 2013 (see Table 19). Nonetheless, as this reduction was lower than that in the total number of employees in domestic jobs (for the sample used in this sub-chapter [25]), the overall training rate continued to grow and reached the highest figure in the period in 2014 (93.7%) (see Table 19).

Table 19: Training at member institutions (2011 – 2014)

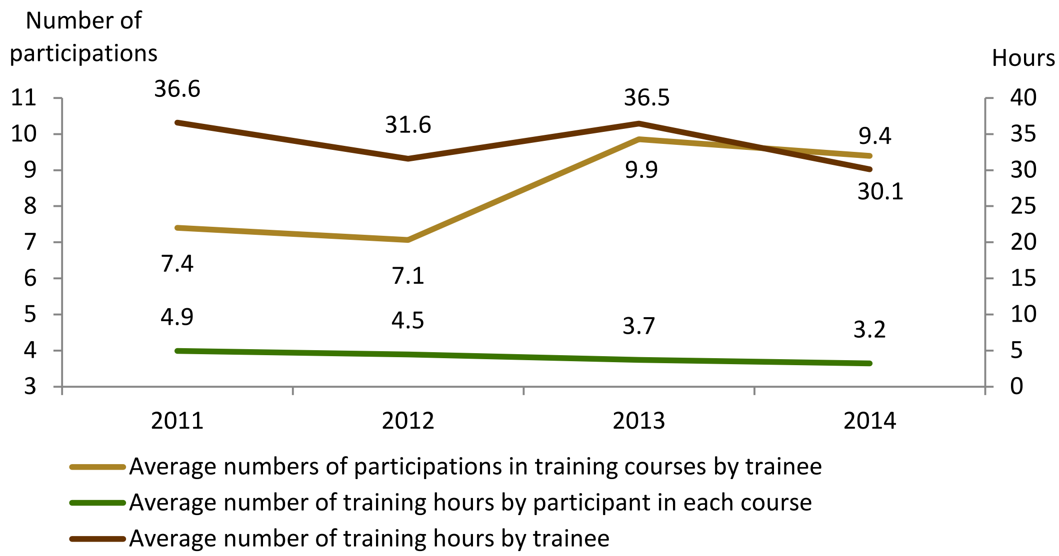
	2011	2012	2013	2014	Average
Number of Trainees					
Total	44,941	41,768	41,761	40,864	-
As % of number of employees in domestic activity [25]	*90.4%*	*88.2%*	*91.4%*	*93.7%*	-
Annual growth rate		*-7.1%*	*0.0%*	*-2.1%*	*-3.1%*
Number of Participants in Training Courses					
Total	332,667	295,109	411,450	383,727	-
Annual growth rate		*-11.3%*	*39.4%*	*-6.7%*	*7.1%*
Number of Training Hours					
Total	1,643,325	1,319,313	1,522,984	1,229,822	-
Annual growth rate		*-19.7%*	*15.4%*	*-19.2%*	*-7.8%*
Number of Training Courses					
Total	10,222	7,113	7,096	6,906	-
Annual growth rate		*-30.4%*	*-0.2%*	*-2.7%*	*-11.1%*

Source: FIs, APB.

In spite of the rise in the overall training rate, each employee's involvement in training decreased. Each worker participated in an average of 9.4 training courses, while the average in 2013 was almost 10 (see Graph 17, p. 43). This resulted in a reduction of almost 7% in the number of participants in training (see Table 19).

[25] Due to lack of data, all the indicators on training of human resources refer to only 25 of the 30 institutions in the sample in the period referred to in this chapter. Those excluded were Novo Banco, Novo Banco dos Açores, Banco do Brasil, Deutsche Bank and BNP Securities Services.

Graph 17: Comparison between the average number of participations in training courses per trainee, and the average number of training hours per participant and per trainee (2011 – 2014)



Source: FIs, APB.

There was also a nearly 20% reduction in the amount of training[26] (see Table 19, p. 42). Given the greater reduction in amount of training than the decrease in number of trainees, the average hours of training per trainee fell by 6.4 hours against 2013 to around 30 hours per year per employee. The training was distributed in an average of 9.4 courses. This means that each trainee spent an average of 3.2 hours in each course in 2014, which was 30 minutes less than in 2013 (see Table 19, p. 42 and Graph 17).

This reality resulted from the need to rationalise time away from the workplace because of growing work demands placed on financial institutions' employees by new compliance rules and prudential supervision. It was reflected in the number of training courses (2.7% fewer) and their average duration (17% less). As a result, the average number of participants per course went down from 58 in 2013 to almost 56 in 2014.

This reduction in the number of training courses held affected in-house and external courses differently. While there was an 18.8% decrease in in-house courses against 2013 (see Table 20, p. 44), there was an increase of around 64% in external courses. This suggests that the know-how of external organisations that specialise in providing more advanced training is still appreciated, particularly if we consider the growing importance and higher demands of specialised jobs at member institutions.

[26] The concept of amount of training equals the total number of hours of training conducted.

Table 20: Type of participation, training courses and corresponding methods (2011 – 2014)

	2011		2012		2013		2014		Average
Type of Training Courses									
In-house	8,520	*83.3%*	5,507	*77.4%*	5,720	*80.6%*	4,645	*67.3%*	*77.2%*
External	1,702	*16.7%*	1,606	*22.6%*	1,376	*19.4%*	2,261	*32.7%*	*22.8%*
Participations in Training Courses									
In-house	323,147	*97.1%*	287,332	*97.4%*	366,223	*89.0%*	375,699	*97.9%*	*95.4%*
External	9,520	*2.9%*	7,777	*2.6%*	45,227	*11.0%*	8,028	*2.1%*	*4.6%*
Participations in Training Courses									
In-house	*74.1%*		*80.9%*		*72.4%*		*72.1%*		
Distance learning[27]	*1.7%*		*0.8%*		*1.4%*		*2.7%*		
Online training (e-learning)	*22.5%*		*16.8%*		*24.1%*		*23.3%*		
Other	*1.7%*		*1.5%*		*2.1%*		*1.9%*		

Source: FIs, APB.

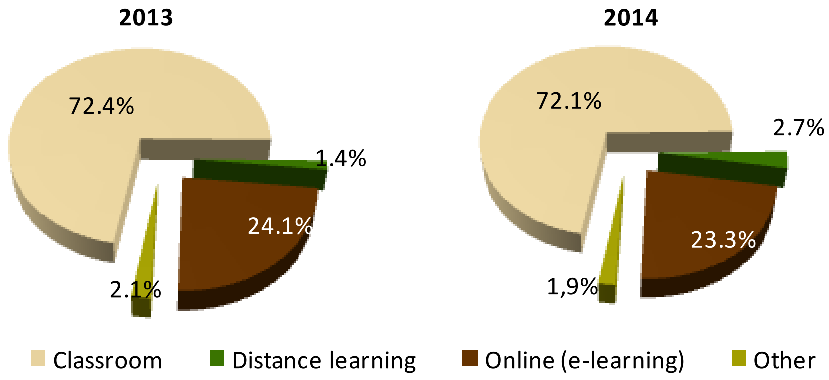
Nonetheless, in-house courses continued to predominate in 2014 and accounted for 67.3% of all courses (see Table 20).

On the other hand, the average number of participants per external course decreased considerably from 32.9 in 2013 to 3.6 in 2014, close to the figures for 2011 and 2012 (5.6 and 4.8, respectively) (see Table 20). The atypical number in 2013 may have been due to an urgent need to extend advanced training to a much larger number of employees, in preparation for the entry into force of a new regulation and a new prudential supervision model in 2014, both much more stringent. Due to its high cost, in 2014 this type of training was once again offered more selectively. On the other hand, the average number of participants per in-house course has been growing since 2011 with a view to taking advantage of economies of scale (see Table 20).

Both in-house and external training courses used different methods: classroom training, distance education, e-learning and others. Around 72% of courses were given in the classroom in 2014. Online training lost some of its weight to distance education (see Table 20 and Graph 18, p. 45).

[27] Training method with little or no personal contact with the trainer, using different teaching materials in hard copy, audio, video, computer or multimedia form or a combination of these.

Graph 18: Training methods (2013 vs. 2014)



Source: FIs, APB.

Table 21: Spending on training (2011 – 2014)

	2011	2012	2013	2014	Average
Spending on Training					
Total (thousands €) a)	14,107	11,200	10,407	9,696	-
Expenses with external organisations	8,083	6,005	5,541	5,512	-
Internal expenses	6,024	5,195	4,866	4,184	-
Annual growth rate b)		*-20.6%*	*-7.1%*	*-6.8%*	*-11.5%*
As % of general administrative expenses c)	*0.8%*	*0.7%*	*0.6%*	*0.6%*	-
Costs per Training Course					
Total (€)	1,380	1,575	1,467	1,404	-
Annual growth rate		*14.1%*	*-6.9%*	*-4.3%*	*1.0%*
Costs per Trainee					
Total (€)	314	268	249	237	-
Annual growth rate		*-14.6%*	*-7.1%*	*-4.8%*	*-8.8%*
Costs per Participant					
Total (€)	42.40	37.95	25.29	25.27	-
Annual growth rate		*-10.5%*	*-33.4%*	*-0.1%*	*-14.7%*

Source: FIs, APB.

a) Expenses with external organisations and internal expenses are not directly related with the classification of training as internal and external.

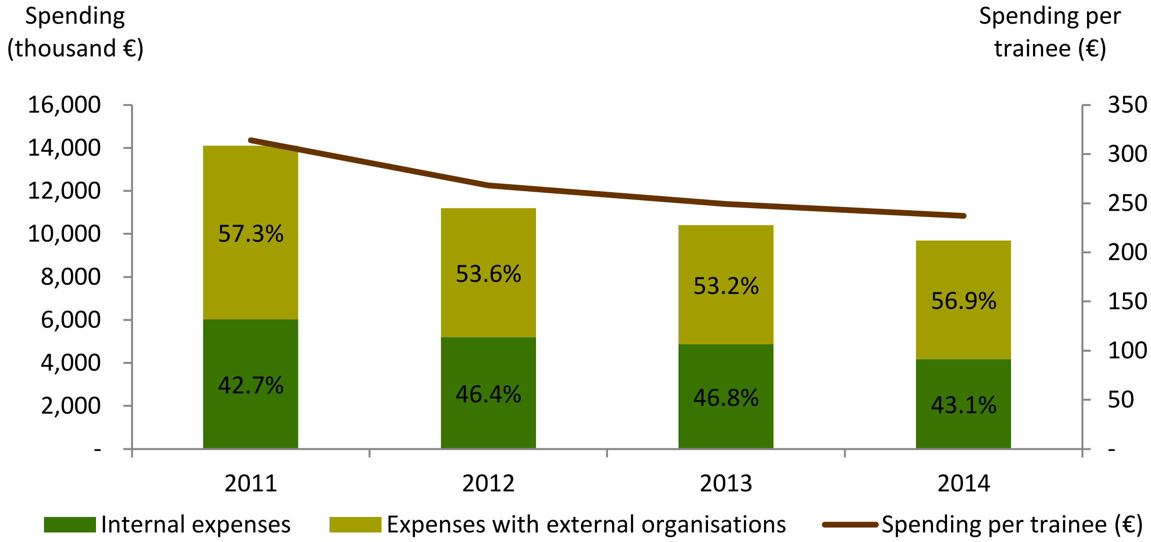
b) Annual growth rate of total spending on training.

c) Total spending on training as a percentage of total general administrative expenditures.

Investment in training by the member institutions totalled 9.7 million euros in 2014, around 7% less than in 2013. This was mainly due to a 14% reduction in internal costs thanks to more efficient management of in-house training, taking advantage of economies of scale. Costs of external organisations fell only 0.5% in 2014, in spite of a substantial drop in the number of participants in external courses (see Table 21). The increase in the number of external courses and possibly the same or greater recourse to external trainers in in-house courses offset this effect.

Overall, the weight of costs of external organisations in total training expenditure increased 3.6 percentage points in 2014 and continued to represent the lion's share (56.8%) (see Table 21, p. 45 and Graph 19).

Graph 19: Spending on training (total and per trainee) (2011 – 2014)



Source: FIs, APB.

Because of these circumstances, and although 2014 witnessed a contraction in some of the member institutions' training indicators, such as the number of courses (-2.7%) and of trainees (2.1%), the cut in training costs was higher (6.8%). The downward trends in the average cost per course and per trainee continued in 2014, as in 2013. Indeed, the average cost per training course went down 4.3%, while the reduction in 2013 was 6.9%. Similarly, the variation rate in the average cost per trainee was -4.8%, while in 2013 it was -7.1% (see Table 19, p. 42, Table 21, p. 45 and Graph 19).

The cost per participant stabilised in 2014 after achieving a reduction of over 30% in 2013.

VI. Banking coverage indicators

VI.1. Branch network in Portugal

The member institutions' branch network has been gradually shrinking since 2011. In accumulated terms, 1,059 branches were closed in the last three years. The annual average reduction was 5.9%. On 31 December 2014, the network consisted of 5,247[28] branches, i.e. 373 fewer than the year before. This showed that efforts at rationalisation since 2011 were not over yet (see Table 22).

Table 22: Number of branches in Portugal as of 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Number of Branches in Portugal					
Total	6.306	5.987	5.620	5.247	-
Annual growth rate	-	*-5,1%*	*-6,1%*	*-6.6%*	*-5.9%*

Source: FIs, APB.

Although the reasons for this process are different, they abide essentially by the sector's need to reduce costs in a context where profitability is being pressured by low interest rates and an increase in impairments and provisions.

The use of new information and communication technology in banking has had an important impact on the banks' traditional distribution channels. Intelligent platforms for mobile and online banking have provided banks with an alternative way of selling products and services. These new channels have proven appropriate, especially for products of lower value added, thereby freeing up the branches for operational activities and allowing them to devote their attention to higher value-added activities, such as financial consultancy. At the same time, bank customers have been changing their behaviour and are using technological channels more for some of their banking transactions. These changes require fewer branches, but personnel with higher qualifications and specialisation, and have also reduced costs with automation of traditionally manual processes.

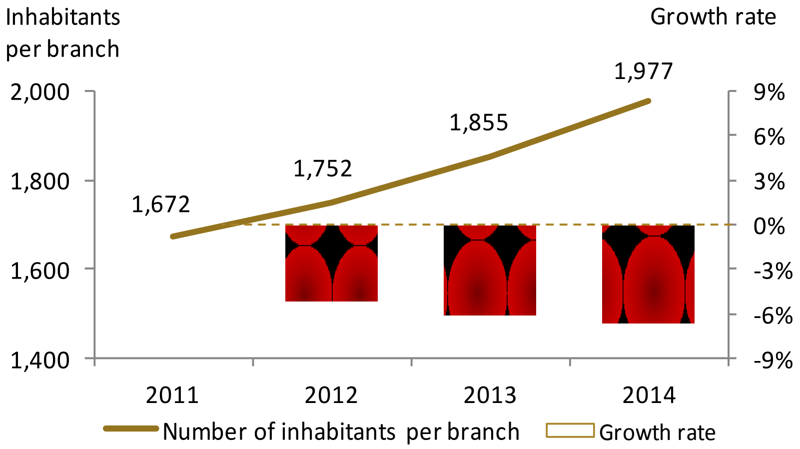
Furthermore, mergers between financial institutions have resulted in overlaps in the network and their elimination has helped reduce the number of member institutions' branches.

In addition to falling numbers, bank branches in Portugal have fewer but more specialised employees trained to provide a higher quality service to customers and are also investing more in technology.

The number of inhabitants per branch continued to increase in 2014 (6.6%), following the trend of previous years. In spite of the decrease in the resident population in Portugal between 2011 and 2014, the reduction in the number of branches has been greater, which is why the number of inhabitants per branch has been growing (see Graph 20).

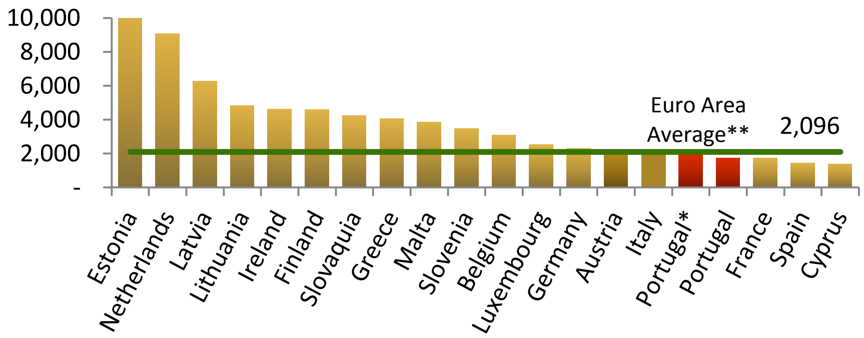
[28] The sample of 30 institutions in the analysis of 2011-2014, does not include Banco Carregosa.

Graph 20: Number of inhabitants per branch vs. branches' growth rate (2011 – 2014)



Source: FIs, APB.

Graph 21: Number of inhabitants per branch in the euro area as at 31 December 2014



Source: FIs, Eurostat, ECB, APB.
Note: * Includes only branches of APB member institutions.
** Weighted average of number of inhabitants per branch by the population of each country.

Compared to the other euro area countries, Portugal still has an above-average number of branches for the size of its population. Only France, Spain and Cyprus have fewer per branch than Portugal (see Graph 21). The data seem to confirm that there are more branches in Southern Europe.

Branch networks in Portugal differed considerably on the basis of the size of the financial institution in 2014 (see Chart 3, p. 49). While all the large institutions reduced their branch networks, only 50% of the medium-size and around 11% of the small banks did so. As in previous years, the majority (around 63% of the total) of the small credit institutions did not change their number of branches. More than a quarter of small institutions (26.3%) even enlarged their geographical coverage by opening new branches.

Only the branch offices of financial institutions operating in Portugal did not reduce their number of branches in 2014. Seventy-five percent of branch offices and 36.4% of domestic institutions reduced their networks. The number of branches of the majority of domestic banks (45.5%) remained the same (see Chart 3).

If we combine these two dynamics, we find that the reduction in branch networks by large financial institutions was used by some institutions, especially small ones, to increase their geographic coverage.

Chart 3: Changes in the member institutions' branch network by size and origin/type of legal structure (2013 – 2014)

	Increase	Maintenance	Decrease	TOTAL Σ
Large	0	0	6	6
Medium-sized	1	2	3	6
Small	5	12	2	19
Domestic	4	10	8	22
Subsidiary	1	0	3	4
Branch office	1	4	0	5
TOTAL	6	14	11	31

Source: FIs, APB.

Note: The chart demonstrates, for the sample of 31 member institutions, which ones expanded, maintained or reduced their branch network, for each segment.

The large financial institutions traditionally have the largest branch networks in Portugal (68.4% of the total network in the average for the period) (see Table 23 and Graph 22a, p. 55). It is therefore no surprise that this segment underwent the most substantial decrease in its number of branches. In absolute terms, there was a reduction of 272 branches against 2013 and 682 since 2011 (see Table 23, p. 50). Between 2011 and 2014, this segment was responsible for around 64% of the annual average variation (-5.9%) in the number of branches in Portugal (see

Graph 23a), p. 51 and Table 23, p. 50).

The medium-size financial institutions reduced their number of branches more in 2014 (8.4%), having closed 115 branches, almost one third of the total reduction in the segment since 2011, but still below the total 44% reduction in 2013 (see Table 23, p. 50).

As in 2013, the small institutions went against the trend in most of the sector and made a positive, albeit small contribution (0.2%), to increasing the number of branches. Even so, in cumulative terms, all the segments analysed reduced their branch networks in the period, even though, in terms of percentage, the medium-size institutions felt the largest impact (see Table 23, p. 50).

As a result, the medium-size institutions lost 1.8 p.p. in representativity in favour of the large (+0.7 p.p.) and small (+1.1 p.p.) institutions (see Graph 22a, p. 50)).

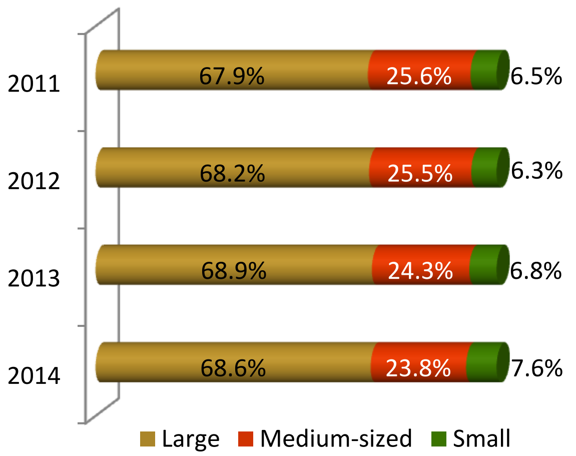
Table 23: Number of branches in Portugal by size as of 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Large					
Total	4.281	4.086	3.871	3.599	-
Annual growth rate	-	*-4.6%*	*-5,3%*	*-7,0%*	*-5.6%*
Contribution to growth in the number of branches	-	*-3.2%*	*-3.6%*	*-4.8%*	*-3.8%*
Medium-sized					
Total	1.616	1.526	1.365	1.250	-
Annual growth rate	-	*-5.6%*	*-10.6%*	*-8.4%*	*-8.2%*
Contribution to growth in the number of branches	-	*-1.4%*	*-2,7%*	*-2,0%*	*-2,1%*
Small					
Total	409	375	384	398	-
Annual growth rate	-	*-8,3%*	*2.4%*	*3.6%*	*-0.8%*
Contribution to growth in the number of branches	-	*-0.5%*	*0.2%*	*0.2%*	*0,0%*

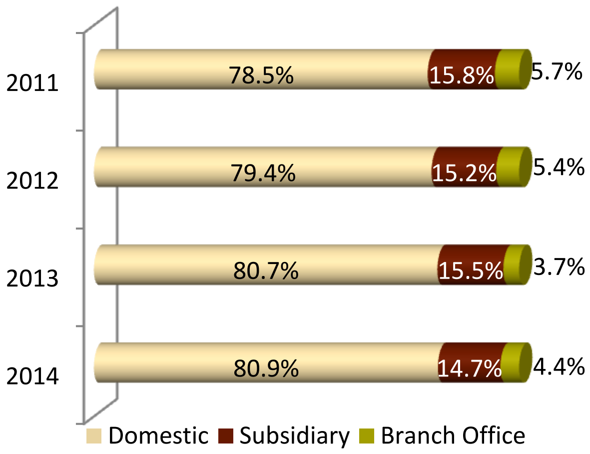
Source: FIs, APB.

Graph 22: Representativity of member institutions in term of number of branches in Portugal by size and origin/type of legal structure as of 31 December (2011 - 2014)

a) By size



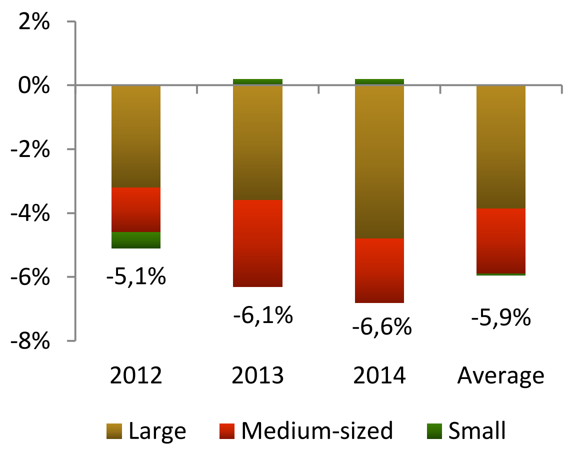
b) By origin/type of legal structure



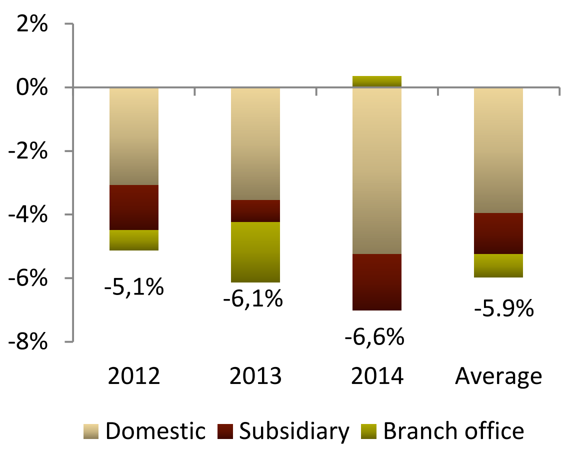
Source: FIs, APB.

Graph 23: Contribution to the rate of change of the number of branches in Portugal by size and origin/type of legal structure as of 31 December (2012 - 2014)

a) By size



b) By origin/type of legal structure



Source: FIs, APB.

Regarding segmentation of the member institutions on the basis of their legal structure, the domestic institutions have contributed most to the reduction in branches in Portugal since 2011 (accounting for 3.9% of the annual average reduction (5.9%) (see Table 24, p. 52 and

Graph 23b).

The decrease in the networks of the subsidiaries of foreign banks has been consistent since the onset of the financial crisis and was 8.1% on average in the period. Subsidiaries were the second largest contributors to the reduction in the sector's commercial structure in the three years (

Graph 23b) and Table 24, p. 52).

The growth in the number of branches of subsidiaries (9.5%) in 2014, going against the downward trend since 2011, was due to the enlargement of the branch network of a single financial institution, as the others remained unchanged (see Chart 3, p. 49 and Table 24, p. 52). In cumulative terms branch offices closed around 37% of the networks that they had in 2011, which is an annual average reduction of 12.2% (see Table 24, p. 52).

In terms of representativity, in all the branch networks of the member institutions, subsidiaries and branch offices lost weight (1.1 p.p. and 1.3 p.p., respectively) from 2011 to 2014 in favour of domestic institutions (see Graph 22b, p. 50), as the reduction in their branch networks had the highest impact in terms of percentage.

Table 24: Number of branches in Portugal by origin/type of legal structure as of 31 December (2011 – 2014)

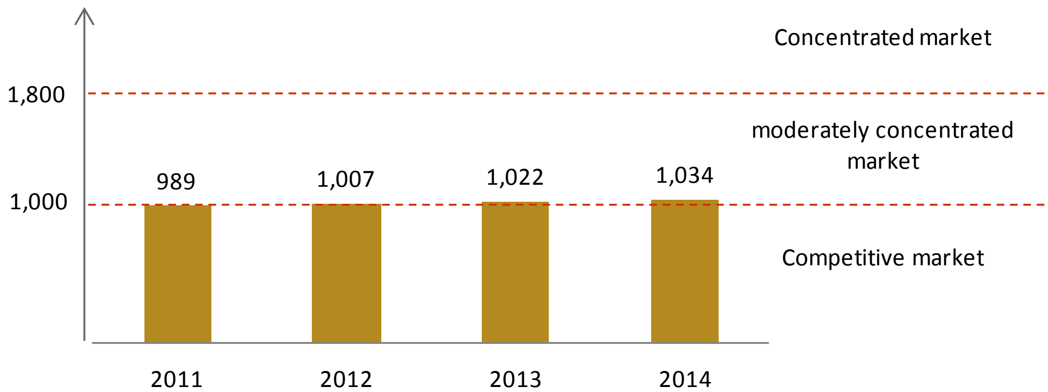
	2011	2012	2013	2014	Average
Domestic					
Total	4.947	4.751	4.538	4.244	-
Annual growth rate	-	*-4,0%*	*-4.5%*	*-6.5%*	*-5,0%*
Contribution to growth in the number of branches	-	*-3,1%*	*-3.6%*	*-5.2%*	*-3.9%*
Subsidiaries					
Total	996	913	872	773	-
Annual growth rate	-	*-8,3%*	*-4.5%*	*-11.4%*	*-8,1%*
Contribution to growth in the number of branches	-	*-1.4%*	*-0,7%*	*-1.8%*	*-1,3%*
Branch Offices					
Total	363	323	210	230	-
Annual growth rate	-	*-11,0%*	*-35,0%*	*9.5%*	*-12.2%*
Contribution to growth in the number of branches	-	*-0.6%*	*-1.9%*	*0.4%*	*-0,7%*

Source: FIs, APB.

An analysis of the member institutions' branches in 2014 shows that the average went down against 2013, which is line with the weight of the reduction in branches in the large and medium-size segments. It also shows a more homogenous distribution. There is a reduction in the interval of variability of the data and lower dispersal in relation to the average (the standard deviation went down from 267 in 2013 to 251 in 2014). Both variations can be explained by a general reduction in the network and in the differentiation between institutions, especially those of medium size, in terms of number of branches (see Graph 25, p. 53).

Our analysis shows a trend towards greater concentration, which has indeed increased slightly. Even so, the Herfindahl index, which is calculated from market shares based on the number of branches, shows that, although the large financial institutions have the majority of branches, the Portuguese market is only moderately concentrated and very close to the limits of a competitive market (see Graph 24, p. 52).

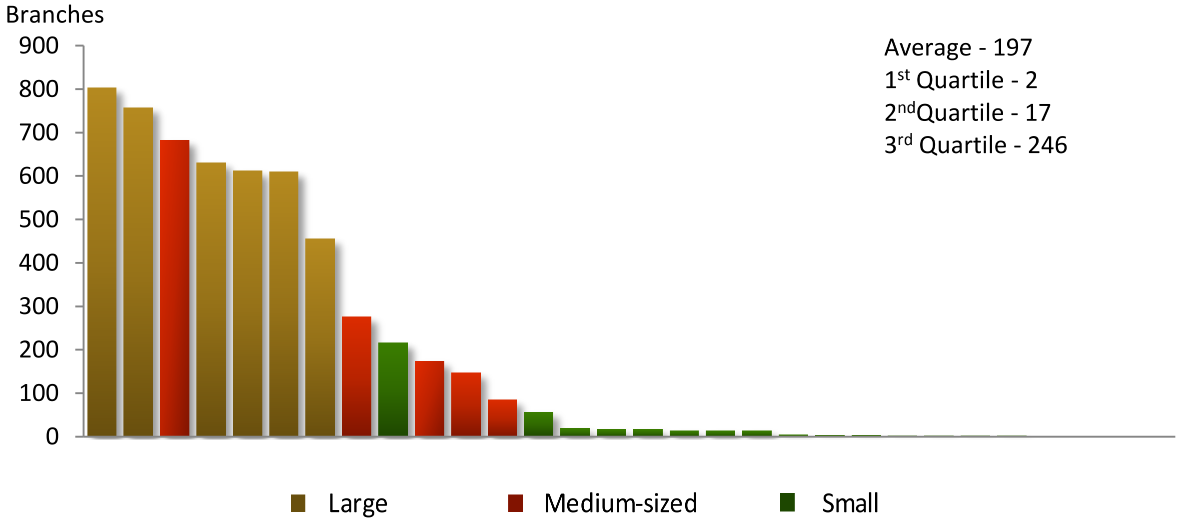
Graph 24: Herfindahl Index as of 31 December (2011 – 2014)



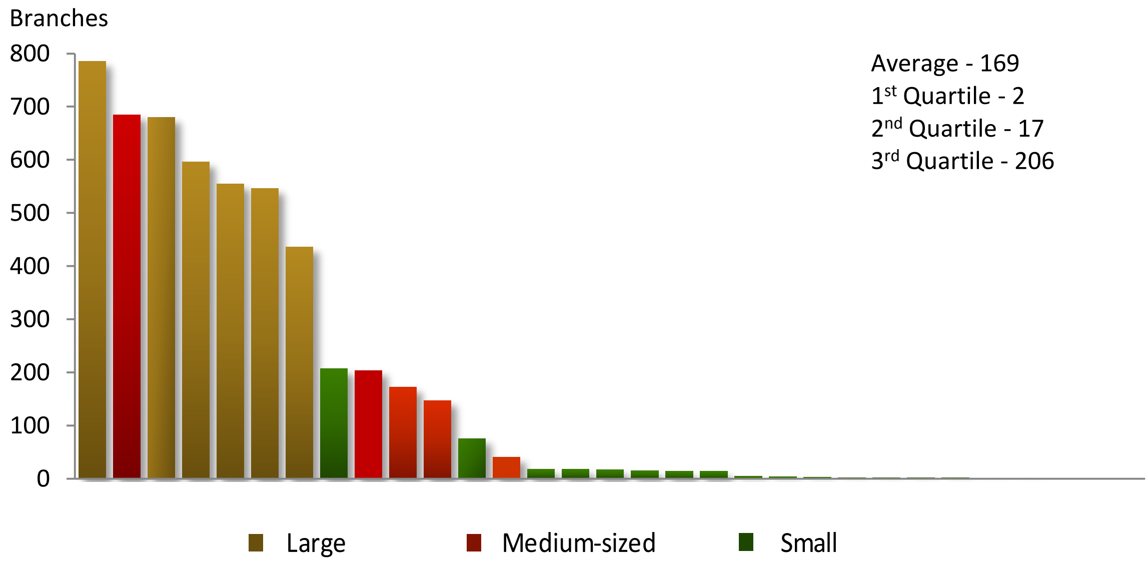
Source: FIs, APB.

Graph 25: Number of branches of 33 member institutions as of 31 December (2013 e 2014)

a) 2013



b) 2014



Source: FIs, APB.

In terms of the geographical distribution of member institutions' branch networks at the end of 2014, most of the branches are still in the coastal districts, especially Lisbon and Porto, which have 37.9% (see Figure 2, p. 55 and Table 26, p. 60). These are the districts in which 38.8% of the Portuguese population lives. The Pearson correlation coefficient of 0.99, based on the population and number of branches, confirms that the most populated districts have the most branches.

Considered individually, after that the Aveiro, Braga and Setúbal districts have the most significant number of branches, with 6% or more, and they are inhabited by 23% of the Portuguese population. Horta and Angra do Heroísmo have the fewest branches (1.2% of the total) (see Table 26, p. 60).

The largest difference between concentration of branches and of population by district was in Setúbal, where 8.2% of the population lived but there were only 6% of all branches in 2014. This difference is also more accentuated in the Porto district, with 17.2% inhabitants against 15.2% branches. The closure of 109 branches in Lisbon, the district with the largest population and number of branches, brought the difference between these two down to 3.3% in 2013 and 1.2% in 2014.

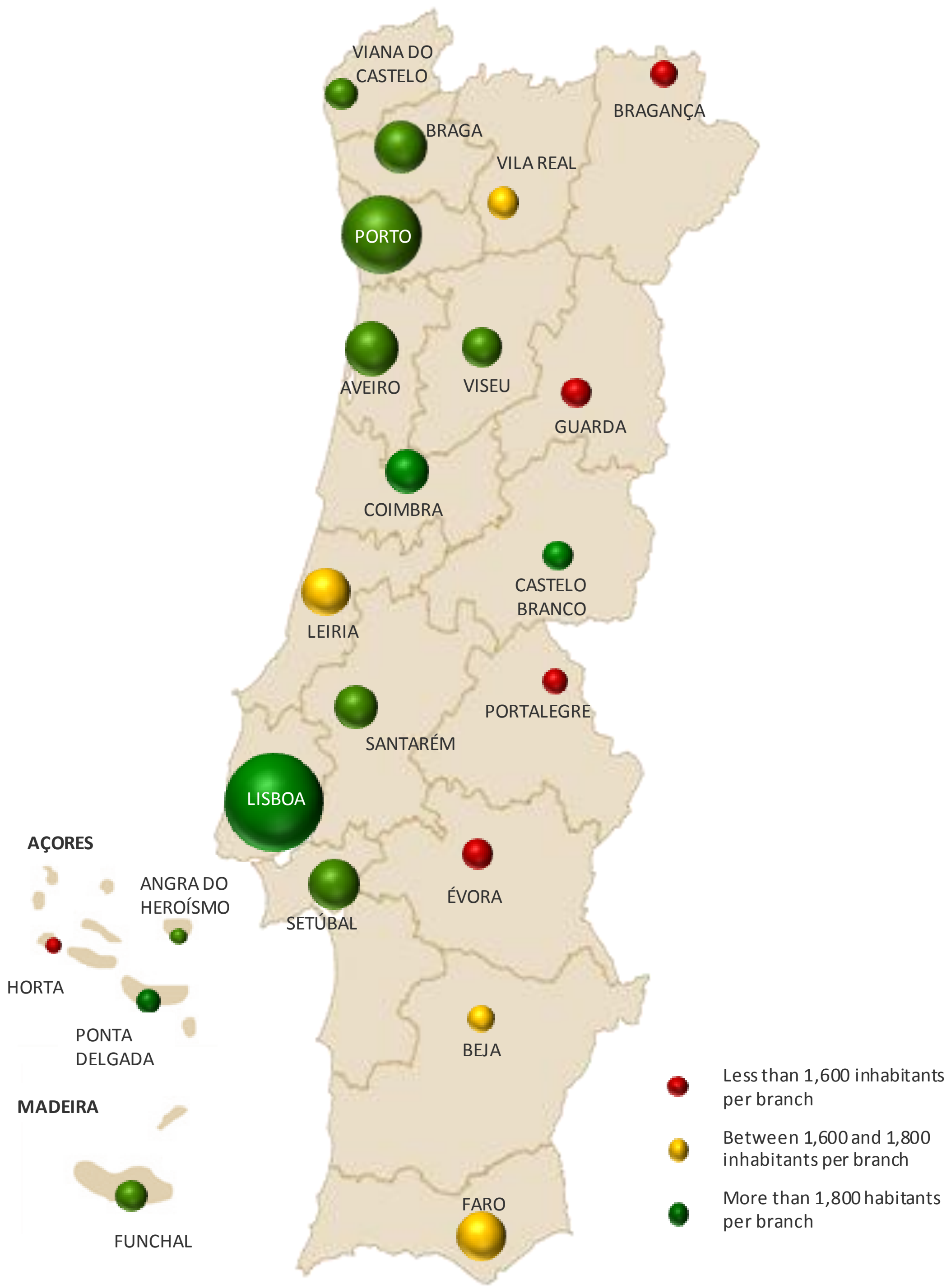
The area of each district is not a statistically significant variable in the geographical distribution of branch networks[29]. However, population density (inhabitants per km^2) is, with a Pearson correlation coefficient between the number of branches and population density per district totalling 0.9. The data show that the branch network particularly favours more populated areas, where more banking services are provided.

Branches were closed in all districts last year, although in different numbers (see Graph 26, p. 56 and Table 27, p. 61). While 109 branches closed in Lisbon, only one closed in both Guarda and Horta. In Lisbon alone, 29.2% of branches were shut down. If we add Porto (second largest number of closures), the percentage goes up to 46.9%. Regarding the absolute variation in the number of branches, 16 to 30 closed in the districts of Setúbal, Aveiro, Braga, Faro and Santarém. The greatest decreases in absolute terms were in Angra do Heroísmo (10.5%), Castelo Branco (8.9%) Setúbal (8.7%), Lisbon (8.4%) and Ponta Delgada (8.1%) (see Graph 26, p. 56 and Table 27, p. 61).

The above figures shows that, in spite of the reduction in concentration in the large metropolitan and coastal areas, the financial institutions have endeavoured to maintain coverage of the whole country, even in regions that are losing population and have sluggish economies.

[29] *P-value* of 42% for the coefficient of the explanatory variable in the regression

Figure 2: Branches and number of inhabitants per branch by district as of 31 December de 2014



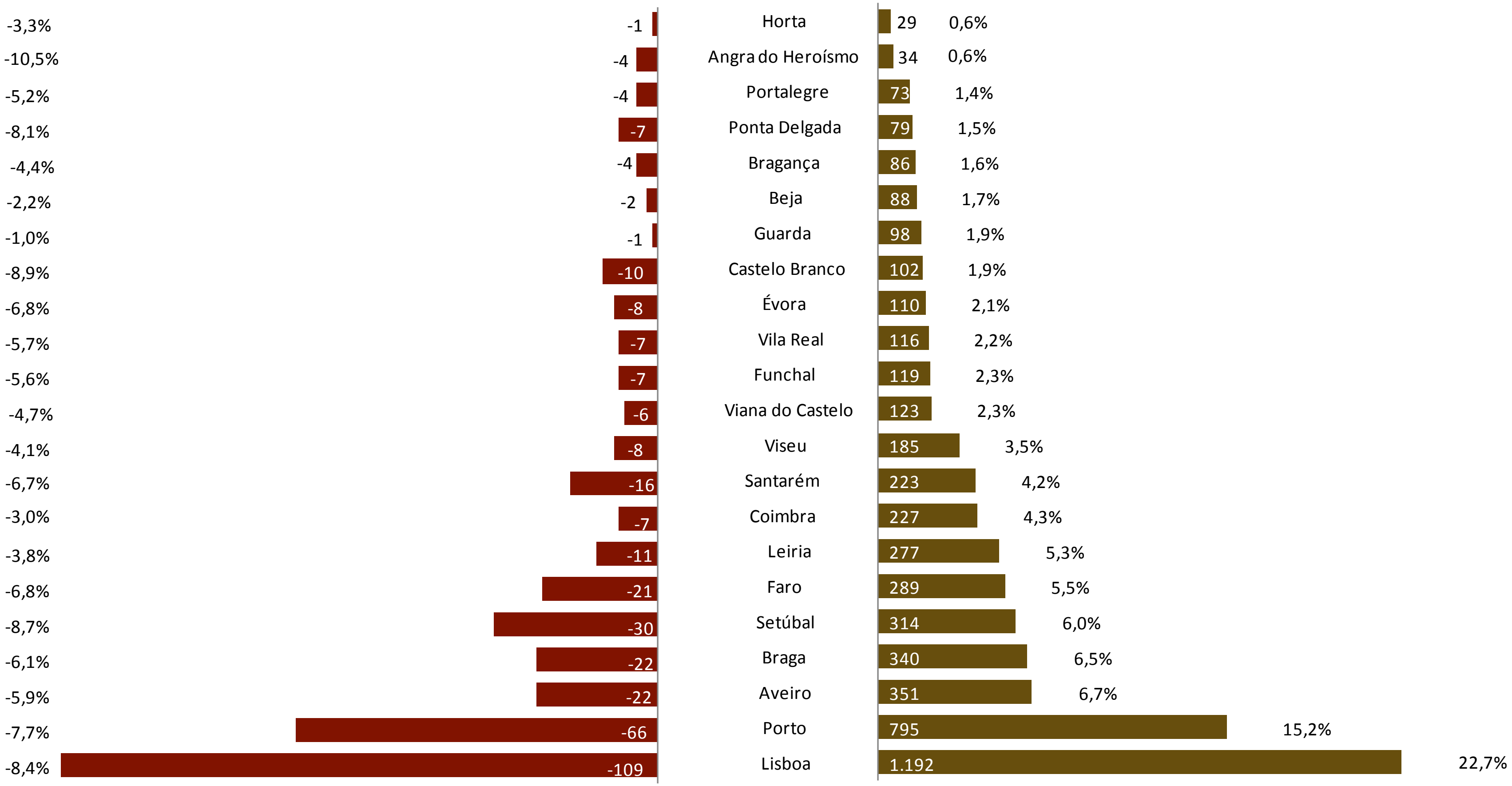
Source: FIs, INE, APB.

Note: The size of the bubbles indicates the absolute number of branches in the district, while the colour shows the number of inhabitants per branch.

Graph 26: Branch network per district as of 31 December 2014 and respective changes against 31 December 2013

a) Absolute and percentile variation in the number of branches per district against 31 de December de 2013

b) Branch network in absolute and percentage terms per district, in December 2014



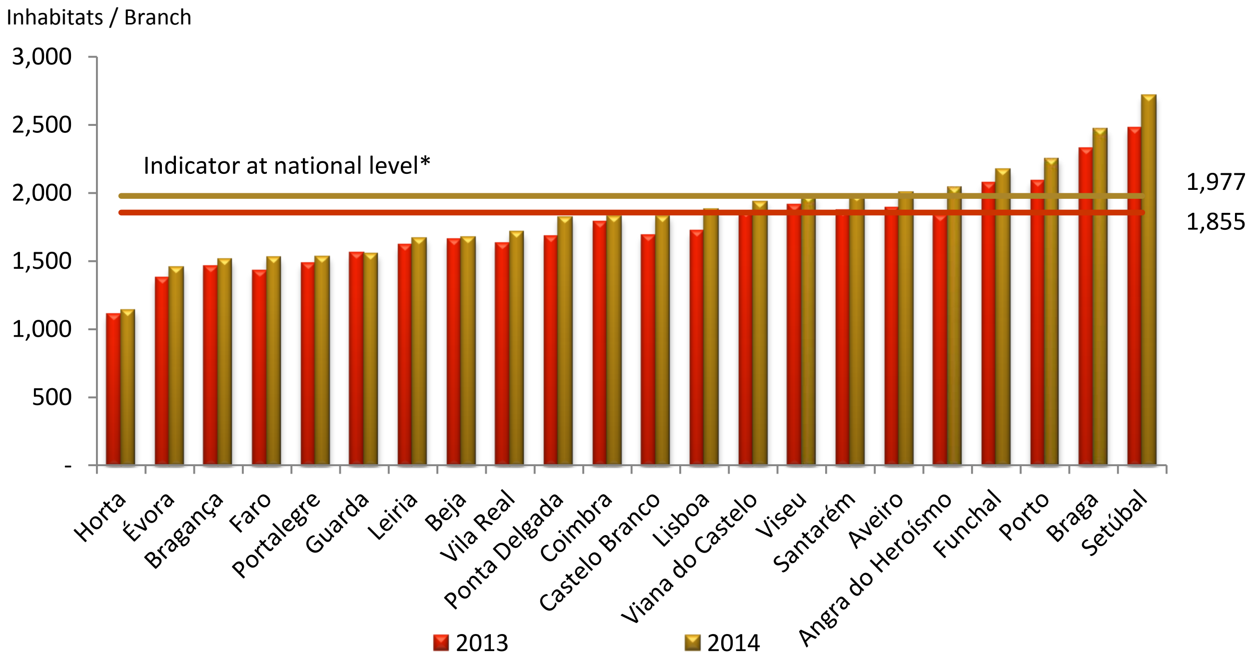
Source: FIs, APB.

Considering that the data on the Portuguese population changed little in 2014, it was mainly the general reduction in the number of branches that resulted in the rise in the number of inhabitants per branch in most districts (except Guarda, where the number of inhabitants per branch fell only 0.3%) (see Table 28, p. 62). The districts with the greatest variation in inhabitants per branch were those with the largest percentage of branches closed (see Graph 26, p. 56 and Table 28, p. 62).

As in 2013, Horta had the lowest and Setúbal the highest number of inhabitants per branch. Horta, the district with the smallest population and the fewest branches in Portugal, had 1,140 inhabitants per branch in 2014. The indicator for Setúbal, the district that is third in population and fifth in number of branches, was 2,715 inhabitants per branch (see Graph 27 and Table 28, p. 62).

Between 2011 and 2014, the number of inhabitants per branch in the districts of Aveiro, Braga, Porto, Santarém, Setúbal, Viseu and Funchal was always equal to or higher than the national average. This can be largely explained by the closure of branches, which had more impact in the above districts during the period (see Graph 27 and Table 28, p. 62).

Graph 27: Inhabitants per branch by district as of 31 December of 2014 and 2013



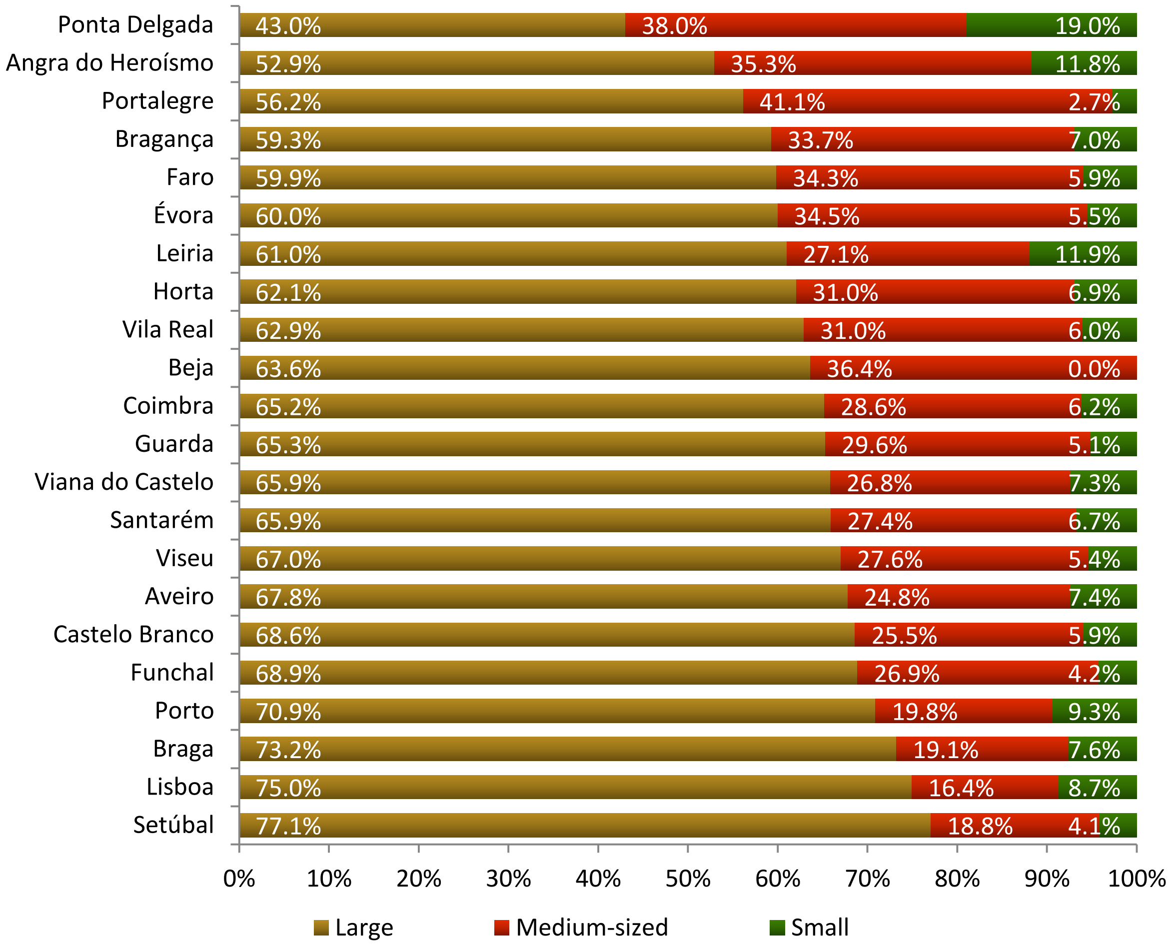
Source: FIs, APB.
Note: *Inhabitants divided by the number of branches in Portugal.

At the end of 2014, in terms of coverage of the country by size of member institutions and by district, the large institutions dominated all the districts in the mainland, Azores and Madeira. Their market share was over 50% in all but Ponta Delgada. Setúbal and Lisboa had the largest institutions, followed by Braga and Porto (see Graph 28).

The medium-size institutions are of particular importance in the Azores and the southern mainland. In the Azores they account for an average of 35% of the branch network and 36.6% in the districts of Portalegre, Beja, Évora and Faro, The small institutions are also important in the Azores

(Ponta Delgada and Angra do Heroísmo) and have an atypical presence in Leiria (11.9%) (see Graph 28).

Graph 28: Percentage of branches by size and district as of 31 December de 2014



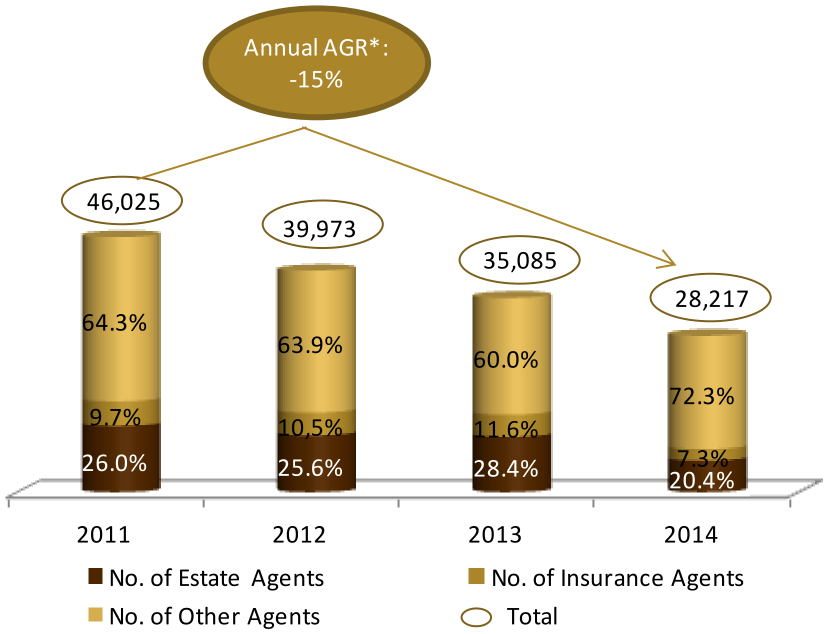
Source: FIs, APB.

In addition to their branches, the member institutions also use external promoters as distribution channels. They sell bank products but do not belong to the financial institutions themselves. Examples of external promoters are estate agents and financial consultants that enable the financial institutions to enlarge and diversify their range of customers.

The number of external promoters has been decreasing at an average rate of 15% a year in the last three years. In 2014 alone, it fell by 19.6% (see Graph 29 and Table 25, p. 59). The greatest reduction was in insurance agents (49.5%), which was due to the divestment by one member institution of part of its insurance business.

The number of estate agents decreased in the period, essentially due to a contraction in the property business in Portugal since the start of the financial crisis. With the number of estate agents falling by 4,229 in 2014, this segment decreased the most (-8 p.p.) against 2013 (see Graph 29 and Table 25, p. 59).

Graph 29: Number and type of external promoters as of 31 December (2011 – 2014)



Source: FIs, APB.
Note: *Average annual growth rate.

Table 25 Number of external promoters in Portugal by type as of 31 de December (2011 – 2014)

	2011	2012	2013	2014	Average
External Agents					
Total	46.025	39.973	35.085	28.217	
Annual growth rate	-	*-13.1%*	*-12.2%*	*-19.6%*	-15.0%
Estate Agents					
Total	11.970	10.249	9.972	5.743	
Annual growth rate	-	*-14.4%*	*-2.7%*	*-42.4%*	-19.8%
Insurance Agents					
Total	4.456	4.174	4.077	2.060	
Annual growth rate	-	*-6.3%*	*-2.3%*	*-49.5%*	-19.4%
Other Agents					
Total	29.599	25.550	21.036	20.414	
Annual growth rate	-	*-13.7%*	*-17.7%*	*-3.0%*	-11.5%

Source: FIs, APB.

Table 26: Number of branches per district by size and origin/type of legal structure as of 31 December 2014[30]

	Total		Large		Medium-sized		Small		Domestic		Subsidiary		Branch office	
Number of Branches														
Total	5.250		3.599		1.250		401		4.247		773		230	
Per District														
Aveiro	351	*6.7%*	238	*6.6%*	87	*7.0%*	26	*6.5%*	285	*6.7%*	55	*7.1%*	11	*4.8%*
Beja	88	*1.7%*	56	*1.6%*	32	*2.5%*	0	*0.0%*	80	*1.9%*	6	*0.8%*	2	*0.9%*
Braga	340	*6.5%*	249	*6.9%*	65	*5.2%*	26	*6.5%*	272	*6.4%*	52	*6.7%*	16	*7.0%*
Bragança	86	*1.6%*	51	*1.4%*	29	*2.3%*	6	*1.5%*	77	*1.8%*	7	*0.9%*	2	*0.9%*
Castelo Branco	102	*1.9%*	70	*1.9%*	26	*2.1%*	6	*1.5%*	88	*2.1%*	12	*1.5%*	2	*0.9%*
Coimbra	227	*4.3%*	148	*4.1%*	65	*5.2%*	14	*3.5%*	189	*4.4%*	31	*4.0%*	7	*3.0%*
Évora	110	*2.1%*	66	*1.8%*	38	*3.0%*	6	*1.5%*	97	*2.3%*	10	*1.3%*	3	*1.3%*
Faro	289	*5.5%*	173	*4.8%*	99	*7.9%*	17	*4.2%*	231	*5.4%*	43	*5.6%*	15	*6.5%*
Guarda	98	*1.9%*	64	*1.8%*	29	*2.3%*	5	*1.2%*	89	*2.1%*	8	*1.0%*	1	*0.4%*
Leiria	277	*5.3%*	169	*4.7%*	75	*6.0%*	33	*8.2%*	235	*5.5%*	33	*4.3%*	9	*3.9%*
Lisboa	1,192	*22.7%*	892	*24.8%*	195	*15.6%*	105	*26.2%*	904	*21.3%*	208	*26.9%*	80	*34.8%*
Portalegre	73	*1.4%*	41	*1.2%*	30	*2.4%*	2	*0.5%*	62	*1.5%*	9	*1.2%*	2	*0.9%*
Porto	795	*15.2%*	563	*15.7%*	157	*12.6%*	75	*18.7%*	607	*14.3%*	144	*18.6%*	44	*19.1%*
Santarém	223	*4.2%*	147	*4.1%*	61	*4.9%*	15	*3.7%*	183	*4.3%*	34	*4.4%*	6	*2.6%*
Setúbal	314	*6.0%*	242	*6.7%*	59	*4.7%*	13	*3.2%*	253	*6.0%*	49	*6.3%*	12	*5.2%*
Viana do Castelo	123	*2.3%*	81	*2.3%*	33	*2.6%*	9	*2.2%*	97	*2.3%*	20	*2.6%*	6	*2.6%*
Vila Real	116	*2.2%*	73	*2.0%*	36	*2.9%*	7	*1.8%*	98	*2.3%*	13	*1.7%*	5	*2.2%*
Viseu	185	*3.5%*	124	*3.4%*	51	*4.1%*	10	*2.5%*	163	*3.8%*	19	*2.5%*	3	*1.3%*
Funchal	119	*2.3%*	82	*2.3%*	32	*2.6%*	5	*1.3%*	101	*2.4%*	15	*1.9%*	3	*1.3%*
Angra do Heroísmo	34	*0.6%*	18	*0.5%*	12	*1.0%*	4	*1.0%*	32	*0.8%*	2	*0.3%*	0	*0.0%*
Horta	29	*0.6%*	18	*0.5%*	9	*0.7%*	2	*0.5%*	27	*0.6%*	2	*0.3%*	0	*0.0%*
Ponta Delgada	79	*1.5%*	34	*0.9%*	30	*2.4%*	15	*3.8%*	77	*1.8%*	1	*0.1%*	1	*0.4%*

Source: FIs, APB.

[30] Data from the sample constituted by 31 member financial institutions.

Table 27: Number of branches per district as of 31 December (2011 - 2014)[31]

	2011		2012		2013		2014	
Number of Branches								
Total	6.306		5.987		5.620		5.247	
Per District								
Aveiro	419	*6,7%*	401	*6,7%*	373	*6,7%*	351	*6,7%*
Beja	93	*1.5%*	92	*1.5%*	90	*1.6%*	88	*1,7%*
Braga	405	*6.4%*	388	*6.5%*	362	*6.4%*	340	*6.5%*
Bragança	91	*1.4%*	91	*1.5%*	90	*1.6%*	86	*1.6%*
Castelo Branco	127	*2,0%*	120	*2,0%*	112	*2,0%*	102	*1.9%*
Coimbra	260	*4,1%*	245	*4,1%*	234	*4.2%*	227	*4,3%*
Évora	122	*1.9%*	121	*2,0%*	118	*2,1%*	110	*2,1%*
Faro	352	*5.6%*	341	*5,7%*	310	*5.5%*	289	*5.5%*
Guarda	106	*1,7%*	101	*1,7%*	99	*1.8%*	98	*1.9%*
Leiria	321	*5,1%*	302	*5,1%*	288	*5,1%*	277	*5,3%*
Lisboa	1.502	*23.8%*	1.408	*23.5%*	1.299	*23,1%*	1.190	*22,7%*
Portalegre	82	*1,3%*	81	*1.4%*	77	*1.4%*	73	*1.4%*
Porto	984	*15.6%*	919	*15,3%*	860	*15,3%*	794	*15,1%*
Santarém	263	*4.2%*	254	*4.2%*	239	*4,3%*	223	*4,3%*
Setúbal	380	*6,0%*	365	*6,1%*	344	*6,1%*	314	*6,0%*
Viana do Castelo	141	*2.2%*	136	*2,3%*	129	*2,3%*	123	*2,3%*
Vila Real	133	*2,1%*	126	*2,1%*	123	*2.2%*	116	*2.2%*
Viseu	214	*3.4%*	204	*3.4%*	193	*3.4%*	185	*3.5%*
Funchal	143	*2,3%*	134	*2.2%*	126	*2.2%*	119	*2,3%*
Angra do Heroísmo	39	*0.6%*	36	*0.6%*	38	*0,7%*	34	*0.6%*
Horta	35	*0.6%*	33	*0.6%*	30	*0.5%*	29	*0.6%*
Ponta Delgada	94	*1.5%*	89	*1.5%*	86	*1.5%*	79	*1.5%*

Source: FIs, APB.

[31] Values for 2014 do not match the values in Table 26, pp. 65, since the timeline required an adjustment in the sample to 30 member financial institutions.

Table 28: Number of inhabitants per branch, per district, of 31 December (2011 - 2014)[32]

	2011	2012		2013		2014	
Inhabitants per Branch and Annual Growth Rate							
Indicator at the national level	1,672	1,752	*4.8%*	1,855	*5.9%*	1,977	*6.6%*
Per District							
Aveiro	1,702	1,770	*4.0%*	1,894	*7.0%*	2,003	*5.7%*
Beja	1,633	1,636	*0.2%*	1,659	*1.4%*	1,674	*0.9%*
Braga	2,097	2,182	*4.0%*	2,329	*6.8%*	2,470	*6.0%*
Bragança	1,486	1,465	*-1.4%*	1,461	*-0.3%*	1,509	*3.3%*
Castelo Branco	1,530	1,598	*4.4%*	1,689	*5.7%*	1,832	*8.5%*
Coimbra	1,642	1,725	*5.0%*	1,788	*3.6%*	1,827	*2.2%*
Évora	1,358	1,355	*-0.2%*	1,376	*1.5%*	1,453	*5.6%*
Faro	1,267	1,303	*2.8%*	1,427	*9.5%*	1,528	*7.1%*
Guarda	1,502	1,551	*3.3%*	1,559	*0.5%*	1,554	*-0.3%*
Leiria	1,463	1,547	*5.8%*	1,614	*4.3%*	1,668	*3.3%*
Lisboa	1,500	1,594	*6.3%*	1,721	*7.9%*	1,878	*9.2%*
Portalegre	1,431	1,428	*-0.2%*	1,482	*3.8%*	1,535	*3.6%*
Porto	1,846	1,967	*6.6%*	2,091	*6.3%*	2,253	*7.7%*
Santarém	1,719	1,769	*2.9%*	1,867	*5.6%*	1,981	*6.1%*
Setúbal	2,250	2,340	*4.0%*	2,478	*5.9%*	2,715	*9.6%*
Viana do Castelo	1,732	1,781	*2.8%*	1,862	*4.5%*	1,935	*3.9%*
Vila Real	1,546	1,613	*4.3%*	1,633	*1.2%*	1,712	*4.9%*
Viseu	1,755	1,825	*4.0%*	1,912	*4.8%*	1,977	*3.4%*
Funchal	1,848	1,963	*6.3%*	2,074	*5.6%*	2,174	*4.8%*
Angra do Heroísmo	1,796	1,944	*8.2%*	1,837	*-5.5%*	2,041	*11.1%*
Horta	954	1,012	*6.1%*	1,111	*9.8%*	1,140	*2.7%*
Ponta Delgada	1,530	1,620	*5.9%*	1,678	*3.6%*	1,821	*8.5%*

Source: INE, FIs, APB.

[32] Data from the sample constituted by 30 member financial institutions.

VI.2. Branch offices and representative offices abroad[33]

Between 2011 and 2014, there was some growth in the member institutions' international business, as they expanded their networks of branch offices and representative offices abroad (see Table 29).

New branch offices have been opened in the last two years to provide banking services to Portuguese communities living abroad. The fall in 2011 and 2012 was basically due to the closure of seven branch offices in the Madeira Free Trade Zone, following the end of the tax benefits they enjoyed in late 2011.

The number of representative offices abroad remained the same in 2014. One was closed in Germany and another in Canada but two were opened in the United States. The USA now has the second largest number after Switzerland.

Table 29: Number and geographical distribution of branch offices and representative offices abroad as at 31 December (2011 – 2014)

	2011		2012		2013		2014		Average	
Branch offices and Representative Offices Abroad										
Total	196		192		200		201		-	
Annual growth rate	-		*-2.0%*		*4.2%*		*0.5%*		*0.9%*	
Geographical Distribution										
Europe	138	*70.4%*	136	*70.8%*	145	*72.5%*	144	*71.6%*	-	-
Africa	7	*3.6%*	7	*3.7%*	8	*4.0%*	7	*3.5%*	-	-
America	36	*18.4%*	33	*17.2%*	31	*15.5%*	31	*15.4%*	-	-
Asia	15	*7.6%*	16	*8.3%*	16	*8.0%*	19	*9.5%*	-	-
Total	196	*100,0%*	192	*100.0%*	200	*100.0%*	201	*100.0%*		

Source: FIs, APB.

The member institutions' networks of branch and representative offices are mostly in Europe (71.6%), particularly France and Spain, which have almost half of the total branch and representative offices abroad (see Figure 3, p. 64). The Portuguese community in France warrants a high presence on the part of financial institutions, mainly in the retail banking segment. A new branch office was opened in Spain and one was closed in Madeira in 2014 (see Table 29).

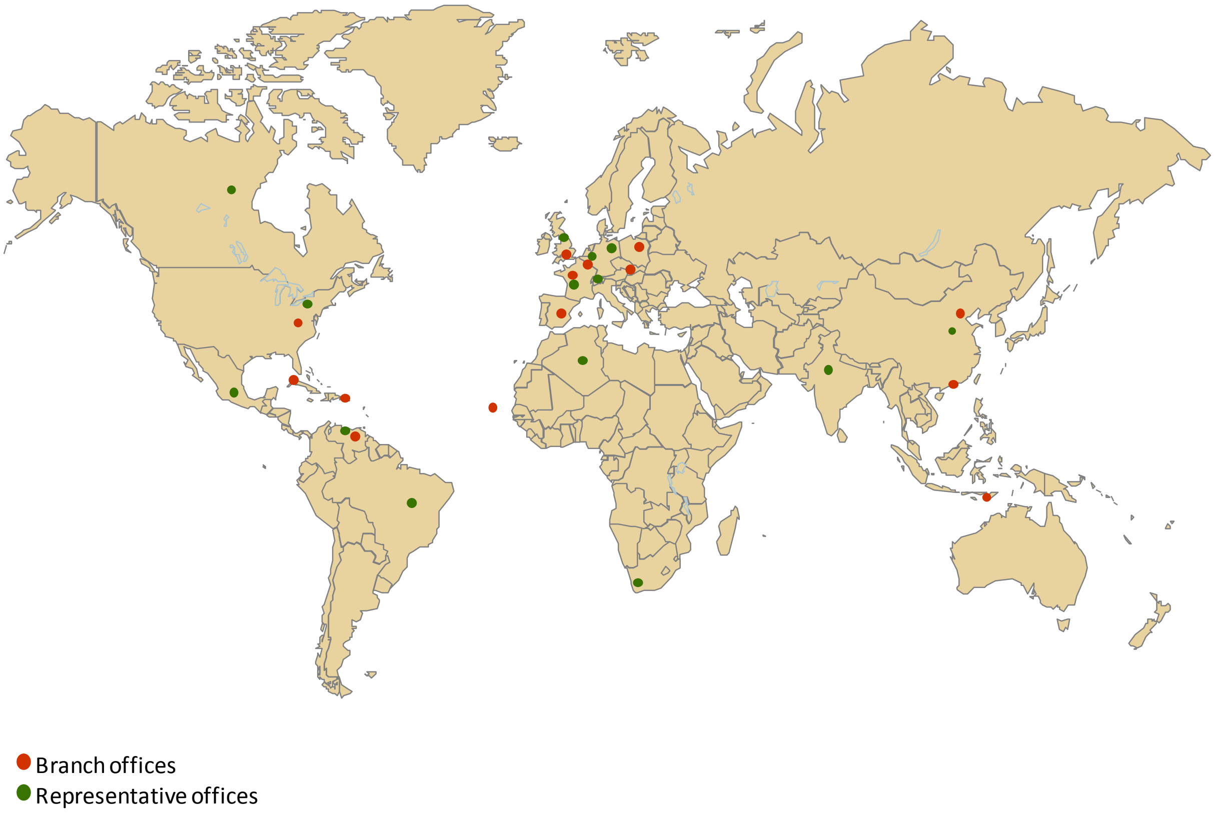
The international expansion of Portuguese companies in Africa and the consequent influx of workers to these countries resulted in an increase in financial institutions up to the end of 2013. In 2014, their presence in Africa stagnated and one branch office in Cape Verde closed. This meant that representativity in Africa fell by 0.5 p.p. against 2013 (see Table 29, p. 63).

The financial institutions also stepped up their presence in Asia by 1.5 p.p. Another four branch offices were opened in Timor, though one was closed in China. The relative weight of representative and branch offices fell 0.1 p.p. in the Americas and 0.9 p.p. in Europe (see Table 29, p. 63).

[33] The number of branch offices and representative offices abroad does not coincide with Activity Report 49 (2013) due to corrections to historical data by member institutions.

At the end of 2014, the member institutions' networks of branch and representative offices consisted of 144 in Europe, 31 in the Americas, 19 in Asia and seven in Africa. The member institutions' representation lost one office in Europe and in Africa, kept all in the Americas (a branch office closed in the Cayman Islands) and opened three in Asia (see Table 29, p. 63).

Figure 3: Geographical distribution of branch offices and representative offices abroad as of December de 2014



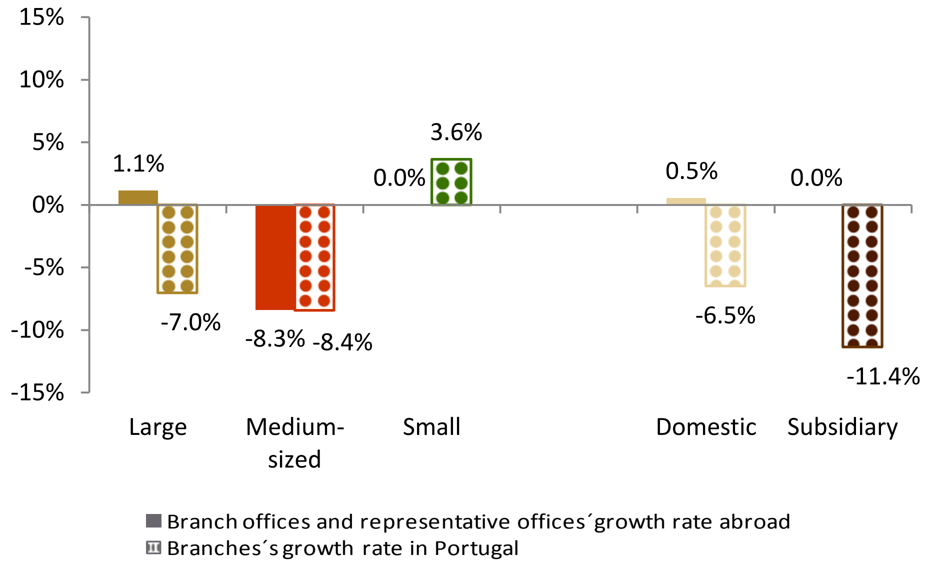
Source: FIs, APB.

Note: This Figure represents an aggregated geographic distribution of APB member institutions on the individual and not consolidated basis.

If we look at the representation of member institutions abroad by size and origin/legal structure, we find that only the large ones increased their foreign networks in 2014, while the medium-size institutions reduced their presence abroad (see Graph 30 and Table 30, p. 66). In absolute terms, these figures corresponded to the closure of only one branch office abroad.

The changes in the branch and representative office structure abroad in 2014 only occurred in domestic institutions (see Graph 30, p. 65 and Table 30, p. 66).

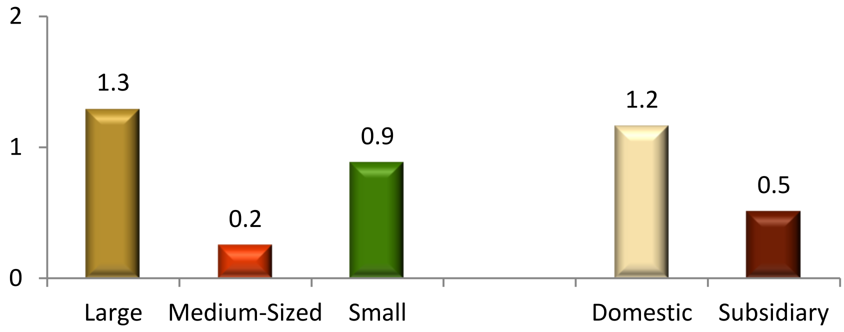
Graph 30: Changes in the number of branches, branch offices and representative offices abroad by size and origin/type of legal structure (2013 – 2014)



Source: FIs, APB.

An analysis of average international expansion[34] in the last three years (see Graph 31), we find that large, domestic financial institutions have a much higher degree of representation than the other segments, due to the reduction in their number of branches in Portugal and an albeit much less significant increase in their networks abroad (see Table 30, p. 66).

Graph 31: Relative indicator of member institutions internationalisation by size and origin (2011 – 2014)



Source: FIs, APB.

[34] Measured by an indicator resulting from the ratio between average representativity in the period (2011 - 2014) of financial institutions by size and origin/legal structure in the total of branch and representative offices abroad (see Table 30, p. 71) and that in the total branch networks in Portugal (see Graph 22a and b, p. 54).

Table 30: Representativity of member institutions in the branch network in Portugal and branch offices and representativity offices abroad by size and origin/type of legal structure as of 31 December (2011 – 2014) [35]

	2011	2012	2013	2014	Average
In absolute value:					
Large	171	169	176	178	-
Medium-sized	13	12	12	11	-
Small	12	11	12	12	-
Total	196	192	200	201	-
Domestic	181	178	184	185	-
Subsidiary	15	14	16	16	-
Total	196	192	200	201	-
Percentage:					
Large	*87.3%*	*88.0%*	*88.0%*	*88.5%*	*88.0%*
Medium-sized	*6.6%*	*6.3%*	*6.0%*	*5.5%*	*6.0%*
Small	*6.1%*	*5.7%*	*6.0%*	*6.0%*	*6.0%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
Domestic	*92.3%*	*92.7%*	*92.0%*	*92.0%*	*92.3%*
Subsidiary	*7.7%*	*7.3%*	*8.0%*	*8.0%*	*7.7%*
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Source: FIs. APB.

[35] As branch offices in Portugal do not have their own representation networks abroad, they were excluded from the table.

VI.3. ATMs and home banking

As at 31 December 2014, there were 16,484 ATMs[36] in the member institutions' network (see Table 31), which was 2.8% fewer than in 2013[37]. This reduction is mainly due to ongoing operational deleveraging and cost cuts, resulting in closure of branches and removal of equipment.

The downward trend in the ATM network in recent years has been felt not only among our member institutions but also in the sector as a whole. There was a 2% fall in the number of ATMs in the Multibanco network to 12,701 machines in 2014 (see Table 31). The representativity of the member institutions in the Multibanco network remained high at around 97%. At the end of 2014, 75% of Members' ATMs belonged to the Multibanco system, while the other 25% belonged to their own networks (see Table 31).

Table 31: Number of Member Institutions ATMs, including those belonging to the Multibanco network as of 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Number of Member Institutions ATMs					
Total	17.986	17.484	16.955	16.484	-
Multibanco network	13.475	13.015	12.713	12.351	-
Own network	4.511	4.469	4.242	4.133	-
Annual growth rate	-	*-2,8%*	*-3,0%*	*-2,8%*	*-2.9%*
Number of ATMs belonging to the Multibanco [a] network					
Total	13.911	13.400	12.963	12.701	-
Annual growth rate	-	*-3,7%*	*-3.3%*	*-2,0%*	*-3,0%*

Source: SIBS, IFs, APB.

[a] Number of ATMs belonging to the Multibanco network in Portugal (includes the equipment of other financial institutions which are not APB members).

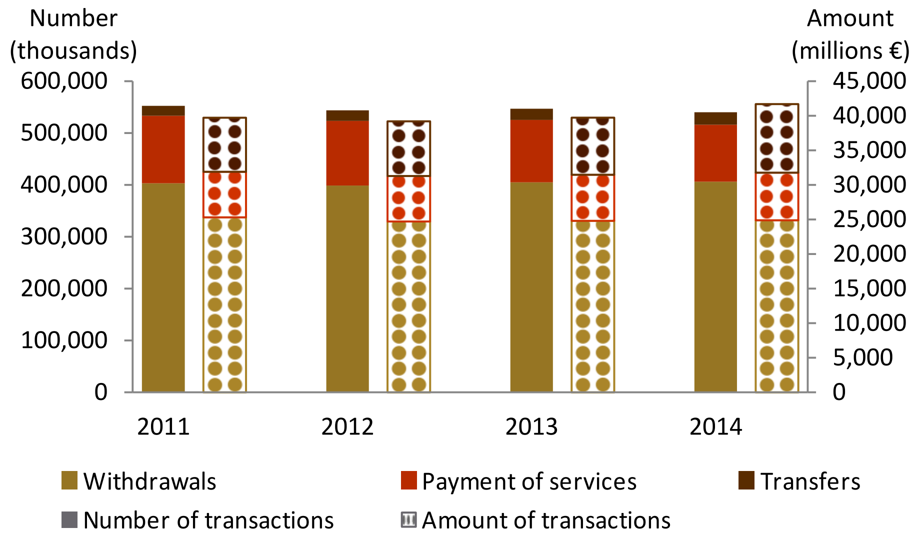
In terms of ATM transactions, there was an increase in their amount in 2014, though the number of operations decreased. Amounts rose by 4.9%, while transactions decreased by 1.2% against 2013 (see Graph 32, p. 68). The increase in amounts occurred mainly in transfers, and their number and weight increased in total ATM operations. A fall in the number of service payments contributed especially to the decrease in total operations, which was not offset by an increase in the number of transfers, given their lower weight. Another reason for the decrease in the number of service payment operations may be due a rise in the use of direct debits both in terms of number (16.3%) and amount 15.3%) of transactions against 2013.

The main type of operation is withdrawals both in terms of amount (59% of the total) and number (75% of the total), which remained practically the same.

[36] Automated teller machine.

[37] There were only 28 institutions in the sample for analysis of the ATM network, as BIG and Barclays were excluded due to lack of data.

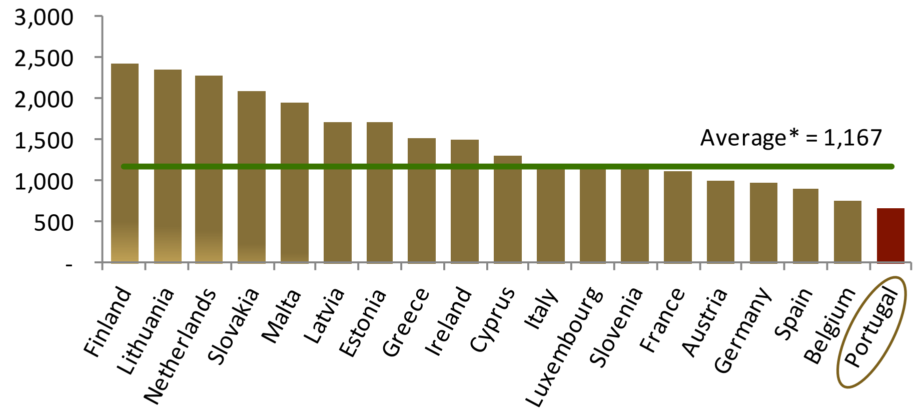
Graph 32: Number and volume of transactions in ATMs by type (2011 – 2014)



Source: SIBS.

In spite of the reduction in number of ATMs, if we compare the number of inhabitants per ATM in Portugal to the other euro area countries (see Graph 33), Portugal has 633 inhabitants per ATM against a European average of 1,167 (2013 data[38]).

Graph 33: Number of inhabitants per ATM in the euro area as of 31 December 2013



Source: Eurostat, ECB, APB.

Note: * Weighted average of number of inhabitants per point of sale by each country's population.

In 2014, the number of users of home banking[39] services rose 6.6% against 2013 (see Table 32). There was an increase in the number and amount of transactions[40], which rose 0.4% and 9%, respectively. This was due to an increase in the range of services provided by websites in the banking sector and a growing appetite on the part of customers to use these systems instead of other

[38] The figures shown in Graph 33 refer to 2013, as those for inhabitants per ATM in the euro area countries are not yet available for 2014.

[39] The sample was reduced to 24 institutions for the analysis of the number of home banking users as BIG, Novo Banco, Novo Banco dos Açores, Finantia, Banco do Brasil and Barclays were excluded for lack of data.

[40] All data in the number and value of home banking transactions cover the sample of 30 member institutions.

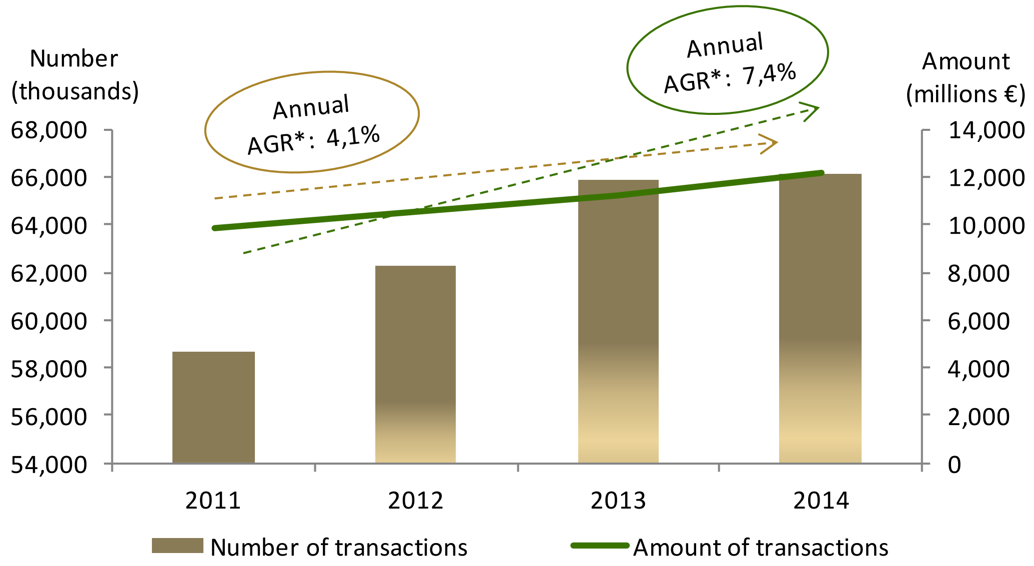
channels. As a result, in 2011-2014, the number and value of transactions showed annual average growth of 4.1% and 7.4%, respectively (see Graph 34).

Table 32: Number of users of home-banking as of 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Number of Users of Home-banking					
Total	2.842.616	3.065.235	3.253.432	3.467.166	-
Annual growth rate	-	*7,8%*	*6.1%*	*6,6%*	*6,8%*

Fonte: IFs, APB.

Graph 34: Number and volume of service payments via home-banking (2011 – 2014)



Source: SIBS.
Note: * Average annual growth rate.

VI.4. Active accounts and cards, and POSs

Active bank accounts[41] of member institutions totalled 11,384,070 at the end of 2014, which was 0.2% fewer than in 2013 (see Table 33). Even so, in 2014 there was a slowdown in the reduction in active bank accounts that had been going on since 2011, which can be justified in part by growing confidence in growth in business activity in 2014.

There was a small increase (1%) in the total number of active cards [42] (see Table 33), a reversal in the downward trend ongoing since 2011. This was due to a 7% fall in the number of debit

[41] Active private and business accounts are those that have more than 125 euros in turnover on balance, a minimum of 10 debits or credits in the last three months or those with overdue loans or advances.
[42] Active debit and credit cards are those defined as such in the financial institutions' information systems and can therefore be used immediately by customers.

cards[43] (with 69% of the total), only modestly offset by a 26% increase in the number of credit cards (which accounted for only 31% of total cards).

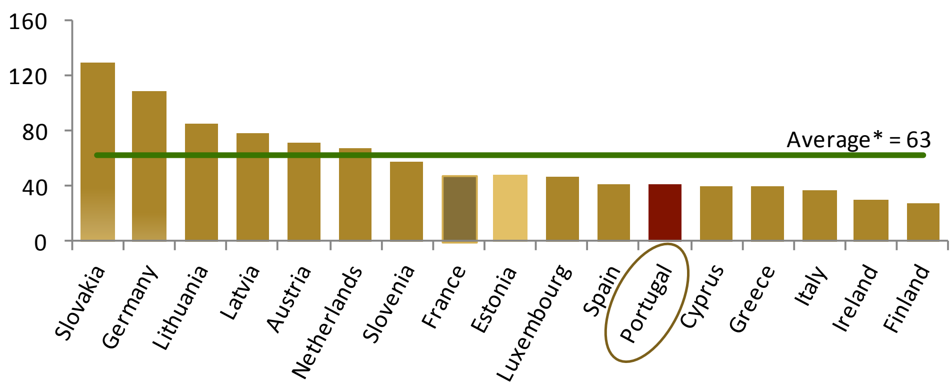
Table 33: Number of active bank accounts, credit and debit cards and POS as of 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Number of Active Bank Accounts					
Total	12.225.854	11.442.242	11.401.554	11.384.070	-
Annual growth rate	-	*-6.4%*	*-0.4%*	*-0.2%*	*-2.3%*
Number of Credit and Debit Cards					
Total	14.593.310	14.348.331	14.309.207	14.459.384	-
Annual growth rate	-	*-1,7%*	*-0.3%*	*1,0%*	*-0.3%*
Number of POS[a)]					
Total	247.249	230.865	230.210	233.480	-
Annual growth rate	-	*-6,6%*	*-0.3%*	*1.4%*	*-1,8%*

Source: IFs, APB.
[a)] Point of sale.

The number of POSs[44] rose 1.4% against 2013 (see Table 33), and the number of inhabitants per POS in Portugal (46 in 2013) was still lower than the European average (63 in 2013)[45], as shown in Graph 35.

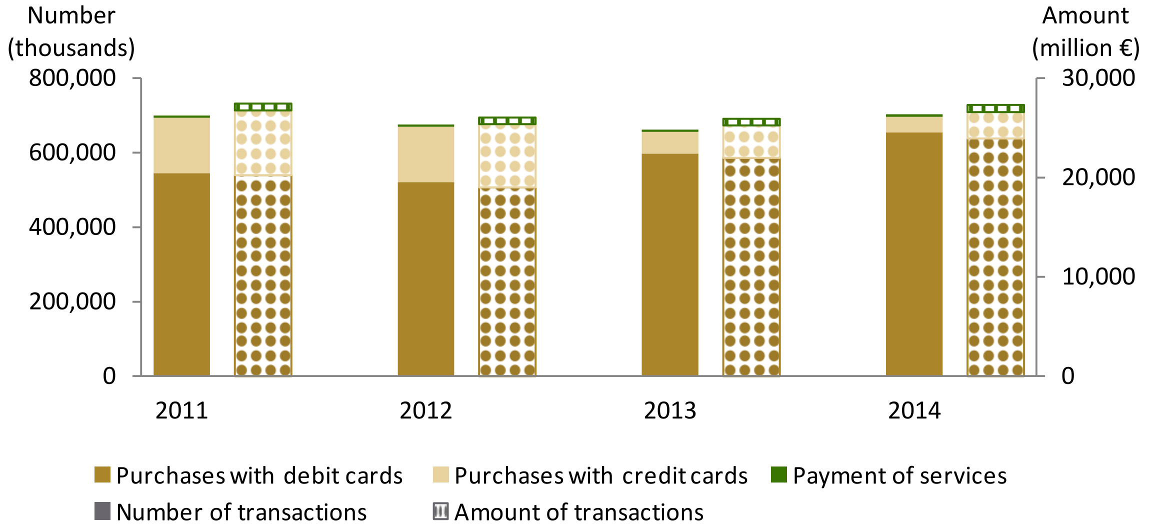
Graph 35: Number of inhabitants per POS in the euro area as of 31 December 2013



Source: Eurostat, ECB, APB.
Note: * Weighted average of number of inhabitants per POS by each country's population.

[43] For an analysis of the number of debit and credit cards, the sample includes 27 financial institutions and excludes BIG, Banif Mais and BNP Paribas, due to lack of data.
[44] For our analysis of the number of POSs, the sample includes 28 institutions and excludes BIG and Barclays for lack of data.
[45] The figures in Graph 35 are for 2013, as the number of inhabitants per POS in the euro area countries is not yet available for 2014.

Graph 36: Number and volume of transactions via POS by type (2011 – 2014)



Source: SIBS.

At a time of recovery in economic activity, the number of POSs increased 1.4% against 2013 accompanied by a 6.2% increase in the number of transactions and 5.4% in their value (see Table 33, p. 70 and Graph 36).

POS operations with credit cards continued to decrease in terms of number (28%) and value (19%). Debit card transactions grew in number (9.4%) and value (8.9%), which may demonstrate higher availability of cash to purchase goods and services immediately as opposed to using credit.

Debit cards represented 93% of the total number of POS debit operations and 88% of the total amount in 2014. Payments for services accounted for only 2% of the number of POS operations and 3% of the total amount, although they grew 18% in number and 9% in amount against 2013.

VII. Performance analysis[46]

VII.1. Balance Sheet

At the end of 2014, the member institutions' aggregate assets, an indicator used to measure banking activity, totalled 330.2 billion euros, which was around 10% lower like on like (see Table 34 and Table 35, p. 73).

This reduction influenced the percentages of the different assets and some items increased, in the spite of the fact that they decreased in absolute terms (see Table 35, p. 73).

Table 34: Aggregate balance sheet (million €) as at 31 December 2014[47]

	2014	As % of Total
Assets		
Cash and deposits at Central Banks and other credit institutions	6.556	*2,0%*
Financial investments[a)]	79.680	*24.1%*
Loans and advances to credit institutions	19.977	*6.1%*
Loans and advances to customers	194.806	*59,0%*
Other assets[b)]	29.198	*8.8%*
Total Assets	330.217	*100,0%*
Liabilities and Equity		
Deposits from Central Banks and other credit institutions	59.798	*18.2%*
Deposits from customers	188.991	*57.2%*
Debt securities issued and other equity instruments[c)]	25.854	*7.8%*
Other financial liabilities[d)]	29.837	*9,0%*
Other liabilities[e)]	8.665	*2.6%*
Equity	17.072	*5.2%*
Total Liabilities and Equity	330.217	*100,0%*

Source: FIs, APB.
[a)] Includes financial assets held for trading, other assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and assets with repurchase agreements..
[b)] Includes hedging derivatives with positive fair value, non-current assets held for sale, investment properties, other tangible and intangible assets, investments in subsidiaries and associates, current and deferred income tax assets and other assets.
[c)] Includes debt securities issued, subordinated liabilities and equity instruments.
[d)] Includes financial liabilities held for trading, other financial liabilities at fair value through profit or loss and financial liabilities associated with transferred assets.
[e)] Includes hedging derivatives with negative fair value, provisions, current and deferred income tax liabilities and other liabilities.

As in previous years, loans and advances to customers stand out in aggregate assets at 59%. Financial investments come in second, representing about a quarter of the total aggregate balance sheet (see Table 34, p. 72).

[46] From this chapter onwards, the base sample of the report once again consists of 27 financial institutions, not including those belonging to the Novo Banco group. The four-year analysis (2011-2014) considers a total of 26 financial institutions, as Banco Carregosa was excluded due to lack of historical information.
[47] There is an annex with an aggregate of the off-balance sheet accounts for 2014 of the financial institutions in the sample at the end of the balance sheet analysis on pages 107 and 108.

Where liabilities and equity were concerned, customer deposits and other loans preserved the quality of the member institutions' most important source of funding and accounted for 57.2% of the balance sheet.

Deposits from central banks and other credit institutions accounted for just over 18% of the balance sheet total, while other financial liabilities represented only around 50% of the previous deposits (9%). Equity accounted for 5.2% of member institutions' total deposits (see Table 34, p. 72).

Table 35: Aggregate assets structure as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Cash and Deposits [a)]					
Total (million €)	7.994	7.801	7.813	6.528	-
Annual growth rate	-	*-2.4%*	*0.2%*	*-16.4%*	*-6.2%*
As % of total assets	*1.9%*	*2,0%*	*2.1%*	*2,0%*	*2,0%*
Financial Investments					
Total (million €)	94.669	91.861	89.306	79.623	-
Annual growth rate	-	*-3,0%*	*-2.8%*	*-10.8%*	*-5.5%*
As % of total assets	*22.6%*	*23.1%*	*24.4%*	*24.2%*	*23.5%*
Loans and Advances to Credit Institutions					
Total (million €)	48.097	49.991	29.900	19.929	-
Annual growth rate	-	*3.9%*	*-40.2%*	*-33.3%*	*-23.2%*
As % of total assets	*11.5%*	*12.5%*	*8.2%*	*6,0%*	*9.6%*
Loans and Advances to Customers					
Total (million €)	235.410	218.570	208.067	194.753	-
Annual growth rate	-	*-7.2%*	*-4.8%*	*-6.4%*	*-6.1%*
As % of total assets	*56.3%*	*54.8%*	*56.8%*	*59,0%*	*56.7%*
Other Assets					
Total (million €)	32.273	30.172	31.063	29.184	-
Annual growth rate	-	*-6.5%*	*3,0%*	*-6,0%*	*-3.2%*
As % of total assets	*7.7%*	*7.6%*	*8.5%*	*8.8%*	*8.2%*
Total Assets	418.443	398.395	366.149	330.017	-
Annual growth rate		*-4.8%*	*-8.1%*	*-9.9%*	*-7.6%*

Source: FIs, APB.

[a)] At Central Banks and other credit institutions.

The financial institutions' deleveraging strategy, which began in 2011 under the EFAP, continued in 2014. This explained the downward trend in total aggregate assets, which deteriorated further and resulted in an accumulated contraction of around 21% between 2011 and 2014 (see Table 35, p. 73).

All the asset items fell in 2014, with special focus, in absolute terms, on lines of credit to customers, loans and advances to credit institutions and financial investments (see Table 35, p. 73).

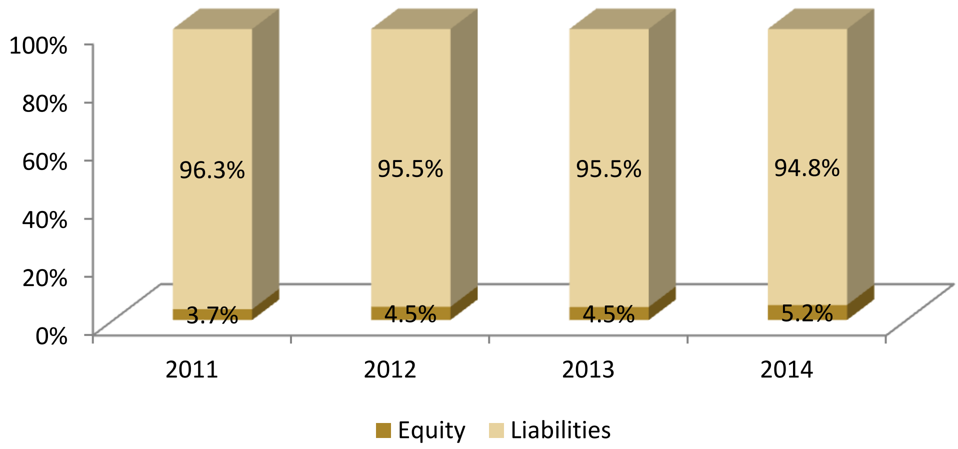
The drop in lines of credit to customers in 2014 (6.4%) and in previous years was due to many factors. Demand for loans by private and business customers continued to reflect an unfavourable economic setting in 2014, given the slow recovery of different sectors of the Portuguese economy and still high levels of unemployment in historical terms. The continuation of strict lending policies and high indebtedness especially on the part of non-financial firms (in spite of some reduction), contributed once again to the decrease in loans and advances to customers. Furthermore, the upward trend in impairments and provisions contributed to the reduction in net loans and advances to customers in the year.

There have, however, been favourable developments in supply of and demand for loans[48] since 2013, particularly in the first two quarters of 2015, according to a survey of the banks on the credit market by Banco de Portugal in July 2015. The respondent institutions reported more favourable lending conditions as of 2013, after a significant deterioration between 2009 and 2012. The line representing demand for loans and advances has also shown a considerable recovery since then and in June 2015 reached the highest level since records of the series began (which show a significant increase in demand in the period). In addition the items on conditions of supply of and demand for loans referring to the institutions' expectations for the next three months demonstrated a positive trend for the near future.

A decrease in loans and advances to credit institutions, especially deposits and loans (with decreases of around 50%), also contributed significantly to a reduction in the aggregate balance sheet. The adjustment is partly related to intra-group operations resulting from repayments of debt securities.

Financial investments fell 10.8% in 2014 (much higher than the 2.8% drop in 2013), due to adjustments in the size and composition of the banks' portfolios, especially held to maturity investments and available for sale financial assets, both aimed at lower exposure to securities from public and private issuers (see Table 35, p. 73).

Graph 37: Aggregate financing structure as at 31 December (2011 – 2014)



Source: FIs, APB.

48 The survey of five banks regarding the lending market conducted by Banco de Portugal assesses restrictions placed on different types of loans by financial institutions in the period. It also provided information about demand for loans.

Regarding the member institutions' funding structure in 2014, there was a decrease in borrowing, which reduced the weight of liabilities in the total balance sheet by 0.7 p.p. (see Graph 37). This performance was mainly due to a contraction of around 36.8 billion euros in liabilities and there was also an improvement in equity (636 million euros) (see Table 37, p. 76).

Table 36: Equity structure as at 31 December (2011-2014)

	2011	2012	2013	2014	Average
Share Capital					
Total (million €)	17.965	16.597	18.605	18.888	-
Annual growth rate	-	*-7.6%*	*12.1%*	*1.5%*	*2,0%*
Share Premium					
Total (million €)	450	420	443	443	-
Annual growth rate	-	*-6.7%*	*5.6%*	*0,0%*	*-0.4%*
Other Equity Instruments					
Total (million €)	242	272	157	158	-
Annual growth rate	-	*12.5%*	*-42.5%*	*1.1%*	*-9.6%*
Own Shares and Anticipated Dividends					
Total (million €)	(24)	(30)	(33)	(35)	-
Annual growth rate	-	*-24.4%*	*-12.2%*	*-4.3%*	*-13.6%*
Revaluation Reserves					
Total (million €)	(5.306)	(1.665)	(931)	384	-
Annual growth rate	-	*68.6%*	*44.1%*	*141.3%*	*84.6%*
Other Reserves and Retained Earnings and Net Income					
Total (million €)	2.170	2.521	(1.839)	(2.800)	-
Annual growth rate	-	*16.2%*	*-172.9%*	*-52.3%*	*-69.7%*
Total Equity	15.497	18.115	16.402	17.038	-

Source: FIs, APB.

In addition to a 1.5% increase in capital in 2014, there was a favourable performance by revaluation reserves (+1.3 billion euros) and a less restrictive income for the year (1.9 billion euros more than in 2013), which more than offset the negative contribution of retained earnings (down 2.9 billion euros) (see Table 36, p. 75).

Table 37: Aggregate financing structure as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Média
Deposits from Central Banks					
Total (million €)	38.079	42.978	39.131	23.261	-
Annual growth rate	-	*12.9%*	*-9,0%*	*-40.6%*	*-12.2%*
As % of total assets	*9.1%*	*10.8%*	*10.8%*	*7.1%*	*9.4%*
Deposits from other credit institutions					
Total (million €)	70.119	60.711	44.773	36.519	-
Annual growth rate	-	*-13.4%*	*-26.3%*	*-18.4%*	*-19.4%*
As % of total assets	*16.8%*	*15.2%*	*12.2%*	*11.1%*	*13.8%*
Deposits from customers					
Total (million €)	175.901	178.310	181.396	188.871	-
Annual growth rate	-	*1.4%*	*1.7%*	*4.1%*	*2.4%*
As % of total assets	*42,0%*	*44.8%*	*49.5%*	*57.2%*	*48.4%*
Debt securities issued and other equity instruments [a]					
Total (million €)	57.710	54.855	42.417	25.854	-
Annual growth rate	-	*-4.9%*	*-22.7%*	*-39,0%*	*-22.2%*
As % of total assets	*13.8%*	*13.8%*	*11.6%*	*7.8%*	*11.8%*
Other financial liabilities					
Total (million €)	51.025	34.072	32.763	29.835	-
Annual growth rate	-	*-33.2%*	*-3.8%*	*-8.9%*	*-15.2%*
As % of total assets	*12.2%*	*8.6%*	*8.9%*	*9,0%*	*9.7%*
Other liabilities					
Total (million €)	10.111	9.354	9.265	8.641	-
Annual growth rate	-	*-7.5%*	*-1,0%*	*-6.7%*	*-5,0%*
As % of total assets	*2.4%*	*2.3%*	*2.5%*	*2.6%*	*2.5%*
Total Liabilities (million €)	402.945	380.280	349.745	312.981	-
Annual growth rate	-	*-5.6%*	*-8,0%*	*-10.5%*	*-8.1%*
As % of total assets	*96.3%*	*95.5%*	*95.5%*	*94.8%*	*95.5%*
Equity					
Total (million €)	15.497	18.115	16.402	17.038	-
Annual growth rate	-	*16.9%*	*-9.5%*	*3.9%*	*3.8%*
As % of total assets	*3.7%*	*4.5%*	*4.5%*	*5.2%*	*4.5%*
Total Liabilities and Equity	418.442	398.395	366.147	330.019	-

Source: FIs, APB.

a) Includes subordinated liabilities.

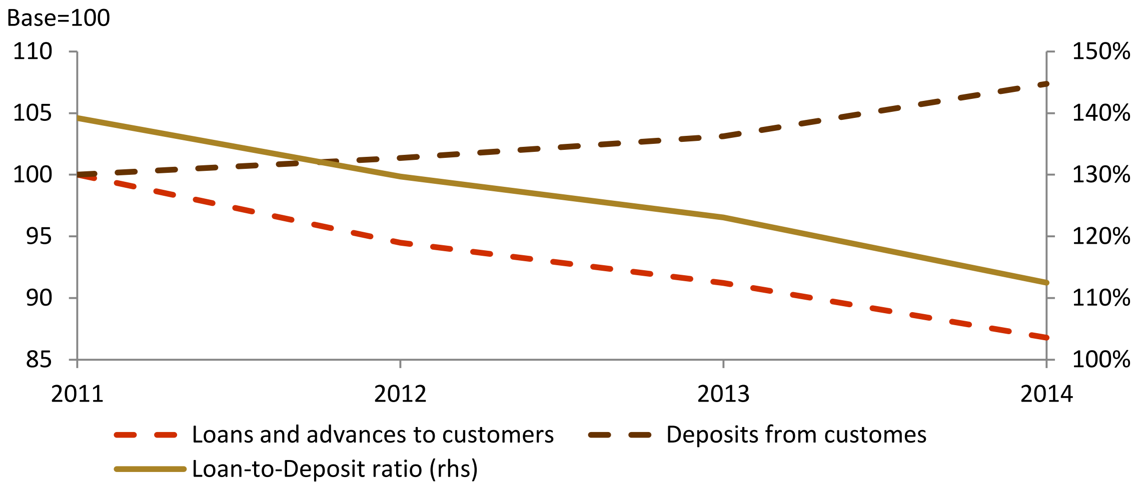
On the liabilities side, there was a 40.6% fall (almost 16 billion euros) in deposits from central banks, due to early repayment of three-year refinance operations. This reflects lower dependency on the Eurosystem, which in 2014 reached its minimum since the outbreak of the sovereign debt crisis in May 2010) (see Table 37, p. 76). Deposits from other credit institutions also fell substantially

(18.4% or 8.3 billion euros). This decrease was, however, accompanied by a larger reduction in active loans and advances (almost 10 billion euros or 33.3%), which, in net terms, continued to increase the importance of this source in the sector's funding structure (see Table 35, p. 73, Table 37, p. 76 and Graph 39, p. 79).

On the reverse side, a 4.1% increase in customer deposits and other loans exceeded the rises of the recent past. This is in line with a performance that has been one of the most marking aspects of the Portuguese banking system during the economic and financial crisis of recent years and has continued to accentuate a progressive transition by the sector to more stable sources of funding. These developments can be seen in the weight of these deposits in total funding of the member institutions and last year reached 57.2% as opposed to just over 40% in 2011. They are based on an increase in deposits from the non-financial private sector, where the balance reached historically high levels (see Table 37, p. 76).

Together with the fall in loans and advances to customers, the rise in deposits was decisive to the credit to deposit ratio, which went from 139.2% in 2011 to 112.5% at the end of 2014 (see Graph 38 and Table 38, p. 80), thereby exceeding the target of 120% recommended by Banco de Portugal to the eight largest Portuguese banking groups under the EFAP.

Graph 38: Loan-to-Deposit ratio (2011 – 2014)



Source: FIs, APB.

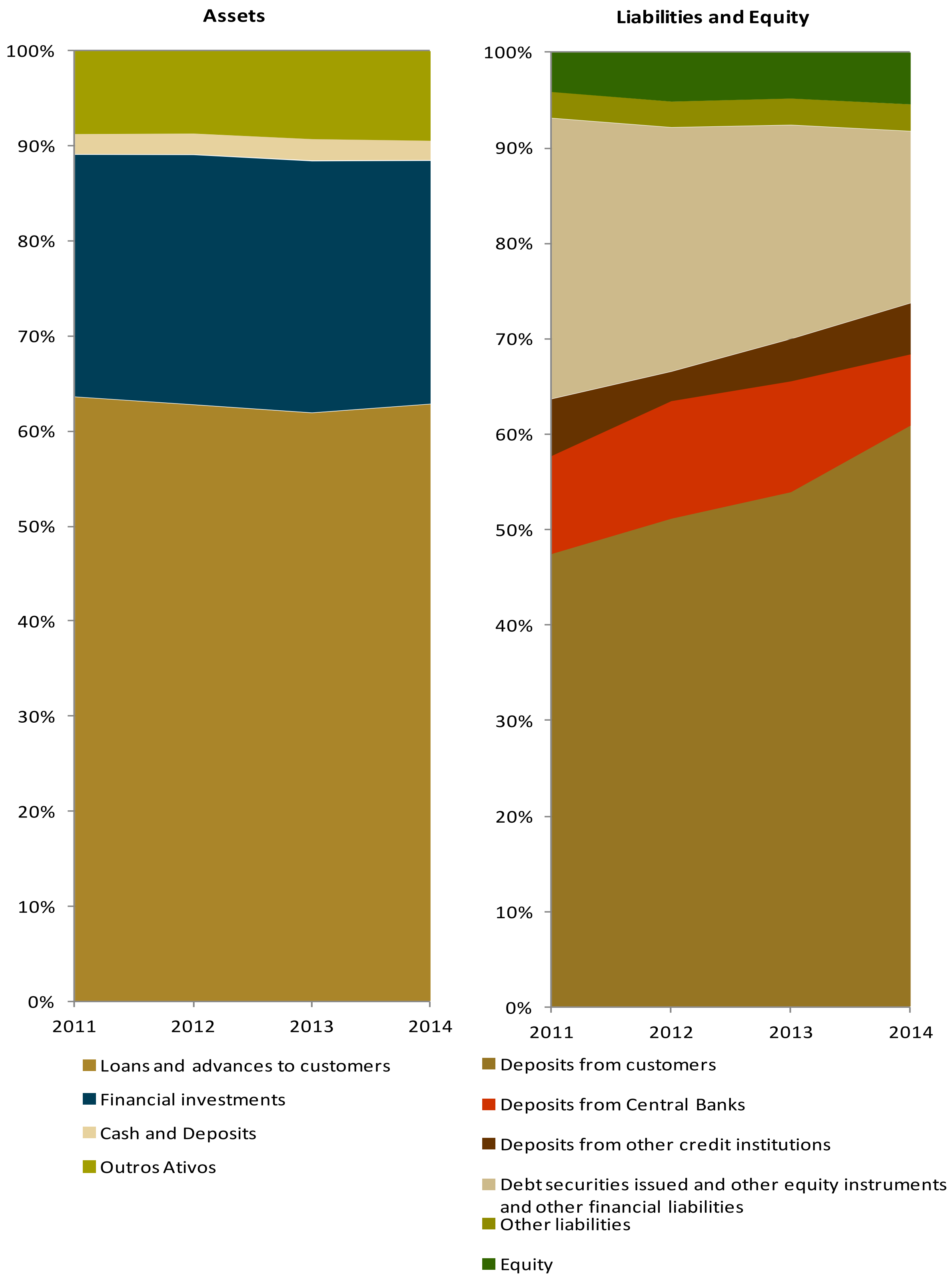
Debt securities issued and other capital instruments fell sharply in 2014 (39%, a reduction of 16.6 billion euros). This continued to reflect unfavourable conditions of access to the financial markets (in spite of a reduction in financial fragmentation). This has deterred the member institutions from placing new debt issues. On the other hand, the deleveraging process under way in the sector means lower funding needs. The repayment of debt and non-renewal of securities reaching maturity contributed to the performance of this balance sheet component. Overall, these factors explain the reduction in weight on the balance sheet of this source of funding (3.8 p.p. in 2014) (see Table 37, p. 76).

The 8.9% decrease in other financial liabilities (2.9 billion euros) was due almost exclusively to the 4.3 billion euro fall in financial liabilities associated with transferred assets, in line with the performance of unrecognised securitised assets on the member institutions' balance sheets.

Graph 39, p. 79, summarises this analysis and shows the structure and composition of the member institutions' aggregate balance sheet in the last three years. The path that they took to build a more solid asset structure in the sector is clear, based first and foremost on more stable sources of funding i.e. deposits, which progressively replaced overdependence on the Eurosystem or other more volatile sources, such as loans and advances to other credit institutions. Their effort to reduce the gap between loans and deposits is also evident, as a result of the growth in the latter and the deleveraging of the former, which was an essential condition for a more even balance sheet. They still have to unblock access to medium- and long-term market funding (including capital), which will be conditioned by the institutions' ability to recover the profitability they need (in a context of many external limitations on net interest income and operating income and severe penalties for taking risks on the balance sheet). It will also be conditioned by an improvement in financial stability and economic recovery, which are essential to reducing the country risk, a simultaneous rise in rating and a reduction in non-performing loans. The reintroduction of credit and support to the economy by the banking sector need all this.

Finally, a word about the comprehensive assessment (CA) conducted by the ECB in 2014 to assess the 130 banks in the euro area that will be subject to its direct supervision in the future when the SSM comes into effect on 4 November 2014, with the ECB as the single European supervisor. The CA was based on an asset quality review (AQR) and a stress test, which was performed in collaboration with the EBA, both as at 31 December 2013. The exercise entailed an assessment of the balance sheet and solvency of the financial institutions involved with a view to greater soundness, higher quality and transparency of information and restoration of trust between banks and their stakeholders. In fact, the idea of the comprehensive assessment was to issue a stamp of quality for the balance sheets of the institutions involved.

Graph 39: Aggregate balance sheet structure as at 31 December (2011 – 2014)



Source: FIs, APB.

Four Portuguese financial institutions, Banco BPI, Banco Comercial Português, Caixa Geral de Depósitos and Espírito Santo Financial Group, were initially included in the exercise. Following the resolution of Banco Espírito Santo, however, it was not possible to complete the exercise, and the assessment of Novo Banco was postponed to 2015. The results of the AQR[49] and the base scenario of the stress test for the other three banks showed the resilience of Portuguese banks and their appropriate levels of capitalisation (all had capital ratios above the required 8% threshold).

Table 38 shows the member institutions' aggregate balance sheet structure between 2011 and 2014.

Table 38: Indicators calculated on figures in the aggregate balance sheet as at 31 December (2011 – 2014)

		2011	2012	2013	2014
Quick Ratio	Cash and deposits at Central Banks / Financial liabilities [a)]	1.2%	1.4%	1.2%	1.4%
Transformation Ratio	Gross loans / Deposits from customers	139.2%	129.7%	123.1%	112.5%
Overall Lending Capacity	Gross loans / Financial liabilities	62.1%	62.1%	65.3%	69.6%
Finance of Financial Assets	Financial liabilities / Financial assets [b)]	101.8%	100.9%	101.8%	101.2%
Importance of Deposits from Customers	Deposits from customers / Financial liabilities	44.6%	47.9%	53.1%	61.9%
Relevance of Subordinated Debt	Subordinated liabilities / (Own funds + Subordinated liabilities)	32.3%	27.3%	27.4%	25,0%
Gross Solvency [c)]	(Own funds + Subordinated liabilities) / Assets	5.5%	7.7%	7.8%	7.2%

Source: FIs, APB.

[a)] Financial liabilities include deposits from Central Banks and other credit institutions, deposits from customers, debt securities issued, other equity instruments, other financial liabilities and hedging derivatives.

[b)] Financial assets include cash and deposits at Central Banks and other credit institutions, financial investments, loans and advances to credit institutions, loans and advances to customers and hedging derivatives.

[c)] Solvency in accounting terms, i.e. equity + subordinated liabilities.

VII.1.1. Loans and advances to customers

In recent years a number of factors have conditioned the banks' activity, particularly after the 2008 financial crisis and the euro area sovereign debt crisis.

On the one hand, there was the need to deleverage the sector in order to even out its balance sheets, due to the restrictions on access to the international financial markets and new challenges regarding adaptation of capital and liquidity levels resulting from the new regulatory and supervisory framework. On the other hand, the unfavourable macroeconomic framework and simultaneous deterioration in levels of income, confidence and credit quality of economic agents have recently constituted substantial limitations of supply and demand of credit in the Portuguese economy.

[49] Banco de Portugal, "Comunicado do Banco de Portugal sobre os resultados do exercício de avaliação completa ao sistema bancário" (*Communication of the Banco de Portugal on the results of the portuguese banking system full assessment exercise*), October 2014.

In view of the importance of loans and advances on the balance sheet and the above-mentioned context, it had to have an impact on the banks' business activity and resulted in a downward trend in amount and quality of loans and advances granted.

Table 39 Gross loans and advances to customers, provisions and impairments as at 31 December (2013 – 2014)[50]

	2013	2014
Loans and Advances to Customers (Outstanding)		
Total (million €)	201.209	190.253
Annual growth rate	-	*-5.4%*
Loans and Advances to Customers (Overdue)[51]		
Total (million €)	14.211	15.381
Annual growth rate	-	*8.2%*
Total loans and advances to customers (gross)	215.420	205.634
Annual growth rate	-	*-4.5%*
Provisions and Impairments		
Total (million €)	(14.471)	(17.011)
Annual growth rate	-	*17.6%*
Total loans and advances to customers (net)	200.949	188.623
Annual growth rate	-	*-6.1%*

Source: FIs, APB.

A more detailed analysis based on only two years (2013 and 2014) shows that gross loans and advances to customers fell 4.5% against 2013. This decrease was due exclusively to a 5.4% reduction in performing loans, as overdue loans increased 8.2% like on like, reaching 15.4 billion euros (see Table 39).

As a result of the increase in default rates, which reflected quality of loans, provisions and impairments increased 17.6%, or around 2.5 billion euros (see Table 39). Considering the combination of quality of loans and the economic cycle, a phased improvement in the former can be expected due to the progressive normalisation of macroeconomic indicators, in the euro area and in the situation in Portugal, which will be decisive to the future profitability of the sector.

VII.1.1.1. Analysis of loans and advances to customers

Gross loans and advances to customers, which include loans[52], non-derecognised securitised credit[53] and other securitised receivables, totalled 205.6 billion euros on 31 December 2014. This item changed somewhat in 2014, which was not the case in 2013, with a sharp drop in non-

[50] A more detailed analysis of the last two years based on a sample of 26 financial institutions including Banco Carregosa as it provided information for the period, but excluding another member due to a lack of broken down data.
[51] Loans overdue for more than 30 days.
[52] Loans to the public administration, non-financial firms, private customers and non-performing loans
[53] Loans that have been securitised but for which the financial institutions maintain all their associated risks and benefits and cannot therefore be derecognised on the balance sheet.

derecognised securitised credit (14.4%) exceeding the 3% contraction in loans, which increased the weight of the latter to 83.2% (see Table 40).

The reduction in non-derecognised securitised credit was largely due to the settlement of traditional securitisation operations by member institutions. On the other hand, the reduction in gross loans and advances to customers was caused by risk (and benefit) transfer operations to outside the institutions, as they transferred assets to specialised credit recovery funds with a view to implementing and operating recovery plans.

The item other securitised loans and amounts receivable also fell year on year (5.1%) (see Table 40), thereby going against the upward trend of the previous two years resulting from the taking of commercial paper issues.

Table 40: Gross credit to customers by nature as at 31 December (2013 – 2014)

	2013	2014	Average
Loans[54]			
Total (million €)	176.465	171.110	-
Change in absolute value (million €)	-	(5.355)	-
Annual growth rate	-	*-3,0%*	-
As % of total	*81.9%*	*83.2%*	*82.6%*
Non-derecognised Securitised Loans			
Total (million €)	26.252	22.466	-
Change in absolute value (million €)	-	(3.787)	-
Annual growth rate	-	*-14.4%*	-
As % of total	*12.2%*	*10.9%*	*11.6%*
Other Loans and Amounts Receivable (Secured)			
Total (million €)	12.703	12.058	-
Change in absolute value (million €)	-	(645)	-
Annual growth rate	-	*-5.1%*	-
As % of total	*5.9%*	*5.9%*	*5.9%*
Total gross loans to customers	215.420	205.634	-

Source: FIs, APB.

The reduction in the balance of gross loans and advances to customers in 2014 occurred in all segments, although it was greater in funding to companies and the public administration on absolute (5.8 billion euros) or relative (5.6%) term. It was responsible for 59.2% of the total decrease in loans and advances in the year. This item continued to be adversely affected by demand (given low confidence and economic growth rates), by supply, due to the still high level of borrowing by companies, although both have made progress in recent quarters, and the fall in interest rates. The need for deleveraging to reduce funding requirements also contributed to the fall (see Table 41).

Loans and advances to companies and the public administration kept their position as the main component of total gross loans and advances to customers, at 47.9%, 0.5 p.p. lower than in 2013, but with no relevant changes in the balance between loans and advances granted by financial institutions to this segment and those granted to private customers (see Table 41).

[54] Due to lack of detailed information provided by Members, overdue credit was assumed to refer entirely to loans.

Table 41: Gross credit to customers by borrower as at 31 December (2013 – 2014)

	2013	2014	Average
Loans to Companies and Public Administration			
Total (million €)	104.210	98.414	-
Change in absolute value (million €)	-	(5.796)	-
Annual growth rate	-	*-5.6%*	-
As % of total	*48.4%*	*47.9%*	*48.1%*
Mortgages			
Total (million €)	97.375	93.965	-
Change in absolute value (million €)	-	(3.410)	-
Annual growth rate	-	*-3.5%*	-
As % of total	*45.2%*	*45.7%*	*45.4%*
Consumer Credit and Other			
Total (million €)	13.835	13.255	-
Change in absolute value (million €)	-	(580)	-
Annual growth rate	-	*-4.2%*	-
As % of total	*6.4%*	*6.4%*	*6.4%*
Total gross loans to customers	215.420	205.634	-

Source: FIs, APB.

There was also a 3.6% fall in loans and advances to private customers year on year, to a total of 107.2 billion euros. The most pronounced reduction was in the consumer credits segment, which fell 4.2%, in spite of a recovery in the private spending items and a fall in the savings rate in the period in question. Mortgages also decreased by 3.5%, thereby contributing to a progressive reduction in household debt, in spite of a rise in confidence indicators and a reduction in interest rates on mortgages, mostly indexed to EURIBOR, as a result of the addition of monetary stimuli by the ECB in the second half of 2014 (see Table 41, p. 83).

The weight of mortgages in total funding to private customers remained much the same as in 2013 (almost 88%) and grew in total gross loans and advances to customers (from 45.2% to 45.7%), in the spite of a 3.4 billion euro fall in 2014 (Table 41, p. 83).

Table 42: Credit by borrower as at 31 December (2013 – 2014)

	2013	2014	Average
Companies and Public Administration			
Total (million €)	84.126	81.614	-
Change in absolute value (million €)	-	(2.512)	
Annual growth rate	-	*-3,0%*	-
As % of total	*47.7%*	*47.7%*	*47.7%*
Mortgages			
Total (million €)	79.346	76.873	-
Change in absolute value (million €)	-	(2.473)	
Annual growth rate	-	*-3.1%*	-
As % of total	*44.9%*	*44.9%*	*44.9%*
Consumer Credit and Other			
Total (million €)	12.993	12.623	-
Change in absolute value (million €)	-	(370)	
Annual growth rate	-	*-2.8%*	-
As % of total	*7.4%*	*7.4%*	*7.4%*
Total loans	176.465	171.110	-

Source: FIs, APB.

Table 43: Non-derecognised securitised loans by borrower as at 31 December (2013 – 2014)

	2013	2014	Average
Companies and Public Administration			
Total (million €)	7.382	4.742	-
Change in absolute value (million €)	-	(2.640)	-
Annual growth rate	-	*-35.8%*	-
As % of total	*28.1%*	*21.1%*	*24.6%*
Mortgages			
Total (million €)	18.028	17.092	-
Change in absolute value (million €)	-	(936)	-
Annual growth rate	-	*-5.2%*	-
As % of total	*68.7%*	*76.1%*	*72.4%*
Consumer Credit and Other			
Total (million €)	843	632	-
Change in absolute value (million €)	-	(211)	-
Annual growth rate	-	*-25,0%*	-
As % of total	*3.2%*	*2.8%*	*3,0%*
Total non-derecognised securitised loans	26.253	22.466	-

Source: FIs, APB.

Aggregation of the different types of credit (loans, non-derecognised securitised credits and other securitised credit and amounts receivable) limits our analysis of their individual performance and a more detailed analysis is therefore necessary (see Table 42 and Table 43, p. 84).

The stock in the banks' non-derecognised securitised credit portfolio referred mostly to mortgages, accounting for 76.1% of the total (68.7% in 2013), in spite of a 5.2% reduction. Securitised loans to companies and the public administration fell by 35.8% like on like, while consumer and other credit to private customers went down 25%, with their weights falling to 21.1% and 2.8% in 2014 (see Table 43, p. 84).

VII.1.1.2. Quality of loans and advances to customers

In spite of a more favourable economic framework for economic agents in 2014, the quality of loans and advances granted by financial institutions continued to fall. The high level of unemployment and the slow growth of the Portuguese economy did nothing to improve credit quality in 2014. We can expect over the short to medium term that there will be a stabilisation or reduction in the credit risk given the gradual improvements of this variable compared to economic activity.

As mentioned above, overdue credit increased by 8.2% against 2013 to 15.4 billion euros, which is 7.5% of total gross loans and advances to customers and 0.9 p.p. higher than in 2013 (see Table 39, p. 81). Nonetheless, the increase in the ratio was due not only to the increase in default levels but also to the contraction in the banks' credit portfolios.

Table 44: Overdue loans[55] as at 31 December (2013 – 2014)

	2013	2014	Average
Companies and Public Administration			
Total (million €)	10.159	11.131	-
Annual growth rate	-	*9.6%*	-
As % of total	*71.5%*	*72.4%*	*71.9%*
Mortgages			
Total (million €)	2.276	2.413	-
Annual growth rate	-	*6,0%*	-
As % of total	*16,0%*	*15.7%*	*15.9%*
Consumer Credit and Other			
Total (million €)	1.776	1.837	-
Annual growth rate	-	*3.4%*	-
As % of total	*12.5%*	*11.9%*	*12.2%*
Total loans overdue	14.211	15.381	-

Source: FIs, APB.

As in the recent past, the companies and public administration segment had the highest increase in non-performing loans (9.6% against 2013), although this rise was less pronounced than in previous years. This segment is responsible for 72.4% of total overdue loans in the banks' portfolios and its weight in the item actually increased by 0.9 p.p. in 2014 (see Table 44, p. 85). Overdue loans and advances to private customers rose by 4.9% in 2014, especially in mortgages (6%). The reduction in overdue loans was therefore greater in the consumer and other credit segment (-0.6 p.p. as opposed to 0.3 p.p. in mortgages).

This performance by overdue loans reported by the financial institutions in 2014 affected default and credit at risk ratios (see Table 45), which were also adversely affected by the deterioration in quality of credit and a contraction in gross loans and advances to customers.

[55] Overdue loans include repayments and interest outstanding for more than 30 days.

The default ratio rise 1.2 percentage points against 2013, reaching 8.9% of total gross loans and advances of the banks in the sample. The ratio for loans to non-financial firms showed the greatest increase (2.1 p.p.), even exceeding the increase in and amount of defaults in consumer and other credit (1.2 p.p. and 14.2%, respectively) (see Table 45).

Table 45: Overdue and non-performing loans' ratios as at 31 December (2013 – 2014)[56]

	2013	2014
Overdue Loans Ratio[57]		
Total	7.7%	8.9%
Mortgages	3.6%	3.9%
Consumer credit and other	13,0%	14.2%
Credit to non-financial corporations	12.2%	14.3%
Credit to non-residents	7.8%	9.4%
Credit at Risk Ratio[58]		
Total	11,0%	11.7%
Mortgages	6,0%	5.7%
Consumer credit and other	17.6%	18.2%
Credit to non-financial corporations	16.3%	18.5%
Credit to non-residents	11.7%	11.7%

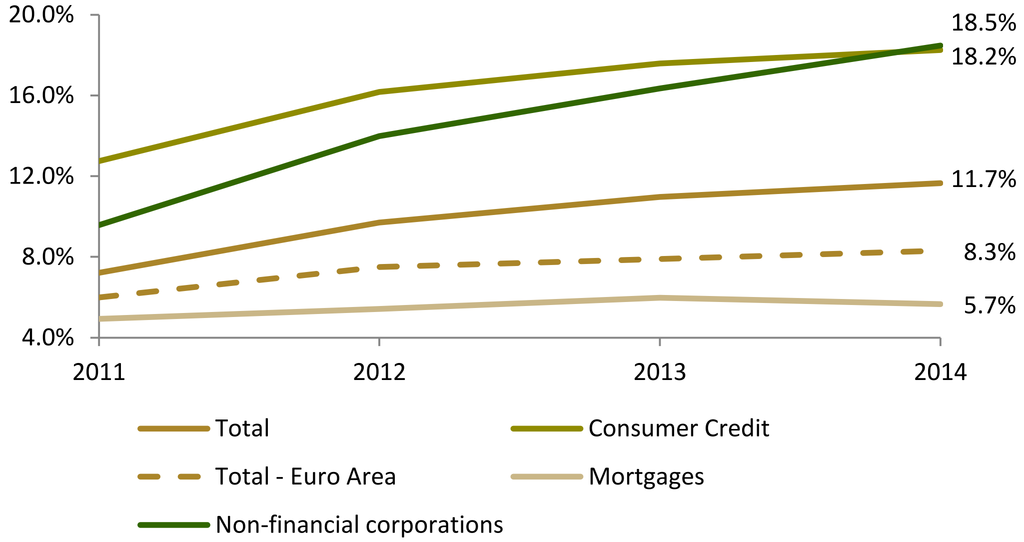
Source: FIs e APB.

In spite of a 0.3 p.p. increase, mortgages showed the lowest deterioration in terms of defaults and are the segment with the lowest absolute default level (3.9%) (see Table 45, p. 86).

Credit at risk ratios grew similarly to non-performing loans with the total ratio rising from 11% to 11.7% between 2013 and 2014. This rise was also caused in particular by the performance of loans to non-financial firms (up 2.2 p.p. to 18.5%) and consumer and other credit (up 0.6 p.p. to 18.2%). There was a 0.3 p.p. reduction to 5.7% in the ratio of mortgages at risk, which is especially important as the stock went down in the year. This situation is partly due to the fact that households usually give precedence to mortgage repayments and a reduction in EURIBOR index rates, which has taken some weight off servicing debts, and a reduction in the private customers' debt-to-income ratio (see Table 45, p. 86).

[56] The sample in Table 45 consists of 25 banks, due to unavailability of historical information for one member.
[57] According to Banco de Portugal, an overdue loan (including doubtful debt) includes principal and interest overdue for more than 90 days and other doubtful debts.
[58] Banco de Portugal defines credit at risk as the total amount owed that has repayments or principal or interest overdue for 90 days or more; the total amount owed of restructured loans not covered by the previous item whose repayments of principal or interest have been overdue for 90 days or more, refinanced or with their repayment date postponed without their collateral having been increased or the interest and expenses being fully paid by the debtor; the total amount of a loan with repayments of principal or interest overdue for less than 90 days 90 but for which there is evidence justifying its classification as credit at risk, such as insolvency or liquidation of the debtor.

Graph 40: Credit at risk as at 31 December (2011 – 2014)



Source: FIs, APB.

Graph 40 shows the credit at risk ratios in the sample compared to total NPLs[59] for the euro area. There is a growing gap between the two ratios, in spite of an overall 2.3 p.p. deterioration in the euro area in the three years. The 1.2 p.p. difference in 2011 (in which the quality of credit in Portugal was the worst in the euro area) rose to 3.4 p.p. in 2014, which shows the rapid, marked fall in quality of credit in Portugal, as a result of the serious economic crisis in the country.

The driving force behind this has been the ongoing deterioration of credit at risk of non-financial firms, which has been adversely affected by deterioration in quality of credit in portfolios from the construction e real estate sectors (see Graph 40, p. 87).

Regarding credit at risk in the private segment, consumer credit showed the worst performance and was very high 18.5%) at the end of 2014 (though with some signs of deceleration. Only mortgages showed an improvement in credit quality, with the ratio of credit at risk reversing its growth trend for the first time since 2011 (see Graph 40, p. 87).

This situation required an increase in provisions, which exerted additional pressure on the financial institutions' profits. As a result, at the end of 2014 the member institutions' coverage ratio was 94.4% of non-performing loans and 72.2% of credit at risk (as opposed to 88.6% and 62.5% respectively in 2013). This trend was due to some extent to the results of the asset quality review conducted during the ECB's assessment of quality of balance sheet assets of the financial institutions subject to direct supervision.

[59] Non-performing loans

VII.1.2. Financial investments[60]

As in most aggregate asset items, continuing the deleveraging policy started in 2011, the member institutions' portfolios of financial investments also decreased in 2014. The fall was greater than in 2013 and resulted in a 9.1 billion euro or 10.3% reduction the net stock of financial investments in 2013 (see Table 46, p. 89).

This was mainly due to a gross reduction in financial investments (9.8%), although the level of impairments of portfolios of available for sale financial assets deteriorated significantly in 2014 (+33.5%). The increase in impairments under the ECB asset quality review, losses on securities and the recognition of costs of impairments due to exposure to the Espírito Santo Group, among other factors, were the main causes of the performance of this item.

The causes of the gross reduction in this item were portfolios of available for sale assets and held to maturity investments. The 6.2 billion (8.4%) fall in available for sale assets was decisive in financial investments (see Table 46, p. 89). This was essentially caused by the portfolio of fixed income securities, especially due to a reduction in exposure to the Portuguese sovereign debt and other issuers in order to achieve capital gains from these assets.

Equally decisive were held to maturity investments which fell 5.2 billion euros in 2014. This was a fall of 63.2% against 2013, which was pushed mainly by the redemption of state-guaranteed bonds on the balance sheet of a member institution (see Table 46).

In spite of the fall in 2014, the percentage of available for sale financial assets rose from 82.4% to 84.2%, in detriment to the loss of weight of held to maturity investments (see Table 46).

[60] See footnote 50, p. 88 for the composition of the base sample

Table 46: Financial investments portfolio as at 31 December (2013 – 2014)

	2013	2014	Average
Financial Assets Held for Trading and Other Assets at Fair Value through Profit or Loss			
Total (million €)	7.192	8.581	-
Annual growth rate	-	*19.3%*	-
As % of net total	*8.1%*	*10.7%*	*9.4%*
Available-for-sale Financial Assets			
Gross amount (million €)	73.348	67.191	-
Annual growth rate	-	*-8.4%*	-
As % of net total	*82.4%*	*84.2%*	*83.3%*
Impairment (million €)	(1.090)	(1.455)	-
Annual growth rate	-	*33.5%*	-
As % of net total	*-1.2%*	*-1.8%*	*-1.4%*
Held-to-maturity Investments			
Gross amount (million €)	8.296	3.053	-
Annual growth rate	-	*-63.2%*	-
As % of net total	*9.3%*	*3.8%*	*6.6%*
Impairment (million €)	-	-	-
Annual growth rate	-	-	-
As % of net total	-	-	-
Other [a]			
Total (million €)	1.229	2.458	-
Annual growth rate	-	*100,0%*	-
As % of net total	*1.4%*	*3.1%*	*2.2%*
Total of financial investments (gross)	90.065	81.283	-
Total impairments	(1.090)	(1.455)	-
Total of financial investments (net)	88.975	79.828	-
Annual growth rate	-	*-10.3%*	-

Source: FIs, APB.

[a] Assets with buy-back agreements.

Conversely, the portfolio of held for trading financial assets and other assets at fair value totalled 8.6 billion euros, showing a gain of 19.3% like on like. This was due to an increase in exposure to derivatives in 2014, which explained 96% of this increase and allowed the weight of this portfolio to rise to 10.7% of total net financial investments (against 8.1% in 2013) (see Table 46).

The institutions' financial investment portfolio mainly comprised debt securities (87.1% and 89.8% in 2014 and 2013, respectively). Their public debt portfolio totalled 32.1 billion euros as at 31 December 2014, 4.7%, or 1.6 billion euros lower than in 2013, in spite of the positive effect of the appreciation of the securities on the secondary market during the year. Similar considerations apply to their portfolio of debt securities from other issuers, which fell 10.6 billion euros in 2014, which was around a quarter (25.5%) of its initial value. As a result, this stock lost representativity in the total securities portfolio and became only the second most important category, as opposed to sovereign debt (see Table 47).

Table 47: Structure of the securities portfolio by type of instrument as at 31 December (2013 – 2014)

	2013		2014		Change	
	million €	%	million €	%	million €	%
Securities Portfolio[a)]						
Debt securities issued by public bodies[b)]	33.723	*40.2%*	32.144	*44.2%*	(1.579)	*-4.7%*
Debt securities issued by other bodies[b)]	41.767	*49.6%*	31.127	*42.9%*	(10.641)	*-25.5%*
Shares	3.575	*4.3%*	4.013	*5.5%*	438	*12.3%*
Other securities	4.919	*5.9%*	5.263	*7.4%*	345	*7,0%*
Total	83.984	*100,0%*	72.547	*100,0%*	(11.437)	*-13.6%*

Source: FIs, APB.

[a)] Impairment gross amounts. Does not include assets with repos and derivatives.

[b)] Including bonds and other fixed-income securities.

On the other hand, there has been growth in the value of portfolios of shares and other securities. Their year-on-year rises of 12.3% and 7%, respectively (fairly insignificant against the fall in fixed-income securities) increased their weight to 5.5% and 7.4% (see Table 47).

A more detailed analysis of each financial investment portfolio shows that there were decreases in types from public issuers and other assets in the portfolio of held for trading assets and other assets at fair value through profit or loss, while there was an increase in derivatives and debt securities from other issuers, though with a much smaller contribution (see Table 48, p. 91).

The variation in held for sale financial assets explains more than 60% of the total gross contraction in financial investments in 2014. This was determined by substantial reductions in exposure to fixed-income securities in order to achieve capital gains, in spite of their aforementioned appreciation on secondary markets.

Finally, held to maturity investments also decreased substantially against 2013, almost exclusively due a reduction in exposure to fixed-income securities, which was essentially due to the redemption by one member institution of state-guaranteed bonds issued by the parent company (see Table 48, p. 91).

Table 48: Structure of financial investments [a) b)] by type of portfolio and instrument as at 31 December (2013 – 2014)

	2013		2014		Change	
	million €	%	million €	%	million €	%
Financial Assets Held for Trading and Other Assets at Fair Value through Profit or Loss						
Debt securities issued by public bodies [c)]	658	*9.1%*	626	*7.4%*	(32)	*-4.9%*
Debt securities issued by other bodies [c)]	211	*2.9%*	261	*2.9%*	50	*23.7%*
Shares	220	*3.1%*	221	*2.7%*	1	*0.5%*
Other securities	1.250	*17.5%*	1.196	*13.9%*	(54)	*-4.3%*
Derivatives	4.853	*67.4%*	6.277	*73.1%*	1.424	*29.3%*
Total	7.192	*100,0%*	8.581	*100,0%*	1.389	*19.3%*
Available-for-Sale Financial Assets						
Debt securities issued by public bodies [c)]	30.821	*42.1%*	29.386	*43.7%*	(1.435)	*-4.7%*
Debt securities issued by other bodies [c)]	35.504	*48.4%*	29.946	*44.6%*	(5.558)	*-15.7%*
Shares	3.355	*4.5%*	3.792	*5.6%*	437	*13,0%*
Other securities	3.668	*5,0%*	4.067	*6.1%*	399	*10.9%*
Total	73.348	*100,0%*	67.191	*100,0%*	(6.157)	*-8.4%*
Held-to-Maturity Investments						
Debt securities issued by public bodies [c)]	2.244	*27,0%*	2.133	*69.9%*	(111)	*-4.9%*
Debt securities issued by other bodies [c)]	6.052	*73,0%*	920	*30.1%*	(5.132)	*-84.8%*
Total	8.296	*100,0%*	3.053	*100,0%*	(5.243)	*-63.2%*
Total	88.836		78.825		(10.011)	*-11.3%*

Source: FIs, APB.

[a)] Gross amounts.

[b)] Does not include assets with buy-back agreements.

[c)] Includes bonds and other fixed-income securities.

VII.1.3. Funding structure[61]

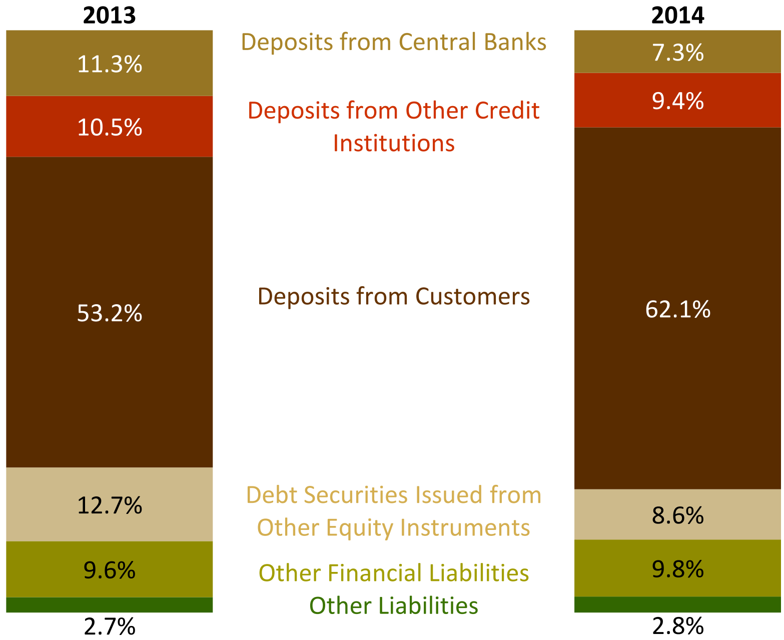
There were still some signs of financial fragmentation between issuers in the euro area in 2014. This resulted in the prevalence of different conditions of access to market funding, particularly for the financial institutions in countries under more pressure from the sovereign debt crisis. Nonetheless, the introduction of more accommodating monetary policy conditions by the ECB in the second half of 2014 speeded up convergence of funding costs and conditions between issuers of the different countries in the region.

The current adjustments to the member institutions' balance sheets, resulting from restricted access to the international financial markets, the need for deleveraging and adaptation to new capital and liquidity requirements resulted in changes in the member institutions' funding structure based on greater focus on customer deposits and other loans.

[61] See footnote 50, p. 88 for the composition of the base sample.

This was the only liabilities item that grew in 2014, and it went up to 62.1% of liabilities. Although financial liabilities and other liabilities fell in absolute terms, their representativity on the balance sheet went up against 2013 (see Graph 41).

Graph 41: Aggregate borrowing structure as at 31 December (2013–2014)



Source: FIs, APB.

Customer funds and other loans grew by 4.1% in 2014, which was more than in 2013 (see Table 49, p. 93). They reached a total of around 186 billion euros and contributed to reinforcement in the sector' funding stability. This occurred in a framework of reduction in the savings rate and lower interest on deposits, a trend that was accentuated by the monetary stimuli introduced by the ECB.

It is also important to analyse customer deposits in the recent past. After greater growth in term deposits in 2012, growth in the aggregate item in 2013 and 2014 was headed by current accounts, whose weight grew 2.7 p.p. to 28% in 2014, based mainly on progress in deposits from the public sector and non-financial business sector. Term deposits continued to be the most important item, representing 65.8% of the total, which attests to the stability and soundness of the member institutions' funding sources (see Table 49, p. 93).

Table 49: Deposits from customers as at 31 December (2013 – 2014)

	2013	2014	Average
Demand Deposits			
Total (million €)	45.255	52.029	-
Annual growth rate	-	*15,0%*	-
As % of total	*25.3%*	*28,0%*	*26.7%*
Term Deposits			
Total (million €)	121.747	122.276	-
Annual growth rate	-	*0.4%*	-
As % of total	*68.2%*	*65.8%*	*67,0%*
Other Funds			
Total (million €)	11.628	11.576	-
Annual growth rate	-	*-0.4%*	-
As % of total	*6.5%*	*6.2%*	*6.3%*
Total deposits from customers	178.630	185.881	-
Annual growth rate	-	*4.1%*	-

Source: FIs, APB.

The growth in customer deposits covered part of the institutions' funding needs, given the ongoing restrictions on access to wholesale funding market, particularly securitised debt markets.

This is also visible in the 20.1% reduction in deposits from other credit institutions in 2014, reflecting a persisting degree of fragmentation of the financial markets, especially in access by issuers from countries in the European periphery. This was the result of the performance of deposits and loans, which fell 3.5 and 4.4 billion euros, respectively. Conversely, there were modest rises in the balances of resources from the interbank money market and sales with repurchase agreements, which totalled only 1.6 billion euros and were therefore insufficient to reverse the downward trend in the former items (see

Table 50, p. 94).

Considering the same deposits, but now without deposits at other credit institutions, we find an increase in net terms to a total of 13.7 billion euros in 2014, as opposed to a balance of 9 billion euros in 2013 (resulting from a year-on-year increase of 4.8 billion euros) (see

Table 51, p. 95).

Table 50: Deposits from other credit institutions as at 31 December (2013 – 2014)

	2013	2014	Average
Deposits			
Total (million €)	19.125	15.577	-
Annual growth rate	-	*-18.6%*	-
As % of total	*54.4%*	*55.5%*	*55,0%*
Interbank Money Market Funds			
Total (million €)	134	468	-
Annual growth rate	-	*249.3%*	-
As % of total	*0.4%*	*1.7%*	*1.1%*
Loans			
Total (million €)	6.824	2.380	-
Annual growth rate	-	*-65.1%*	-
As % of total	*19.5%*	*8.5%*	*13.9%*
Sale Operations with Repurchase Agreements			
Total (million €)	6.693	7.945	-
Annual growth rate	-	*18.7%*	-
As % of total	*19.1%*	*28.4%*	*23.7%*
Other Funds			
Total (million €)	2.301	1.652	-
Annual growth rate	-	*-28.2%*	-
As % of total	*6.6%*	*5.9%*	*6.3%*
Total	35.077	28.022	-
Annual growth rate	-	*-20.1%*	-

Source: FIs, APB.

Although gross deposits decreased by 7.1 billion euros (after the above-mentioned fall of 20.1%), the reduction in deposits at other credit institutions was 1.7 times higher in the period, which reflected the greater importance of this source of funding. This particularly benefited from the increase in sales with repurchase agreements with a net annual growth of 2.2 billion euros or 39.7%. Deposits also contributed to the variation in the net aggregate item with a year-on-year rise of 18.9% in 2014 (

Table 51, p. 95).

The performance of the items customer deposits and net deposits from other credit institutions offset the 39% reduction in funding from the issue of debt securities and other capital instruments (see

Table 52, p. 96). Among other factors, the still unfavourable conditions of access to the financial markets, the deleveraging process and the maturity of securities contributed to a reduction in the importance of this source of funding.

Table 51: resources from other credit institutions as at 31 December (2013 – 2014)

	2013	2014	Average
Deposits[a)]			
Total (million €)	7.788	9.261	-
Annual growth rate	-	*18.9%*	-
As % of total	*86.8%*	*67.4%*	*77.1%*
Interbank Money Market Funds			
Total (million €)	(209)	287	-
Annual growth rate	-	*-237.3%*	-
As % of total	*-2.3%*	*2.1%*	*-0.1%*
Loans			
Total (million €)	(859)	(1.269)	-
Annual growth rate	-	*47.7%*	-
As % of total	*-9.6%*	*-9.2%*	*-9.4%*
Sale Operations with Repurchase Agreements			
Total (million €)	5.509	7.694	-
Annual growth rate	-	*39.7%*	-
As % of total	*61.4%*	*56,0%*	*58.7%*
Other Funds			
Total (million €)	(3.260)	(2.241)	-
Annual growth rate	-	*-31.3%*	-
As % of total	*-36.3%*	*-16.3%*	*-26.3%*
Total	8.969	13.732	-
Annual growth rate	-	*53.1%*	-

Source: FIs, APB.

[a)] Deposits from other credit institutions net from "deposits at other credit institutions" and from amount of the item in loans and advances to other credit institutions' item.

The reduction can be explained by decreases in all items, although 69% was due to a fall in debt securities issued (37.6%, corresponding to 11.4 billion euros) and 20% came from a fall in the balance of equity instruments (78.6% or 3.3 billion euros) (see

Table 52, p. 96).

The variation in equity instruments was essentially due to the repayment by some member institutions of contingent convertibles[62] fully subscribed by the state, as part of operations in the recapitalisation scheme defined under the EFAP.

[62] These instruments, also known as CoCos, are debt instruments convertible into capital if certain circumstances occur, such as an institution's non-compliance with the recapitalisation scheme or non payment of all CoCos by their maturity.

Table 52: Debt securities issued and other equity instruments as at 31 December (2013-2014)

	2013	2014	Average
Debt securities issued			
Total (million €)	30.386	18.972	-
Annual growth rate	-	*-37.6%*	-
As % of total	*71.6%*	*73.4%*	*72.6%*
Subordinated Liabilities			
Total (million €)	7.795	5.976	-
Annual growth rate	-	*-23.3%*	-
As % of total	*18.4%*	*23.1%*	*20.8%*
Equity Instruments			
Total (million €)	4.227	906	-
Annual growth rate	-	*-78.6%*	-
As % of total	*10,0%*	*3.5%*	*6.8%*
Total	42.408	25.854	-
Annual growth rate	-	*-39,0%*	-

Source: FIs, APB.

The item debt securities issued suffered most in the aggregate debt securities issued and other other equity instruments and their net value fell by 11.4 billion euros (see

Table 52 and

Table 53, p. 97). This was due partly to a substantial reduction in the gross value of these instruments (almost 19 billion euros), which placed their stock at 39.5 billion euros (see Graph 42, p. 97).

The contraction in this item's gross balance and balance of repurchased securities was due the non-renewal of debt maturing in the year and to the early repayment of debt by some member institutions.

The balance of repurchased securities[63] issued by the institutions themselves fell about 7.6 billion euros to 20.5 billion euros in 2014. Given that the reduction in the balance of repurchased debt was not as great as the gross amount issued, the weight of the portfolio debt securities issued at member institutions increased in the gross stock to 51.9% at the end of 2014 (see Graph 42, p. 97).

In the total of debt securities issued, the performance of bonds[64] was largely responsible for the reduction and explained 98% of the net reduction (see

[63] The repurchase of securities is an equivalent to an accounting write-off of the value of the instruments.
[64] Includes senior, collateralised and mortgage bonds

Table 53, p. 97). Nonetheless, the balance of mortgage bonds on the balance sheet remained practically unchanged in 2014 (falling by 0.4% or 42 million euros), which, given the fall in the total net balance of bonds, resulted in a 32.1% rise in their weight to 51.5%.

Table 53 Debt securities issued and subordinated liabilities as at 31 December (2013 – 2014)

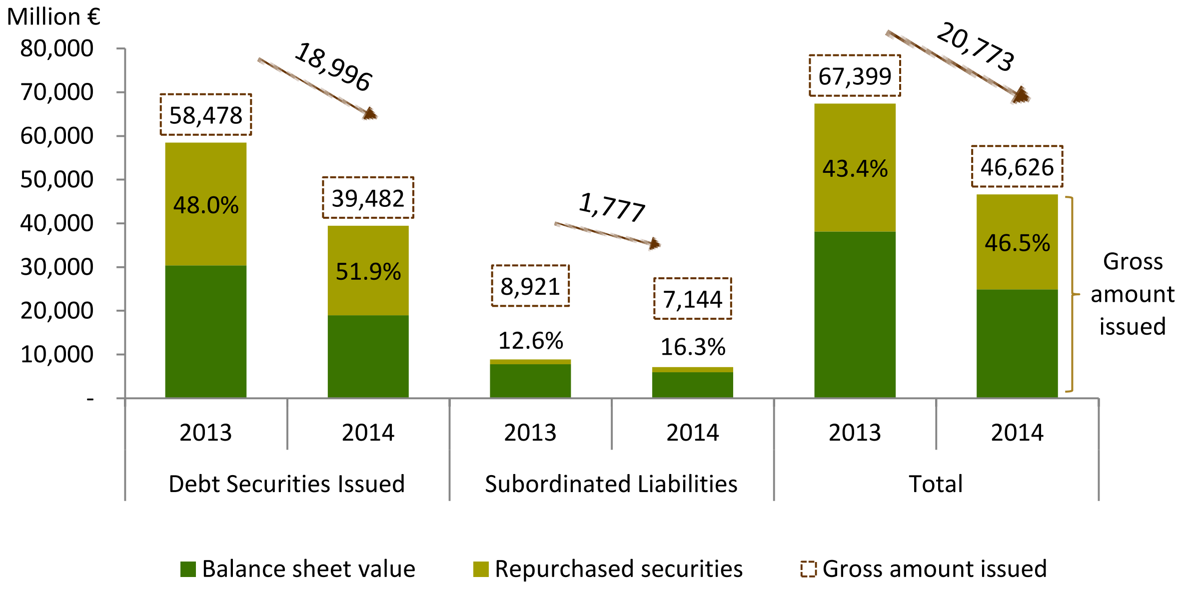
	2013		2014		Change	
	million €	%	million €	%	million €	%
Debt securities issued						
Certificates of deposit	27	*0.1%*	37	*0.2%*	10	*37,0%*
Bonds	29.507	*97.1%*	18.280	*96.3%*	-11.227	*-38,0%*
Other liabilities	852	*2.8%*	655	*3.5%*	-197	*-23.2%*
Total	30.386	*100,0%*	18.972	*100,0%*	-11.414	*-37.6%*
Subordinated Liabilities						
Loans	2.813	*36.1%*	1.143	*19.1%*	-1.670	*-59.4%*
Bonds	4.722	*60.6%*	4.580	*76.7%*	-142	*-3,0%*
Other subordinated liabilities	260	*3.3%*	253	*4.2%*	-7	*-2.7%*
Total	7.795	*100,0%*	5.976	*100,0%*	-1.819	*-23.3%*
Total	38.181		24.948		-13.233	*-34.7%*

Source: FIs, APB.

Finally, the balance of subordinated liabilities fell by 7.8 to almost 6 billion euros, which was due to a contraction in their gross amount from repayments (1.7 billion) (see

Table 53 e Graph 42).

Graph 42: Gross amount of debt securities and subordinated liabilities issued as percentage of repurchased securities as at 31 December (2013 – 2014)



Source: FIs, APB.

After recourse to central banks became an important alternative source of funding in the past due to tight restrictions on access to the wholesale financial markets in 2014, continuing on from 2013, the member institutions continued to reduce their dependency on them. The amount owed to central banks fell 45.9% or 16.1 billion euros, which caused a drop in their weight in aggregate borrowing from 11.3% to 7.3% in 2014 (see Table 54 and Graph 41, p. 92).

The repayment of amounts borrowed under the ECB's three-year programme was made through Banco de Portugal, which explains the substantial (54.7%) reduction in borrowing from it. Conversely, deposits from other central banks increased 14.3% in 2014. In spite of these variations, deposits from Banco de Portugal were in the majority still at 73% of the total.

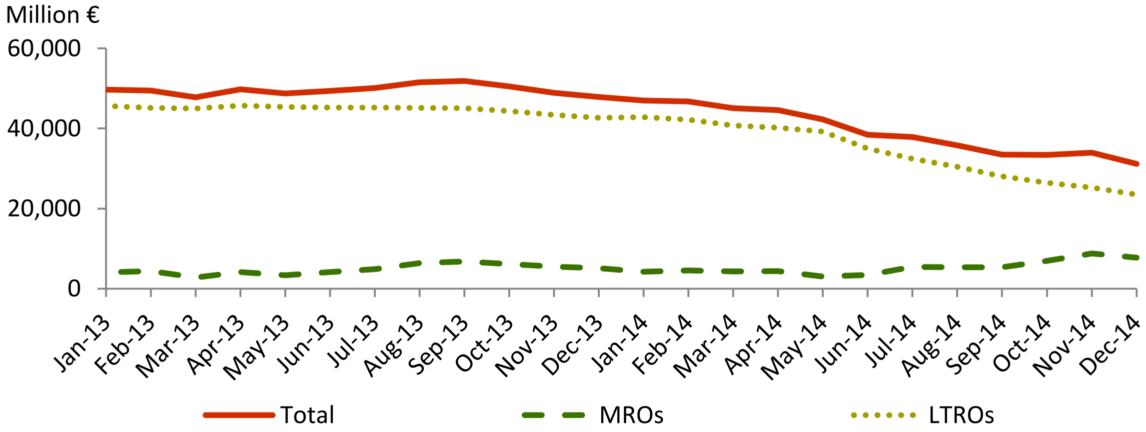
Table 54: Deposits from Central Banks as at 31 December (2013–2014)

	2013	2014	Average
Deposits from Banco de Portugal			
Total (million €)	30.620	13.880	-
Annual growth rate	-	*-54.7%*	-
As % of total	*87.2%*	*73,0%*	*80.1%*
Deposits from Other Central Banks			
Total (million €)	4.489	5.130	-
Annual growth rate	-	*14.3%*	-
As % of total	*12.8%*	*27,0%*	*19.9%*
Total deposits from Central Banks	35.109	19.010	-
Annual growth rate	-	*-45.9%*	-

Source: FIs, APB.

After substantial acceptance of the three-year lending programmes developed in December 2011 and February 2012, which provide ample levels of stable liquidity at lower refinance risks, in September 2013 the Portuguese banks began ongoing repayments of amounts owed, especially in 2014, only partially offset by their redirection to the new lending programme announced by the ECB in June 2014, for shorter-term operations (MRO[65]) (see Graph 43, p. 98).

Graph 43: Recourse to funding from the European Central Bank by the national financial institutions (2013-2014)



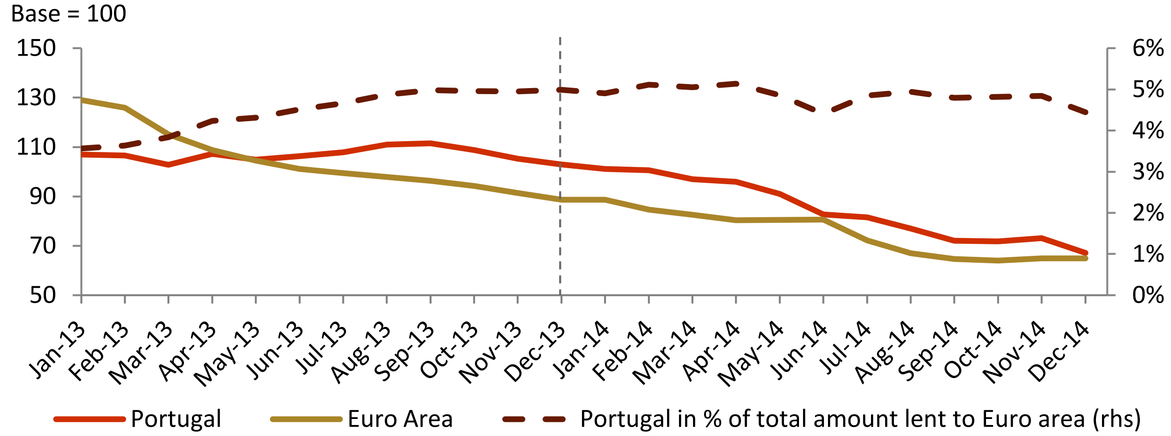
Source: BdP, ECB.

As at 31 December 2014, the amount borrowed from the ECB by Portuguese financial institutions totalled 31.2 billion euros[66]. Compared to 2013, repayment of the amounts associated with the ECB three-year lending programmes resulted in a reduction in dependency on the Eurosystem of about 34.8% (16.7 billion euros). This reduced its weight in the total amount lent to euro area institutions from 5% to 4.4% (see Graph 44).

[65] Main refinancing operations – one-week open market operations for financial institutions' liquidity management

[66] Information from the European Central Bank

Graph 44: Recourse to funding from the European Central Bank by the national financial institutions against the Euro area (2013-2014)



Source: BdP, ECB.

Annex

Table 55: Off-balance sheet aggregate items as at 31 December 2014

	2014 million €
Guarantees Given and Other Contingent Liabilities	**70.031**
Guarantees and sureties	12.625
Acceptances and endorsements	13
Transactions with recourse	-
Stand-by letters of credit	220
Open documentary credits	1.134
Sureties and indemnities (counter-guarantees)	998
Other personal guarantees given and other contingent liabilities	972
Real guarantees (assets pledged as collateral)	54.069
Guarantees Received	**398.716**
Guarantees and sureties	97.420
By acceptances and endorsements	2.809
By transactions with recourse	-
By stand-by letters of credit	2
By open documentary credits	23.927
By sureties and indemnities (counter-guarantees)	4.324
Other guarantees received	28.299
Real guarantees (assets received as collateral)	241.935
Commitments to Third Parties	**35.139**
Options on assets (sold)	44
Term operations	668
Term deposits contracts	533
Irrevocable credit lines	3.975
Securities subscription	3.036
Commitment for retirement and survivor pensions not yet received	-
Term commitment to make annual contributions to the deposit guarantee fund	390
Potential commitment to the investor indemnity system	81
Other irrevocable commitments	744
Revocable credit lines	23.032
Overdraft facilities	2.028
Other revocable commitments	608

Source: FIs, APB.

Annex (cont.)

Table 55: balance sheet aggregate items as at 31 D0ecember 2014 (cont.)

	2014 million €
Commitments by Third Parties	**113.542**
Options on assets (bought)	4
Irrevocable credit lines	2.991
Securities subscription	98
Other irrevocable commitments	89.235
Revocable credit lines	23
Overdraft facilities	8
Other revocable commitments	21.183
Foreign Exchange Operations and Derivative Instruments	**249.654**
Spot foreign exchange operations	982
Forward foreign exchange operations – trading	3.465
Forward rate agreement - trading	10
Swap operations – trading	189.495
Futures and other forward operations – trading	2.850
Options – trading	8.389
Forward foreign exchange operations – hedging	36
Forward rate agreement - hedging	-
Swap operations – hedging	18.827
Futures and other forward operations – hedging	135
Options – hedging	21.169
Interest rate guarantee contracts (caps and floors) - hedging	4.296
Responsibilities for Services Provided	**312.852**
Deposit and safeguard of assets	289.476
Amounts for collection	1.294
Assets managed by the institution	20.261
Consigned funds	1
Other	1.820
Services Provided by Third Parties	**237.826**
Deposit and safeguard of assets	168.404
Amounts for collection	1.545
Assets managed	-
Other services	67.877
Other Off-balance Sheet Items	**(621.643)**

Source: FIs, APB.

VII.2. Income statement

VII.2.1. Structure

The Portuguese economy showed the first signs of albeit modest recovery in 2014, which improved the environment in which the member institutions operated. This resulted in a lower aggregate loss before tax than in 2013, though it still totalled 2.7 billion euros (see Table 56).

Table 56: Aggregate income statement (2014)[67]

	2014	
	million €	% NIBT
+ Interest and similar income	10.562	
- Interest and similar expense	-7.359	
Net Interest Income (NII)	**3.203**	***43.3%***
+ Fee and commission income	2.313	
- Fee and commission expense	-413	
Net Gains from Fees and Commissions	1.900	*25.7%*
+ Net gains from assets and liabilities at fair value through profit or loss	-642	
+ Net gains from available-for-sale financial assets	1.911	
+ Net gains from foreign exchange differences	61	
Net Gains from Financial Operations	1.330	*18,0%*
+ Income from equity instruments	684	
+ Net gains from sale of other assets	305	
+ Other operating income and expense	-30	
Other Results	959	*13,0%*
Operating Income (OI)	**7.392**	***100,0%***
- Personnel costs	-2.351	
- General administrative expenses	-1.603	
- Depreciation and amortisation	-313	
Operating Costs	-4.267	*-57.7%*
Gross Operating Results (GOR)	**3.125**	***42.3%***
- Provisions net of reversals	-162	
- Value adjustments relating to loans and advances to customers and receivables from other debtors (net of reversals)[68]	-4.089	
- Impairment on other financial assets net of reversals	-583	
- Impairment on other assets net of reversals	-1.005	
Provisions and impairment	-5.839	*-79,0%*
Net Income Before Tax (NIBT)	**-2.714**	***-36.7%***

Source: FIs

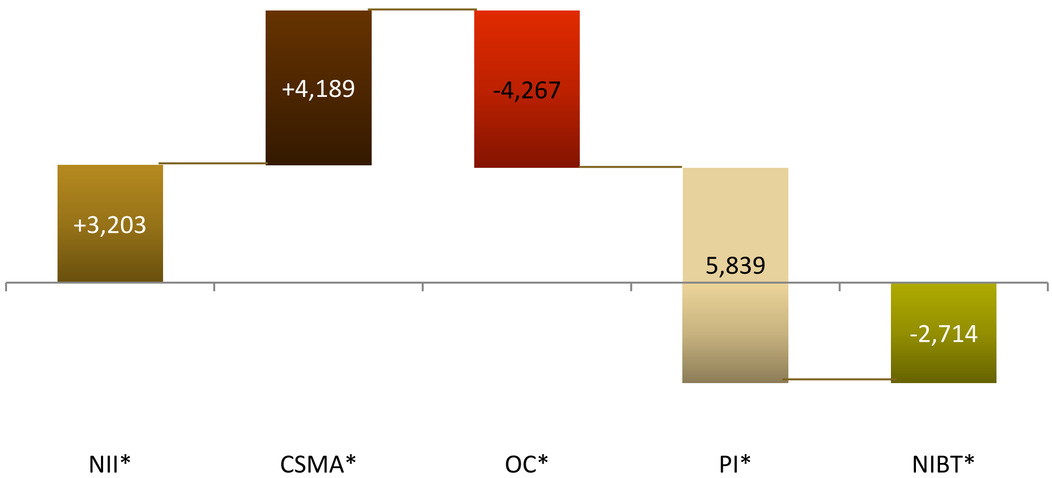
An analysis of the aggregate income statement shows the contribution made by customer and market services (fees, income from financial operations and other income) to operating income (56.7%). Net interest income was less important, however, and trend of recent years to move from

[67] See footnote 46, p. 79 for the base sample.
[68] Throughout the analysis, this item is also referred to as credit impairments.

traditional sales of products to the provision of customer and market services continued (see Table 56, p. 102 and Graph 46, p. 105).

In 2014, provisions and impairments stood out as the most significant part of the aggregate cost structure, absorbing 79% of the member institutions' operating income. Seventy percent of impairments were for loans and advances (corrections of amounts of loans and advances to and amounts receivable from other debtors (net of value adjustments)) and reflected the need to reinforce credit risk hedging (see Table 56, p. 102 and Graph 45). On the one hand, the still high level of unemployment, the slight growth in the Portuguese economy, the financial situated degraded by over-borrowing of the most of the non-financial business sector and on the other hand the ECB Asset Quality Review in collaboration with the national authorities required provisions and impairments totalling around 6 billion euros.

Graph 45: Aggregate earnings before tax formation (2014)



Source: FIs.

Note: * NII – Net interest income; CSMA – Customer service and market activities; OC – Operating costs; PS – Provisions and impairment; NIBT – Net income before tax.

Operating costs accounted for 57.7% of operating income. Within these, personnel costs were once more the most important, accounting for 55% of total operating costs, which continues to show the labour-intensive nature of the banking sector (see Table 56 p. 102). The importance of this item has been going down due to imperative needs to restructure the sector, rationalise services and make growing use of automation technologies for processes and procedures.

All together non-financial costs totalled 10.1 billion euros, which was higher than operating income (7.4 billion euros), and so the aggregate loos before tax was 2.7 billion euros (see Table 56, p. 102 and Graph 45, p. 103).

Table 57: Main items in the aggregate income statement (2011 – 2014)

	2011	2012	2013	2014	Average
Net Interest Income (NII)					
Total (million)	4.411	3.516	2.669	3.199	-
Annual growth rate	-	*-20.3%*	*-24.1%*	*19.9%*	*-8.2%*
Customer Service and Market Activities (CSMA)					
Total (million)	3.186	3.998	2.853	4.180	-
Annual growth rate	-	*25.5%*	*-28.6%*	*46.5%*	*14.5%*
Operating Income (OI) [a]					
Total (million)	7.597	7.514	5.522	7.379	-
Annual growth rate	-	*-1.1%*	*-26.5%*	*33.6%*	*2,0%*
Operating Costs (OC)					
Total (million)	4.795	4.437	4.398	4.258	-
Annual growth rate	-	*-7.5%*	*-0.9%*	*-3.2%*	*-3.8%*
Provisions and impairment (PS)					
Total (million)	4.450	6.342	6.315	5.833	-
Annual growth rate	-	*42.5%*	*-0.4%*	*-7.6%*	*11.5%*
Net Income Before Tax (NIBT) [b]					
Total (million)	-1.648	-3.265	-5.191	-2.712	-
Annual growth rate	-	*-98.1%*	*-59,0%*	*47.8%*	*-36.5%*

Source: FIs.

[a] OI = NII + CSMA

[b] NIBT = OI - OC – PS

In the last four years, the profitability of the member institutions was mainly conditioned by a fall in interest rates and the unfavourable economic and financial context in Portugal, which reduced demand for credit, adversely affected its quality and required higher provisions and impairments. Furthermore our financial institutions had to adjust their balance sheets to requirements of the Economic and Financial Adjustment Programme. These factors had a negative impact on earnings and costs and resulted in pre-tax losses (see

Table 57). On average, income before tax fell 36.5% a year in the period, though this drop was mitigated by an improvement in 2014. Indeed, 2014 may have been a turning point marked by an increase in operating income and its components and a reduction in costs. The upturn in losses suggests a degree of recovery that, if supported by a more favourable macroeconomic framework may bring the banking sector back into the black.

After the deterioration in operating income between 2011 and 2013, in 2014 it showed a positive performance thanks to a recovery in net interest income and the good performance of customer and market services (see

Table 57).

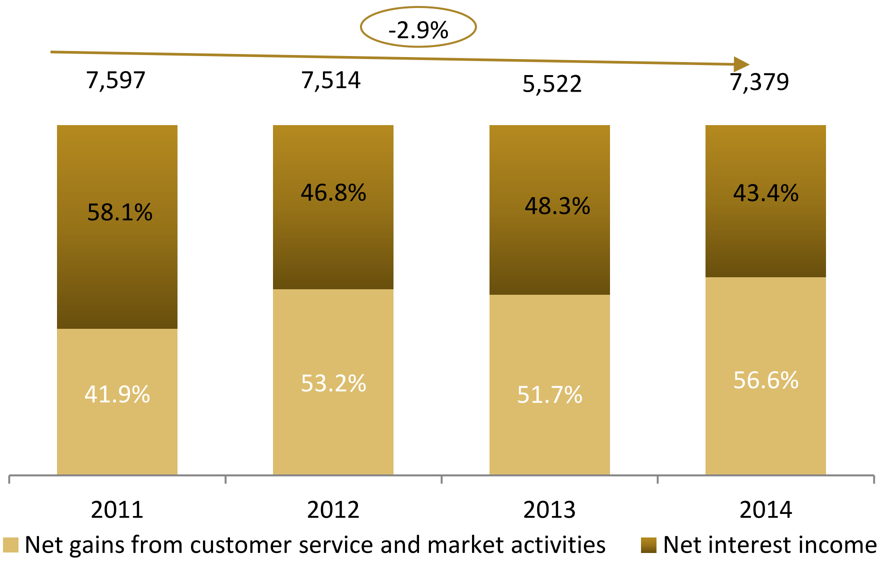
Last year, net interest income increased 19.9%, though its percentage of operating income fell 4.9 p.p. against 2013 due to a much greater increase (46.5%) in income from customers and market services (see

Table 57, p. 104 and Graph 46). Net increase income grew by 530 million euros thanks to a greater reduction in interest and similar expenses, as both costs and earnings fell against 2013. The fall in costs was due, among other reasons, to lower remuneration on deposits as a result of the fall in interest rates and member institutions' repayments of securities purchased by the Portuguese state in recapitalisation operations using public investment (CoCos).

The 1.3 billion euro growth in earnings from customer and market was essentially due to an increase in income from available for sale financial assets as a result of capital gains from the sale of mainly Portuguese public debt securities and securities from other issuers (see

Table 57, p. 104).

Graph 46: Net interest income and net gains from customer service and market activities as percentage of operating income (2011 – 2014)



Source: FIs, APB.

In the last four years, operating costs suffered continuous pressure and very strong containment as a result of the banking sector's need to reverse the loss scenario. It is therefore no surprise that they tended to go down in the period, with a more accentuated reduction in 2014 than in 2013, essentially by reducing personnel costs (see

Table 57, p. 104 e Graph 47, p. 106).

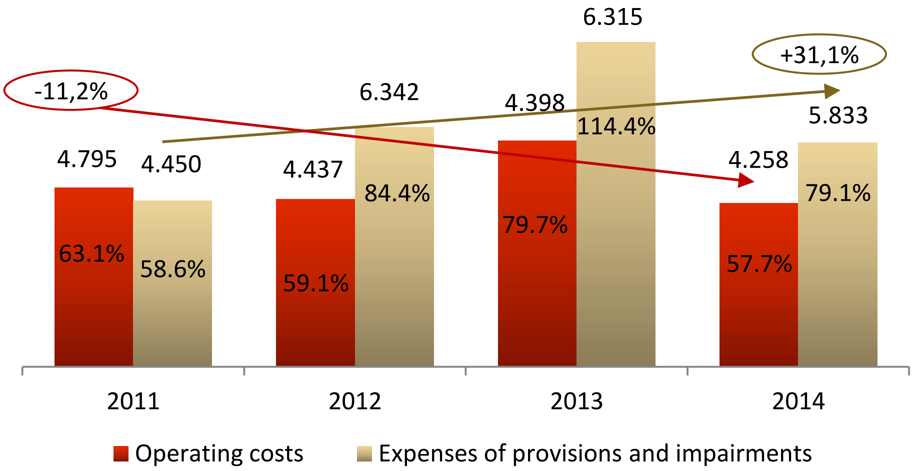
Provisions and impairments rose abruptly (42.5%) in 2012 for the reasons already mentioned and remained at this new level (around 6 billion euros a year), even though they have fallen somewhat since then, especially in 2014. Nonetheless, provisions and impairments were still the item with the highest weight (57.8%) in the member institutions' aggregate cost structure and absorbed around 79% of operating income in 2014 (see

Table 57, p. 104 and Graph 47).

The reduction in weight shown by the two types of non-financial costs in operating income against 2013 (see Graph 47) was due to the combined effect of a 33.6% increase in operating income and a simultaneous reduction in operating costs (3.2%), and provisions and impairments (7.6%) (see

Table 57, p. 104).

Graph 47: Operating costs, provisions and impairment as percentage of operating income (2011 – 2014)

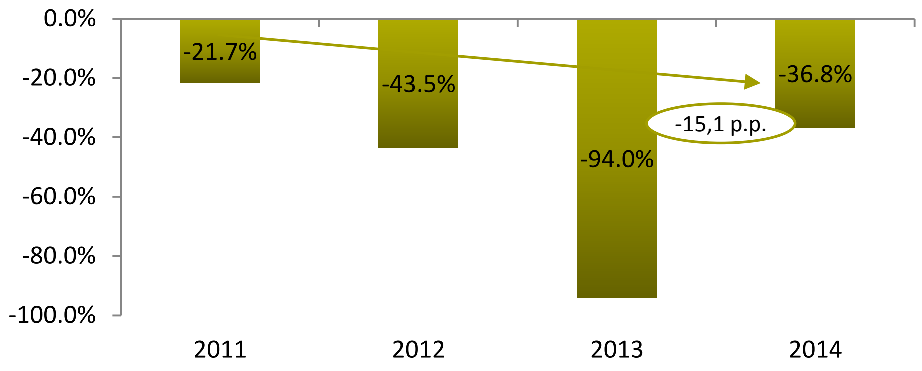


Source: FIs, APB

While total non-financial costs borne by the member institutions in 2013 were practically double operating income, resulting in a loss before tax that represented 94% of operating income, in 2014 although they still made a loss, there was an improvement, for the reasons already mentioned in net interest income and earnings from customer and market services, at -36.8% of operating income (see

Table 57, p. 104 and Graph 48). This percentage was only 15.1 p.p. lower than the situation in 2011, when the effects of the profound crisis that shook the country had not yet been fully felt (see Graph 48).

Graph 48: Net income before tax as percentage of operating income (2011 – 2014)

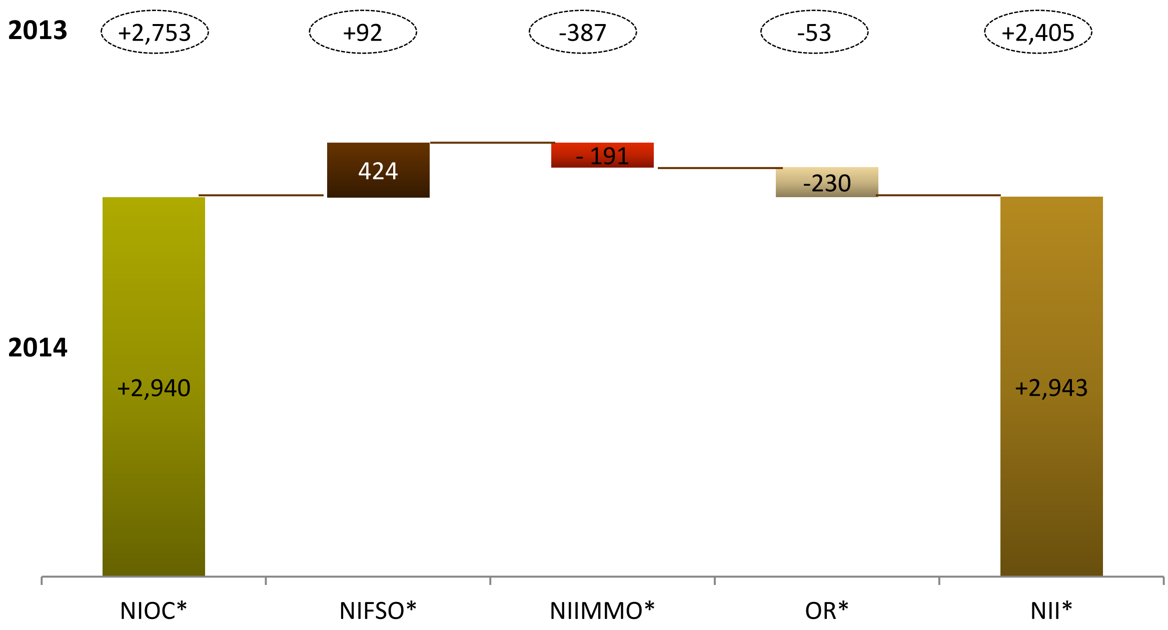


Source: FIs, APB.

VII.2.2. Net interest income

The member institutions'[69] aggregate net interest income in 2014 was approximately 3 billion euros (see Graph 49). This amount includes positive contributions from income on operations with customers[70] and on operations with financial securities[71], to the amounts of 2.9 billion and 424 million euros respectively, and the negative contributions of interbank money market and other operations to a joint amount of 421 million euros (see Graph 49).

Graph 49: Breakdown of aggregate interest income (2013 - 2014) by type of results (million €)



Source: FIs, APB.
Note: * NIOC – Net income from operations with customers; NIFSO – Net income from financial securities operations; NIIMMO – Net income from interbank money market operations; OR – Other results; NII – Net interest income.

Net interest income rose 22.4% against 2013, thanks to the favourable performance of its main components, with the exception of income from others, which went down 177 million euros. Financial securities operations made the most substantial contribution to the increase in net interest income (332 million euros) (see Graph 49, p. 107 and Table 60, p. 110).

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[69] For information about the sample in this analysis, see footnote 50, p. 88.

[70] Income from operations with customers includes interest on loans and advances to customers and interest on customer deposits and other loans (see Table 58, p. 115).

[71] Net income on financial securities operations comprises the following: interest on held for sale financial assets and at fair value through profit or loss, interest on available for sale financial assets, interest on held to maturity investments, interest on hedging derivatives (earnings and costs), interest in held for trading financial liabilities, interest on debt securities issues and interest on subordinated liabilities (see Table 60, p. 118).

Table 58: Breakdown of aggregate results from operations with customers (2013 – 2014)

	2013	2014	Change	
	million €	million €	million €	%
Operations with Customers				
+ Interest on credit	6.158	5.829	-329	*-5.3%*
- Interest on deposits from customers	3.405	2.889	-516	*-15.2%*
Total	2.753	2.940	187	*6.8%*

Source: FIs, APB.

Income from customer operations, the main component of net interest income, increased by 187 million euros, which was 6.8% more than in 2013. As shown in Table 58, interest from loans and advances to customers, such as interest on customer deposits and other loans fell in 2014. The fall in the cost component was higher than that in earnings.

Similarly to 2013, the reduction in loans granted and a reduction in interest payable and receivable explain the reduction in interest from loans and from customer deposits in 2014.

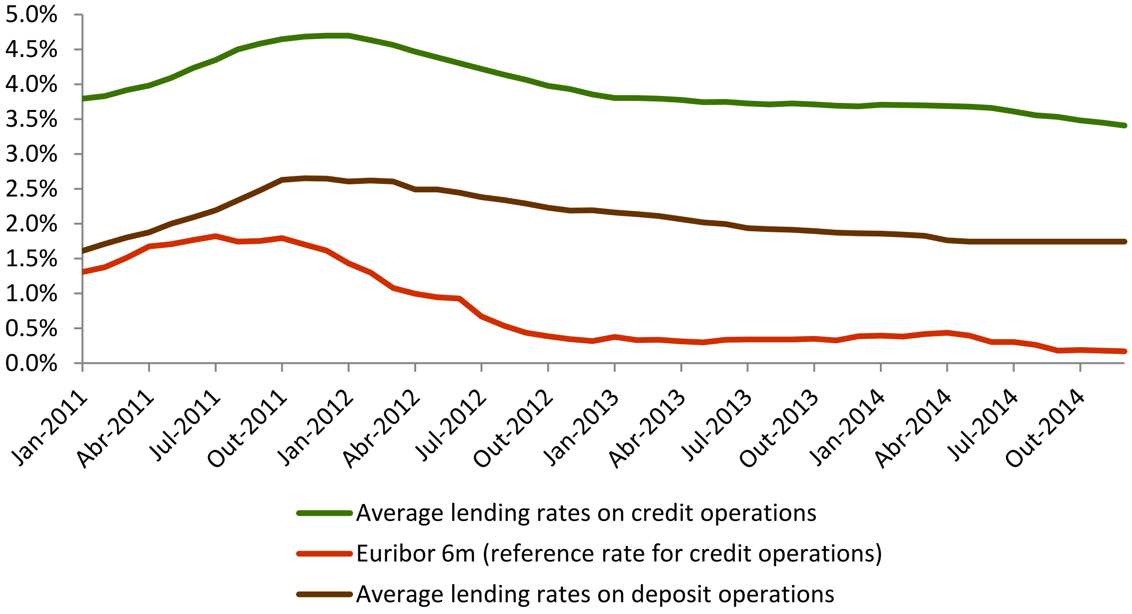
As already mentioned, in spite of the increase in customer deposits, term deposits remained practically unchanged, which is why the effect of the reduction in interest rates is the main reason for the fall in interest from customer deposits. The substantial fall in interest rates on new term deposit operations and the maturity of operations with higher interest[72] contracted in 2011 and 2012 made a decisive contribution to the reduction in average interest payable on deposits and the resulting increase in net interest income (see Graph 50, p. 109 and Table 59, p. 109).

In turn, the reduction in interest on loans and advances to customers was related to the fall in six-month EURIBOR (the reference rate usually used in loan agreements), which reached all-time lows again in 2014 (0.17%). This affected all interest on new loans and portfolios of loans on the balance sheet, particularly mortgages, which are long-term operations in which the spreads remain fixed for the life of the loan. At the same time, the competition between financial institutions in the market for loans and advances to companies and private customers led to shrinkage of spreads to attract new prime operations. Overall, six-month EURIBOR fell 7 p.b. between January and December 2014 while the monthly rate receivable went down 30 p.b. (see Graph 50, p. 109 and Table 59, p. 109).

In spite of the fall in loans and advances to customers and in interest rates receivable, the reduction interest on credit was more than offset by the decrease in interest on customer deposits, driven by the fall in interest rates payable and the increase in current accounts in total customer deposits.

[72] Banco de Portugal, "Relatório de Estabilidade Financeira" (*Financial Stability Report*), May 2015

Graph 50: Euribor (6m), average lending rates on credit operations and average interest rates on deposit operations (Jan. 2011 – Dez. 2014)



Source: Bloomberg, BdP, APB.

Note: The average lending rate on credit perations was obtained by weighting monthly interest rates on balances of loans granted by monetary financial institutions to residents in the euro area by the end-of-month balance; The average lending rate on deposit operations was obtained by weighting monthly interest rates on balances of term deposits of residents in the euro area granted by monetary financial institutions by the end-of-month balance (data from the Banco de Portugal Statistical Bulletin (June 2015)).

Table 59: Main descriptive statistics indicators for EURIBOR (6m), average lending rates on credit operations and average lending rates on deposit operations

	Euribor 6m (E)	Average lending rate on credit operations (C)	C – E (pp)	Average lending rate on deposit operations (D)	D – E (pp)
2013					
Average	0.3%	3.7%	3,4	2,0%	1,7
Maximum	0.4%	3.8%	-	2.2%	-
Minimum	0.3%	3.7%	-	1.9%	-
Variation Jan. – Dec. (pp)	0,01	-0,12	-0,13	-0,30	-0,31
2014					
Average	0.3%	3.6%	3,3	1.8%	1,5
Maximum	0.4%	3.7%	-	1.9%	-
Minimum	0.2%	3.4%	-	1.7%	-
Variation Jan. – Dec. (pp)	-0,07	-0,30	-0,23	-0,12	-0,05

Source: BdP.

In 2014, income from financial securities operations contributed approximately 420 million euros to net interest income, which was 332 million euros more than in 2013. The other operations component was the one that contributed most to this variation and especially a decrease of around 870 million euros in interest paid on (subordinated and unsubordinated) debt issued (see Table 60).

The reduction in interest on subordinated liabilities[73] was mainly due to the repayment by some of the member institutions of hybrid debt instruments underwritten by the Portuguese state as part of the recapitalisation scheme during the EFAP and a very high yield. Interest on debt securities issued went down essentially because of a volume effect resulting from the fact their portfolio shrank substantially (37.6%) in 2014, as mentioned above[74] (see Table 60).

On the earnings side, the sharpest fall (almost 50%) in other operations occurred in interest on held to maturity investments (see Table 60) due to the 63.2% reduction in their portfolio[75], essentially because of repayment of bonds guaranteed by the state on the balance sheet of a member institution.

Table 60: Breakdown of net gains from operations with financial securities (2013 – 2014)

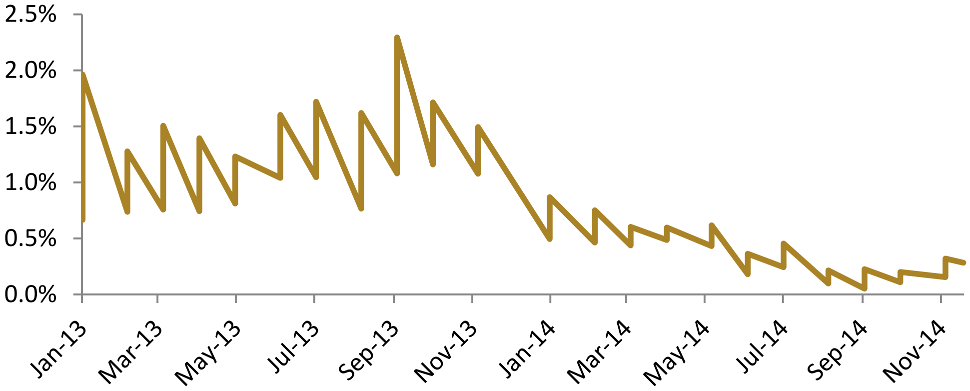
	2013	2014	Change	
	million €	million €	million €	%
Trading Operations				
+ Interest on financial assets held for trading and at fair value through profit or loss	1.220	1.074	-146	*-12,0%*
- Interest on financial liabilities held for trading	1.133	1.031	-102	*-9,0%*
Total	87	43	-44	*-50.6%*
Hedging Operations				
+ Interest on hedging derivatives	438	408	-30	*-6.8%*
- Interest on hedging derivatives	461	380	-81	*-17.6%*
Total	-23	28	51	*221.7%*
Other Operations				
+ Interest on available-for-sale financial assets	1.808	1.618	-190	*-10.5%*
+ Interest on held-to-maturity investments	752	394	-358	*-47.6%*
- Interest on debt securities issued	1.829	1.164	-665	*-36.4%*
- Interest on subordinated liabilities	703	495	-208	*-29.6%*
Total	28	353	325	*1.160.7%*
Total	92	424	332	*360.9%*

Source: FIs, APB.

Graph 51 shows the average weighted rate of public debt auctions (treasury bills) between January 2013 and December 2014. The rate was highly volatile, particularly in 2012 and 2013 and it fell considerably in 2014 as a result of the ECB's expansionist monetary policy and parallel reduction in financial fragmentation in the euro area. The fall in this rate, which reached its lowest in the third quarter of last year, contributed to the decrease in interest paid and received in trading operations. EURIBOR remained at minimum levels. Over 70%[76] of the products in the trading portfolio are indexed to EURIBOR, which was a decisive factor in the downward trend in interest from these operations (see Table 60).

[73] Includes interest on other equity instruments.
[74] See Table 52, p. 103.
[75] See Table 46, p. 96.
[76] See Table 48, p. 98.

Graph 51: Weighted average rate on Treasury Bills auctions (Jan. 2013 – Dez. 2014)



Source: IGCP.

Income from operations on the interbank money market[77] increased in net terms by 196 million euros (see Table 61, p. 111) mainly due to a reduction in interest paid on deposits from central banks. This can be explained by the reduction in interest rates following the ECB's monetary policy (see Graph 52, p. 112), as a volume effect caused by a fall in the member institutions' dependency on this type of funding, which decreased by around 46% against 2013[78].

Net losses on operations with other credit institutions were lower than in 2013 (see Table 61, p. 111). This was due once again to a general reduction in interest rates, as the net amount of these operations increased around 53.1% in the year (see

[77] Income from interbank money market operations include interest from deposits at central banks, interest from deposits at other credit institutions, interest on deposits from central banks and interest on deposits from other credit institutions.
[78] See Table 54, p. 105

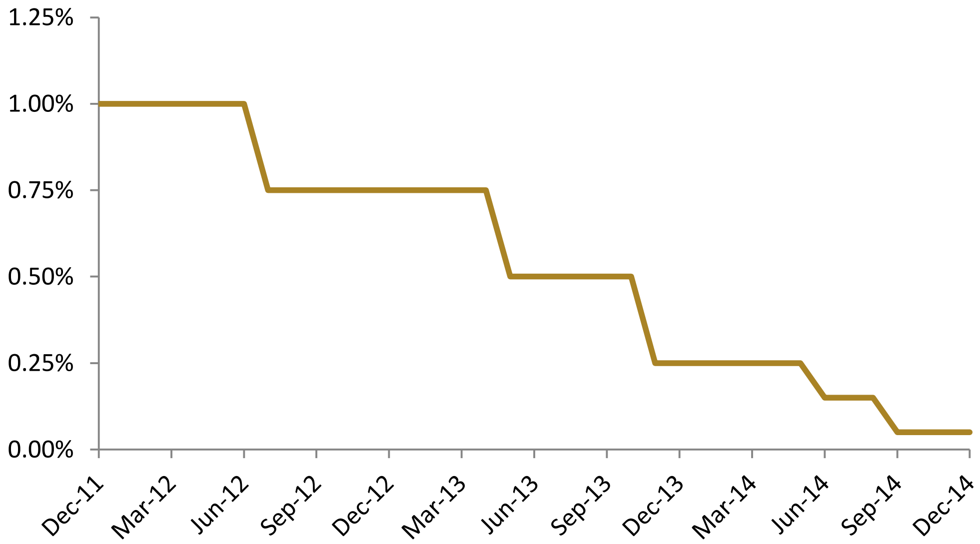
Table 51, p. 95).

Table 61: Breakdown of net gains from monetary interbank market operations (2013 – 2014)

	2013	2014	Change	
	million €	million €	million €	%
Operations with Central Banks				
+ Interest on deposits to and loans and advances at central banks	9	5	-4	*-44.4%*
- Interest on deposits from central banks	215	73	-142	*-66,0%*
Total	-206	-68	138	*67,0%*
Operations with Other Credit Institutions				
+ Interest on deposits to and loans and advances at other credit institutions	911	487	-424	*-46.5%*
- Interest on deposits from other credit institutions	1.092	610	-482	*-44.1%*
Total	-181	-123	58	*32,0%*
Total	-387	-191	196	*50.6%*

Source: FIs, APB.

Graph 52: ECB Refi rate (Dez. 2011 – Dez. 2014)



Source: Bloomberg.

Table 62: Breakdown of aggregate net interest income (2013 – 2014)

	2013	2014		Change	
	million €	million €	%	million €	%
Interest and Similar Income (ISI)					
Interest on credit	6.158	5.829	*57.7%*	-329	*-5.3%*
Interest on financial assets at fair value through profit or loss	1.220	1.074	*10.6%*	-146	*-12,0%*

Interest on deposits at and loans and advances to central banks	9	5	*0,0%*	-4	*-44.4%*
Interest on deposits at and loans and advances to other credit institutions	911	487	*4.8%*	-424	*-46.5%*
Interest on available-for-sale financial assets	1.808	1.618	*16,0%*	-190	*-10.5%*
Interest on hedging derivatives	438	408	*4,0%*	-30	*-6.8%*
Interest on held-to-maturity investments	752	394	*3.9%*	-358	*-47.6%*
Other interest and similar income	528	302	*3,0%*	-226	*-42.8%*
Total	11.824	10.117	*100,0%*	-1.707	*-14.4%*
Interest and Similar Expense (ISE)					
Interest on deposits from central banks	215	73	*1,0%*	-142	*-66,0%*
Interest on deposits from other credit institutions	1.092	610	*8.5%*	-482	*-44.1%*
Interest on debt securities issued	1.829	1.164	*16.2%*	-665	*-36.4%*
Interest on deposits from customers	3.405	2.889	*40.3%*	-516	*-15.2%*
Interest on hedging derivatives	461	380	*5.3%*	-81	*-17.6%*
Interest on subordinated liabilities	703	495	*6.9%*	-208	*-29.6%*
Interest on financial liabilities held for trading	1.133	1.031	*14.4%*	-102	*-9,0%*
Other interest and similar expense	581	532	*7.4%*	-49	*-8.4%*
Total	9.419	7.174	*100,0%*	-2.245	*-23.8%*
Net Interest Income (NII)	2.405	2.943	-	538	*22.4%*

Source: FIs, APB.

VII.2.3. Customer and market services[79]

Income from customer and market services totalled 4.1 billion euros in 2014, about 44% of which came from fees and commissions (1.8 billion euros). Income from financial operations totalled 1.4 billion euros (32.8% of the total) while other income amounted to 947 million euros (see Table 63, p. 113).

Last year, with the exception of income from fees and commissions, which made a loss, the other components of this item increased substantially, by over 100% in the case of income from financial operations (strongly influenced by capital gains obtained from available for sale financial assets), almost three times in other income via gains on the sale of other assets (see Table 63, p. 113).

Table 63: Breakdown of net gains from customer services and market activities (2013 – 2014)

	2013	2014		Change	
	million €	million €	% NGCSM	million €	%
Net Gains from Fees and Commissions (NGFC)					
+ Fee and commission income	2.322	2.227	*54,0%*	-95	*-4.1%*
- Fee and commission expense	418	403	*9.8%*	-15	*-3.6%*
Total	1.904	1.824	*44.2%*	-80	*-4.2%*
Net Gains from Financial Operations (NGFO)					
+Net gains from assets and liabilities at fair value	98	-618	*-15,0%*	-716	*-730.6%*

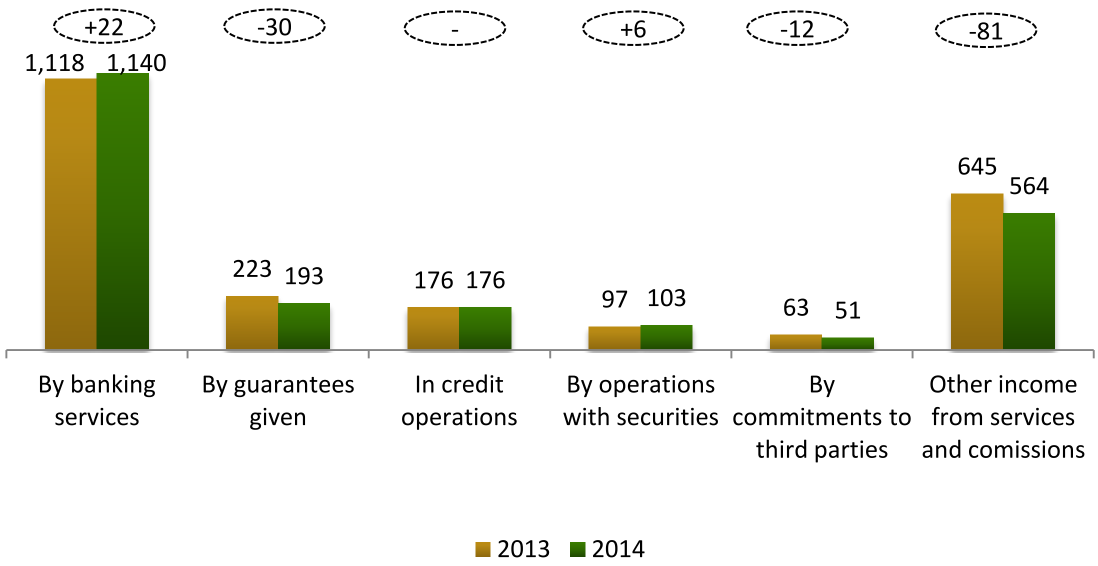
[79] For information on the sample used under this analysis please see footnote 50, p. 88.

through profit or loss					
+ Net gains from available-for-sale financial assets	503	1.912	*46.4%*	1.409	*280.1%*
+Net gains from foreign exchange differences	54	59	*1.4%*	5	*9.3%*
Total	655	1.353	*32.8%*	698	*106.6%*
Other Results (OR)					
+ Income from equity instruments	581	684	*16.6%*	103	*17.7%*
+ Net gains from sale of other assets	-67	309	*7.5%*	376	*561.2%*
+ Other operating income and expense	-192	-46	*-1.1%*	146	*76,0%*
Total	322	947	*23,0%*	625	*194.1%*
Net Gains from Customer Services and Market Activities (NGCSM)	2.881	4.124	*100,0%*	1.243	*43.1%*

Source: FIs, APB.

Due to the net decrease (4.2%) but above all to the very substantial increase (135.4%) in income from financial and other operations in 2014, income from fees and commissions fell close to 22 p.p. in total income from customer and market services (see Table 63).

Graph 53: Breakdown of income from fees and commissions, million euros (2013 – 2014)



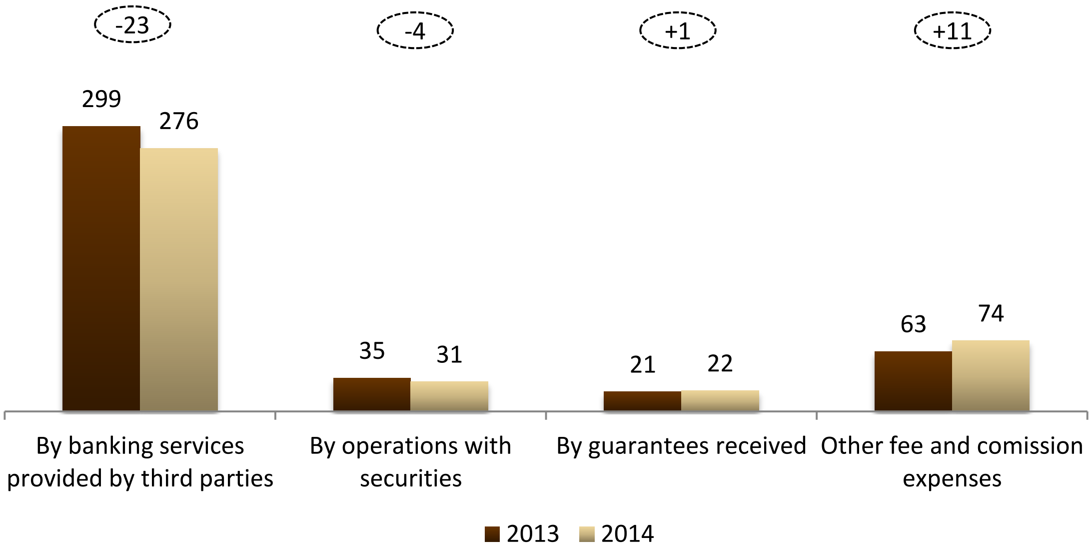
Source: FIs, APB.
Note : 2014/2013 change

The net decrease of 80 million euros in income from fees and commissions in 2014 (see Table 63, p. 113) was exclusively due to a reduction in income, especially because fees and commissions went down.

Income from fees and commissions received for banking services, which accounts for around 50% of the total, increased by only 2% against 2013. Most of the item's components fell however, the most significant reduction of around 81 million euros being in other income from fees and commissions (see Graph 53, p. 114).

The improvement in costs of fees and commissions paid by the member institutions against 2013 was small, with a reduction of 23 million euros in banking services provided by third parties and an 11 million euro increase in other costs of fees and commissions (see Graph 54).

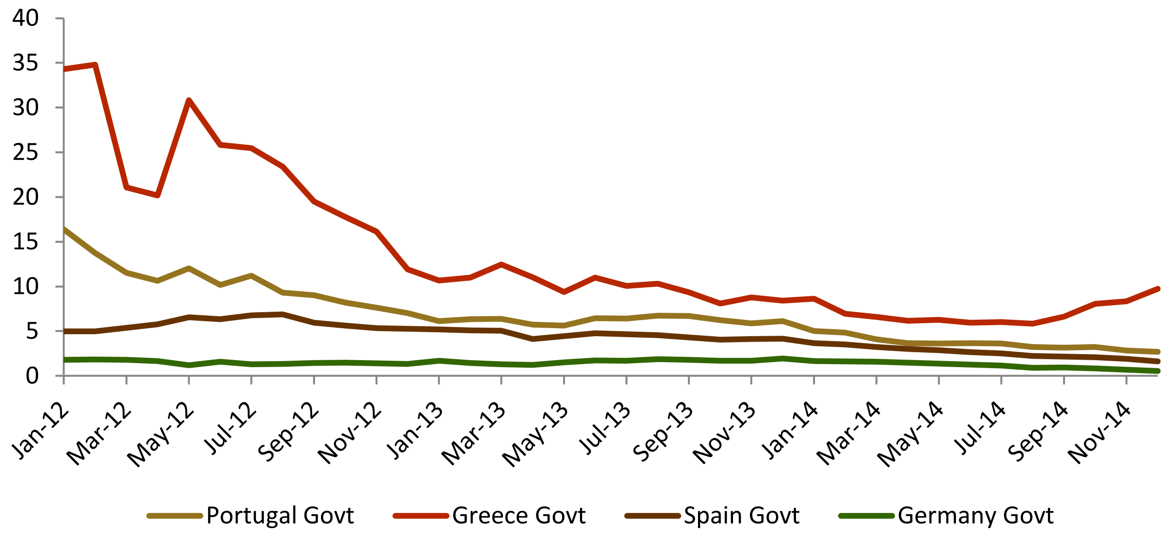
Graph 54: Breakdown of expenses from fees and commissions, million euros (2013 – 2014)



Source: FIs, APB.
Note: 2014/2013 Change

Income from financial operations grew almost 700 million euros in 2014. Gains obtained from the sale of available for sale financial assets (mostly Portuguese public debt securities and from other issuers) were mainly responsible for the increase (see Table 63, p. 113), as they took advantage of the decrease, albeit less accentuated than in previous years, in yields-to-maturity, resulting from less financial fragmentation and the upward revision of expectations on the part of the main financial analysts (see Graph 55, p. 115).

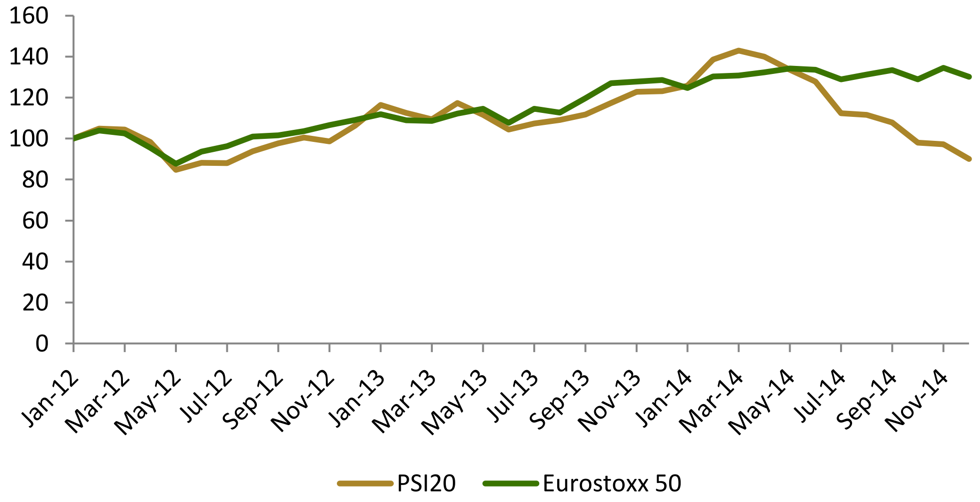
Graph 55: Yield-to-maturity for Portuguese, Greek, Spanish and German sovereign debt (Jan. 2012 – Dez. 2014)



Source: Bloomberg.

The depreciations in share indexes (see Graph 56), especially Portugal's, had a negligible effect on the member institutions' income as there were no significant disinvestments in shares.

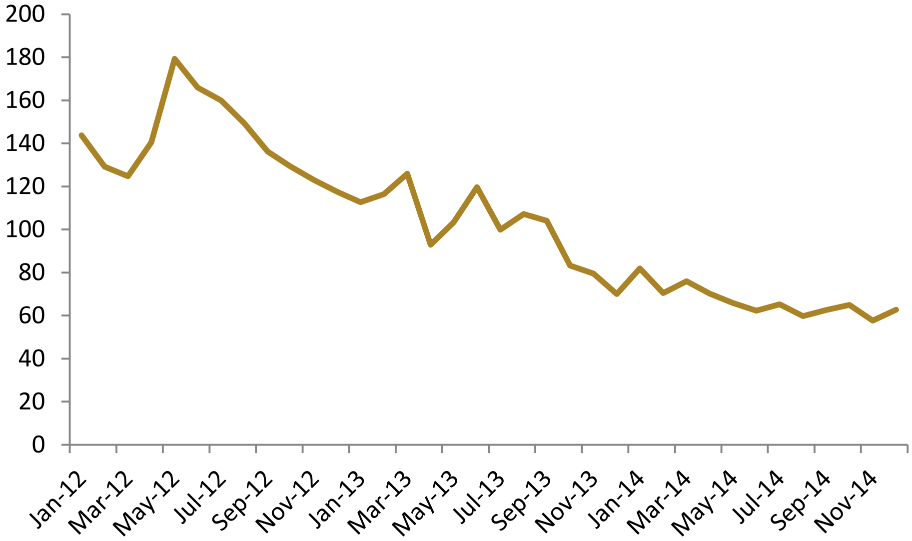
Graph 56: Main stock market indices (Jan. 2012 – Dez. 2014)



Source: Bloomberg.

The variation in income from financial assets and liabilities at fair value through profit or loss (see Table 63, p. 113) mainly reflected losses in value of derivatives, especially interest rates, due to the downward trend in rates in recent years. Credit default swaps also continued to depreciate, with some recovery at the end of 2014 (see Graph 57, p. 116).

Graph 57: Credit default swaps of European institutions considered investment grade. 5-year bonds (Jan. 2012 – Dec. 2014)



Source: Bloomberg.
Note: Used index - Markit iTraxx Eur CDSI Generic 5Y.

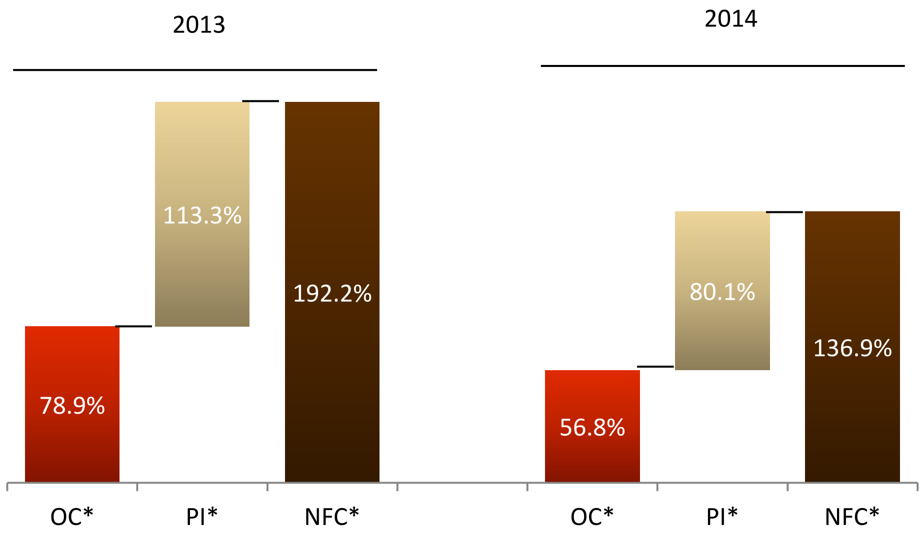
Finally, the item other operating income and expenses increased by 625 million euros, essentially thanks to income from the sale of other assets (see Table 63, p. 113). The member institutions' gains from the sale of investments in subsidiaries and associates and loan portfolios during the ongoing deleveraging process were 242 and 136 million euros, respectively in 2014.

VII.2.4. Operating costs, provisions and impairments[80]

In 2013 and 2014, income from bank intermediation (measured by net interest income) and customer and market services was not enough to bear all the non-financial costs incurred by the member institutions (see Table 65, p. 122). Nonetheless, last year a 33.7% increase in operating income reversed the trend of growing non-financial costs in this item. While in 2013, non-financial costs represented 192.2% of operating income, in 2014 they accounted for only 136.9% (see Graph 58, p. 117 and Table 65, p. 122).

[80] For information about the sample used in this analysis, see footnote 50, p. 88.

Graph 58: Breakdown of operating costs, provisions and impairments as percentage of operating income (2013 – 2014)



Source: FIs, APB.
Note: *OC – Operating costs; PI – Provisions and impairments; NFC – Non financial costs.

Last year, non-financial costs fell 4.7%, mainly in provisions and impairments. Operating costs fell mostly for personnel, associated with the downsizing of personnel by member institutions, though this item continued to account for over 50% of these costs. Administrative costs stabilised and their weight in total operating costs increased by 1.1 p.p. (see Table 64, p. 118).

In provisions and impairments, corrections in value associated with loans and advances to customers and receivables from other debtors (provisions and impairments for credit) stand out, as they continued to represent almost 70% of the total, in spite of a 200 million euro decrease against 2013 (see Table 64, p. 118).

The favourable performance of customer and market services and operating costs as a percentage of operating income improved the burden, which went from -24.4% in 2013 to 1.6% in 2014 (see Graph 59, p. 119). This improvement shows the member institutions' efforts to engage in business other than traditional financial intermediation in order to cover operating costs.

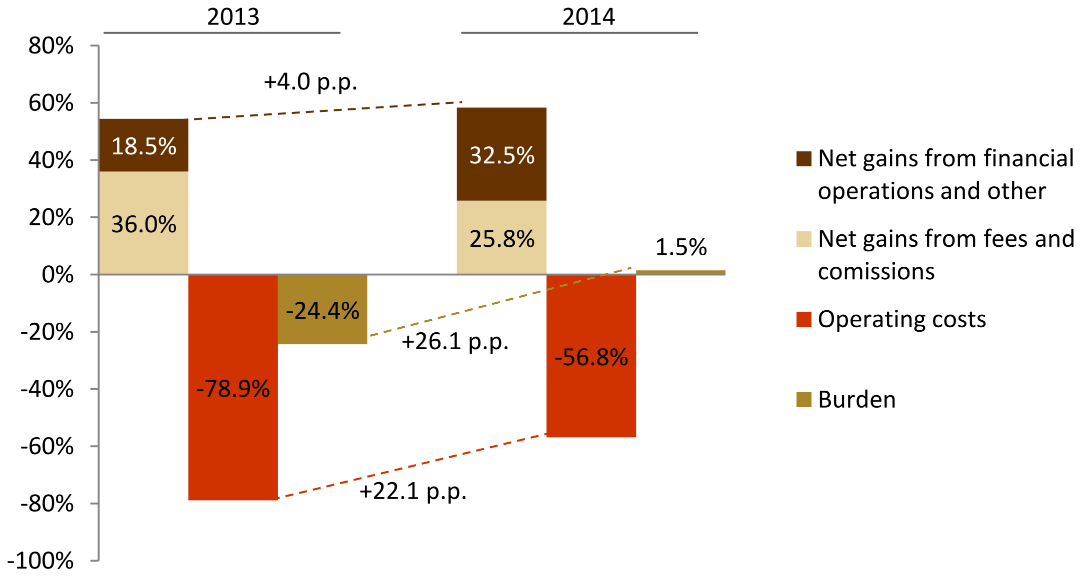
Table 64: Breakdown of operating costs, provisions and impairments (2013 – 2014)

	2013		2014		Change	
	million €	%	million €	%	million €	%
Operating Costs (OC)						
Personnel costs	2.407	*57.7%*	2.289	*57,0%*	-118	*-4.9%*
General administrative expenses	1.479	*35.5%*	1.471	*36.6%*	-8	*-0.5%*
Depreciation and amortisation	283	*6.8%*	257	*6.4%*	-26	*-9.2%*
Total	4.169	*100,0%*	4.017	*100,0%*	-152	*-3.6%*

Provisions and Impairments (PI)						
Provisions net of reversals	-118	*-2,0%*	127	*2.2%*	245	*207.6%*
Value adjustments relating to loans and advances to customers and receivables from other debtors (net of reversals)	4.144	*69.2%*	3.943	*69.7%*	-201	*-4.9%*
Impairment on other financial assets net of reversals	311	*5.2%*	587	*10.4%*	276	*88.7%*
Impairment on other assets net of reversals	1.650	*27.6%*	1.001	*17.7%*	-649	*-39.3%*
Total	5.987	*100,0%*	5.658	*100,0%*	-329	*-5.5%*
Total Costs (TC)	10.156	-	9.675	-	-481	*-4.7%*

Source: FIs, APB.

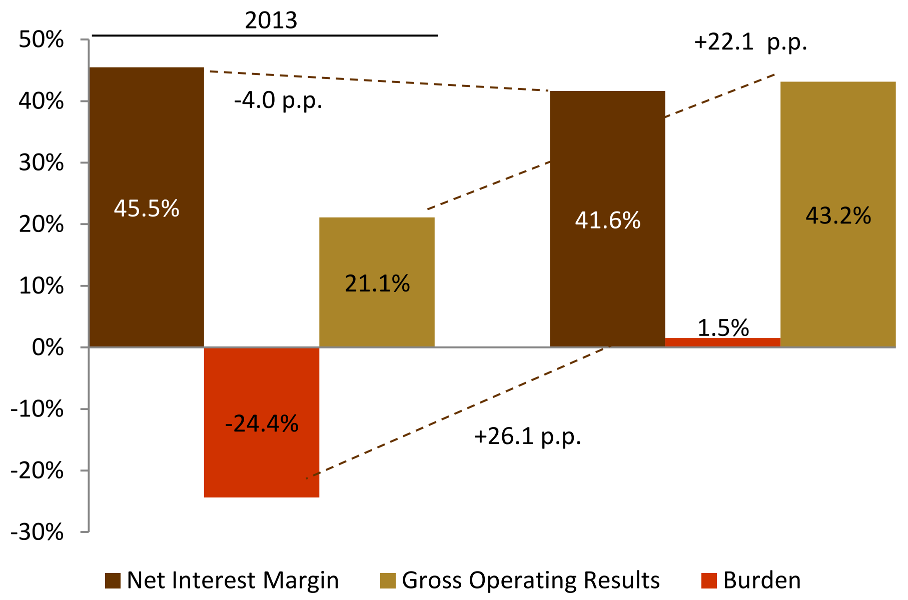
Graph 59: Burden as percentage of operating income (2013 – 2014)



Source: FIs, APB.

The 3.9 percentage point reduction in net interest income as a percentage of operating income was offset by an increase in the burden, resulting in a 22.1 p.p. higher gross operating result (see Graph 60, p. 119). In a context like this one, involving strong competition and low interest rates, a positive burden is decisive to the profitability of the sector.

Graph 60: Gross operating results as percentage of operating income by comparison between net interest income and burden (2013 – 2014)



Source: FIs, APB.

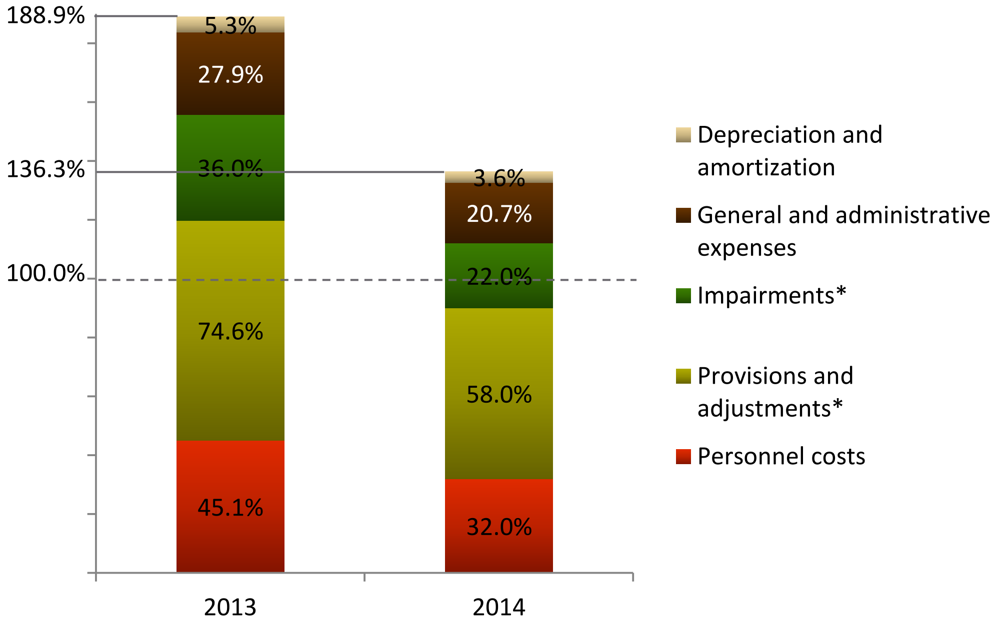
As mentioned above, the most significant provisions and impairments in the last two years were those for loans and advances, which totalled around 4 billion euros annually (see Table 64, p. 118). The deterioration in credit risk that we have witnessed as a result of the difficult economic and financial situation of the Portuguese economy, as demonstrated by the increase in defaults, has not allowed the member institutions to follow less restrictive lending and provisioning policies.

The ECB asset quality review obliged the financial institutions in question to reinforce provisions last year.

The increase in operating income and the reduction in almost all the non-financial cost items in 2014 reduced the weight of these items against operating income compared to 2013 (see Graph 61, p. 120).

Even so, despite the recovery of gross operating results to 43.2% of operating income in 2014, provisions and impairments, which represented 80% of it, adversely affected the aggregate result before tax, which remained negative (see Graph 62, p. 121 and Table 65, p. 122).

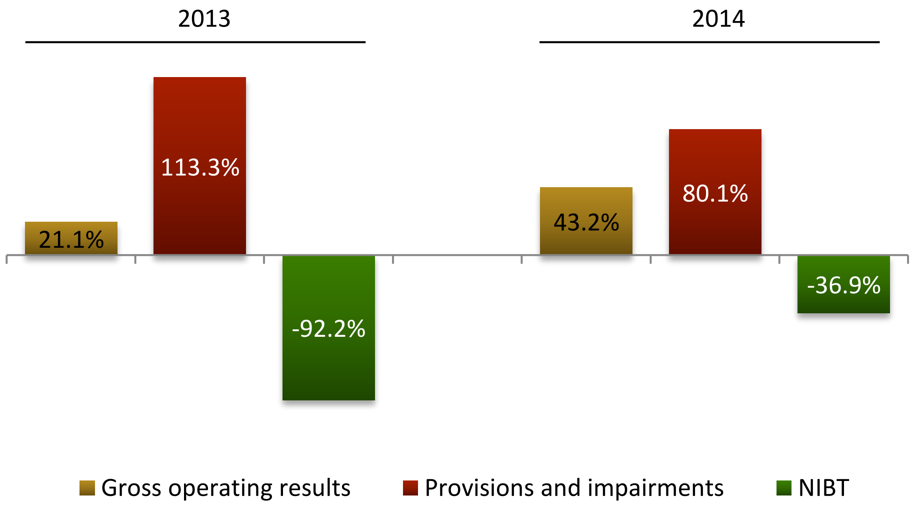
Graph 61: Weight of operating costs, provisions and impairments in operating income (2013 – 2014)



Source: FIs, APB.

Note: *Impairments – include Impairment on other financial assets net of reversals and impairment on other assets net of reversals; Provisions and adjustments – include provisions net of reversals and credit impairment.

Graph 62: Net income before tax as percentage of operating income by comparison between gross operating results and provisions and impairments (2013 – 2014)



Source: FIs, APB.

Annex

Table 65: Aggregate income statement of the sample of 26 institutions for comparison between 2013 and 2014

	2013		2014		Change	
	million €	% OI	million €	% OI	million €	%
+ Interest and similar income	11.824		10.117			
- Interest and similar expense	9.419		7.174			
Net Interest Income (NII)	2.405	*45.5%*	2.943	*41.6%*	538	*22.4%*
+ Fee and commission income	2.322		2.227			
- Fee and commission expense	418		403			
Net Gains from Fees and Commissions	1.904	*36,0%*	1.824	*25.8%*	-80	*-4.2%*
+ Net gains from assets and liabilities at fair value through profit or loss	98		-618			
+ Net gains from available-for-sale financial assets	503		1.912			
+ Net gains from foreign exchange differences	54		59			
Net Gains from Financial Operations	655	*12.4%*	1.353	*19.2%*	698	*106.6%*
+ Income from equity instruments	581		684			
+ Net gains from sale of other assets	-67		309			
+ Other operating income and expense	-192		-46			
Other Results	322	*6.1%*	947	*13.4%*	625	*194.1%*
Operating Income (OI)	5.286	*100,0%*	7.067	*100,0%*	1.781	*33.7%*
- Personnel costs	2.407		2.289			
- General administrative expenses	1.479		1.471			
- Depreciation and amortisation	283		257			
Operating Costs	4.169	*78.9%*	4.017	*56.8%*	-152	*-3.6%*
Gross Operating Results (GOR)	1.117	*21.1%*	3.050	*43.2%*	1.933	*173.1%*
- Provisions net of reversals	-118		127			
- Value adjustments relating to loans and advances to customers and receivables from other debtors (net of reversals)	4.144		3.943			
- Impairment on other financial assets net of reversals	311		587			
- Impairment on other assets net of reversals	1.650		1.001			
Provisions and impairment	5.987	*113.3%*	5.658	*80.1%*	-329	*-5.5%*
Net Income before Tax (NIBT)	-4.870	*-92.2%*	-2.608	*-36.9%*	2.262	*46.4%*

Source: FIs, APB.

VII.2.5. Taxation and parafiscal levies

Financial institutions are subject to corporate income tax, just like companies in the other economic sectors.

An analysis of the Corporate Income Tax Code (CIRC) shows that the adjustments that apply to financial institutions' income in the calculation of the tax base are the same as those for companies in general. They are as follows:

- Capital gains and impairments (net) (Articles 26 to 28, 39 to 40 and 46 to 48 of the CIRC)
- Elimination of double taxation of distributed profits (Article 51 of the CIRC and Article 42 Tax Benefit Statute)
- Non-deductible expenses (Articles 23-A of the CIRC)
- Provisions for other risks (Articles 39 and 40 of the CIRC)
- Allocation of profits of companies subject to special tax schemes, net of deductions (Article 66 of the CIRC)
- Pension funds (Article 43(2) and (3) of the CIRC[81])
- Provisions for credit impairments (Articles 28-A to 28-C of the CIRC, Banco de Portugal Notice 3/95 and Banco de Portugal Notice 1/2005).). The fact that this adjustment is regulated by Banco de Portugal only means that the way of taxing banks is different from that for companies in other sectors, as "the accumulated annual amount of impairment losses and other value adjustments for the specific credit risk and country risk referred to in Article 28-A(2) must not exceed the amount resulting from the enforcement of the mandatory minimum limits laid down in notices and instructions issued by the supervisory body" (Article 28-C(1) of the CIRC). In short, banks have no special advantage and they are only subject to a different rule on the calculation of provisioning limits that are tax-deductible.[82]

The tax benefits for the banking sector are the same as those for other companies (Articles 19 and 61 to 66 of the Tax Benefit Statute). On the other hand, a number of measures restricting tax benefits have been announced, with banks as their main targets. This is the case of an increase from 75% to 90%, in the minimum limit of corporate income tax paid after deduction of the tax credit for international double taxation and tax benefits introduced by the 2011 State Budget Law [83] and a reduction in the limit of deductible tax losses in each taxation period from 75% to 70% of taxable

[81] In practice, the rules on pension funds in the banking sector are actually stricter. In the general rules, pensions are the responsibility of Social Security, and the contributions paid by companies are not limited in terms of corporate income tax. Retirement pensions in the banking sector are the banks' responsibility and the tax cost associated with them cannot exceed 25% of salaries.

[82] In fact, banks end up having to pay corporate income tax to the state early, since credit impairments resulting from almost all their normal activity (loans with real guarantees) are not tax deductible (the other sectors do not usually grant loans guaranteed by real rights).

[83] Art. 92 of the CIRC

profit introduced by Law 2/2014 of 16 January, which reformed company taxation by amending Corporate Income Tax Code.

An approximate aggregate amount of the corporate income tax payable to the state by member institutions was calculated in order to confirm the above tax scheme analysis [84] (see

[84] For the purpose of this calculation, and because of a lack of data, it was based on only 22 of the 27 financial institutions from the sample in this report. It does not include Banco Carregosa, BANIF Investimento, Caixa BI, CCCAM or Banco do Brasil. The data for 2013 were corrected for the sake of comparison.

Table 66, p. 126). This calculation considered the estimated tax base for 2013 and 2014 based on profit or loss before tax and changes in equity recognised in reserves and retained earnings and corrected by the above-mentioned adjustments made pursuant to the CIRC. Income tax was also estimated by applying the corporate income tax rate stipulated for each year to the tax base calculated in accordance with current taxation rules.

The reform in the Corporate Income Tax Code by Law 2/2014 of 16 January amended the CIRC one of the changes being a reduction in the general taxation rate from 25% to 23%.

On the basis of the results (see

Table 66, p. 126), the corporate income tax payable to the state by member institutions is estimated at around 70 million euros in 2014 (as opposed to 38 million in 2013). This corresponds to an estimated corporate income tax rate of 22.7% (24.7% in 2013). According to statistics provided by Direcção Geral dos Impostos (DGI - Directorate-General for Taxation)[85] for 2012, the average effective corporate income tax rate for companies in the financial and insurance sector was 30%, which was above the national average of 25%.

[85] Estatísticas da Direção Geral das Contribuições e Impostos (DGCI) – IRC - Declarações Mod. 22 – Exercícios de 2010 a 2012 – Taxas Médias Efetivas:
http://info.portaldasfinancas.gov.pt/pt/dgci/divulgacao/estatisticas/estatisticas_ir/

Table 66: Approximate total amount of tax payable to the state in terms of corporate tax in 2013 and 2014. It is based on estimate figures for the tax base, which were calculated from the net income before tax and changes in equity recognised in reserves and retained earnings

	2013 million €	2014 million €
Net Income Before Tax [a)]	**(5.190)**	**(2.767)**
Adjustments for calculation of taxable income / tax loss		
Applicable to all taxpayers subject to corporate income tax:		
Capital gains and impairments in investments (net)	1.231	357
Elimination of double taxation of distributed profits	(116)	(976)
Tax benefits	(83)	(70)
Non-relevant expenses and income for tax purposes	3	3
Provisions for other risks	277	520
Allocation of profits of non-resident companies subject to special tax schemes	36	27
Employment termination and retirement benefits and other post-employment or long-term benefits	(286)	(510)
Impairments for credit-risk	1.482	1.272
Other [b)]	(184)	(169)
Taxable Income / Tax Loss	**(2.830)**	**(2.313)**
Use of tax losses from prior years	(6)	(225)
Tax Base[c)]	**154**	**309**
Income tax	38	70
Income Tax Rate (%)	**24.7%**	**22.7%**

Source: FIs, APB.

[a)] Net income before tax of the 29 financial institutions in the sample in this chapter.

[b)] Includes positive and negative changes in equity not reflected in the net income for the year but recognised in reserves and retained earnings.

[c)] Aggregate taxable income consists of the sum of taxable income and tax losses of the financial institutions in the sample. The institutions that have recorded a tax loss in the year have no tax base, which is why the aggregate figures for members that record taxable income are only included in the tax base field (even after deduction of losses). This figure is naturally higher than that of aggregate taxable income (which contains said losses).

In addition to corporate income tax, financial institutions pay local state taxes and are subject to autonomous taxation and the taxes levied in the foreign countries in which they operate. In 2013 and 2014, the member institutions paid around 30 and 60 million euros, respectively (see

Table 67, p. 127).

In addition, financial institutions are subject to other operating taxes, such as stamp duty, non-deductible VAT and municipal property tax (IMI). In Table 68, p. 127, these taxes are grouped under the heading operating tax costs.

Table 67: Approximate local taxes, autonomous taxation and income tax levied in foreign countries (2013 – 2014)

	2013 million €	2014 million €
Income tax levied in foreign countries net of the deduction of double taxation	6	6
Autonomous taxation	15	17
Local taxes[a)]	9	37
Total Local Taxes, Autonomous Taxation and Income Tax Levied in Foreign Countries	**30**	**60**

Source: FIs, APB.

[a)] The approximation to local taxes were calculated at 1.5% taxable income in 2013 and 2014, plus an additional 2.5% for the state levy, in 2013, introduced under the Stability and Growth Programme. In 2014 this tax was modified by Law nº2/2014 of 16 January, ranging from 3% to 7%, according to the taxable income.

In 2010, the State Budget for 2011 ((Law 55 – A/2010 of 31 December) laid down a levy on the banking sector. As set out in Ministry of Finance and public administration Order 121/2011 of 30 March, this contribution applies to:

a) liabilities calculated and approved by taxable persons minus base (Tier 1) and complementary (Tier 2) equity and deposits covered by the Deposit Guarantee Fund, at a rate of 0.05% of the amount calculated

b) the notional value of off-balance-sheet derivatives calculated by taxable persons, at a rate 0.00015% of the amount calculated.

As shown in Table 68, the levy on the banking sector for the member institutions totalled 116 million euros in 2014 (95 million in 2013).

Parafiscal levies consist of contributions to Social Security, SAMS (Medical and Social Service) and pension funds. The decrease in these levies in 2014, was essentially due to a reduction in pension costs due to high costs of early retirements in 2013 by one member (see Table 68).

Table 68: Tax and parafiscal burden (2013 – 2014)

	2013 million €	2014 million €
Tax Burden		
Operating taxes [b)]	215	161
Contributions on the Banking Sector	95	116
	310	277
Parafiscal Burden		
Single social rate	265	267
Pension expenses	198	112
Other expenses	103	97
Total	566	476
Total	**876**	**753**

Source: FIs, APB.

[b)] Including stamp duty, non- deductible VAT and IMI.

VII.3. Solvency[86]

A comparison of the member institutions' solvency in 2013 and 2014 is limited by the change in framework resulting from the entry into force of a regulatory package consisting of Regulation (EU) 575/2013, Directive 2013/36/EU of the European Parliament and of the Council - the Capital Requirements Regulation (CRR) and Directive (CRD IV), on 1 January 2014.

This package was the result of the transposition into European Union law of the Basel III measures announced by the Basel Committee on Banking Supervision (BCBS) in December 2010. Some of the measures in these rules will be phased in over a transition period.

The package consists of the CRD IV and CRR but, as a regulation, the CRR came into effect automatically in the Member States, while the Directive, as required by EU law, was transposed into Portuguese law by Decree-Law 157/2014 of 24 October.

Under the capital requirements regulation, a financial institution must meet minimum capital ratios, which are calculated by dividing its own funds by its risk-weighted assets. From a prudential point of view, the concept of own funds differs from the accounting concept of equity while it recognises the existence of different categories of own funds, which in theory are distinguished by their ability to absorb losses. There are therefore different capital ratios that are monitored by the supervisory authorities.

One of these ratios is Common Equity Tier 1 (CET1) which assesses institutions' financial capacity to absorb losses, considering only highest quality own funds. This ratio replaced the Core Tier 1 ratio (CT1) set out in Basel II.

These two ratios represent the supervisors' perception of highest quality own funds in two different periods: before 31 December 2013, under the Basel II framework, and after 31 December 2013, under the CRR/CRD IV package (Basel III). The methodological differences between the two ratios are the inevitable result of the supervisors' new view of the banking sector, which is mainly justified by the 2007/2008 financial crisis.

The entry into force of the CET1 ratio resulted in the following changes: an increase in capital quality, an increase in the quantity of capital and an improvement in hedging levels.

First of all, it is necessary to improve the quality of capital by defining contractual requirements that must be met for eligibility as CET1 and identify elements that, because of their limited ability to absorb loss, must be subtracted from highest quality capital (such as minority interests and deferred tax assets).

Secondly, the increase in the quantity of capital is associated with the introduction of minimum capital reserves of a different nature, such as capital maintenance, introduction of countercyclical mechanisms and adaptation of the systemic risk of significant institutions.

[86] Our analysis of solvency is based on the financial statements subject to prudential requirements of domestic institutions and subsidiaries. This criterion resulted in a sample of 14 members. In four of them we used their separate accounts (Banco BIC, Popular, Santander Consumer and BBVA) and in the others their consolidated accounts (Banco BPI, Millennium BCP, BIG, Finantia, Invest, CCCAM, Montepio, CGD, Santander Totta and Banif, S.A.).

Finally, the new regulatory package involves reinforcing hedging levels, in terms of measuring the market risk and the risk of securitisation instruments and introducing capital requirements for the counterparty credit risk of derivatives (CVA – Credit Value Adjustment).

Under the CRR, Banco de Portugal implemented a number of rules that defined a minimum level for the CET1 ratio of 7%[87] and the phase-in rules for calculating this ratio. The information in this chapter is therefore the result of the application of these transitional Banco de Portugal provisions.

In 2014, all the member institutions met Portuguese and European requirements. The aggregated CET1 ratio was 11.5% in 2014, i.e. above the regulatory minimum of 7%. On the other hand, the Total Capital Ratio ended 2014 at 12.7%, while the minimum limit was 8% (see Table 69, p. 129).

Table 69: Capital adequacy as at 31 December (2013 – 2014)

	2013 (Basel II)	2014 (CRR/CRD IV)	Change
Total Assets (Million €)			
Total assets [a]	356.150	336.712	*-5.5%*
Own Funds (Million €)			
Core Tier 1 (CT1) / Common Equity Tier 1 (CET1) [b]	24.591	21.678	*-11,8%*
Tier 1	24.123	21.944	*-9,0%*
Tier 2	2.452	2.006	*-18,2%*
Total eligible own funds	26.286	23.950	*-8,9%*
Risk-weighted Assets (Million €)			
Credit risk	174.744	167.302	*-4,3%*
Market risk	2.481	3.470	*39,9%*
Operational risk	14.101	13.348	*-5,3%*
Exposures – Credit valuation adjustment	-	629	-
Others	-	3.269	-
Risk-weighted assets	191.327	188.018	*-1.7%*
Capital Ratios (%)			
Core Tier 1 Ratio / Common Equity Tier 1 Ratio [b]	12,9%	11.5%	*-1,4 p.p.*
Tier 1 Ratio	12,6%	11.7%	*-0,9 p.p.*
Total Capital Ratio	13.7%	12.7%	*-1,0 p.p.*

Source: FIs, APB.

a) Does not include off-balance sheet items
b) CT1 for Basel II (2013) purposes and CET1 for CRR/CRD4 (2014) purposes

Irrespective of the different methods[88] underlying the highest-quality solvency ratios in force in 2013 (CT1) and 2014 (CET1), the conclusion is that, in spite of some deterioration and a fragile

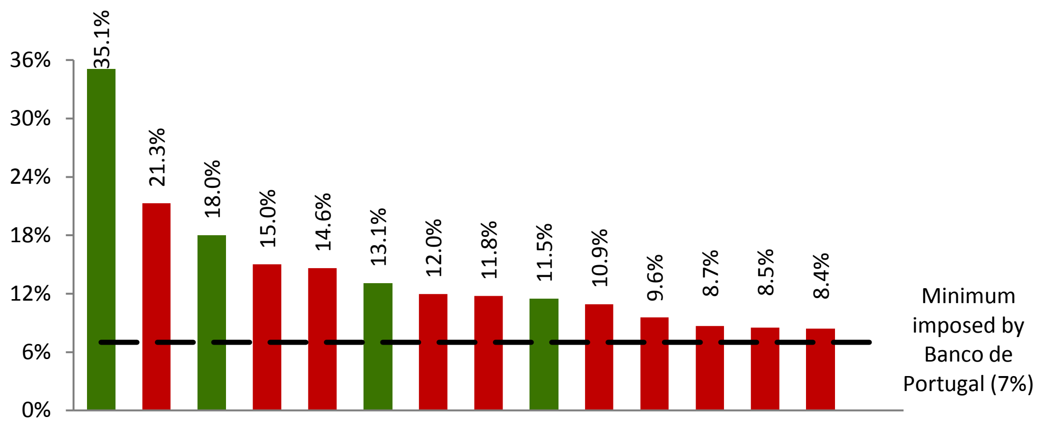
[87] Banco de Portugal Notice 6/2013 of 13 December (published in *IIª série do Diário da República* on 27 December)
[88] The methodological differences in the calculation of solvency indicators resulting from the new regulatory package compromise comparability between 2013 and 2014.

economic framework, the member institutions as a whole have shown levels of capitalisation consistent with the regulatory requirements at the time (see Table 69).

Individually speaking, all the member institutions considered in this analysis had CET1 ratios above the minimum set by Banco de Portugal (see Graph 63, p. 130), although the solvency of only four of the sample of 14 improved in 2014.

In spite of methodological differences, the variation in highest quality solvency in the sample from 2013 to 2014 can be tentatively drawn closer by three elements that determine it – highest quality own funds[89], total assets and the average risk of assets. Only total assets made a positive contribution (0.7 p.p.) to highest quality solvency for the aggregate of member banks considered in this sub-chapter in 2014[90], as they went down by 5.5%. This performance went against the trend in own funds and the average risk of balance sheet assets. The reduction in own funds (11.8%) adversely affected solvency by 1.6 p.p., while the average risk of assets had a negative impact of 0.5 p.p. (see Table 69, p. 129 and Chart 4, p. 131).

Graph 63: Common Equity Tier 1 Ratios as at 31 December 2014



Source: FIs, APB.
Note: CET1 Ratios sorted in descending order. The red (green) columns identify the institutions that for whom the CET1 ratio decreased (increased) between 2013 and 2014.

In addition to the methodological changes made by the CRR, there were some factors that certainly influenced the member institutions' levels at the end of 2014.

First there was the repayment of CoCos. These instruments qualify as capital and their issue was funded by a public recapitalisation line of 12 billion euros provided for in the EFAP. They involve high interest payments to the state, making them particularly burdensome on the member institutions' income. Although their repayment will boost future net interest income, they are still

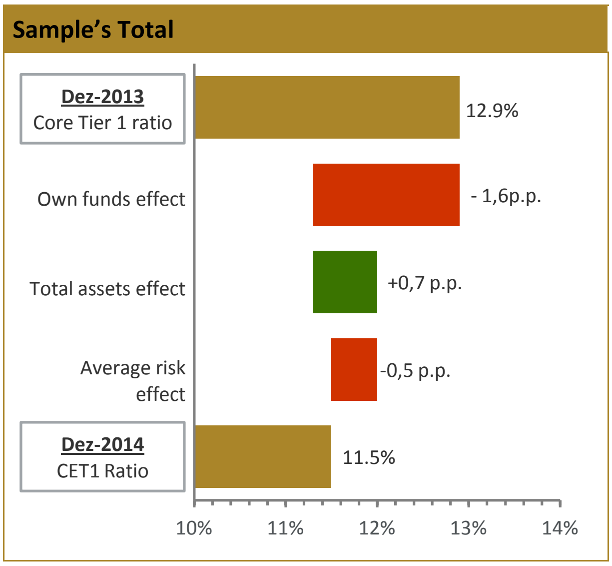
[89] Referred to here as own funds, for the sake of simplification
[90] For an understanding of these three elements, we remind readers that solvency is calculated as own funds / (total assets * average risk), in which the average risk, also called the weighted average assets risk, is the ratio between risk-weighted assets and total assets.

having a negative impact on capital levels, though this was partially mitigated by increases in share capital and sale of assets by institutions in 2014.

Secondly, the reduction in own funds also reflects ongoing losses[91] by the member banks, in spite of favourable developments compared to the recent past.

Finally, a revision of actuarial assumptions for the pension funds of the main banks had negative impacts on their capital ratios. In short, the increase in the discount rate on future liabilities was only partially mitigated by a reduction in estimates of growth rates in pensions and salaries, which seriously affected some of the main Portuguese banks[92].

Chart 4: Breakdown of the change in CET1 ratio by subgroups (2013 – 2014)



Source: APB

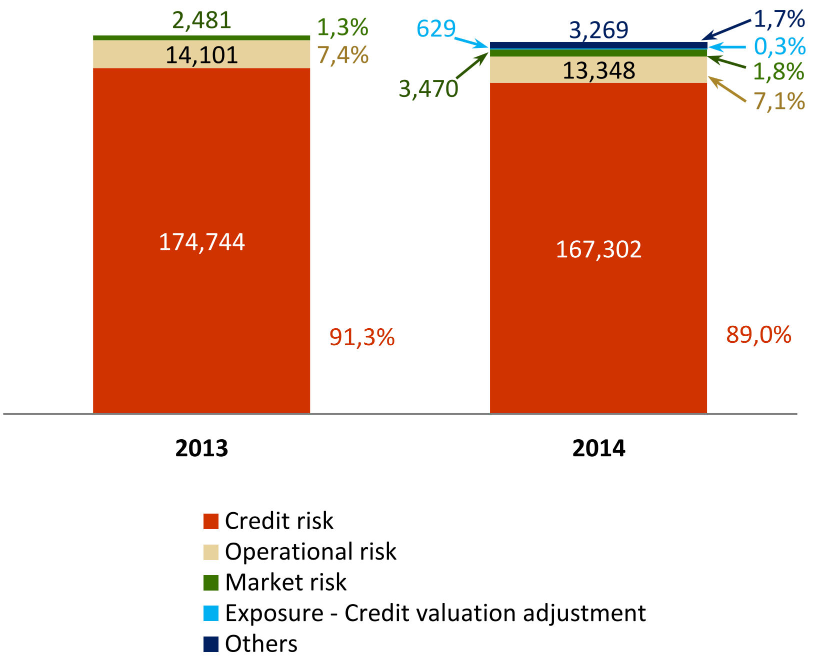
The negative performance of risk-weighted assets (RWAs) (1.7%) in 2014 plus the above-mentioned reduction of around 5.5%, in total assets shows a slight rise in the risk of the financial institutions' portfolios. This not the result of a policy of investing in higher risk assets, however (the total value of RWAs for the credit, market and operational risks went down by 3.8% in 2014) (see Table 69, p. 129), but of new regulatory requirements from Basel III, which did not exist in 2013.

The contracting of RWAs for the credit risk (7.4 billion euros) was the main factor explaining the fall in the aggregated item. Conversely, RWAs for the market risk increased practically one billion euros in 2014, being partially offset by a reduction in RWAs for the operational risk (see Table 69, p. 129). Even so, the RWAs for the credit risk continued as the main source of capital consumption in 2014 and absorbed 89% of total requirements (see Graph 64, p. 132).

[91] For a more detailed analysis, see Sub-chapter "**Erro! A origem da referência não foi encontrada.**", p. 133
[92] Banco de Portugal, "Relatório de Estabilidade Financeira" (*Financial Stability Report*), May 2015

According to Banco de Portugal, as at December 2013, there was an estimated difference of 1 p.p. between the core Tier 1 (Basel II rules) and the CET1 (Basel III rules) of the eight largest banking groups in Portugal, due to the methodological changes made[93].

Graph 64: Breakdown of the risk-weighted assets of member institutions (2013 – 2014)



Source: FIs, APB.

In conclusion, as mentioned above, the rules in the CRR/CRD IV package will be phased in, which will mean pressure on the Portuguese banks' capital adequacy ratios. They will have to take management measures to maintain or strengthen these ratios. Furthermore, as of the beginning of 2016, Banco de Portugal can be expected to introduce macroprudential measures, such as a minimum capital maintenance reserve and a reserve for other systemically important institutions (O-SIIs), which will put even greater pressure on the CET1 ratio.

The regulatory package provides for disclosure of a leverage ratio as of 2015, which will assess the proportion of Tier 1 capital in the value of on-balance sheet and off-balance sheet exposure to which the institution is subject. This measure does not vary on the basis of risk and we can expect the definition of a minimum regulatory value for financial institutions in 2017.

[93] Banco de Portugal, "Relatório de Estabilidade Financeira" (*Financial Stability Report*), November 2014.

VIII. Efficiency indicators

VIII.1. Cost-to-income ratio

The cost-to-income ratio is an important measurement for assessing financial institutions' efficiency, as it intuitively expresses the percentage of income from banking business absorbed by operating costs. The lower this ratio is, the more efficient a bank's management.

In 2014, the cost-to-income ratio of the member banks was 57.7%, which was a great improvement on 2013 (-21.9 p.p.). This was also the best performance by the ratio in the cycle in question (see Table 70 and Graph 65, p. 134), after a substantial deterioration largely due to the unfavourable economic and financial circumstances in which the banking sector was operating.

Table 70: Operating costs, operating income and cost-to-income (2011 – 2014)

	2011	2012	2013	2014	Average
Operating Costs [a]					
Total (million €)	4.795	4.437	4.398	4.258	-
Annual growth rate	-	*-7.5%*	*-0.9%*	*-3.2%*	*-3.8%*
Operating Income [a]					
Total (million €)	7.597	7.514	5.522	7.379	-
Annual growth rate	-	*-1.1%*	*-26.5%*	*33.6%*	*2,0%*
Cost-to-Income					
Total	63.1%	59.1%	79.6%	57.7%	63.7%
Change (percentage points)	-	*-4,1*	*20,6*	*-21,9*	*-1,8*

Source: IFs, APB.
[a] See

Table 57, p. 104.

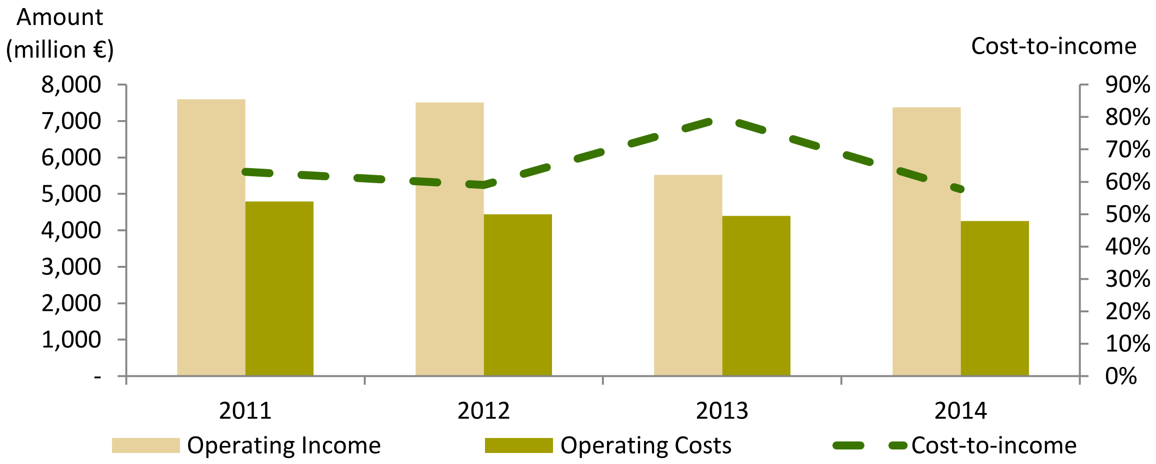
After a considerable deterioration in this ratio in 2013, mainly as a result of a sharp drop in operating income, the member institutions managed to combine substantial growth in operating income (33.6%) with significant cuts in operating costs (-3.2%) in 2014 (see Table 70 and Graph 65, p. 134).

Indeed, the whole period under analysis was dominated in aggregate terms by a strict policy of reduction in operating costs, which went down 11.2% between 2011 and 2014 (see Table 70). This reduction was almost exclusively due to the need to adjust personnel costs, which fell by 14.9% in the three years. General administrative costs also went down in the period, although to a lesser degree (4.9%), while depreciation and amortisation did not fall substantially (only 43 million euros), in spite of an accumulated decrease of 12.1%. This component actually only represents an average of 7.3% of total operating costs, as opposed to 55.9% in personnel costs and 36.8% in general administrative costs.

The efforts towards restructuring and containment of costs by the member banks were therefore effective, although they were only finally visible in 2014, when the recovery in operating income allowed.

An increase in operating income in 2014 brought the level of banking income closer to that of 2011 and 2012, reaching around 7.4 billion euros, which was 1.9 billion euros more than in 2013 (see Table 70, p. 133). This growth was essentially driven by an improvement in net interest income and substantial gains in income from available for sale financial assets following their appreciation in the market.

Graph 65: Cost-to-income and its main components (2011 – 2014)



Source: IFs, APB.

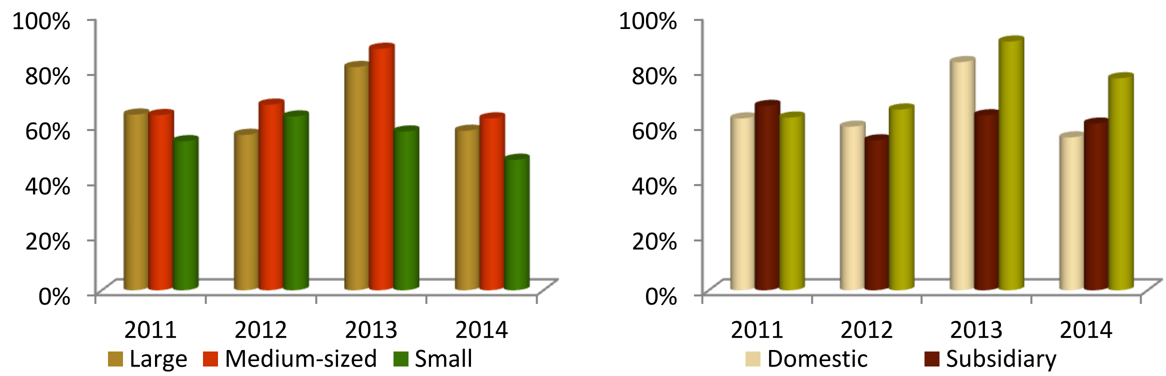
An analysis of the cost-to-income ratio by size of the member institutions shows that the smaller banks demonstrated the best levels of efficiency over the period (see Graph 66a), p. 135).

On the other hand, the performance of the cost-to-income ratio had similar effects in the different segments. At the large and medium-size institutions, however, the deterioration in the ratio up to 2013 was exclusively due to the poor performance of operating income, as sustained, more or less accentuated containment in these two segments had been exercised since 2011. In 2014, the reversal of the downward trend in operating income (+32.3% and +42.6% against 2013, respectively), together with a 5.4% reduction in operating costs in the large segment and a modest increase of only 1.4% in the medium-size segment made it possible to achieve significant gains in efficiency of 23.2 p.p. and 25.3 p.p., respectively.

Throughout the period, the small institutions' operating income showed a positive performance but few or no gains in efficiency via reduction in operation costs. Indeed, their operating costs increased cumulatively by around 36.7% between 2011 and 2014. Only larger progress in their operating income in 2013 and 2014 (+8.8% and +27.1%, respectively) than in their operating costs (-0.6% and +4.4%), allowed an improvement in their CTI ratio of 5.4 and 10.3 p.p. respectively.

Graph 66: Cost-to-income by size and origin/type of legal structure of member institutions (2011 – 2014)

a) By size **b) By origin/type of legal structure**



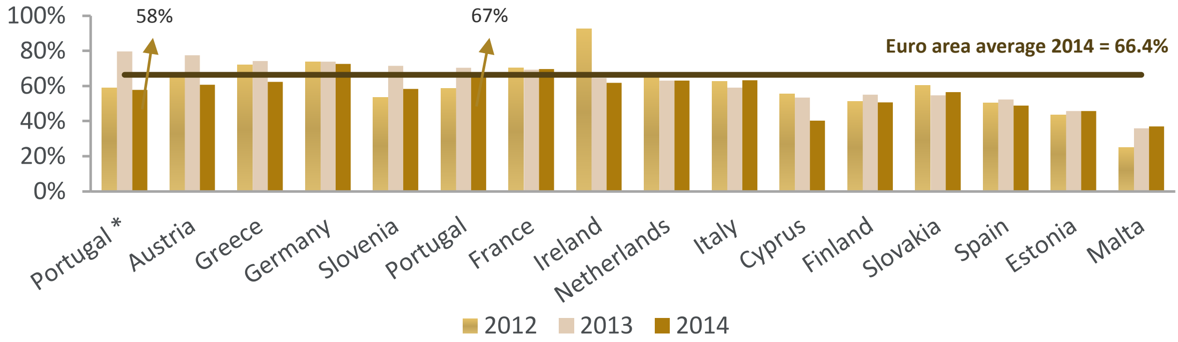
Source: IFs, APB.

Where the financial institutions' origin and legal structure were concerned, it was the domestic institutions that showed a more favourable cost-to-income ratio in 2014, both against 2013) and in absolute terms (compared to the other types). In spite of the increase in their operating income (after decreases in the previous two years), branch office were the most efficient for the third year running (see Graph 66b)).

The increase in operating income of domestic institutions (40.9%) was accompanied by a 5.6% reduction in operating costs, which resulted in a 27 p.p. fall in the efficiency ratio. The reduction in the ratio at subsidiaries and branch offices (3 p.p. and 13.4 p.p., respectively) was due exclusively to growth in earnings (+9.8% and +23.7%, respectively), as there were around 5% increases in operating costs in both types.

If we compare the cost-to-income ratio of countries in the euro area using ECB statistics we find that the member institutions' average ratio of the last three years of 65.5% was 0.2 p.p. lower than the euro area average. In spite of the particularly unfavourable circumstances that Portuguese institutions had to face, their structures are currently as efficient as or even more efficient than their European counterparts (see Graph 67, p. 135).

Graph 67: Cost-to-income of the institutions in euro area countries (2012-2014)



Source: ECB, FIs, APB.
Note: * Cost-to-income ratio of the institutions Members of APB.

VIII.2. Loans and deposits per employee and number of employees per branch[94]

The loans and deposits per employee ratio is also an efficiency indicator, as it reflects the ability to attract business per work unit. By relating the amount of activity, measured by the aggregate value of loans and deposits, to the human resources involved in producing them, the ratio is an essential barometer of the productivity of financial institutions' intermediation.

Table 71: Credit and deposits, overall number of employees and credit and deposits per employee as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Credit + Deposits [a) b)]					
Total (million €)	411.311	396.880	389.463	383.624	-
Annual growth rate	-	*-3.5%*	*-1.9%*	*-1.5%*	*-2.3%*
Overall number of employees [c)]					
Total	51.300	49.057	47.623	45.643	-
Annual growth rate	-	*-4.4%*	*-2.9%*	*-4.2%*	*-3.8%*
Credit and Deposits per employee					
Amount (thousands €)	8.018	8.090	8.178	8.405	-
Annual growth rate	-	*0.9%*	*1.1%*	*2.8%*	*1.6%*

Source: IFs, APB.
[a)] Net loans to customers, Table 35, p. 73.
[b)] Deposits from customers, Table 37, p. 75.

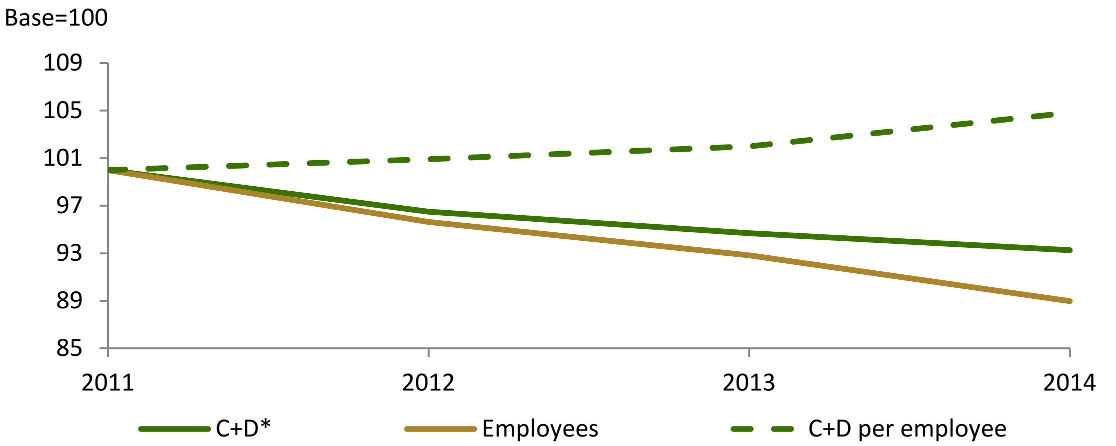
[94] The analysis in this sub-chapter was based on the total number of employees (in domestic and international activity) and the total number of branches (including bank branches in Portugal and branch offices and representative offices abroad).

[c] The information is differs from the one presented in Table 9, p. 29, due to the difference in the samples between the respective chapters.

The ratio of loans and deposits per employee continued to improve between 2011 and 2014, at an average annual growth rate of 1.6%. In 2014 in particular it reached 8.4 million euros per employee, which was 2.8% up on 2013 (see Table 71, p. 136).

The ratio shows reductions in the numerator and denominator over the period. The numerator (loans and deposits) dropped[95] essentially because of the considerable contraction in net loans granted (see Graph 68), due to supply (such as the need for deleveraging and adjustment of the credit to deposit ratio) and demand. The downward trend in loans and advances (-17.3%) was greater than the increase (7.4%) in deposits between 2011 and 2014 (see Table 35, p. 73 and Table 37, p. 76).

Graph 68: Credit and deposits against overall number of employees as at 31 December (2011 – 2014)



Source: FIs, APB.
Note: * (C+D) Credit and Deposits.

Where the denominator was concerned, the new challenges that the sector was facing required the member institutions to restructure, which resulted in a need to reduce their operating costs and particularly those of their workforce (see Table 71, p. 136). An average 3.8% reduction a year in the number of employees had a positive effect on the ratio of loans and deposits per employee, as shown in Graph 68. The combined effects of a more efficient cost structure and higher productivity are vital to better results and profitability for banks.

The number of employees per branch also illustrates the member bank's restructuring and containment policy that has been increasingly followed in recent years. It has resulted in gains in productivity via a reduction in the number of employees and adjustments in the number of branches, branch offices and representative offices (see Table 72).

Table 72: Number of branches and number of employees per branch as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average

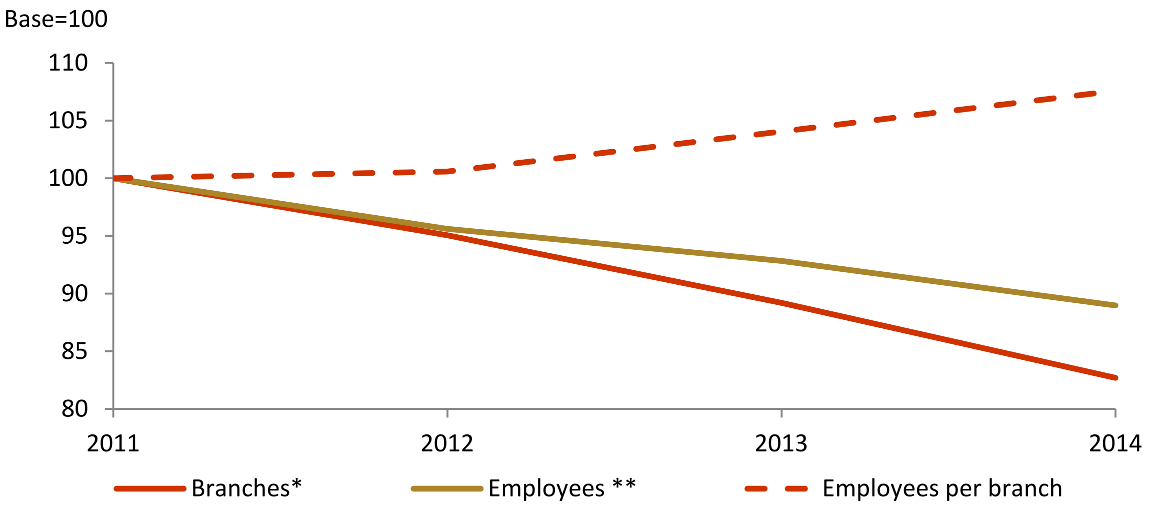
[95] For more details on loans and deposits, see Sub-chapter **Erro! A origem da referência não foi encontrada.**, p. 79.

Number of Branches [a)]					
Total	5.760	5.476	5.138	4.763	
Annual growth rate	-	*-4.9%*	*-6.2%*	*-7.3%*	*-6.1%*
Number of Employees per Branch					
Total	8,91	8,96	9,27	9,58	
Annual growth rate	-	*0.6%*	*3.5%*	*3.3%*	*2.5%*

Source: FIs, APB.
[a)] Including the number of branches in Portugal and branch offices and representative offices abroad.

The fact that the reduction in the number of branches in Portugal and abroad was greater than that in the number of employees at the member banks led to a systematic increase in the ratio in the four months analysed (see Table 72). The trend is clear in Graph 69, which shows how the member institutions reduced costs, though with a focus on reducing the number of branches.

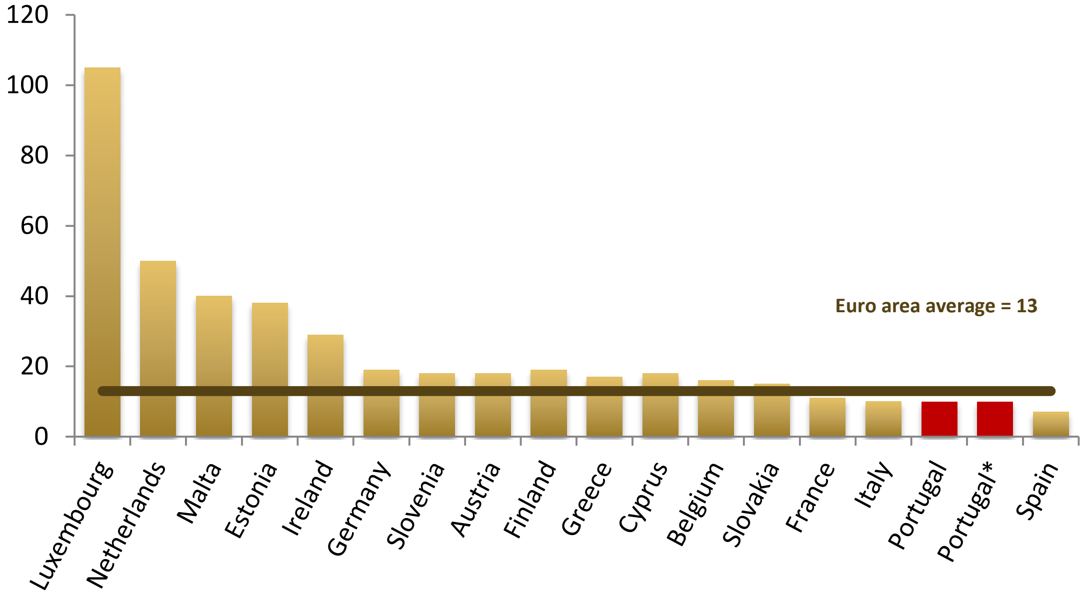
Graph 69: Number of branches against overall number of employees as at 31 December (2011 – 2014)



Source: FIs, APB.
Note: *Including number of branches in Portugal and branch offices and representative offices abroad.
**Global number of employees in domestic and international activity.

A comparison of the number of employees per branch with some euro area members based on ECB data shows that the member banks have the second highest ratio (behind Spain) and below the European average of 13 employees per branch (see Graph 70). The difference from the European average has been narrowing, however, as a result of a growing trend in the member institutions' indicator due to a greater reduction in the number of branches than employees. This is the opposite trend to a smaller reduction in most of the European countries in the sample dictated mainly by greater cuts in the workforce.

Graph 70: Number of employees per branch in the euro area as at 31 December 2014



Source: FIs, ECB, APB.
Note: * Ratio calculated only for APB member institutions.

VIII.3. Assets per employee

This ratio is the result of the quotient between the financial institutions' aggregate net assets and number of employees. As with the loans and deposits per employee ratio, this indicator assesses the production capacity of human resources, thereby monitoring the productivity of bank personnel.

For reasons already mentioned, the two variables making up this ratio showed a substantial downward trend and it is important to ascertain which of the two components fell most in the period. In fact, between 2011 and 2014, the member banks' net assets and number of employees fell every year on average by 7.6% and 3.8%, respectively. This shows a clear deterioration in the ratio, which went from 8.2 billion in 2011 to 7.2 billion euros in assets per employee in 2014 (see Table 73, p. 139).

The ratio in 2014 showed a 6% fall against the end of 2013 following contractions of 9.9% in net assets[96] and 4.2% in total employees, as deleveraging overcame the effect of reducing the number of employees (see Graph 71).

Table 73: Annual growth rates in aggregate assets and overall number of employees, and assets per employee as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Aggregate assets a)					
Total (million €)	418.443	398.395	366.149	330.017	-
Annual growth rate	-	*-4.8%*	*-8.1%*	*-9.9%*	*-7.6%*
Overall number of employees					
Total (million €)	51.300	49.057	47.623	45.643	-
Annual growth rate	-	*-4.4%*	*-2.9%*	*-4.2%*	*-3.8%*

[96] For a more detailed analysis of assets, see Sub-chapter Balance Sheet, p. 79.

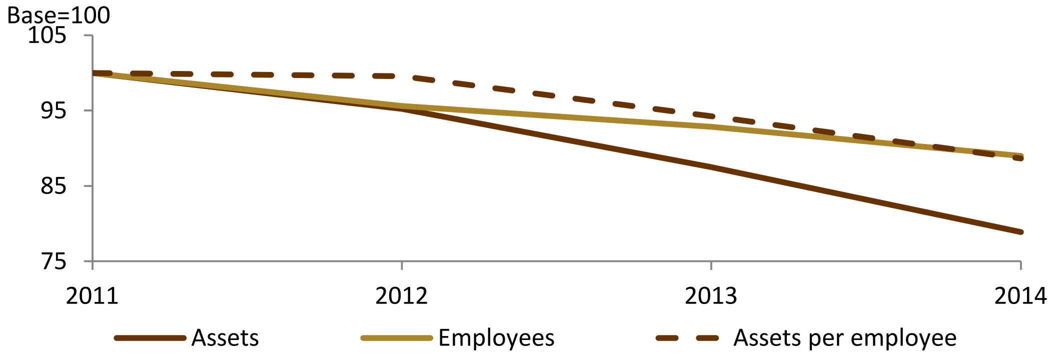
Assets per employee					
Amount (million €)	8.157	8.121	7.688	7.230	-
Annual growth rate	-	*-0.4%*	*-5.3%*	*-6,0%*	*-3.9%*

Source: FIs, APB.

[a] See Table 35, p. 73

We obtain additional detail if we break down the ratio by type of bank. The fall in the ratio in 2014 occurred in practically all segments, regardless of size, origin or legal structure. The only exceptions were subsidiaries, which grew 3.3% and 2.1% in 2013 and 2014 respectively.

Graph 71: Aggregate assets against overall number of employees as at 31 December (2011 – 2014)



Source: FIs, APB.

IX. International business activity[97]

Contrary to the recent past, the member institutions' international activity grew in importance in 2014. This was due not only to the deleveraging of domestic business but also an increase in activity abroad.

There was a 4.5% (2.2 billion euros) increase to 51.9 billion euros in assets from international business (see Table 74), against a 6 billion euro fall in total consolidated assets.

Table 74: Consolidated balance sheet regarding international business activity as at 31 December (2011 – 2014)

	2011	2012	2013	2014	Average
Aggregate Assets					
Total (million €)	52.519	53.222	49.686	51.899	-
Annual growth rate	-	*1.3%*	*-6.6%*	*4.5%*	*-0.3%*
Weight in total consolidated net assets	*15.6%*	*16.2%*	*16.4%*	*16.8%*	*16.3%*
Loans and Advances to Customers [a)]					
Total (million €)	33.887	33.807	27.662	29.284	-
Annual growth rate	-	*-0.2%*	*-18.2%*	*5.9%*	*-4.2%*
Weight in total consolidated loans and advances to customers	*14.1%*	*14.7%*	*13,0%*	*14,0%*	*14,0%*
Deposits from Customers and Other Loans					
Total (million €)	32.777	37.148	36.745	39.879	-
Annual growth rate	-	*13.3%*	*-1.1%*	*8.5%*	*6.9%*
Weight in total consolidated deposits from customers	*17.9%*	*20,0%*	*19.8%*	*21.3%*	*19.8%*

Source: IFs, APB.
Note: [a)] Gross Credit.

A 5.9% growth in loans and advances to customers explains the 73% growth in the member banks' international assets, given the 1.6 billion euro increase against 2013. This was a countercyclical movement to the downward trend in loans and advances to domestic customers and resulted in a rise in its percentage of total consolidated loans and advances to customers from 13% to 14%.

Customer deposits and other loans in international activity accompanied the upward domestic trend and grew 8.5% year-on-year, and their weight in this consolidated item rose from 19.8% to 21.3% (see Table 74).

In spite of the growth trend in loans and advances, a more accentuated increase in deposits in international business caused the credit to deposit ratio to fall to 73.4% in 2014, 19 p.p. less than in 2013.

[97] The analysis of international business was based on the consolidated activity of six member banking groups (Banif, BCP, BPI, BST, CGD and Montepio).

Non-domestic earnings rose, as demonstrated by the 42% increase in profit before tax and minority interests, to 697 million euros, which helped albeit only slightly to mitigate the losses in the domestic segment (see Table 75).[98]

Table 75: Consolidated income statement - international business activity (2011 – 2014)

	2011	2012	2013	2014	Average
Net Interest Income					
Total (million €)	1.314	1.310	1.211	1.366	-
Annual growth rate		-0.3%	-7.6%	12.8%	1.6%
Weight in total consolidated net interest income	26.3%	33.2%	39.8%	38.1%	34.4%
Operating Income					
Total (million €)	2.302	2.038	1.883	2.118	-
Annual growth rate		-11.5%	-7.6%	12.5%	-2.2%
Weight in total consolidated operating income	26.9%	24.8%	32.1%	30,0%	28.5%
Operating Costs					
Total (million €)	1.183	1.242	1.047	1.040	-
Annual growth rate		5,0%	-15.7%	-0.7%	-3.8%
Weight in total consolidated operating costs	21.6%	25,0%	23.9%	32.5%	25.8%
Provisions and Impairments[a)]					
Total (million €)	476	723	345	381	-
Annual growth rate		51.9%	-52.3%	10.4%	3.3%
Weight in total consolidated provisions and impairments	9,0%	14.4%	9.7%	10.7%	11,0%
Net Income Before Tax and Minority Interests					
Total (million €)	643	73	491	697	-
Annual growth rate		-88.6%	572.6%	42,0%	175.3%
Weight in total consolidated NIBT[b)]	-29.3%	-4,0%	-23.5%	-102.4%	-39.8%

Source: FIs, APB.

a) Includes negative consolidation differences whose figures are negligible.

b) Net interest income before tax and minority interests.

Net interest income was the item that grew most as a percentage in 2014 (12.8%), which was justified by a reduction in interest costs, as the line of interest and similar income rose only slightly in 2014. Operating income grew by 235 million euros (12.5%), thereby correcting its negative performance in the two previous years (see Table 75, p. 142 and Graph 72).

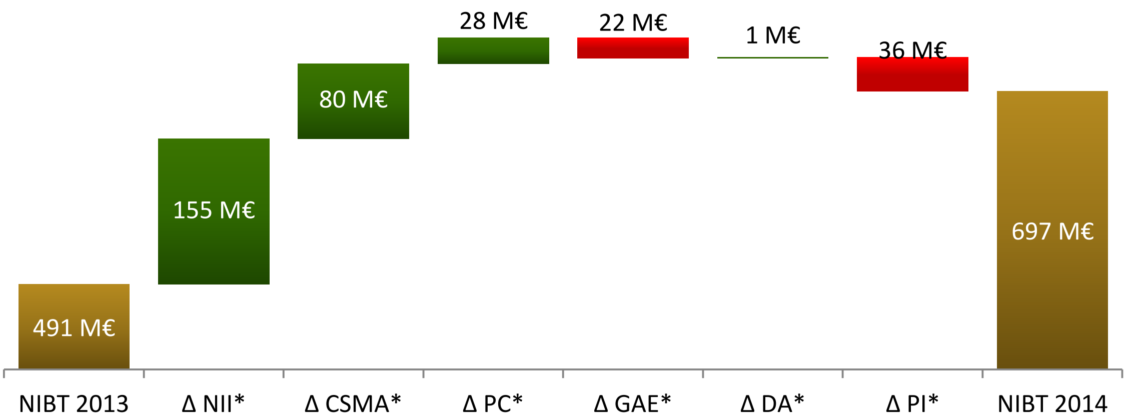
The favourable performance of tax before profit and minority interests also benefited from a reduction in operating costs of around 0.7% in international business after decreases of 15.7% and 5% in 2013 and 2012 respectively. This illustrates an effort at consolidation not only in the domestic

98 For a more detailed analysis of the income statement of the domestic activity (on an individual basis), see p. 109.

market but also in the international situation, reflected by greater efficiency of the banks and, in this particular case, an intensification of banking activity.

On the other hand, there was a 10.4% increase to 381 million euros in provisions and impairments for the international market (see Table 75, p. 142 and Graph 72), which is an indication of deterioration in the quality of credit granted in some countries where the member banks operate.

Graph 72: Contribution from the main components of the international activity NIBT to its change between 2013 and 2014



Source: FIs, APB.

Note: * Δ NII – Variation of net interest income; Δ CSMA – Variation of customer services and market activities; Δ PC – Variation of personnel costs; Δ GAE – Variation of general and administrative expenses; Δ DA – Variation of depreciation and amortization; Δ PI – Variation of provisions and impairments.

As in 2013, the performance of these items resulted in some differences between the structure of earnings from international and domestic business. An analysis of activity abroad shows that net interest income accounted for around two-thirds of its operating income, while in Portugal earnings from customer and market services were very important, accounting for 55.1% of overall earnings (see

Graph 73, p. 144).

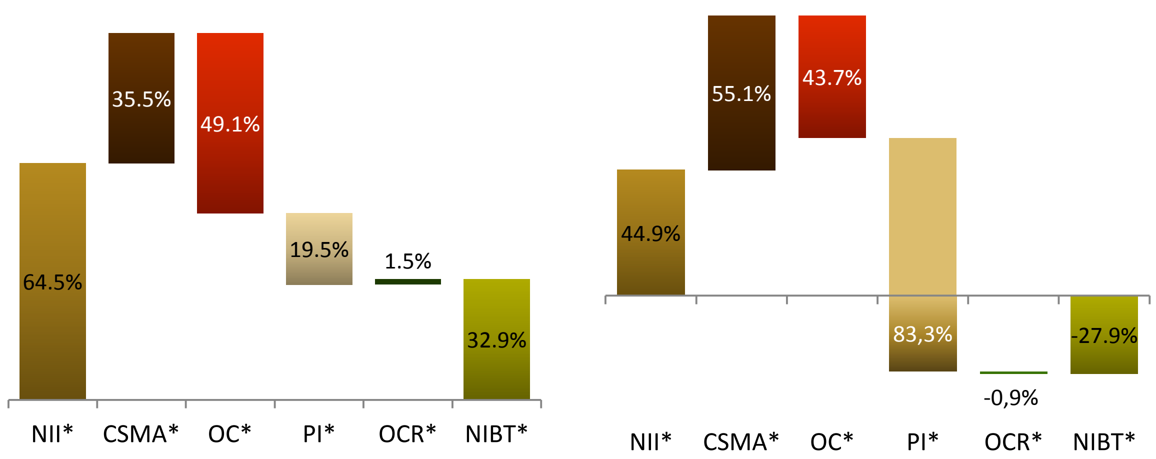
The weight of costs in operating income was much higher in domestic business due to provisions and impairments, as the weight of operating costs was higher in international business (see

Graph 73, p. 144).

These variations resulted in a higher profit before tax and minority interests in international activity at 32.9% of operating income, as opposed to a loss of around 28% in domestic operating income.

Graph 73: Decomposition of the NIBT as a percentage of the operating income (2014)

a) International activity **b) Domestic activity**



Source: FIs.

Note: *NII – Net interest income; CSMA – Customer services and market activities; OC – Operating costs; PI – Provisions and impairments; OCR – Other consolidated results; NIBT – Net income before tax.

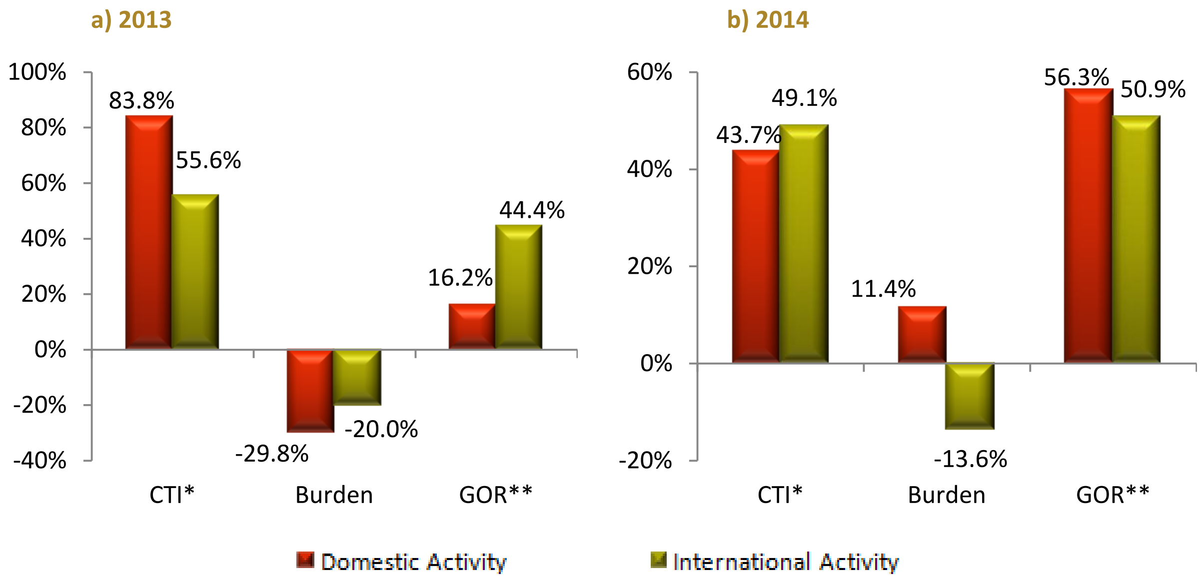
The financial information available on domestic and international business shows a generally favourable performance by the member institutions in 2014 compared to 2013. There was also a very significant improvement in domestic indicators, which even exceeded international results (see Graph 74, p. 145).

After the cost-to-income ratio of domestic activity exceeded that of international business by 28.2 p.p (55.6%) in 2013, the considerable reduction in operating costs and an increase in earnings from domestic banking resulted in significant progress by the indicator, which went down to 43.7%, actually bringing it 5.4 p.p. below the figure for the other countries (49.1%).

Gross operating earnings as a percentage of operating income grew in 2014 and, like the previous performance indicators, the ratio was more favourable in domestic business at 56.3%, 5.4 p.p. higher than in international business and reversing the trend of the previous year (see Graph 74, p. 145).

Finally, in spite of the improvement on 2013, the burden remained negative in international activity. This performance was to be expected and can be explained by the fact that it carried less weight in customer and market services. Like international business, the domestic indicator recovered, year on year, and the ratio was 11.4% in 2014, which was due to an increase in customer and market services and a reduction in operating costs.

Graph 74: Performance indicators for domestic and international activity



Source: FIs, APB.
Note: *CTI – Cost-to-Income
**GOR – Gross operating results as percentage of operating income.

The international expansion of the member institutions continued to be an important strategy in 2014. The most important destinations were countries with cultural and linguistic ties to Portugal. They included countries like Angola, Brazil and Mozambique, which continued to be considered strategic and important alternative to domestic activity as sources of business.

At the same time, there was some focus on other countries with which Portugal has important trade relations or where there are large communities of Portuguese immigrants, such as Spain, France and the United States.

X. Annexes

Annex A – Laws and regulations in Portugal

Annex B – International regulation of the financial sector

Annex C – Changes to international accounting standards

Annex A – Laws and regulations in Portugal

January

Measures to strengthen the financial soundness of credit institutions

- Law 1/2014 of 16 January

This law makes the eighth amendment to Law 63-A/2008 of 24 November, which sets out measures to reinforce the financial soundness of credit institutions as part of the initiative to strengthen the liquidity and financial stability of financial markets. Soundness is reinforced by capitalisation operations using public investment to meet own-fund ratios under laws and regulations.

The amendments are in reaction to a European Commission (EC) communication concerning rules on state aid to assist banks during financial crises, effective as of 1 August 2013 (Communication 2013/C216/01 of 30 July), which substantially altered the EC's principles, rules and guidelines on state aid to credit institutions.

Criteria on the remuneration of public investment were added, referring to “other” eligible instruments for own funds. Remuneration had to be based on the degree of subordination in the event of liquidation of instruments subscribed by the state and the amount of the capitalisation operation regarding more subordinated own funds.

Another new feature was the elimination of the obligation to issue a takeover bid, as set out in Article 187 (1) of the Securities Code (CVM), in the event of the acquisition of voting rights resulting from the conversion of credits. Voting rights exceeding the limit over which the issue would be necessary were prohibited. This prohibition ceased with the reduction of these voting rights to below the limit or publication of an initial announcement of a takeover bid.

The amendments also lay down that any institution wishing to use public investment must submit a capital increase plan to eliminate or reduce to a minimum insufficiency of own funds and the resulting need to resort to public investment.

The law's intention is similar when it sets out that, before capitalisation, the costs must be shared between the shareholders and subordinated creditors, such as: (i) a reduction in share capital by amortisation or reduction in face value of shares, (ii) suppression of shares' face value, (iii) increase in share capital by conversion into ordinary shares or other shares representing the capital of credits resulting from ownership of financial instruments or contracts that are or have been eligible for the institution's own funds, or (iv) reduction in face value of these credits.

These measures can be waived is there is a serious, justified risk that taking them would jeopardise the stability of the national financial system or their use is considered disproportional.

The amendments apply only to new capitalisation operations using public investment, while current operations are exempt. The law came into effect on 17 January 2014.

https://dre.pt/application/file/570838

Reform of Corporate Income Tax (IRC)

- Law 2/2014 of 16 January

This law made substantial amendments to the Corporate Income Tax Code, including:

– Reduction in general tax rate to 23%

– Reduction in the absolute limit on deductibility of net funding expenditure, which is considered amounts owed or associated with remuneration on borrowing, such as interest on short- and long-term bank loans or overdrafts, interest on bonds and assimilated securities, repayments of discounts or premiums on loans obtained, amortisation of accessory costs of loans, financial costs of leasing and exchange differences from loans in foreign currency less income of a similar nature

– Extension of the reporting time limit of tax losses from five to 12 taxation periods, reduction of the limit of tax losses to be deducted in each period from 75% to 70% of taxable profit

https://dre.pt/application/file/570839

February

Consumer protection

- Decree-Law 24/2014 of 14 February

This law transposed into Portuguese law Directive 2011/83/EU of the European Parliament and of the Council of 25 October on consumer rights and revoked Decree-Law 143/2001 of 26 April, which approved the new framework for consumer protection in distance contracts and contracts concluded other than on the trader's business premises.

Decree-Law 24/2014 also regulates other forms of sale, such as automatic vending and special occasional sales. It does not cover other forms of contract, such as those for financial services.

It broadens the information to be given to consumers before they bind themselves to a contract and regulates how information must be given. It imposes requirements on how a seller of goods or services must fulfil the obligation to provide pre-contractual information to consumers.

It enshrines the consumer's inalienable right to terminate the contract, exceptions to this and how to exercise them and the effects and obligations for the parties arising from termination.

There is an absolute prohibition of clauses that directly or indirectly exclude or limit the consumers' rights set out in the law and any clauses in which consumers renounce their rights as set out in this law shall be considered null and void along with any that stipulate compensation or a penalty of any type, if the consumer exercises these rights.

https://dre.pt/application/file/572482

Commercial paper

- Decree-Law 29/2014 of 25 February

Decree-Law 29/2014 of 25 February amended Decree-Law 69/2004 of 25 March establishing the law on securities representing short-term debt, commonly known as commercial paper.

The law made non-cumulative requirements more flexible for issuers of commercial paper. It eliminated the requirement for issuers to show certain minimum levels of equity in their last approved and audited balance sheet. The rules on the guarantee to be obtained by the issuer in favour of holders of commercial paper were relaxed (which ceased to be an independent guarantee on first request) and specified the entities authorised to provide this guarantee. It added three new requirements that, if even one of them was fulfilled, allowed the issue of commercial paper: (i) the entity is an issuer of other securities admitted to trading on a regulated market, ii) after issue, the issuer shows an adequate equity to assets ratio pursuant to a regulation to be issued by the Stock Exchange Commission (CMVM) (except for credit institutions, financial firms, insurance companies and pension fund management companies) and (iii) a sponsor of the issue holds a portfolio of at least 5% of the issue until its maturity.

The law also established the issuer's obligation to disclose to the market any accurate, non-public information coming to its attention that could be expected to significantly affect its ability to repay the issue and consequently affect the prices of the commercial paper.

https://dre.pt/application/file/572570

Prevention of money laundering and funding of terrorism

- Banco de Portugal Notice 1/2014 of 18 February (published in *IIª Série, Diário da República* on 28 February)

Considering the importance of comprehensive, effective control systems and recognising the IT difficulties experienced by credit institutions, this Banco de Portugal notice amended some of the articles of its Notice 5/2013 of 18 December that regulated the conditions, mechanisms and procedures necessary for effective fulfilment of the obligation to prevent money laundering and funding of terrorism.

Banco de Portugal also felt it necessary to amend the text of Article 23 of the above notice on identification procedures in business relations other than bank accounts.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/1-2014a.pdf

March

Simplification and standardisation of current account fees

- Banco de Portugal Circular 24/2014/DSC of 10 March

Following an analysis of Portuguese and foreign banking practices concerning fees on current accounts, Banco de Portugal decided to standardise some bank account models and their fees for the sake of greater comparability between products offered by credit institutions.

It recommended that there should be two standardised types of current account for natural persons (without prejudice to credit institutions offering other kinds of current accounts with other characteristics under their contractual freedom). They were:

(i) a minimum banking service account as set out in Decree-Law 27-C/2000, of 10 March

(ii) a current account called a "basic account" with certain characteristics, such as the services of opening, maintaining, managing and holding the current account with a single payment for the services described in the circular called a "basic account maintenance fee", which would be fixed freely by credit institutions on the principles of reasonability and proportionality

It gives credit institutions the right to propose the optional acquisition of other financial products or services associated with a current account ("package accounts"), provided that they do not include products that entail the risk of loss of capital.

http://www.bportugal.pt/sibap/application/app1/docs1/circulares/textos/24-2014-DSC.pdf

Amendment to the framework on the contribution levied on the banking sector

- Ministerial Order 64/2014 of 12 March

Based on the amendment made to the framework on the contribution levied on the banking sector by Law 83-C/2013 of 31 December, which approved the State Budget for 2014, Ministerial Order 64/2014 implemented this amendment and laid down new intervals in the rates charged on the basis of assessment of the contribution.

https://dre.pt/application/file/571828

Judicial organisation – regulation of the Law on Organisation of the Judicial System - Decree-Law 49/2014 of 27 March

This regulation of the Law on organisation of the judicial system established the organisation and functioning of first and second instance law courts and the Supreme Court of Justice.

https://dre.pt/application/file/571547

April

2014 State Budget

- Decree-Law 52/2014 of 7 April

This law established the rules for implementing the 2014 State Budget.

https://dre.pt/application/file/25344933

May

Prevention of money laundering and funding of terrorism

- Banco de Portugal Notice 2/2014 of 13 May (published in *IIª Série, Diário da República* on 22 May)

This notice amends Banco de Portugal Notice 9/2012 of 17 May establishing the information requirements for management of the risk of money laundering and funding of terrorism to be periodically reported to Banco de Portugal.

Two years after the first notice came into force, Banco de Portugal decided to make some adjustments and improve the content of the annual report on money laundering and funding of terrorism that entities under its supervision or providing financial services subject to its supervision have to submit.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/2-2014a.pdf

June

Supervision of financial conglomerates and access to insurance activity

- Decree-Law 91/2014 of 20 June

This decree-law partially transposed Directive 2011/89/EU of the European Parliament and of the Council of 16 November on the additional supervision of financial entities in a financial conglomerate and amends the legal framework on access to and exercise of insurance and reinsurance activity approved by Decree-Law 94-B/98 of 17 April and the second amendment to Decree-Law 145/2006 of 31 July, which transposed Directive 2002/87/EC of 16 December and Directive 2005/1/EC of 9 March, both of the European Parliament and of the Council.

https://dre.pt/application/file/25677134

July

Measures to reinforce credit institutions' financial soundness

- Ministerial Order 140/2014 of 8 July

Law 1/2014 of 16 January amended measures for reinforcing the financial soundness of credit institutions set out in Law 63-A/2008 of 24 November, commonly called the Capitalisation Law.

This Ministerial Order regulated some aspects of the law arising from the amendments made by Law 63-A/2008 of 24 November, to wit: (i) the content of the capital reinforcement plan, (ii) the way of revising the quality of assets and prospective appreciation of the adequacy of own funds of the institutions being recapitalised, (iii) the rules of access to public investment, such as submission of a restructuring plan (iv) the rules on the limits on the state's right to vote in institutions receiving assistance, (v) remuneration on public investment and (vi) the rules on the sale of the state's interest in the institutions receiving assistance.

https://dre.pt/application/file/25345845

Consumer protection

- Law 47/2014 of 28 July

This law makes the fourth amendment to Law 24/96 of 31 July, which set out the law on consumer protection, and the first amendment to Decree-Law 24/2014 of 14 February, partially transposing Directive 2011/83/EU of the European Parliament and of the Council of 25 October.

The amendments cover: (i) the obligation of sellers of goods and services to provide information to consumers before the contract is concluded, (ii) the rules on the conditions on which additional payments by consumers are admissible, (iii) the rules on the delivery of goods to the consumer by the supplier and (iv) the conditions on which the risk of the goods perishing is transferred from the supplier to the consumer.

https://dre.pt/application/file/55021231

Registration of Auditors

- CMVM Regulation 1/2014 of 10 July

This regulation sets out the requirements for registration with the CMVM: (i) of auditors and (ii) of auditors and auditing firms from third countries pursuant to the Securities Code, additional legislation and the CMVM regulations and indicates their obligations.

http://www.cmvm.pt/pt/Legislacao/Legislacaonacional/Regulamentos/Documents/Regulation%20da%20CMVM%20n.%C2%BA%201_2014%20Registo%20de%20auditores%20na%20CMVM%20e%20seus%20deveres.pdf

August

General framework on credit institutions and investment firms (RGICSF)

- Decree-Law 114-A/2014 of 1 August

- Decree-Law 114-B/2014 of 4 August

These two decree-laws made profound changes to the RGICSF in order to clarify and optimise the general framework on the resolution of credit institutions by partially transposing Directive 2014/59/EU of the European Parliament and of the Council of 15 May, which established the European framework on the recovery and resolution of credit institutions.

The main amendments in these laws were the enshrinement of the Directive's guiding principle in which no creditor of a credit institution undergoing resolution should suffer higher losses than that which it would if the institution were liquidated.

They also made amendments that clarified the possibility of providing guarantees during the resolution and the possibilities of totally or partially transferring the institution's assets and liabilities to the transition bank.

These laws expressly enshrine the possibility of total or partial sale of the institution's shares by the most appropriate means in the market conditions at the time, provided that the minimum parameters of transparency are respected.

https://dre.pt/application/file/55068938

https://dre.pt/application/file/55069877

Protection of mortgage borrowers

- Law 58/2014 of 25 August

This law makes the first amendment to Law 58/2012 of 9 November, which sets up an extraordinary framework for the protection of mortgage borrowers.

Several of the provisions of Law 58/2012 were amended, including widening the possibility of guarantors who have been called upon to take over the liabilities of struggling borrowers having access to the different protection measures in the law.

https://dre.pt/application/file/56346454

Deferred tax assets

- Law 61/2014 of 26 August

This law defined the special framework for deferred tax assets resulting from non-deduction of costs and falls in assets with losses due to credit impairments and post employment or long-term benefits for employees.

In accordance with this special framework, these costs and depreciations of assets that were not deducted when taxable profit was being calculated in the period in which they occurred and resulted in recognition of deferred tax assets in the financial statements are deductible in the tax period in which the conditions of the applicable tax legislation have been met, with a limit of the amount of the taxable profit for that tax period, calculated before deduction of these costs and depreciation of assets.

It also sets out that costs and depreciation of assets that are not deducted in the first tax period in which the right conditions have been met will be deductible when determining the taxable profit in subsequent tax periods.

Deferred tax assets resulting from non-deduction of the said costs and depreciation of assets are converted into tax credits when the taxpayer records a net loss for the period in its annual accounts after they have been approved by the corporate bodies as required by law. The amount of deferred tax assets to be converted into tax credits is the proportion between the taxpayer's net loss for the period and its total equity.

Costs and depreciation of assets can also be converted into tax credits if the taxpayer that revoked the authorisation from a competent supervisory authority goes into voluntary liquidation, is declared insolvent by court decision or when applicable.

Companies that record net losses in the period in their annual accounts and wish to convert deferred tax assets into credit must set up a special reserve in the amount of the tax credit plus 10%.

Constitution of the special reserve also entails simultaneous constitution of conversion rights for the state. These conversion rights are securities that entitle their holder to demand a capital increase from the taxpayer by incorporation of the amount of the special reserve and consequent issue and transfer free of charge of the ordinary shares in the taxpayer's company. The state may transfer the conversion rights set up under this special scheme to third parties.

In any case, on the date of constitution of the conversion rights for the state, the shareholders have the right to squeeze out the state in proportion to their holdings in the company.

Under this special scheme, the state's exercise of transfer of conversion rights is not a public distribution offer, regardless of whether the transfer is to existing shareholders or third parties.

Finally, the special scheme sets out that the admission to trading of shares issued in the exercise of conversion rights does not require approval of a prospectus.

https://dre.pt/application/file/56358579

September

Synthetic securitisation operations

- Banco de Portugal Circular 5/2014/DSP of 15 September

This circular clarifies the prudential handling of future synthetic securitisation of risk positions.

Considering Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June and the European Banking Authority (EBA) and BCBS guidelines on the subject, Banco de Portugal decided to indicate that, in securitisation operations, it considers that there is no significant transfer of risk to third parties if: (i) there are early reimbursement options whose exercise is not affected or that are not expected to be exercised at market prices or (ii) the exercise of these options occurs or may occur before the end of their duration or the weighted average life of the risk positions constituting the securitised portfolio. This last requirement only applies to non-renewable risk positions.

http://www.bportugal.pt/sibap/application/app1/docs1/circulares/textos/5-2014-DSP.pdf

Contributions to the Deposit Guarantee Fund

- Banco de Portugal Notice 6/2014 of 30 September (published in *IIª Série, Diário da República* on 9 October)

This notice sets out the rules on when Banco de Portugal must establish the base rate for calculating contributions to the Deposit Guarantee Fund for the following year.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/6-2014a.pdf

Contributions to the Resolution Fund

- Banco de Portugal Notice 8/2014 of 30 September (published in *IIª Série, Diário da República* on 9 October)

This notice sets out the rules on when Banco de Portugal must establish the base rate for calculating contributions to the Resolution Fund for the following year.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/8-2014a.pdf

October

Instituição Financeira de Desenvolvimento, S.A.

- Decree-Law 155/2014 of 21 October

This decree-law sets up IFD – Instituição Financeira de Desenvolvimento, S.A. to perform operations to remedy market insufficiencies in the funding of viable small and medium-size companies by: (i) managing and administrating investment funds, other independent assets or similar instruments, all borne by public funds for supporting the economy and (ii) credit operations, including guarantees and other commitments.

IFD is under the supervision of Banco de Portugal, pursuant to the RGICSF, and is subject to regular inspections by the Court of Auditors. Parliament must also be informed regularly of whether the institution is fulfilling its objectives.

https://dre.pt/application/file/58512482

General framework on credit institutions and investment firms (RGICSF)

- Decree-Law 157/2014 of 24 October

This decree-law transposed into Portuguese law Directive 2013/36/EU of the European Parliament and of the Council of 26 June, which, together with Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June, constitutes the basis of the European legal framework governing access to the activity of credit institutions and establishes supervision and prudential rules applying to credit institutions and investment firms.

The changes resulting from transposition of the Directive essentially affected the definition of a credit institution, corporate governance, remuneration policies, sanctions and reinforcement of Banco de Portugal's powers.

In particular, it reduced the range of entities qualifying as credit institution and laid down that entities that did not fall within this concept would become investment firms.

Where the governance of credit institutions is concerned, the RGICSF now contains new rules on the suitability of holders of management and/or supervisory positions, including their integrity, qualifications, work experience, independence and availability.

Regarding remuneration policy, the law introduced new rules on the structure and composition of remuneration at credit institutions, with particular focus on any variable component that it might include and its association with business risks.

The sanctions set out in the RGICSF were also altered with a view to their suitability and efficiency by streamlining the misdemeanour process and extending and strengthening Banco de Portugal's powers.

Amendments were also made to Law 25/2008 of 5 June, which established the framework on the prevention of money laundering and funding of terrorism.

Banco de Portugal's powers were reinforced in terms of corrective measures and its power to require certain credit institutions and investment firms to hold additional reserves of own funds.

https://dre.pt/application/file/58585667

November

Commercial paper

- CMVM Regulation 2/2014 of 4 November

This regulation made changes to the legal framework on commercial paper following the alterations made by Decree-Law 29/2014 of 25 February.

The CMVM regulated certain aspects of this legal framework, such as the meaning of "adequate financial autonomy", as a legitimising factor for issuing commercial paper, which is guaranteed by a ratio of 35% or more calculated after issue as set out in the regulation.

The regulation also established obligations to provide information, such as: (i) the minimum mandatory information required as part of the additional information to be given before each issue as part of a commercial paper issue programme, (ii) the content of the report to be published half yearly by the financial intermediary or sponsor of the commercial paper issue, if it is not admitted to trading on a regulated market and (iii) immediate disclosure to the market of any relevant information regarded as “any situation that might be expected to significantly affect the issuer's ability to repay the issue or pay remuneration on the commercial paper”.

It revokes CMVM Regulation 1/2004 of 25 May.

http://www.cmvm.pt/pt/Legislacao/Legislacaonacional/Regulamentos/Documents/Regulation_2_2014CMVM_PapelComercial.pdf

Banco de Portugal Notice 9/2014 of 3 November (published in *IIª Série, Diário da República* on 3 November)

Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June on prudential requirements for credit institutions and investment firms completely standardised the prudential framework for credit institutions operating in the European Union.

Nonetheless, it gives Member States' national supervisory authorities some leeway for certain national aspects that warrant different treatment because of their specificities.

Under this leeway, this Banco de Portugal notice defined the framework in Portugal for matters such as (i) derogation of application of the liquidity requirements on a separate basis for investment firms, (ii) the weight of risk applicable to qualifying holdings outside the financial sector, (iii) use of the mark-to-market method to determine minimum own fund requirements for market risk, if the entity is not able to determine the delta or modified duration (as applicable) of operations with a non-linear risk profile, or for components of payment and operations whose underlying asset is debt instruments and (iv) exemptions from limits for large risks.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/9-2014a.pdf

Banco de Portugal Notice 10/2014 of 18 November (published in *IIª Série, Diário da República* on 3 December)

Decree-Law 42-A/2013 of 28 March transposed Directive 2011/90/EU of the Commission of 14 November into Portuguese law and also made other changes to Decree-Law 133/2009 of 2 June regarding consumer credit agreements, including more information from credit institutions for the duration of these agreements.

This notice established the terms, frequency and channel for information on these contracts to be sent by credit institutions.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/10-2014a.pdf

December

Prudential requirements for credit institutions and investment firms

- Banco de Portugal Notice 11/2014 of 9 December (published in *IIª Série, Diário da República* on 22 December)

This notice regulates the prudential requirements for financial entities that are not covered by Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June. It extends prudential requirements to other entities originally not covered by the European framework.

This means that these requirements now extend to the recently created Instituição Financeira de Desenvolvimento, S.A. The rules and requirements in this notice represent the minimum mandatory content, and do not prevent financial firms from abiding by stricter requirements.

The notice also sets out a generic qualifying standard that gives Banco de Portugal the right to issue standards further developing these rules.

http://clientebancario.bportugal.pt/sibap/application/app1/docs1/avisos/textos/11-2014a.pdf

Contributions of the Deposit Guarantee Fund

- Banco de Portugal Notice 12/2014 of 15 December (published in *IIª Série, Diário da República* on 30 December)

Taking account of the change in the legal framework on the adequacy of credit institutions' own funds and aiming at a degree of harmonisation of contributions to the Resolution Fund and

Deposit Guarantee Fund, this Banco de Portugal notice changed the way of calculating them based on the risk profile of each participating institution, the adjustment factor that, along with the basic contribution rate, is used to calculate periodic contributions to the Deposit Guarantee Fund.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/12-2014a.pdf

Contributions to the Resolution Fund

- Banco de Portugal Notice 14/2014 of 15 December (published in *IIª Série, Diário da República* on 30 December)

Along with Banco de Portugal Notice 12/2014 of 15 December on the Deposit Guarantee Fund, this notice established the form of calculation, based on the risk profile of each participating institution and the adjustment factor that, along with the basic contribution rate, is used to calculate periodic contributions to the Resolution Fund.

http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/14-2014a.pdf

State Budget for 2015

- Law 82-B/2014, de 31 December

This law approved the 2015 State Budget and made important changes to (i) the Corporate Income Tax Code, bringing the nominal rate down from 23% to 21%, (ii) the Municipal Property Tax Code, authorising the government to approve a scheme for the creation and regulation of property investment companies and (iii) the Code on Municipal Tax on Property Sales, so that exemptions on the purchase of real estate are automatically recognised if the value serving as a basis for payment of the IMT does not exceed 300,000 euros and in cases of:

- Acquisition of properties by credit institutions in lieu of payment of mortgages
- Acquisition of properties by legal persons in the administrative public interest, in the public interest and private charities, if the property is for direct pursuit of their purposes
- Acquisition of properties individually classified as of national, public or municipal interest

At the same time, pursuant to the Foreign Account Tax Compliance Act (FATCA) and following the Intergovernmental Agreement between Portugal and the United States, financial institutions with their head office or effective management in Portugal and branch offices belonging to financial institutions with head offices abroad located in Portugal are obliged to identify information about certain financial accounts and report it to the tax authority. Although there is not yet a formalised agreement, the act gives financial institutions the legal right to collect relevant data for reporting purposes.

https://dre.pt/application/file/66015866

Amendments to the IRC Code

Law 82-C/2014 of 31 December

This law makes changes to the CIRC, including: (i) matters of transparency, (ii) the deductibility of costs of preference shares with no voting rights classified as financial liabilities in accordance with current accounting standards, including costs of issuing them, for the purpose of determining taxable profit of the issuer, (iii) taxation of groups of firms resident in Portugal, if the dominant firm is resident in a Member State of the European Union or the European Economic Area that is bound to administrative cooperation in terms of taxation, (iv) the deductibility of impairment losses to hedge the country risk in the banking sector and (v) extension of the reporting period for losses of legal persons that do not engage mainly in commercial, industrial or agricultural activity.

https://dre.pt/application/file/66014832

Reform of green taxation

- Law 82-D/2014 of 31 December

This law reforms environmental taxation and changes a number of rules, including:

- IRC: (i) extension to all sectors of acceptance for tax purposes of provisions set up for the cost of repairing environmental damage to operational areas and (ii) reduction in rates of separate taxation on certain less-polluting vehicles
- VAT: extension of the possibility of deducting VAT on costs of purchasing, manufacturing, importing, leasing or conversion of electric or plug-in hybrid vehicles for tourism
- IMI and IMT: (i) exemption from IMI for properties for exclusive use for the public supply of water, treatment of urban wastewater and municipal waste management systems and (ii) a 50% reduction in IMI for urban properties for the generation of energy from renewable sources, as of the year in which they are allocated to this purpose
- Contribution on light plastic bags: new contribution for light plastic bags produced, imported or acquired in mainland Portugal and light plastic bags sent there.

https://dre.pt/application/file/66014833

Reform of personal income tax (IRS)

- Law 82-E/2014 of 31 December

This law makes important changes to the IRS, such as:

- Introduction of a family quotient to replace the marital quotient and separate taxation of spouses and common law couples, as a rule, without prejudice to the option of joint taxation

- Change in the concept of tax residence in order to guarantee a direct connection between the duration of physical presence in Portugal and the status of tax resident

- Harmonisation of the levy in discharge on taxation of income from capital and capital gains (Categories E and G)

– Change in the Statute on Tax Benefits so that interest on deposits, any investments in financial institutions or public debt securities are exempt from taxation on 1/5 and 3/5 of their value of the capital is untouched for more than five or eight years respectively, and the remuneration falls due at the end of the period

– Capital gains and losses (Category G): reimbursement of bonds and other debt securities, redemption of investment fund units, liquidation of these funds, transfer of credits in return for a consideration, transfer in return for a consideration of additional and supplementary payments and the value attributed as a result of the liquidation and revocation or closure of fiduciary structures will be taxed as capital gains

– Elimination of IRS on taxation of latent capital gains from exchanges of interests and company mergers and splits in the year in which the member ceases to be considered a tax resident in Portugal

– Limits on tax deductions for dependents and ascendants who live in the same home and whose own income does not exceed a certain amount, and changes in the limits on deductions of health, education and property expenses.

https://dre.pt/application/file/66014834

Annex B – International regulation of the financial sector

I. Monetary policy

II. Macro-prudential regulation

III. Banking Union

  III.1 Single Supervisory Mechanism

  III.2 Single Resolution Mechanism and BRRD

  III.3 Deposit Guarantee Fund

IV. Structural reform of the banking sector

V. Capital, risk and liquidity

VI. Reporting and disclosure

VII. Capital market

VIII. Funding the economy

IX. Auditing policy

X. Banking practices

XI. Payment systems

I. Monetary policy

Where conventional monetary policy was concerned, in 2014 the European Central Bank twice reduced the interest rate on main Eurosystem refinancing operations, the interest rate on the marginal lending facility and the interest rate on the deposit facility to all-time lows of 0.05%, 0.30% and -0.20%, respectively.

According to the Statutes of the European System of Central Banks and the European Central Bank, the ECB and the central banks of the Member States in the euro area can perform credit operations with credit institutions or other parties in the market, if the loans have an appropriate guarantee.

The European Central Bank therefore decided to introduce unprecedented expansionist monetary policy measures in order to boost inflation and support the euro area economy. It undertook eight long-term quarterly refinancing operations (TLTROs[99]) extending until June 2016 and all maturing in September 2018.

European Central Bank Decision 2014/541/EU defined the terms of the programme, which is designed to improve the transmission mechanism of monetary policy decisions by supporting loans to the non-financial private sector, i.e. individuals and non-financial firms in the euro area Member states.

In order to facilitate the participation of institutions using a group structure to obtain loans from the Eurosystem, we can expect special rules on their participation in TLTROs.

Institutions wishing to participate in the programme will also be subject to certain information requirements. The data provided will be used when authorising the initial and additional loans, calculating the reference figure, calculating any compulsory early repayments and monitoring the impact of TLTROs.

Also as part of its expansionist monetary policy, European Central Bank Decision 2014/828/EU set up the third covered bond purchase programme from counterparties on the primary and secondary markets on the basis of special eligibility criteria. A programme for securitised debt instruments was also introduced. This, together with the third covered bond purchase programme and long-term refinancing operations is designed to improve the transmission of monetary policy, foster funding of the region’s economy and help converge inflation under the ECB’s control. These programmes will last at least two years.

In order to fulfil its remit, the European System of Central Banks needs to produce statistics on money-market operations, e.g. secured and unsecured transaction and certain types of derivatives transactions undertaken by monetary financial institutions.

The main purpose of these statistics is to provide the European Central Bank with comprehensive, detailed, harmonised information about the money markets in the euro area and to allow it to provide analytical and statistical support to the Single Supervisory Mechanism.

[99] TLTROs - Targeted Long-Term Refinancing Operations

Regulation (EU) 1333/2014 of the European Central Bank laid down the rules on the provision of information. It determined which entities should be asked for information in each Member State, the requirements on the provision of information, the deadlines for reporting it, the powers of national central banks to obtain it and scheme for reporting money market statistics on secured and unsecured derivatives.

Related documents

Decision of the European Central Bank 2014/541/EU (29 July)

on measures relating to targeted longer-term refinancing operations

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014D0034&from=PT

Decision of the European Central Bank 2014/828/EU (15 October)

on the implementation of the third covered bond purchase programme

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014D0040%2801%29&qid=1424347901209&from=PT

Regulation (EU) 1333/2014 of the European Central Bank (26 November)

Concerning statistics on the money markets

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014R1333&qid=1424347901209&from=PT

II. Macro-prudential regulation

The purpose of macro-prudential regulation is to make the financial system resilient to the absorption of systemic risks that might compromise financial stability by ensuring appropriate levels of financial intermediation contributing to sustainable economic growth. The entry into force on 1 January 2014 of the new prudential framework in the European Union in the form of the CRDIV/CRR package provided the authorities in charge of macro-prudential policy with a set of new instruments to prevent and mitigate risks to financial stability more effectively and efficiently.

The European Systemic Risk Board (ESRB), which coordinates macro-prudential policies in the European Union, has issued a number of recommendations aimed at providing guidance to national macro-prudential authorities. These ESRB recommendations set interim targets for the implementation of the macro-prudential policy. They also define the instruments available for achieving them and criteria for their use.

In 2014 the European Systemic Risk Board undertook a number of initiatives. They included a recommendation on a coordination framework for reporting national macro-prudential policies by the authorities and another offering guidance on establishing countercyclical buffer rates. The ESRB also issued responses to consultations from the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) and a request for an expert opinion from the European Commission. It also issued progress reports on the implementation of the macro-prudential measures in the European Union and decisions to extend the deadline for national macro-prudential to comply with certain ESRB recommendations.

The EBA also published two opinions on macro-prudential policy in 2014: one on measures to mitigate systemic risk and the other on the macro-prudential rules in the CRDIV/CRR package.

In 2014, the Financial Stability Board (FSB) updated the list of global systemically important banks and issued a consultation paper on the ability of systemically important banks to absorb losses in the event of resolution.

Related documents

Recommendation of the European Systemic Risk Board - ESRB/2014/2 (27 January)

on a coordination framework regarding the notification of national macro-prudential policy measures by competent or designated authorities and the provision of opinions and the issuing of recommendations by the ESRB

https://www.esrb.europa.eu/pub/pdf/recommendations/2014/140127_ESRB_Decision.pt.pdf?96f8b2de73637d4831bdb5b5d8453d05

Publication by the European Systemic Risk Board (3 March)

Flagship Report on Macro-prudential Policy in the Banking Sector

https://www.esrb.europa.eu/pub/pdf/other/140303_flagship_report.pdf?91a6173048d2a3d2d5e6c3cde84cf753

Publication by the European Systemic Risk Board (3 March)

The ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector

https://www.esrb.europa.eu/pub/pdf/other/140303_esrb_handbook_mp.en.pdf?078139464340d7ac44cdba8c07e55877

Publication by the European Systemic Risk Board (20 March)

Response from the ESRB to the EBA Consultation Paper on Draft Guidelines on Harmonised Definitions and Templates for Funding Plans of Credit Institutions under ESRB Recommendation 2012/2 A.4

https://www.esrb.europa.eu/pub/pdf/other/140320_ESRB_response_institutions.pdf?be0bf1a4098fa772e9377570dcaae098

Publication by the European Systemic Risk Board (20 March)

Response from the ESRB to the EBA Consultation Paper on Draft Guidelines on disclosure of encumbered and unencumbered assets

https://www.esrb.europa.eu/pub/pdf/other/140320_ESRB_response_assets.pdf?8e1a4fe9f8c1a247ea7324269459b752

Publication by the European Systemic Risk Board (30 April)

ESRB response to the call for advice by the European Commission on macro-prudential rules in the CRD/CRR

https://www.esrb.europa.eu/pub/pdf/other/140430_ESRB_response.pdf?d3cb2ebd7b6e2e5ef146a454a3d9d49c

Opinion of the European Banking Authority - EBA/Op/2014/02 (30 April)

Opinion of the European Banking Authority on measures to address macroprudential or systemic risk

http://www.eba.europa.eu/documents/10180/657547/EBA-Op-2014-02+Opinion+on+measures+to+address+macroprudential+or+systemic+risk.pdf

Recommendation by the European Systemic Risk Board - ESRB/2014/1 (18 June)

on guidance for setting countercyclical buffer rates

https://www.esrb.europa.eu/pub/pdf/recommendations/2014/140630_ESRB_Recommendation.pt.pdf?1935229b4afe26d26a0f15270e3e89a4

European Systemic Risk Board Report (25 June)

ESRB Recommendation on the macro-prudential mandate of national authorities (ESRB/2011/3) Follow-up Report – Overall assessment

https://www.esrb.europa.eu/pub/pdf/recommendations/2014/ESRB_2014.en.pdf?2bfaf06ac210cb9d9e27f27eb5c69207

Decision of the European Systemic Risk Board - ESRB/2014/1 (30 June) **- ESRB/2014/3** (30 June)

Decision of the European Systemic Risk Board on the extension of the deadline included in Recommendation ESRB/2011/3 of 22 December 2011 on the macro-prudential mandate of national authorities

https://www.esrb.europa.eu/pub/pdf/recommendations/2014/140630_ESRB_Decision.pdf?975efbb6205f3437e40c65560f4522ed

Opinion of the European Banking Authority - EBA/Op/2014/06 (30 June)

EBA Opinion on the macroprudential rules in CRR/CRD

http://www.eba.europa.eu/documents/10180/657547/EBA-Op-2014-06+-+EBA+opinion+on+macroprudential+rules+in+CRR-CRD.pdf

Publication of the European Systemic Risk Board (18 August)

ESRB response to ESMA consultation paper on mandatory central clearing for OTC interest rate derivatives

https://www.esrb.europa.eu/pub/pdf/other/140820_ESRB-response.pdf?9267cc2431463b5bb7f808330fa49a84

Decision of the European Systemic Risk Board - ESRB/2014/4 (16 September)

Decision of the European Systemic Risk Board on the extension of certain deadlines set by Recommendation ESRB/2012/2 on funding of credit institutions

https://www.esrb.europa.eu/pub/pdf/recommendations/2014/140916_ESRB_Decision.en.pdf?f2b4c8b731cdd7fd9bbd848da37afe8c

Publication of the European Systemic Risk Board (18 September)

ESRB response to the ESMA consultation paper on mandatory central clearing for OTC credit derivatives

https://www.esrb.europa.eu/pub/pdf/other/140925_ESRB_response.pdf?a0e6970156a40d923950d565cc8d30c1

Publication of the European Systemic Risk Board (6 November)

ESRB response to ESMA consultation paper on mandatory central clearing for foreign-exchange non-deliverable forward OTC derivatives

https://www.esrb.europa.eu/pub/pdf/other/141106_ESRB_response.pdf?76ad09be0aa67a56fb328cfcc795a542

Publication of the Financial Stability Board (6 November)

2014 Update of List of Global Systemically Important Banks (G-SIBs)

http://www.financialstabilityboard.org/wp-content/uploads/pr_141106b.pdf

Consultation paper of the Financial Stability Board (10 November 2014 to 2 February 2015)

Adequacy of loss-absorbing capacity of global systemically important banks in resolution

http://www.financialstabilityboard.org/wp-content/uploads/TLAC-Condoc-6-Nov-2014-FINAL.pdf

III. Banking Union

The proposal for Banking Union issued by the European Commission in late 2012 was based on three main pillars: the Single Supervisory Mechanism, the Single Resolution Mechanism and the European Deposit Guarantee Fund.

The first pillar, the SSM, was consolidated in 2014 after going into operation the year before. This involved classifying entities as more or less significant for the Comprehensive Assessment of the former (around 120 banking groups). The SSM went into operation in November 2014, after the results of the assessment were released the month before.

The second pillar, the SRM, also went into operation in 2014, after (EU) 806/2014 came into force granting centralised power of resolution to the Single Resolution Board. Where the third pillar was concerned, new amendments were made to previous Directives, such as that enshrining the assistance provided by deposit guarantee systems in funding the resolution of credit institutions. There is not yet a fixed date for the creation of a common European deposit guarantee system.

III.1 Single Supervisory Mechanism

The Single Supervisory Mechanism was born from a Proposal for a Regulation issued by the European Commission in September 2012 granting the European Central Bank (ECB) the power and responsibility to supervise all banks in the euro area and the banks of other Member States wishing to join the mechanism.

After the establishment of the Single Supervisory Mechanism in 2013, the following were the most important activities in 2014:

Early in the year, the ECB implemented a number of measures to separate the organisation and procedures of monetary and supervisory policy, especially with regard to decision making in the two fields. It formed an independent body, the Supervisory Board, which was separate from the ECB Board, to make and implement decisions.

The SSM supervisory model was developed, its Chair, Vice-Chair and directors-general were appointed and a significant recruitment process for experts for the mechanism was set up. Joint teams were formed and put in charge of permanent supervision of the important bank groups and implementation of the decisions of the Supervisory Board and ECB Board.

The operational framework for control of supervision and indirect supervision of less important institutions, which total around 3,500, was finalised.

The organisational and technical structures were set up, plus processes for regular and ad hoc collection of information on supervisory duties. To ensure that this process worked properly, the Supervisory Statistics Division was formed to manage the different flows of data required for quantitative risk analysis reports. The regulations on reporting of financial information for supervisory purposes were drafted in 2014, but were only adopted on 17 March 2015.

The Framework Regulation of the SSM came into force on 15 May 2014. It defined aspects such as the methodology for assessing the important nature of credit institutions and cooperation procedures for the supervision of more and less important institutions. On 4 September 2014, the ECB published the list of important supervised entities and less important institutions.

On 1 November 2014 the ECB Regulation on supervision rates came into effect. It defines the methodologies for determining the total annual supervision fee, calculating the amount payable by each bank or banking group and collecting the annual fee.

At the same time, the ECB conducted a full assessment of 130 banks defined at the time as the most important. The process was prepared in 2013 and conducted in 2014. It ended with the presentation of its results in October 2014. The exercise included an Asset Quality Review as at 31 December 2013, in order to assess the accuracy of the book-entry assets of the selected banks. This exercise was followed by stress tests in which a prospective analysis provided a view of the resilience of the banks' solvency in two hypothetical scenarios.

Following the release of the results of the Comprehensive Assessment, the ECB officially began its duties as supervisor of the euro area banking system on 4 November 2014.

Planning for 2015 in 2014 included preparation of the Supervisory Review and Evaluation Process (SREP), which will last for the next two years. The purpose of this supervisory process is to ensure that not only banks' own funds and liquidity but also their internal governance, strategies and processes are able to guarantee sound management and hedging of risks.

Related documents

Regulation (EU) 468/2014 (16 April)

establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation)

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014R0468&from=PT

Regulation (EU) 673/2014 (2 June)

concerning the establishment of a Mediation Panel and its Rules of Procedure

http://www.ecb.europa.eu/ecb/legal/pdf/celex_32014r0673_pt_txt.pdf

Regulation (EU) 1163/2014 (22 October)

On supervisory fees

https://www.bankingsupervision.europa.eu/ecb/legal/pdf/oj_jol_2014_311_r_0006_pt_txt.pdf

III.2 Single Resolution Mechanism and BRRD

The Single Resolution Mechanism (SRM) is the second pillar of Banking Union and is a direct complement to the first, the Single Supervisory Mechanism.

The SRM's legal and regulatory framework is based on Directive 2014/59/EU of the European Parliament and of the Council of 15 May, which establishes the framework for the recovery and resolution of credit institutions and Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July, which lays down uniform rules and a procedure for the resolution of credit institutions in the euro area, based on a single resolution mechanism and a single resolution fund.

The Directive and the Regulation together set out the rules on the recovery and resolution of financial institutions in the Banking Union.

Directive 2014/59/EU was approved in May 2014 and established the new framework for the recovery and resolution of credit institutions and investment firms. The aim was to avoid insolvency procedures or, if this was not possible, to minimise their negative percussions and preserve the systemically important functions of the institutions in question. Another purpose was to prevent the Member States having to intervene in the resolution of credit institutions using taxpayers' money.

One of the main cornerstones is that the shareholders are the first to bear the losses, followed by the creditors of the institution in question, provided that no creditor suffers losses higher than those it would have suffered if the institution had been liquidated in normal insolvency processes.

According to the new rules, the resolution authorities must have powers allowing them to have permanent access to deposits and payment operations, to sell viable parts of the institution, if applicable, and to distribute the losses fairly and predictably.

One of the main concerns of this directive is to ensure that there are mechanisms and structures for handling recovery and resolution processes involving several Member States.

All the national authorities involved in the resolution of institutions are represented in resolution colleges, which will coordinate the recovery and resolution processes at cross-border or EU level. According to the Directive, if the national authorities disagree on the decisions to be made on a resolution process, the European Supervisory Authority will act as a mediator.

In order to facilitate recovery measures, the institutions covered by these rules must regularly draw up and update recovery plans that establish the measures that must be taken to the restore their financial situation after a significant deterioration. These recovery plans must be approved by their supervisory authorities.

At the same time, on the basis of information provided by credit institutions, resolution authorities must draw up resolution plans that establish what measures should be taken if it looks like an institution is heading towards resolution. These authorities may require changes in institutions' structure and organisation in order to reduce or remove significant obstacles to resolution instruments and ensure they can indeed be resolved.

During the recovery and early intervention phases set out in the directive, the shareholders are fully responsible for and have total control of the institution, unless the authority appoints a temporary administrator. This control of the institution's management by the shareholders ceases immediately, however, if the institution moves on to resolution. Pursuant to the Directive, the temporary administrator must exercise the powers granted to him/her in order to find solutions for the institution's financial situation.

A resolution process must begin if, after consulting a resolution authority, a supervisory authority decides that an institution is failing or likely to fail and that alternative measures may prevent this failure in a reasonable period of time.

Save for special circumstances set out in the Directive, an institution should be considered to be failing or likely to fail when it infringes or is likely in the near future to infringe the requirements for continuing authorisation, when the assets of the institution are or are likely in the near future to be less than its liabilities, when the institution is or is likely in the near future to be unable to pay its debts as they fall due, or when the institution requires extraordinary public financial support .

When applying resolutions tools and exercising resolution powers, resolution authorities should ensure that resolution action is taken in accordance with principles including (i) that shareholders and creditors bear an appropriate share of the losses, (ii) that the management should in principle be replaced, (iii) that the costs of the resolution of the institution are minimised and (iv) that creditors of the same class are treated in an equitable manner.

For the purpose of protecting the rights of shareholders and creditors, clear obligations should be laid down concerning the valuation of the assets and liabilities of the institution under resolution and, where required under this Directive, valuation of the treatment that shareholders and creditors would have received if the institution had been wound up under normal insolvency proceedings.

Where required under this Directive, an ex-post comparison between the treatment that shareholders and creditors have actually been afforded and the treatment they would have received under normal insolvency proceedings should be carried out after resolution tools have been applied If it is determined that shareholders and creditors have received, in payment of, or compensation for, their claims, less than the amount that they would have received under normal insolvency proceedings, they should be entitled to the payment of the difference.

When taking resolution actions, resolution authorities should take into account and follow the measures provided for in the resolution plans unless resolution authorities assess, taking into account circumstances of the case, that resolution objectives will be achieved more effectively by taking actions which are not provided for in the resolution plans.

The resolution tools should include the sale of the business or shares of the institution under resolution, the setting up of a bridge institution, the separation of the performing assets from the impaired or under-performing assets of the failing institution, and the bail-in of the shareholders and creditors of the failing institution.

The sale of business tool should enable authorities to effect a sale of the institution or parts of its business to one or more purchasers without the consent of shareholders. Any net proceeds from the transfer of assets or liabilities of the institution under resolution when applying the sale of business tool should benefit the institution left in the winding up proceedings. Any net proceeds from the transfer of shares or other instruments of ownership issued by the institution under resolution when applying the sale of business tool should benefit the owners of those shares or other instruments of ownership.

The asset separation tool should enable authorities to transfer assets, rights or liabilities of an institution under resolution to a separate vehicle. That tool should be used only in conjunction with other tools to prevent an undue competitive advantage for the failing institution.

An effective resolution regime should minimise the costs of the resolution of a failing institution borne by the taxpayers. The bail-in tool will therefore give shareholders and creditors of institutions a stronger incentive to monitor the health of an institution.

Where the bail-in tool is applied with the objective of restoring the capital of the failing institution to enable it to continue to operate as a going concern, the resolution through bail-in should be accompanied by replacement of management, except where retention of management is appropriate and necessary for the achievement of the resolution objectives, and a subsequent restructuring of the institution and its activities in a way that addresses the reasons for its failure.

It is not appropriate to apply the bail-in tool to claims in so far as they are secured, collateralised or otherwise guaranteed. Nonetheless, certain unguaranteed liabilities, such as deposits protected by Directive 2014/49/EU of the European Parliament and of the Council, are excluded from bail-ins.

Except where otherwise specified in this Directive, resolution authorities should apply the bail-in tool in a way that respects the pari passu treatment of creditors and the statutory ranking of claims under the applicable insolvency law. Senior liabilities should be converted or written down if the subordinate classes have been converted or written down entirely Losses should first be absorbed by regulatory capital instruments and should be allocated to shareholders either through the cancellation or transfer of shares or through severe dilution. Where those instruments are not sufficient, subordinated debt should be converted or written down. Senior liabilities should be converted or written down if the subordinate classes have been converted or written down entirely.

To avoid institutions structuring their liabilities in a manner that impedes the effectiveness of the bail-in tool it is appropriate to establish that the institutions meet at all times a minimum requirement for own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution.

Resolution authorities should have all the necessary legal powers that, in different combinations, may be exercised when applying the resolution tools

They should include the power to transfer shares in, or assets, rights or liabilities of, a failing institution to another entity such as another institution or a bridge institution, the power to write down or cancel shares, or write down or convert liabilities of a failing institution, the power to replace the management and the power to impose a temporary moratorium on the payment of claims.

There are circumstances when the effectiveness of the resolution tools applied may depend on the availability of short-term funding for an institution or a bridge institution, the provision of guarantees to potential purchasers, or the provision of capital to the bridge institution.

Pursuant to the Directive, the Member States should therefore set up resolution funds financed by the financial sector. Without prejudice to additional contributions being charged to bear additional costs or losses borne by the resolution funds, they will essentially be financed on an *ex ante* basis until a minimum amount of funding has been reached.

Pursuant to the Directive, financing arrangements may make a request to borrow from other financing arrangements in the case of need. Likewise they should have the power to grant loans to other arrangements that are in need.

Deposits covered by deposit guarantee schemes should not bear any losses in the resolution process. When a resolution action ensures that depositors continue to have access to their deposits, deposit guarantee schemes to which an institution under resolution is affiliated should be required to make a contribution not greater than the amount of losses that they would have had to bear if the institution had been wound up under normal insolvency proceedings.

In turn, Regulation (EU) 806/2014, published on 15 July, instituted a central resolution power based on a European resolution authority, the Single Resolution Board and the constitution of the so-called Single Resolution Fund (SRF). This will be a European resolution fund financed by the banking sector, which will be used to fund resolution measures applied to European financial institutions.

The Regulation provides for the fund to be provisioned for a period of eight year, beginning in 2016, via annual contributions from the participating credit institutions. On 1 January 2024, when the SRF is expected to reach its target level, it should have around 55 billion euros, i.e. 1% of covered deposits in the euro area.

The Member States are responsible for collecting the contributions from financial institutions in their territories and are obliged, under an agreement on the transfer and progressive mutualisation of contributions to the SRF, to transfer the contributions collected at national level to the European fund. During a transitional period, the contributions will be allocated to different compartments corresponding to each participating Member State (national compartments), which will be subject to a progressive merger so that they will cease to exist at the end of the transitional period.

When prior funding is insufficient to cover the losses or costs incurred by the use of the Fund, additional contributions should be collected from the participating institutions to bear the additional cost or loss Moreover, the Fund should be able to contract borrowings or other forms of support from institutions, financial institutions or other third parties in the event that the ex-ante and ex-post contributions are not immediately accessible or do not cover the expenses incurred by the use of the Fund in relation to resolution actions.

The Single Supervisory Board will be responsible for using and managing the SRF, in accordance with the powers granted to it by the Regulation.

Related documents

Directive 2014/59/EU (15 May)

establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014L0059&from=PT

EBA Consultation Paper– EBA/CP/2014/15 (9 July to 9 October)

Consultation Paper on Draft Guidelines on the specification of measures to reduce or remove impediments to resolvability and the circumstances in which each measure may be applied under Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/751636/EBA-CP-2014-15+(CP+on+draft+GL+on+measures+to+reduce+or+remove+impediments+to+resolvability).pdf

EBA Consultation Paper – EBA/CP/2014/16 (9 July to 9 October)

Consultation Paper on Draft Regulatory Technical Standards on the content of resolution plans and the assessment of resolvability

https://www.eba.europa.eu/documents/10180/751477/EBA-CP-2014-16++(CP+on+draft+RTS+on+Content+Res++Plans+and+Assessment+of+Resolvability).docx.pdf

EBA Consultation Paper – EBA/CP/2014/17 (9 July to 9 August)

Consultation Paper on Draft Guidelines on the types of tests, reviews or exercises that may lead to support measures under Article 32(4)(d)(iii) of the Bank Recovery and Resolution Directive

https://www.eba.europa.eu/documents/10180/751885/EBA-CP-2014-17+CP+draft+GL+support+measures.pdf

EBA Consultation Paper – EBA/CP/2014/18 (11 July to 11 October)

Consultation Paper on Draft regulatory technical standards on independent valuers

https://www.eba.europa.eu/documents/10180/753427/EBA-CP-2014-18+CP+draft+RTS+on+independent+valuers.pdf

Regulation (EU) 806/2014 (15 July)

establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014R0806&qid=1424347901209&from=PT

EBA Consultation Paper – EBA/CP/2014/21 (22 September to 22 December)

Consultation Paper on Draft Guidelines on triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/820129/EBA-CP-2014-21+(CP+on+GL+on+early+intervention++triggers).pdf

EBA Consultation Paper – EBA/CP/2014/22 (22 September to 22 December)

Consultation Paper on Draft Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32(6) of Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/820069/EBA-CP-2014-22+(CP+on+GL+on+failing+or+likely+to+fail).pdf

EBA Consultation Paper – EBA/CP/2014/24 (24 September to 22 December)

Consultation Paper on Draft Guidelines on the determination when the liquidation of assets or liabilities under normal insolvency proceedings could have an adverse effect on one or more financial markets under Article 42(14) of Directive 2014/59/EU and Draft Guidelines on factual circumstances amounting to a material threat to financial stability and of the elements related to the effectiveness of the sale of business tool under Article 39(4) of Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/825218/EBA-CP-2014-24+(Draft+CP+on+GL+on+the+Implementation+of+Resolution+Tools).pdf

EBA Consultation Paper – EBA/CP/2014/25 (25 September 2014 to 3 January 2015)

Consultation Paper on Draft Guidelines on the application of simplified obligations under Article 4 of the Bank Recovery and Resolution Directive (BRRD)

https://www.eba.europa.eu/documents/10180/826425/EBA-CP-2014-25+(CP+on+GL+on+simplified+obligations).pdf

EBA Consultation Paper – EBA/CP/2014/28 (26 September 2014 to 2 January 2015)

Consultation Paper on Draft Guidelines on the minimum list of qualitative and quantitative recovery plan indicators

https://www.eba.europa.eu/documents/10180/828451/EBA-CP-2017-28+CP+on+GL+on+Minimum+List+of+Recovery+Plan+Indicators.pdf

EBA Consultation Paper – EBA/CP/2014/29 (1 October 2014 to 3 January 2015)

Consultation Paper on Draft Guidelines concerning the interrelationship between the BRRD sequence of write-down and conversion and CRR/CRD IV

https://www.eba.europa.eu/documents/10180/833064/EBA-CP-2014-29+(CP+on+GL+on+Interrelationship+BRRD+and+CRR-CRD).pdf

EBA Consultation Paper – EBA/CP/2014/30 (3 October 2014 to 4 January 2015)

Consultation Paper on Draft Regulatory Technical Standards and Draft Guidelines specifying the conditions for group financial support under Article 23 of Directive 2014/59/EU and Draft Implementing Technical Standards on the form and content of disclosure of financial support agreements under Article 26 of Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/835368/EBA-CP-2014-30+(CP+on+RTS+and+GL+on+Conditions+for+Group+Fin++Support+and+on+ITS+on+Disclosure).pdf

EBA Consultation Paper – EBA/CP/2014/33 (5 November 2014 to 5 February 2015)

Consultation Paper on Draft Regulatory Technical Standards on the contractual recognition of write-down and conversion powers under Article 55(3) of the Bank Recovery and Resolution Directive (BRRD)

https://www.eba.europa.eu/documents/10180/882606/EBA-CP-2014-33+(Draft+CP+on+RTS+on+contractual+recognition+of+bail-in).pdf

EBA Consultation Paper – EBA/CP/2014/38 (7 November 2014 to 6 February 2015)

Consultation Paper on Draft Regulatory Technical Standards on valuation under Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/886895/CP+on+draft+RTS+on+valuation+-+EBA-CP-2014-38.pdf

EBA Consultation Paper – EBA/CP/2014/39 (11 November 2014 to 6 February 2015)

Consultation Paper on Draft Guidelines on the rate of conversion of debt to equity in bail-in

https://www.eba.europa.eu/documents/10180/890758/EBA-CP-2014-39+CP+on+GL+on+conversion+rates.pdf

EBA Consultation Paper – EBA/CP/2014/40 (11 November 2014 to 6 February 2015)

Consultation Paper on Draft Guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments

https://www.eba.europa.eu/documents/10180/890569/EBA-CP-2014-40+CP+on+GL+on+shareholders+treatment+in+bail-in.pdf

EBA Consultation Paper – EBA/CP/2014/41 (28 November 2014 to 27 February 2015)

Consultation Paper on Draft Regulatory Technical Standards on criteria for determining the minimum requirement for own funds and eligible liabilities under Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/911034/EBA+CP+2014+41+(CP+on+draft+RTS+on+MREL).pdf

EBA Consultation Paper – EBA/CP/2014/46 (18 December 2014 to 18 March 2015)

Consultation Paper on Draft Regulatory Technical Standards on Resolution Colleges under Article 88(7) of Directive 2014/59/EU

https://www.eba.europa.eu/documents/10180/932712/EBA-CP-2014-46+(CP+on+draft+RTS+on+Resolution+Colleges).pdf

III.3 Deposit Guarantee Fund

Directive 2014/49 EU of the European Parliament and of the Council was approved in April 2014. It establishes the new regime on deposit guarantee funds and revokes Directive 94/19/EC of the European Parliament and of the Council.

One of the main aims of the Directive is to eliminate substantial differences between the way in which the deposit guarantee funds of the different Member States function, with a view to merging them in the near future into a single European Fund, thereby completing the third pillar of Banking Union.

Pursuant to this Directive national funds are also allowed to have functions that go beyond the reimbursement of depositors so that their financial resources can be used to prevent the insolvency of credit institutions that contribute to the fund, provided that specific conditions are imposed.

In any case, support provided to participating institutions cannot exceed the amount of the costs that the fund would have to bear if it had to reimburse its depositors.

At the same time, the degree of coverage in the different Member States is harmonised and depositors now benefit from a guarantee of €100,000.

The Directive also harmonises methods of financing European deposit guarantee funds and establishes that they must all be financed on an ex ante basis. They must reach a minimum target amount of financing corresponding to 0.8% of the amount of deposits covered by 2024.

Under the new regime, deposits of public authorities cease to be covered by the new regime. Nonetheless, Member States are allowed to determine that the deposits of local authorities with a maximum annual budget of €500,000 can be covered by the guarantee.

At the same time, the regime for financing the funds is harmonised and they can also grant loans to each other on a voluntary basis.

The Directive also sets a goal of reducing the time limit for reimbursing depositors to seven days, but realising the technical difficulties this involves, it creates a transitional regime in which the time limit will be gradually reduced up to 2024.

According to the new regime, all funds are subrogated into the rights that the reimbursed depositors had over the failed credit institution.

Finally, the Directive harmonises the information that credit institutions must provide to depositors, which must be provided on a standardised information sheet.

Related documents

Directive 2014/49/EU (16 April)

On deposit guarantee schemes

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014L0049&qid=1424347901209&from=PT

EBA Consultation Paper – EBA/CP/2014/27 (25 September 2014 to 2 January 2015)

Consultation Paper on Draft Guidelines on payment commitments under Directive 2014/49/EU on deposit guarantee schemes

https://www.eba.europa.eu/documents/10180/827199/EBA+CP+2014+27+DGS+Payment+commitments.pdf

EBA Consultation Paper – EBA/CP/2014/35 (10 November 2014 to 11 February 2015)

Consultation Paper on Draft Guidelines on methods for calculating contributions to Deposit Guarantee Schemes

https://www.eba.europa.eu/documents/10180/887892/EBA-CP-2014-35+Draft+CP+on+GL+on+DGS+Contributions.pdf

IV. Structural reform of the banking sector

As a complement to the reforms in the financial sector that have been taking place in the European Union in recent years, in early 2014 the European Commission presented a proposal for a regulation aimed at introducing a set of structural measures designed to improve the resistance of EU credit institutions.

In its proposal, the European Commission introduces new rules banning larger, more complex banks from being involved in trading operations on their own account and grants powers to supervisors to demand the separation of certain trading activities from the acceptance of deposits especially if the pursuit of these trading activities jeopardises the financial stability of the institution or the system. It also lays down rules on economicand legal governance and operational relations between the separate trading entity and the rest of the banking group.

The Commission’s proposal was based on the report of the Group of High-level Experts presided over the by the Governor of the Bank of Finland, Erkki Liikanen, which was published in 2012 and became known as the “Liikanen Report".

Related documents

Proposal for a regulation of the European Parliament and of the Council (29 January)

on structural measures improving the resilience of EU credit institutions

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:52014PC0043&from=EN

V. Capital, risk and liquidity

2014 witnessed the entry into force of the CRR/CRD4 package, which transposes into European Union law the measures announced by the Basel Committee in December 2010 (known as Basel III).

These measures are designed to increase the resilience of financial institutions with a series of changes to the prudential capital that they hold and the introduction of new measurements and requirements in other areas, such as liquidity, leverage, remuneration and governance, among others.

The CRR/CRD4 package consists of Regulation 575/2013 (EU) and Directive 2013/36/EU. The Regulation came into force on 1 January 2014 and the Directive was transposed into Portuguese law in Decree-Law 157/2014 of 24 October 2014.

Regarding liquidity, in October 2014, the European Commission adopted Delegated Regulation (EU) 61/2015 introducing the new liquidity coverage ratio (LCR) provided for in CRR/CRD IV.

Where leverage was concerned, in October 2014, the European Commission adopted Delegated Regulation (EU) 62/2015, which introduced the new leverage ratio (LR) set out in CRR/CRD IV.

Meanwhile the EBA, pursuant to this package, and the Basel Committee (BCBS) launched more than 30 consultation papers on capital, risk and liquidity in 2014. The most important issues were:

- **Liquidity and leverage** Definition of high-quality liquid assets under the new LCR and technical and rules changes to LCRs and LR, since defined and adopted in Delegated Regulations (EU) 61/2015 and 62/2015, respectively definition of rules on calculation and reporting the net stable funding ratio (NSFR)
- **Own funds**: definition of prudential own funds for the purpose of calculating solvency ratios, such as deduction of assets from defined benefit pension funds, deductions of prudential reserves and criteria for determining other systemically important institutions (O-SII).
- **Advanced approaches to calculating capital requirements** Definition of rules and conditions for approval and use of internal credit risk models and rules for treating positions on equity and assessment of advanced methods for measuring operational risk and definition of methods for assessment by the authorities of compliance with prudential risks with regard to the use of internal risk models
- **Benchmarking exercises** Definition of guidelines and templates for gathering information for benchmarking of remuneration policy and assessment of medium levels of risk at banks that use internal models

- **Assessment of credit risk** Definition of the concept of default to be used by banks, rules of recognising eligibility for mitigation of risk in OTC derivatives contracts and simple, transparent, standard securitisation instruments
- **Supervision** Definition of the conditions governing operations of supervisory colleges, joint action by authorities on prudential matters and common procedures and methods in the supervisory review and evaluation process (SREP).

Related documents

Delegated Regulation (EU) 61/2015 (10 October)

To supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirements for credit Institutions

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32015R0061&from=EN

Delegated Regulation (EU) 61/2015 (10 October)

To amend Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to the leverage ratio

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32015R0062&from=EN

Report by the European Banking Authority (20 December)

Report on appropriate uniform definitions of extremely high-quality liquid assets (extremely HQLA) and high quality liquid assets (HQLA) and on operational requirements for liquid assets under Article 509(3) and (5) CRR

http://www.eba.europa.eu/documents/10180/16145/EBA+BS+2013+413+Report+on+definition+of+HQLA.pdf

Report by the European Banking Authority (20 December)

Fourth report on the consistency of risk weighted assets

http://www.eba.europa.eu/documents/10180/15947/20140611+Fourth+interim+report+on+the+consistency+of+risk-weighted+asset.pdf

EBA Consultation Paper – EBA/CP/2014/01 (28 February to 9 May)

Consultation Paper on Draft regulatory technical standards on the margin periods for risk used for the treatment of clearing members' exposures to clients under Article 304(5) of Regulation (EU) No 575/2013

https://www.eba.europa.eu/documents/10180/615469/EBA-CP-2014 01+%28CP+on+RTS+on+Margin+Periods+of+Risk+CRR-304%29.pdf

EBA Consultation Paper – EBA/CP/2014/02 (7 March to 7 June)

Draft Regulatory Technical Standards specifying conditions according to which competent authorities may permit institutions to use relevant data covering shorter time periods (data waiver permission)

https://www.eba.europa.eu/documents/10180/621404/EBA+CP+2014+02+%28CP+on+RTS+on+data+waiver%29.pdf

EBA Consultation Paper – EBA/CP/2014/04 (7 April to 7 May)

Draft Guidelines on the remuneration benchmarking exercise

https://www.eba.europa.eu/documents/10180/650835/EBA-CP-2014-04+%28CP+on+GL+on+the+remuneration+benchmarking+exercise%29.pdf

EBA Consultation Paper – EBA/CP/2014/05 (7 April to 7 May)

Draft Guidelines on the data collection exercise regarding high earners

https://www.eba.europa.eu/documents/10180/650888/EBA-CP-2014-05+%28CP+on+GL+on+the+data+collection+regarding+high+earners%29.pdf

Joint Consultation Paper of the ESA – JC/CP/2014/03 (14 April to 14 July)

Draft regulatory technical standards on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012

https://www.eba.europa.eu/documents/10180/655149/JC+CP+2014+03+%28CP+on+risk+mitigation+for+OTC+derivatives%29.pdf

EBA Consultation Paper – EBA/CP/2014/06 (7 May to 7 July)

Draft regulatory technical standards on the treatment of equity exposures under the IRB Approach under Article 495(3) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

https://www.eba.europa.eu/documents/10180/684133/EBA+CP+2014+06+Draft+consultation+paper+on+RTS+on+the+IRB+equity+exemption

EBA Consultation Paper – EBA/CP/2014/07 (28 May to 19 August)

Draft Regulatory Technical Standards on benchmarking portfolio assessment standards and assessment sharing procedures under Article 78 of Directive 2013/36/EU (Capital Requirements Directive – CRD IV) and EBA Draft Implementing Technical Standards on benchmarking portfolios, templates, definitions and IT solutions under Article 78 of Directive 2013/36/EU (Capital Requirements Directive – CRD IV)

https://www.eba.europa.eu/documents/10180/711669/EBA-CP-2014-07+%28CP+on+RTS+and+ITS+on+benchmarking+portfolios%29.pdf

EBA Consultation Paper – EBA/CP/2014/08 (12 June to 12 September)

Draft Regulatory Technical Standards on assessment methodologies for the Advanced Measurement Approaches for operational risk under Article 312 of Regulation (EU) No 575/2013

https://www.eba.europa.eu/documents/10180/724762/EBA-CP-2014-08+CP+on+draft+RTS+on+AMA+assesment.pdf

EBA Consultation Paper – EBA/CP/2014/09 (13 June to 13 September)

Consultation Paper on the draft guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013

https://www.eba.europa.eu/documents/10180/726375/EBA-CP-2014-09+Consultation+paper+on+Guidelines+Article+432+and+Article+433+CRR+disclosures.pdf

EBA Consultation Paper – EBA/CP/2014/10 (26 June to 26 September)

Draft regulatory technical standards on the sequential implementation of the IRB Approach and permanent partial use under the Standardised Approach under Articles 148(6), 150(3) and 152(5) of Regulation (EU) No 575/2013 (Capital Requirements Regulation– CRR)

https://www.eba.europa.eu/documents/10180/740958/EBA-CP-2014-10+CP+on+draft+RTS+on+roll+out+and+PPU+of+IRB+approach.pdf

EBA Consultation Paper – EBA/CP/2014/11 (27 June to 27 September)

Draft regulatory technical standards on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer under Article 440 of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

https://www.eba.europa.eu/documents/10180/741727/EBA-CP-2014-11+%28CP+on+RTS+on+CBB+Disclosure+Art+440+CRR%29.pdf

EBA Consultation Paper – EBA/CP/2014/12 (3 July to 3 October)

Draft regulatory technical standards on general conditions of the functioning of colleges of supervisors in accordance with Article 51(4) and Article 116(4) of Directive 2013/36/EU (Capital Requirements Directive – CRD IV) and Draft implementing technical standards on the operational functioning of colleges of supervisors in accordance with Article 51(5) and Article 116(5) of Directive 2013/36/EU (Capital Requirements Directive – CRD IV)

https://www.eba.europa.eu/documents/10180/746034/EBA-CP-2014-12+%28CP+on+draft+RTS+and+ITS+on+Colleges+of+Supervisors%29.pdf

EBA Consultation Paper – EBA/CP/2014/13 (3 July to 3 October)

Draft implementing technical standards on joint decisions on prudential requirements in accordance with Article 20 of Regulation (EU) No 575/2013 (Capital Requirements Regulation –CRR)

https://www.eba.europa.eu/documents/10180/746167/EBA-CP-2014-13+%28CP+on+draft+ITS+on+JD+on+Prudential+Requirements%29.pdf

EBA Consultation Paper – EBA/CP/2014/14 (7 July to 7 October)

Draft Guidelines for common procedures and methodologies for the supervisory review and evaluation process under Article 107 (3) of Directive 2013/36/EU

https://www.eba.europa.eu/documents/10180/748829/EBA-CP-2014-14+%28CP+on+draft+SREP+Guidelines%29.pdf

EBA Consultation Paper – EBA/CP/2014/19 (18 July to 18 October)

Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs)

https://www.eba.europa.eu/documents/10180/760486/EBA-CP-2014-19+%28CP+on+GL+on+the+criteria+for+assessment+of+O-SIIs%29.pdf

EBA Consultation Paper – EBA/CP/2014/32 (31 October 2014 to 31 January 2015)

Draft Regulatory Technical Standards on materiality threshold of credit obligation past due under Article 178 of Regulation (EU) 575/2013

https://www.eba.europa.eu/documents/10180/878549/EBA-CP-2014-32+%28CP+on+RTS+on+Past+Due+Materiality+Threshold%29.pdf

EBA Consultation Paper – EBA/CP/2014/36 (12 November 2014 to 12 March 2015)

Draft Regulatory Technical Standards On the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach in accordance with Articles 144(2), 173(3) and 180(3)(b) of Regulation (EU) No 575/2013

https://www.eba.europa.eu/documents/10180/891573/EBA-CP-2014-36+%28CP+on+RTS+on+Assessment+Methodology+for+IRB+Approach%29.pdf

EBA Consultation Paper – EBA/CP/2014/44 (16 December 2014 to 27 January 2015)

Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Leverage Ratio (LR) following the EC's Delegated Act on the LR

https://www.eba.europa.eu/documents/10180/930323/EBA-CP-2014-44+%28CP+on+amending+ITS+on+LR+reporting%29.pdf

EBA Consultation Paper – EBA/CP/2014/45 (16 December 2014 to 27 January 2015)

Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Liquidity Coverage Ratio (LCR) following the EC's Delegated Act specifying the LCR

https://www.eba.europa.eu/documents/10180/930269/EBA-CP-2014-45+%28CP+on+draft+amending+ITS+on+LCR+reporting%29.pdf

EBA Discussion Paper – EBA/DP/2014/01 (17 February to 14 April)

On the impact on the volatility of own funds of the revised IAS 19 and the deduction of defined pension assets from own funds under Article 519 of the Capital Requirements Regulation (CRR)

https://www.eba.europa.eu/documents/10180/583941/EBA+DP+2014+01+%28DP+on+Pensions%29.pdf

EBA Discussion Paper – EBA/DP/2014/02 (14 October 2014 to 14 January 2015)

On simple standard and transparent securitisations

https://www.eba.europa.eu/documents/10180/846157/EBA-DP-2014-02+Discussion+Paper+on+simple+standard+and+transparent+securitisations.pdf

Consultation by the Basel Committee on Banking Supervision (31 October 2013 to 31 January 2014)

Fundamental review of the trading book: A revised market risk framework

http://www.bis.org/publ/bcbs265.pdf

Consultation by the Basel Committee on Banking Supervision (19 December 2013 to 21 March 2014)

Revisions to the securitisation framework

http://www.bis.org/publ/bcbs269.pdf

Consultation by the Basel Committee on Banking Supervision (12 January to 11 April)

Basel III: The Net Stable Funding Ratio

http://www.bis.org/publ/bcbs271.pdf

Consultation by the Basel Committee on Banking Supervision (23 January to 18 April)

Revised good practice principles for supervisory colleges

http://www.bis.org/publ/bcbs276.pdf

Consultation by the Basel Committee on Banking Supervision (6 October 2014 to 6 January 2015)

Operational risk – Revisions to the simpler approaches

http://www.bis.org/publ/bcbs291.htm

Consultation by the Basel Committee on Banking Supervision (9 December 2014 to 6 March 2015)

Net stable funding ratio disclosure standards

http://www.bis.org/bcbs/publ/d302.pdf

VI. Reporting and disclosure

In April 2014, the European Commission approved the implementing regulation drawn up by the EBA, which contains all the requirements for reporting financial and prudential information for the entry into force of Regulation 575/2013. This regulation sets out reporting dates and all templates applicable to financial institutions that are sent to the EBA by each country's national supervisor.

Following the publication of the implementing regulation, whose reporting of financial information applies to financial institutions' consolidated accounts, in October the ECB published a consultation paper in which it extends the reporting of financial information also to separate accounts.

In 2014, the EBA also published a number of consultation papers on the reporting of supervisory information. In addition to consultation papers on reporting and disclosure of information by financial institutions, the EBA also published guidelines on requirements for disclosure of supervisory information to the market.

The Basel Committee for Banking Supervision issued a consultation paper in June 2014 on the revision of requirements for the disclosure of information in the market discipline report (Pillar 3).

Related documents

Implementing Regulation (EU) 680/2014 (16 April)

Laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0680&from=EN

EBA Consultation Paper – EBA/CP/2014/03 (21 March to 14 April)

Consultation Paper on XBRL Taxonomy (v2.1) related to remittance of supervisory data under Regulation (EU) No 575/2013

http://www.eba.europa.eu/-/eba-consults-on-a-revised-xbrl-taxonomy-for-supervisory-reporting

EBA Consultation Paper – EBA/CP/2014/09 (13 June to 13 September)

Consultation Paper on the draft guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013

http://www.eba.europa.eu/documents/10180/726375/EBA-CP-2014-09+Consultation+paper+on+Guidelines+Article+432+and+Article+433+CRR+disclosures.pdf

EBA Consultation Paper – EBA/CP/2014/44 (16 December 2014 to 27 January 2015)

Consultation Paper on the draft implementing technical standards amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Leverage Ratio (LR) following the EC's Delegated Act on the LR

http://www.eba.europa.eu/documents/10180/930323/EBA-CP-2014-44+%28CP+on+amending+ITS+on+LR+reporting%29.pdf

Consultation by the Basel Committee on Banking Supervision (24 June to 26 September)

*R*eview of the Pillar 3 disclosure requirements

http://www.bis.org/publ/bcbs286.htm

ECB Consultation Paper (23 October to 4 December)

Public consultation on a draft Regulation of the European Central Bank on reporting of supervisory financial information

https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/reporting/draft-ssm-reporting-regulation201410.en.pdf

EBA Guidelines on disclosure requirements for EU banking sector (23 December)

http://www.eba.europa.eu/-/eba-publishes-final-guidelines-on-disclosure-requirements-for-the-eu-banking-sector

EBA Guidelines on disclosure of encumbered and unencumbered assets (27 June)

http://www.eba.europa.eu/documents/10180/741903/EBA-GL-2014-03+Guidelines+on+the+disclosure+of+asset+encumbrance.pdf

VII. Capital market

There were a number of regulatory initiatives in the area of the capital market in the European Union in 2014. These initiatives addressed a number of issues, such as the regime on the financial instruments market, credit securitisation operations, lending operations and reporting of securities, OTC market derivatives, market abuse, structured deposits, settlement of securities, undertakings for collective investment in transferable securities, packaged retail investment and insurance-based products and cross-selling practices.

On 29 January, the European Commission, together with the Proposal for a Regulation on the structural reform of the EU banking sector, submitted a Proposal for a Regulation on reporting and transparency of funding operations using securities, providing for the duty of report information to depositories of transactions and limitations on the reuse of collateral.

On 14 April, pursuant to Regulation (EU) 648/2012 (EMIR), the European supervisory bodies issued a consultation paper on risk mitigation techniques for OTC derivatives contracts not offset by a central counterparty.

A new regime on market abuse set out in Directive 2014/57/EU and Regulation (EU) 596/2014 was approved on 16 April in order to increase prevention of abusive conduct, increase investor protection and monitor the appearance of new financial products, trading platforms and techniques.

Along the same lines as the first Directive on markets in financial instruments and its regulation, amendments to the regime on the market in financial instruments were made on 15 May to increase the competitiveness of the EU financial markets and ensure high, harmonised investor protection. These amendments resulted from approval of Directive 2014/65/EU and Regulation (EU) 600/2014.

The final version of Directive 2014/59/EU was approved on the same date. It established the European legal framework for the recovery and resolution of credit institutions and investment firms. Among other aspects, it regulated the preparation phase of resolution (including recovery and resolution plans), requirements for the use of resolution mechanisms, the powers of the resolution authorities and measures that they can take and the functioning and financing of resolution funds.

In accordance with the mandate granted in the MiFID II/MiFIR on 22 May, ESMA published (i) a Consultation Paper for stakeholders before the drafting of the technical advice for the Commission and (ii) a Discussion Paper on the key elements of future technical rules.

As set out in the EMIR, in 2014 ESMA issued three consultations on the definition of compensation criteria for transactions through central counterparties of certain classes OTC derivatives. The first phase of consultations began on 11 July and addressed interest rate swaps and credit default swaps. Later, on 1 October, a proposal for Technical Standards for the class of foreign-exchange non-deliverable forwards was submitted.

On 15 July, ESMA published a Consultation Paper for stakeholders before drafting the technical advice for the European Commission on the regulation of market abuse.

The approval on 23 July of Regulation (EU) 909/2014 regarding the improvement of settlement of securities in the European Union and central securities depositories established a series of legal obligations applying to the centralised registration and settlement of financial instruments in the European Union.

Directive 2014/91/EU (Directive UCITS V) was approved on the same date. It made amendments to the directive on undertakings for collective investment in transferable securities, as follows: (i) principles of remuneration policies and practices, (ii) additional rules on the functions and obligations of depositories, which clarify their responsibility in the event of loss of assets or poor performance of their duties and (iii) new conditions applicable to the delegation of the depository's functions to third parties.

In August, the EBA published a Consultation Paper on the criteria and factors of intervention with regard to structured deposits sold in the European Union, for example regarding the possibility temporary bans or restrictions (i) of the marketing, distribution or sale of structured deposits or (ii) of certain types of practices or financial activities.

In September, ESMA published a Consultation Paper on delegated acts in the UCITS V Directive regarding the depository's responsibility if it has delegated custodial functions and financial instruments held in custody by a third party are lost and the conditions for meeting the independence requirement.

In October, the EBA published a Discussion Paper on simple, standardised, transparent securitisations in response to a request for a technical opinion from the European Commission made in December 2013, regarding the possibilities and merits of promoting a safe, stable securitisation market in the EU.

In view of the countless shortcomings and limitations that were detected in the Technical Standards, in Regulations 148/2013 (RTS) and 1247/2012 (ITS) associated with EMIR, on 10 November ESMA opened for consultation the revision of the technical standards on the obligation to communicate regarding OTC market derivatives, central counterparties and transaction repositories.

On 17 November, the three European supervisory authorities published a Joint Discussion Paper on the fundamental information documents for packaged retail and insurance-based investment products (PRIIPs). Regulation 1286/2014 on the same matter was approved on 26 November.

On 1 December, ESMA issued the consultation paper "Guidelines on asset segregation under the AIFMD", with a view to defining methods to specify obligations to separate assets if the depository delegates functions to third parties pursuant to Directive (EU) 61/2011 on alternative investment fund managers.

In the field of securitisation of credits, on 11 December the Basel Committee on Banking Supervision issued two consultation papers: (i) "Revision of the Securitisation Framework", which includes provisions on the calculation of capital requirements associated with securitisations and (ii) "Criteria for identifying simple, transparent and comparable securitisations".

On 18 December, ESMA submitted for consultation the Technical Standards, Technical Advice and Guidelines on the implementation of the central securities depository regulation (CSDR).

Following the Discussion Paper published in May, on 19 December, ESMA published a Consultation Paper to gather stakeholders' opinions on technical standards (RTS and ITS) under MiFID 2/MiFIR.

On 22 December, the ESAs issued the "Joint Committee Consultation Paper on guidelines for cross-selling practices", with a view to defining guidelines to ensure the protection of investors who purchase different financial products or services at the same time.

Related documents

Proposal for a Regulation of the European Parliament and of the Council (29 January)

Proposal for a Regulation of the European Parliament and of the Council on reporting and transparency of securities financing transactions

http://eur-lex.europa.eu/resource.html?uri=cellar:b2522602-8f15-11e3-b19c-01aa75ed71a1.0001.05/DOC_1&format=PDF

Delegated Regulation (EU) 285/2014 (13 February)

Commission Delegated Regulation supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on direct, substantial and foreseeable effect of contracts within the Union and to prevent the evasion of rules and obligations

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0285&from=EN

Delegated Regulation (EU) 667/2014 (13 March)

Commission Delegated Regulation supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to rules of procedure for penalties imposed on trade repositories by the European Securities and Markets Authority including rules on the right of defence and temporal provisions

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0667&from=EN

ESMA Consultation Paper – ESMA/2014/1563 (20 March to 22 May)

Discussion Paper on Draft Technical Standards for the Regulation on improving securities settlement in the European Union and on central securities depositories (CSD)

http://www.esma.europa.eu/system/files/2014-299_discussion_paper_on_central_securities_depositories_0.pdf

Joint EBA, ESMA and EIOPA Consultation Paper – JC/DP/2014/03 (14 April to 14 July)

Consultation Paper - Draft regulatory technical standards on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012

https://www.eba.europa.eu/documents/10180/655149/JC+CP+2014+03+(CP+on+risk+mitigation+for+OTC+derivatives).pdf

Directive 2014/57/EU (16 April)

Directive of the European Parliament and of the Council on criminal sanctions for market abuse (market abuse directive)

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0057&from=EN

Regulation (EU) 596/2014 (16 April)

Regulation of the European Parliament and of the Council on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0596&from=EN

Directive 2014/59/EU (15 May)

Directive establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0059&from=PT

Directive 2014/65/EU (15 May)

Directive of the European Parliament and of the Council on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0065&from=EN

Regulation (EU) 600/2014 (15 May)

Regulation of the European Parliament and of the Council on markets in financial instruments and amending Regulation (EU) No 648/2012

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0600&from=EN

ESMA Consultation Paper – ESMA/2014/548 (22 May to 1 August)

Discussion Paper on MiFID II/MiFIR

http://www.esma.europa.eu/system/files/2014-548_discussion_paper_mifid-mifir.pdf

ESMA Consultation Paper – ESMA/2014/549 (22 May to 1 August)

Consultation Paper on MiFID II/MiFIR

http://www.esma.europa.eu/system/files/2014-549_-_consultation_paper_mifid_ii_-_mifir.pdf

Implementing Regulation (EU) 593/2014 (3 June)

Commission Implementing Regulation laying down implementing technical standards with regard to the format of the notification according to Article 16(1) of Regulation (EU) No 345/2013 of the European Parliament and of the Council on European venture capital funds

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0593&from=EN

ESMA Consultation Paper – ESMA/2014/799 (11 July to 18 August)

Consultation Paper Clearing Obligation no. 1 IRS

http://www.esma.europa.eu/system/files/esma-2014-799_irs_-
_consultation_paper_on_the_clearing_obligation_no__1____.pdf

ESMA Consultation Paper – ESMA/2014/800 (11 July to 18 September)

Consultation Paper Clearing Obligation no. 2 CDS

http://www.esma.europa.eu/system/files/2014-800.pdf

ESMA Consultation Paper – ESMA/2014/808 (15 July to 15 October)

ESMA's draft technical advice on possible delegated acts concerning the Market Abuse Regulation

http://www.esma.europa.eu/system/files/esma_2014-
808_consultation_paper__on_mar_draft_technical_advice_0.pdf

ESMA Consultation Paper – ESMA/2014/809 (15 July to 15 October)

Draft technical standards on the Market Abuse Regulation

http://www.esma.europa.eu/system/files/esma_2014-
809_consultation_paper_on_mar_draft_technical_standards.pdf

Regulation (EU) 909/2014 (23 July)

Regulation of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0909&from=EN

Directive 2014/91/EU (23 July)

Directive amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0091&from=EN

EBA Consultation Paper – EBA/CP/2014/20 (5 August to 5 October)

Consultation Paper on Draft Technical advice on possible delegated acts on criteria and factors for intervention powers concerning structured deposits under Article 41 and Article 42 of Regulation (EU) No 600/2014 (MiFIR)

https://www.eba.europa.eu/documents/10180/774879/EBA-CP-2014-20+%28CP+on+MiFIR+technical+advice+for+structured+deposits%29.pdf

ESMA Consultation Paper – ESMA/2014/1183 (26 September to 24 October)

Consultation Paper on ESMA's technical advice to the European Commission on delegated acts required by the UCITS V Directive

http://www.esma.europa.eu/system/files/2014-1183.pdf

ESMA Consultation Paper – ESMA/2014/1189 (29 September 2014 to 5 January 2015)

Consultation Paper on draft guidelines on the application of C6 and C7 of Annex I of MiFID

http://www.esma.europa.eu/system/files/2014-1189.pdf

ESMA Consultation Paper – ESMA/2014/1185 (1 October to 6 November)

Consultation Paper on Clearing Obligation under EMIR (no. 3)

http://www.esma.europa.eu/system/files/esma-2014-1185.pdf

EBA Consultation Paper – EBA/DP/2014/02 (14 October 2014 to 14 January 2015)

EBA Discussion Paper on simple standard and transparent securitisations

http://www.eba.europa.eu/documents/10180/846157/EBA-DP-2014-02+Discussion+Paper+on+simple+standard+and+transparent+securitisations.pdf

Consultation Paper of the Financial Services User Group's – FSUG (November 2014)

A Simple Financial Products Regime - FSUG Discussion Paper

http://ec.europa.eu/finance/finservices-retail/docs/fsug/papers/1411-simple-products-project_en.pdf

ESMA Consultation Paper – ESMA/2014/1352 (10 November 2014 to 13 February 2015)

Consultation Paper on review of the technical standards on reporting under Article 9 of EMIR

http://www.esma.europa.eu/system/files/esma-2014-1352_consultation_paper_on_the_review_of_emir_reporting_standards_under_article_9_0.pdf

Joint EBA, ESMA and EIOPA Consultation Paper – JC/DP/2014/02 (17 November 2014 to 17 February 2015)

Discussion Paper on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs)

http://www.eba.europa.eu/documents/10180/899036/JC+DP+2014+02+-+PRIIPS+Discussion+Paper.pdf

Regulation (EU) 1286/2014 (26 November)

Regulation of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs)

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R1286&from=EN

EIOPA Consultation Paper – EIOPA-CP-14/064 (27 November 2014 to 27 February 2015)

Consultation Paper on Product Intervention Powers under the Regulation on Key Information Documents for Packaged Retail and Insurance-Based Investment Products (PRIIPs)

https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-14-064_Consultation_Paper_on_Product_intervention_powers.pdf

ESMA Consultation Paper – ESMA/2014/1326 (1 December 2014 to 30 January 2015)

Discussion Paper on Draft Technical Standards for the Regulation on improving securities settlement in the European Union and on central securities depositories (CSD)

http://www.esma.europa.eu/system/files/2014-1326_cp_-_guidelines_on_aifmd_asset_segregation.pdf

Consultation Paper of the Basel Committee on Banking Supervision (11 December 2014 to 13 February 2015)

Revision to the Securitisation Framework

http://www.bis.org/bcbs/publ/d303.pdf

Joint Consultation Paper of the Basel Committee on Banking Supervision and the OIOSCO (11 December 2014 to 13 February 2015)

Criteria for identifying simple, transparent and comparable securitisations

http://www.bis.org/bcbs/publ/d304.pdf

ESMA Consultation Paper – ESMA/2014/1563 (18 December 2014 to 19 February 2015)

Consultation Paper on Technical Standards under the CSD Regulation

http://www.esma.europa.eu/system/files/2014-1563_csdr_ts.pdf

ESMA Consultation Paper – ESMA/2014/1564 (18 December 2014 to 19 February 2015)

Consultation Paper on Technical Advice under the CSD Regulation

http://www.esma.europa.eu/system/files/2014-1564_csdr_ta.pdf

ESMA Consultation Paper – ESMA/2014/1565 (18 December 2014 to 19 February 2015)

Consultation Paper on Guidelines on Access to a CCP or a Trading Venue by a CSD

http://www.esma.europa.eu/system/files/2014-1565_csdr_gl.pdf

ESMA Technical Advice – ESMA/2014/1569 (19 December)

ESMA's Technical Advice to the Commission on MiFID II and MiFIR

http://www.esma.europa.eu/system/files/2014-1569_final_report_-_esmas_technical_advice_to_the_commission_on_mifid_ii_and_mifir.pdf

ESMA Consultation Paper – ESMA/2014/1570 (19 December 2014 to 2 March 2015)

Consultation Paper on MiFID II/MiFIR

http://www.esma.europa.eu/system/files/2014-1570_cp_mifid_ii.pdf

EBA, ESMA and EIOPA Joint Consultation Paper – JC/CP/2014/05 (22 December 2014 to 22 March 2015)

Joint Committee Consultation Paper on guidelines for cross-selling practices.

https://www.eba.europa.eu/documents/10180/936747/JC+CP+2014+05+(Consultation+Paper+on+Cross+Selling).pdf

VIII. Funding the economy

Following the Green Paper "Long-term financing of the European Economy" released in 2013, on 27 March 2014 the European Commission published a Communication on the subject addressed to the European Parliament and to the Council.

On 8 September, the European Commission issued a consultation paper with a view to revising the Law on Small Enterprises for Europe and obtaining contributions on how to pursue a strong European policy to support small and medium-sized enterprises (SMEs) and entrepreneurs from 2015 to 2020.

On 26 November, the European Commission announced a 315 billion euro investment plan, also known as the "Juncker Plan", to put the EU back on track to growth and the creation of jobs. The three main aspects of this plan are: (i) the creation of a European strategic investment fund, (ii) the creation of a reserve of assistance programme projects and (iii) and ambitious roadmap to make Europe more attractive to investment and eliminate legal bottlenecks.

Related documents

European Commission Communication (27 March)

Communication from the Commission to the European Parliament and the Council on Long-Term Financing of the European Economy

http://ec.europa.eu/internal_market/finances/docs/financing-growth/long-term/140327-communication_en.pdf

European Commission Consultation Paper - Ref. Ares (2014)3007161 (8 September to 15 December)

A strong European policy to support Small and Medium-sized Enterprises (SMEs) and entrepreneurs 2015-2020 Public Consultation on the Small Business Act (SBA)

http://ec.europa.eu/DocsRoom/documents/6761?locale=en

European Commission Communication (26 November)

Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank An Investment Plan for Europe

http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/an-investment-plan-for-europe_com_2014_903_en.pdf

IX. Audit policy

In June 2014 the European Commission published a Regulation and a Directive on audit policy, after negotiations between the European Parliament, European Commission and European Council in 2013.

After its consultation paper in 2013, the Basel Committee on Banking Supervision published "Guidance on external audits of banks" in March 2014. It sets out some principles on the responsibilities of Audit Committees and the supervision of entities providing auditing services to banks.

Related documents

Regulation (EU) 537/2014 (16 April)

Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN

Directive 2014/56/EU (16 April)

Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0056&from=PT

Guidance on external audits of banks issued by the Basel Committee (31 March)

http://www.bis.org/press/p140331a.htm

X. Banking practices

The initiatives undertaken by European institutions in recent years have converged to establish rules, policies and good practices to reduce the asymmetry of information between credit institutions and their customers, contribute to the public's financial inclusion and create the right conditions for banks to operate in the entire domestic market, in the retail financial services sector, thereby expanding and developing the European economy in a modern, socially inclusive fashion.

In 2014, two Directives were published with these goals in mind, as follows:

In February 2014, Directive 2014/17/EU "on credit agreements for consumers relating to residential immovable property", commonly known as the Mortgage Credit Directive, was aimed at:

- Creating mechanisms to foster responsible lending and borrowing by improving the skills of credit institutions' human resources in these matters and optimising criteria for assessing consumers' creditworthiness
- Implementing a more efficient, competitive single market for mortgage loans
- Creating a level playing field in the mortgage market and promoting cross-border activity

In July 2014, the purpose of the Directive 2014/92/EU "on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features", known in short as the Payment Accounts Directive was:

- To introduce a framework facilitating the transparency and comparability of fees at EU level, making it easier for consumers to compare the costs of payment accounts
- To foster effective account switching in each Member State and at cross-border level in the Union, so that EU consumers can open a payment account without being residents of the country in which the service provider is located
- To ensure that all EU consumers, regardless of their financial situation, have access to a payment account that allows them to perform essential banking operations

During the implementation of these two Directives, the EBA issued the following documents for publication in 2014:

- The Mortgage Credit Directive
  - Guidelines on creditworthiness assessment (EBA/CP/2014/42)
  - Guidelines on arrears and foreclosure (EBA/CP/2014/43)
- Payment Accounts Directive
  - Guidelines on the preparation at national level of provisional lists of the most representative services associated with payment accounts and subject to fees (EBA/CP/2014/34).

In 2014, where retail financial services were concerned, the EBA also issued a consultation paper on guidelines on procedures to be followed by credit institutions in the creation and sale of retail bank products (EBA/CP/2014/37), and the Joint ESA Committee (ESMA, EBA and EIOPA) issued a consultation paper on guidelines on cross-selling practices (JC/CP/2014/05).

Related documents

Directive 2014/17/EU (4 February)

on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010

http://eur-lex.europa.eu/legal-content/PT/TXT/?uri=CELEX:32014L0017

Directive 2014/92/EU (23 July)

on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

http://eur-lex.europa.eu/legal-content/PT/TXT/?uri=CELEX:32014L0092

EBA Consultation Paper - EBA/CP/2014/34 (5 November 2014 to 9 January 2015)

Consultation Paper on Draft Guidelines on national provisional lists of the most representative services linked to a payment account and subject to a fee

http://www.eba.europa.eu/documents/10180/883290/EBA-CP-2014-34+CP+on+Draft+GL+for+Payment+Accounts+Directive.pdf

EBA Consultation Paper - EBA/CP/2014/37 (10 November 2014 to 10 February 2015)

Consultation Paper on Draft Guidelines on product oversight and governance arrangements for retail banking products

http://www.eba.europa.eu/documents/10180/888290/EBA-CP-2014-37+%28Draft+Guidelines+on+POG%29.pdf

EBA Consultation Paper – EBA/CP/2014/42 (12 December 2014 to 12 February 2015)

Consultation Paper on Draft Guidelines on creditworthiness assessment

http://www.eba.europa.eu/documents/10180/926843/EBA-CP-2014-42+%28CP+on+GLs+on+creditworthiness%29.pdf

EBA Consultation Paper – EBA/CP/2014/43 (12 December 2014 to 12 February 2015)

Consultation Paper on Draft Guidelines on arrears and foreclosure

https://www.eba.europa.eu/documents/10180/927233/EBA-CP-2014-43+(CP+on+draft+Guidelines+on+arrears+and+foreclosure).pdf

Joint Committee Consultation Paper - JC/CP/2014/05 (22 December 2014 to 22 March 2015)

Joint Committee Consultation Paper on guidelines for cross-selling practices

https://www.eba.europa.eu/documents/10180/936747/JC+CP+2014+05+(Consultation+Paper+on+Cross+Selling).pdf

XI. Payment systems

Payment systems are sets of common rules and standardised procedures applicable to the execution of orders for transfers between members.

The European Central Bank published Regulation (EU) 795/2014 of 3 July, which, within its powers regarding the Eurosystem, defines the oversight requirements for SIPs, i.e. payment systems that, due to their size and characteristics, are classified as systemically important.

In order to ensure the correct functioning of the internal market and reach an adequate level of security of electronic identification and trust services, Regulation (EU) 910/2014 of the European Parliament and of the Council sets out the conditions on which Member States recognise and accept electronic identification of natural and legal persons within the framework of an electronic identification system notified from another Member State.

Furthermore, the Regulation also sets out the rules applicable to trust services, including electronic transactions, which also include: (i) the creation, verification, and validation of electronic signatures, electronic seals or electronic time stamps, electronic registered delivery services and certificates related to those services; (ii) the creation, verification and validation of certificates for website authentication and (iii) the preservation of electronic signatures, seals or certificates related to those services

Related documents

European Central Bank Regulation (EU) 795/2014 (3 July)

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014R0795&qid=1424347901209&from=PT

Regulation (EU) 910/2014 of the European Parliament and of the Council (23 July)

http://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELEX:32014R0910&qid=1424347901209&from=PT

Annex C – Changes to international accounting standards

Standards coming into effect in 2014

IAS 27 (Amendment) – Separate financial statements

In May 2011, the International Accounting Standards Board (IASB) published amendments to IAS 27 – "Separate financial statements", effective for periods beginning on or after 1 January 2014.

With the mandatory application as of 1 January 2014 of IFRS 10 – "Consolidated Financial Statements", which sets out the principles of control and the requirements for preparation of consolidated financial statements, IAS 27 now only regulates separate financial statements.

The changes made to this standard clarify required disclosures. It is now necessary to disclose the main location and country in which the activities of subsidiaries, associates, joint ventures and, if applicable, the parent company take place.

These changes were adopted in Regulation (EU) 1254/2012 of the Commission of 11 December.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:360:0001:0077:PT:PDF

IFRS 10 – Consolidate financial statements

In May 2011, the IASB issued IFRS 10 – "Consolidated Financial Statements", effective for periods beginning on or after 1 January 2013.

This standard revokes part of IAS 27 – "Separate financial statements" and SIC 12 – "Consolidation of special-purpose entities" and introduces new disclosures for structured entities whether or not they are consolidated.

These changes were adopted in Regulation (EU) 1254/2012 of the Commission of 11 December, so that its application would be mandatory as of 1 January 2014.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:360:0001:0077:PT:PDF

IFRS 11 – Joint arrangements

In May 2011, the IASB issued IFRS 11 – "Joint arrangement", effective for periods beginning on or after 1 January 2013.

This standard revokes IAS 31 "Interests in joint ventures" and SIC 13 – "Jointly controlled entities", defines "joint control" and requires an entity belonging to a joint arrangement to specify the type of arrangement in which it is involved ("joint operation" or "joint venture"), and assesses its rights and obligations.

It rules out the option of using the proportional consolidation method for jointly controlled entities, which must now be consolidated by the equity method.

These changes were adopted in Regulation (EU) 1254/2012 of the Commission of 11 December, so that its application would be mandatory as of 1 January 2014.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:360:0001:0077:PT:PDF

IAS 28 – (Amendment) Investments in associates and joint ventures

IAS 28 – "Investments in associates and joint ventures" was changed when IFRS 10 – "Consolidated Financial Statements" and IFRS 11 – "Joint ventures" came into effect. It regulates use of the equity method for associates and joint ventures.

These changes were adopted in Regulation (EU) 1254/2012 of the Commission of 11 December, so that its application would be mandatory as of 1 January 2014.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:360:0001:0077:PT:PDF

IFRS 12 – Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12 – "Disclosure of interests in other entities" effective for periods beginning on or after 1 January 2013.

This standard sets out the disclosures for all forms of investments in other entities, including joint arrangements, associates, special-purpose vehicles and other off-balance-sheet vehicles.

These changes were adopted in Regulation (EU) 1254/2012 of the Commission of 11 December, so that its application would be mandatory as of 1 January 2014.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:360:0001:0077:PT:PDF

IAS 36 (Amendment) – Impairment of assets

In May 2013, the IASB amended IAS 36 – "Impairment of assets: disclosure of recoverable amount of non-financial assets", effective for periods beginning on or after 1 January 2014.

The amendment introduces additional disclosure requirements for impaired assets or assets resulting from a reversal of impairment and whose recoverable amount was determined on the basis of the net fair value of the sales cost.

This change was adopted in Regulation (EU) 1374/2013 of the Commission of 19 December.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:346:0038:0041:PT:PDF

IAS 39 (Amendment) – Financial instruments

In June 2013, the IASB issued an amendment to IAS 39 – "Financial instruments: novation of derivatives and continuation of hedge accounting", effective for periods beginning on or after 1 January 2014.

This amendment allows the continuation of hedge accounting in certain circumstances when a derivative, called a hedging instrument, is reformulated, for example if the counterparty is changed as a result of changes in laws or regulations.

This change was adopted in Regulation (EU) 1375/2013 of the Commission of 19 December.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:346:0042:0046:PT:PDF

IAS 32 (Amendment) – Financial instruments: presentation

In December 2011, the IASB issued an amendment to IAS 32 – “Financial instruments: presentation – offset between assets and liabilities”, effective for periods beginning on or after 1 January 2014.

This amendment clarified certain aspects of the original standard related to practical application of asset and liability offset requirements.

This change was adopted in Regulation (EU) 1256/2012 of the Commission of 11 December.

Public consultations in 2014

IASB public consultation – Request for Information (30 de January a 30 de May de 2014)

Request for Information - Post-implementation Review: IFRS 3 Business Combinations

http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/PIR-IFRS-3/Request-for-Information-January-2014/Documents/RfI_PIR_IFRS3-Business-Combinations.pdf

IASB public consultation – ED/2014/1 (23 March to 23 July 2014)

Exposure Draft – Disclosure Initiative – Proposed amendments to IAS 1

http://www.ifrs.org/Current-Projects/IASB-Projects/Amendments-to-IAS-1/ED-March-2014/Documents/ED-Disclosure-Initiative-Amendments-IAS-1-March-2014.pdf

IASB public consultation – DP/2014/1 (17 April to 17 October 2014)

Discussion Paper – Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Instruments-A-Replacement-of-IAS-39-Financial-Instruments-Recognitio/Phase-III-Macro-hedge-accounting/DP-April-2014/Documents/Discussion-Paper-Accounting-for-Dynamic-Risk-Management-April-2014.pdf

IASB public consultation - ED/2014/2 (11 June to 17 September 2014)

Exposure Draft - Investment Entities: Applying the Consolidation Exception - Proposed amendments to IFRS 10 and IAS 28

http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-10-IAS-28-Investment-Entities/ED-June-2014/Documents/ED-Investment-Entities-Amendments-IFRS-10-and-IAS-28-June-2014.pdf

IASB public consultation - ED/2014/3 (20 August to 18 December 2014)

Exposure Draft - Recognition of Deferred Tax Assets for Unrealised Losses - Proposed amendments to IAS 12

http://www.ifrs.org/Current-Projects/IASB-Projects/Recognition-of-Deferred-Tax-Assets-for-Unrealised-Losses/ED-August-2014/Documents/ED-Recognition-Deferred-Tax-IAS-12-August-2014.pdf

IASB public consultation - ED/2014/4 (16 September 2014 to 16 January 2015)

Exposure Draft - Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value - Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13

http://www.ifrs.org/Current-Projects/IASB-Projects/FVM-unit-of-account/Exposure-Draft-September-2014/Documents/Exposure-Draft-Measuring-Quoted-Investments-September-2014.pdf

IASB public consultation - DP/2014/2 (17 September 2014 to 15 January 2015)

Discussion Paper - Reporting the Financial Effects of Rate Regulation

http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Discussion-Paper-September-2014/Documents/Discussion-Paper-Reporting-Financial-Effects-Rate-Regulation-September-2014.pdf

IASB public consultation - ED/2014/5 (25 November 2014 to 25 March 2015)

Exposure Draft - Classification and Measurement of Share-Based Payment Transactions - Proposed amendments to IFRS 2

http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-2-Clarifications-Classification-and-Measurement/ED-November-2014/Documents/ED-Proposed-Amendments-IFRS-2-November-2014.pdf

IASB public consultation - ED/2014/6 (18 December 2014 to 17 April 2015)

Exposure Draft – Disclosure Initiative – Proposed amendments to IAS 7

http://www.ifrs.org/Current-Projects/IASB-Projects/Debt-disclosures/Exposure-Draft-December-2014/Documents/ED-Disclosure-Initiative-Amdments-IAS-7-December-2014.pdf