

## Notification template for Article 131 CRD – Other Systemically Important Institutions (O-SII)

Please send this template to

- [notifications@esrb.europa.eu](mailto:notifications@esrb.europa.eu) when notifying the ESRB;

Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority																						
<b>1.1 Name of the notifying authority</b>	Banco de Portugal																					
2. Description of the measure																						
<b>2.1 Concerned institution or group of institutions</b>	<p>On which institution(s) is the measure applied (name and LEI code)?</p> <ul style="list-style-type: none"> <li>• Caixa Geral de Depósitos (Lei code: TO82200VT80V06K0FH57)</li> <li>• Banco Comercial Português (Lei code: U1U6S0DG9YLT7N8ZV32)</li> <li>• Novo Banco (Lei code: 5493009W2E2YDCXY6S81)</li> <li>• Santander Totta – SGPS (Lei code: 5493005RLLC1P7VSVC58)</li> <li>• Banco BPI (Lei code: 3DM5DPGI3W6OU6GJ4N92)</li> <li>• Caixa Económica Montepio Geral (Lei code: 2138004FIUXU3B2MR537)</li> </ul>																					
<b>2.2 Level of the buffer applied</b>	<p>What is the level of the buffer (in %) applied to the institution(s)? Taking into account this decision, the O-SII's buffers shall be applicable as from 1 January 2018 and shall be phased-in over a two years period. The buffer rates applied to the institutions are the following:</p> <table border="1"> <thead> <tr> <th>O-SIIs institutions</th> <th>O-SII Buffer to be required in 1 January 2018</th> <th>O-SII Buffer to be required in 1 January 2019</th> </tr> </thead> <tbody> <tr> <td>Caixa Geral de Depósitos</td> <td>0.50%</td> <td>1.00%</td> </tr> <tr> <td>Banco Comercial Português</td> <td>0.375%</td> <td>0.75%</td> </tr> <tr> <td>Novo Banco</td> <td>0.25%</td> <td>0.50%</td> </tr> <tr> <td>Banco BPI</td> <td>0.25%</td> <td>0.50%</td> </tr> <tr> <td>Santander Totta - SGPS</td> <td>0.25%</td> <td>0.50%</td> </tr> <tr> <td>Caixa Económica Montepio Geral</td> <td>0.125%</td> <td>0.25%</td> </tr> </tbody> </table> <p>It is worth noticing that NB's score has fallen compared with the one computed last year leading to a decrease in the underlying buffer rate. The reduction in the score was mainly due to the following reasons: Banco de Portugal's decision</p>	O-SIIs institutions	O-SII Buffer to be required in 1 January 2018	O-SII Buffer to be required in 1 January 2019	Caixa Geral de Depósitos	0.50%	1.00%	Banco Comercial Português	0.375%	0.75%	Novo Banco	0.25%	0.50%	Banco BPI	0.25%	0.50%	Santander Totta - SGPS	0.25%	0.50%	Caixa Económica Montepio Geral	0.125%	0.25%
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	(dated 29 December 2015) to retransfer the amount of a set of senior bonds to Banco Espírito Santo, S.A., that totaled 1,985 million euros ("Interconnectedness" – criterion), and the decrease of the amount of OTC derivatives held ("Complexity" - criterion). To this end the NB should comply with a buffer rate below the one disclosed on 29 June 2016 and communicated to the institution.
<b>2.3 Name of the EU ultimate parent institution</b>	Please provide the name and the LEI code of the EU ultimate parent institution of the group of each of the concerned institutions, in case the EU ultimate parent institution is not the concerned institution itself.  Santander Totta – SGPS is a subsidiary of the Spanish parent institution, Banco Santander S.A. (Lei code: 5493006QMFDDMYWIAM13)
<b>2.4 Names of subsidiaries</b>	If any of the concerned institutions is a parent institution and the buffer is applied on a (sub) consolidated level, please name the subsidiaries of the institution that are notified as O-SIIs (please give name and LEI code).  N/A
<b>3. Timing of the measure</b>	
<b>3.1 Timing of the Decision</b>	What is the date of the official decision? <u>For SSM countries when notifying the ECB</u> : provide the date when the decision referred to in Article 5 of the SSMR shall be taken.  A preliminary decision was taken by the Banco de Portugal's Board on the 4 of October 2016. The formal decision was taken on 25 of October 2016. The intended date for publication on Banco de Portugal's website of the final decision on the capital O-SII buffers is 1 of December 2016.
<b>3.2 Timing of the Publication</b>	What is the date of publication of the notified measure? The intended date is 1 of December 2016.
<b>3.3 Disclosure</b>	Information about the communication strategy of the notified measure to the market.  Banco de Portugal will publish the final decision on its website by 1 of December 2016 (after market closure) and will communicate it to each institution designated as O-SII.
<b>3.4 Timing of Application</b>	What is the intended date of activation (i.e. as of which date shall the measure be applicable)? 1 of January 2018
<b>3.5 Phasing in</b>	What is the intended timeline for the phase-in of the measure? 1 of January 2018: 50% of the O-SII buffer 1 of January 2019: 100% of the O-SII buffer
<b>3.6 Review of the measure</b>	When will the measure be reviewed (Article 131(6) and 131(12) specify that the buffer, the identification of O-SIIs and the allocation into subcategories must be reviewed at least annually)?  The list of O-SIIs and corresponding buffer requirements will be reviewed at least annually, as required under CRD IV. The next review exercise is foreseen to be concluded by 1 December 2017, unless a significant restructuring process takes place, namely through merger and acquisitions. The calibration process should be reviewed after those restructuring processes.

#### 4. Reason for O-SII identification and activation of the O-SII buffer

<p><b>4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)</b></p>	<table border="1"> <thead> <tr> <th>Bank Name</th> <th>Final Score</th> </tr> </thead> <tbody> <tr> <td>Caixa Geral de Depósitos</td> <td>2545</td> </tr> <tr> <td>Banco Comercial Português</td> <td>1837</td> </tr> <tr> <td>Novo Banco</td> <td>1358</td> </tr> <tr> <td>Santander Totta - SGPS</td> <td>1276</td> </tr> <tr> <td>Banco BPI</td> <td>857</td> </tr> <tr> <td>Caixa Económica Montepio Geral</td> <td>449</td> </tr> </tbody> </table>	Bank Name	Final Score	Caixa Geral de Depósitos	2545	Banco Comercial Português	1837	Novo Banco	1358	Santander Totta - SGPS	1276	Banco BPI	857	Caixa Económica Montepio Geral	449	
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<p><b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b></p>	<p>The EBA methodology has been applied to compute the scores for all the institutions operating in Portugal using consolidated data in accordance to this methodology.</p> <p>In order to perform the methodology we used the following indicators:</p> <ul style="list-style-type: none"> <li>- Size: Total assets;</li> <li>- Importance (including substitutability / financial system infrastructure: value of domestic payments transactions (based on TARGET 2 data), private sector deposits from depositors in the EU, private sector loans to recipients in the EU. In addition, we have also used an optional indicator: geographical breakdown of banks activities (deposits and loans);</li> <li>- Complexity / Cross-border activity: value of OTC derivatives (notional), cross-jurisdictional liabilities, cross-jurisdictional claims;</li> <li>- Interconnectedness: intra-financial system liabilities, intra-financial system assets, debt securities outstanding.</li> </ul> <p>When FINREP data were unavailable, proxies were used - taken from each bank's financial statements (dated December 2015), supplemented by additional data available in Banco de Portugal.</p> <p>Institutions with a score equal or higher than 350 basis points were designated as O-SII.</p>															
<p><b>4.3 Supervisory judgement</b></p>	<p>As mentioned in 4.2 we have also used an optional indicator: geographical breakdown of banks activities (deposits and loans) as allowed for in Title III of EBA Guidelines.</p>															

<p><b>4.4 Calibrating the O-SII buffer</b></p>	<p>In order to calibrate the O-SII capital buffer for these institutions, BdP has applied the clusters methodology. This calibration approach was also adopted by the BCBS (2013) to calibrate the buffer rates for Global Systemically Important Banks (G-SIBs) and also used by other countries that have already identified the O-SIIs and calibrated the O-SII buffer. O-SII buffer will be applied from 1 January 2018 aligned with the information provided in point 2.2.</p> <p>Against this background, and taking into account the scores obtained in the identification process, we set up five buckets as follows:</p> <ul style="list-style-type: none"> <li>i. Bucket 1 encompasses scores from 350 to 699 basis points;</li> <li>ii. Bucket 2 encompasses scores from 700 to 1399 basis points;</li> <li>iii. Bucket 3 encompasses scores from 1400 to 2099 basis points;</li> <li>iv. Bucket 4 encompasses scores from 2100 to 2799 basis points;</li> <li>v. Bucket 5 encompasses scores above or equal 2800 basis points.</li> </ul> <p>Given the scores underlying each PT O-SII, bucket 5 corresponds to an empty bucket, in the sense that no PT O-SII will be allocated to it. By considering an empty bucket, the competent authority signals the market and the O-SIIs that the latter could be asked to comply with a higher rate in the future if they become more systemically relevant, as presented in the following table:</p> <p>O-SIIs distribution by buckets and respective buffers:</p> <table border="1" data-bbox="667 1025 1348 1317"> <thead> <tr> <th></th> <th><b><u>Buckets/Scores</u></b></th> <th><b><u>Capital Buffers</u></b></th> </tr> </thead> <tbody> <tr> <td>5</td> <td>&gt;= 2800</td> <td>2.00%</td> </tr> <tr> <td>4</td> <td>2100-2799</td> <td>1.00%</td> </tr> <tr> <td>3</td> <td>1400-2099</td> <td>0.75%</td> </tr> <tr> <td>2</td> <td>700-1399</td> <td>0.50%</td> </tr> <tr> <td>1</td> <td>350-699</td> <td>0.25%</td> </tr> </tbody> </table>		<b><u>Buckets/Scores</u></b>	<b><u>Capital Buffers</u></b>	5	>= 2800	2.00%	4	2100-2799	1.00%	3	1400-2099	0.75%	2	700-1399	0.50%	1	350-699	0.25%
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<p><b>4.5 Effectiveness and proportionality of measure</b></p>	<p>According to Banco de Portugal, the O-SII buffer is a suitable instrument to address the macroprudential policy intermediate objective that aims at preventing the building up of systemic risks arising from misaligned incentives and moral hazard.</p> <p>The identification of systemically important institutions (both global and domestic) and the application of stricter capital requirements is based on the fact that systemically important institutions do not internalize the adverse side effect of these decisions to the financial system such as: the impact of failure or impairment of large, complex and interconnected financial institutions which may cause amplified shocks throughout the financial system may originate and amplify shocks throughout the financial system and have serious i) cross-border impact on the global financial system and economy, in the case of G-SIIs, or ii) impact on the domestic financial system and economy, in the case of O-SIIs.</p> <p>The introduction of the O-SII buffer (by CRD IV / CRR) is thereby suggested as a risk-mitigating measure, aiming at enhancing the resilience of the financial</p>																		

	<p>system by imposing stricter capital requirements to banking groups identified as systemically important at the domestic level.</p> <p>The assets of these six institutions represented, in 2015, 81% of the total assets of the Portuguese banking sector and represented 185% of the Portuguese GDP. These figures clearly show their relevance in the domestic banking system, as well as the systemic risk that they may pose to the Portuguese economy.</p>
<b>5. Cross-border and cross-sector impact of the measure</b>	
<b>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</b>	The banking system in Portugal is essentially focused on the domestic market. Therefore we do not expect material negative spillovers for the internal market. Moreover this measure encompasses an institution's specific buffer, voluntary reciprocity under Recommendation ESRB/2015/2 is not needed.
<b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	<p>The scope for "leakages" is limited in the sense that:</p> <ul style="list-style-type: none"> <li>• This measure will be applied on a consolidated basis;</li> <li>• In Portugal the non-banking part of the financial system has a relatively small dimension and we do not expect a material shift to other bank and non-bank financial entities.</li> </ul>
<b>6. Combinations and interactions with other measures</b>	
<b>6.1 Combinations between G-SII and OSII buffers (Article 131.14)</b>	<p>In case both G-SII and O-SII criteria applied to the same institution at the consolidated level, which of the two buffers is the highest?</p> <p>N/A</p>
<b>6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)</b>	No Portuguese O-SII is subject to a systemic risk buffer.
<b>6.3 Combined buffer requirement (Article 131.16 and Article 131.17)</b>	<p>a. Does the combined buffer requirement apply to the institution?</p> <p>The O-SIIs identified are subject to the Capital Conservation Buffer as envisaged in CRD IV.</p> <p>b. Is the combined buffer requirement above the sum of the buffers described in Article 131-16 and Article 131-17?</p> <p>Following previous answer this is not applicable.</p>
<b>6.4 O-SII requirement for a subsidiary (Article 131.8)</b>	<p>In case the O-SII is a subsidiary of an EU parent institution which is subject to a G-SII or O-SII buffer on a consolidated basis, what is the G-SII or O-SII buffer rate on a consolidated basis of the parent institution?</p> <p>Santander Totta - SGPS is a subsidiary of a Spanish parent institution (Banco Santander, S.A.) which is a G-SII in Spain. The proposed O-SII buffer (0.5% on a sub-consolidated basis as of 1 January 2019) complies with Article 131.8 of CRD IV, since it is below the limits foreseen in this Article, i.e. the (indicative) G-SII buffer required for the same period to the Spanish parent institution is 1% (see the Financial Stability Board 2015 update of list of global systemically important</p>

	<p>banks) assuming that the decision regarding the G-SII buffer rate will remain unchanged.  (<a href="http://www.fsb.org/wp-content/uploads/FSB-communication-G-SIIs-Final-version.pdf">http://www.fsb.org/wp-content/uploads/FSB-communication-G-SIIs-Final-version.pdf</a>)</p>
<p><b>6.5 Interaction with other measures</b></p>	<p>How does the buffer requirement interact with other measures addressing the same risk (e.g. with other supervisory measures)?</p> <p>The introduction of the Bank Recovery and Resolution Directive (BRRD), which establishes new rules to resolve and manage crisis of financial institutions addresses in some extent the same risks, given that this new framework aims to mitigate the assumption of (implicit) government guarantees mainly associated to systemically important institutions.</p>
<p><b>7. Miscellaneous</b></p>	
<p><b>7.1 Contact person(s) at notifying authority</b></p>	<p>Contact person(s) for further inquiries (name, phone number and e-mail address)</p> <p>Maximiano Pinheiro (Head of the Financial Stability Department)  <a href="mailto:mpinheiro@bportugal.pt">mpinheiro@bportugal.pt</a>  00351 211597001</p> <p>Fátima Silva (Head of the Macroprudential Policy Unit)  <a href="mailto:mfsilva@bportugal.pt">mfsilva@bportugal.pt</a>  00351 211597024</p>
<p><b>7.2 Any other relevant information</b></p>	<p>N/A</p>